

# Global Human Capital Trends 2014

Engaging the 21st-century  
workforce

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# Introduction

## Engaging the 21st-century workforce

**A**S we begin 2014, global organizations have left the recession in the rear-view mirror and are positioning themselves aggressively for growth. Sluggishness has given way to expansion. Retrenchment has been replaced by investment. The need for caution has been superseded by the need to take action.

Yet as the economic recovery takes hold, businesses realize that the workforce today has changed. Skills are scarce, workers have high expectations, and Millennials are now in charge. Enter the 21st-century workforce.

The 21st-century workforce is global, highly connected, technology-savvy, and demanding. Its employees are youthful, ambitious, and filled with passion and purpose. Millennials are a major force—but so are older workers, who remain engaged and valuable contributors. Critical new skills are scarce—and their uneven distribution around the world is forcing companies to develop innovative new ways to find people, develop capabilities, and share expertise.

### Awakening to a new world: After the Great Recession

Future observers may look back at 2014 as a turning point: the time when the global recession ended and businesses put plans in place for a new wave of growth. But as this growth begins, companies are finding that

they are dealing with a workforce with different demographics, different demands, and different expectations.

### The world is much more global and interdependent

Globalization is a key theme in our research. In 2013, the developing countries contributed 50 percent of the world's GDP.<sup>1</sup> This is expected to grow to 55 percent by 2018, a significant increase in business opportunity centering on these newer economies.<sup>2</sup> And these countries now have a large buying segment: The global middle class is expected to increase from 1.8 billion in 2009 to 3.2 billion in 2020, with Asia's middle class tripling in size to 1.7 billion by 2020.<sup>3</sup>

Trends in leadership, talent acquisition, capability development, analytics, and HR transformation are all impacted by globalization. Companies that learn to leverage global talent markets while localizing their HR strategies will be poised for strong performance.

### Mobile, social, and cloud computing continue to explode

Technology has transformed the workplace. At the start of 2008, there were only 3 million Apple iPhone® mobile devices in the world.<sup>4</sup> At the end of 2013, according to a Gartner estimate, there were 1 billion smartphones and more than 420 million iPhone mobile devices

## Critical new skills are scarce—and their uneven distribution around the world is forcing companies to develop innovative new ways to find people, develop capabilities, and share expertise.

shipped.<sup>5</sup> Facebook had a million users in 2004, 100 million users in 2008, and an estimated 1.23 billion registered users today.<sup>6</sup> And according to Forrester estimates, cloud computing will grow from a \$41 billion business in 2011 to a \$241 billion business by 2020.<sup>7</sup>

All this technology has transformed the world of recruiting, the world of education and training, the world of analytics, and even the way we work. Today we are online 24/7 and relentlessly flooded with information, messages, and communications.

Not only has technology become a critical and pivotal part of human resources, but we have also identified a new human capital issue discussed in this report: the overwhelmed employee. Organizations face an imperative to find ways to absorb more technology while simultaneously making it simple.

### **Demographic shifts are creating a diverse, multi-generational workforce**

As the world's population grows, the global workforce is getting younger, older, and more urbanized. Millennials are entering the workforce in greater numbers and reshaping the talent markets with new expectations. They are projected to make up 75 percent of the global workforce by 2025, and they are letting us know that they are ready to take the lead . . . soon.<sup>8</sup> But as new research shows, Millennials want to be creative. They want to run their own businesses. They want accelerated career growth. In the words of one manager: “They don’t want a career, they want an experience.”<sup>9</sup>

Baby Boomers, although some started to retire in 2008, are refusing to leave their field.

For both financial reasons and reasons of professional satisfaction, many are extending their working lives—benefiting from the incredible longevity dividend shared the world over.

These two trends are producing the most multi-generational workforce in history. How can companies manage this highly diverse set of employees when their needs vary widely? How can organizations change their strategy for performance management to address these new workforce dynamics?

### **Global social, political, and regulatory shifts are changing the focus of business**

Employee engagement and retention are directly related to the social fabric of business. In the fall of 2011, we witnessed the Occupy Wall Street movement, starting in New York and spreading around the world. The boundaries between business and social issues are blurring as corporate social responsibility and “conscious capitalism” reshape business and talent markets. Consumer and talent markets are making new demands on businesses, with social and community concerns rising to new levels of priority. Regulation, particularly in the financial markets, continues to grow as the role of regulators continues to expand.

How can companies cultivate an ethos of mission, purpose, and conscious capitalism to attract and engage a workforce highly aware of these issues?

### **Technology is changing how we work and the skills we need**

Finally, technology has changed the nature of collaboration, expertise sharing, and the skills one needs to succeed. Collaborative

technologies continue to make it possible for teams to work in remote locations across the world, easily accessing experts within and outside the organization. Machine learning and artificial intelligence are disrupting one wave of workers and opening new career opportunities in analytics, machine-assisted manufacturing, and the service industries.<sup>10</sup> The skills we need today and in the future are dramatically different than what they were only five years ago.

### 2014: A time for action

These changes in the workforce and workplace are significant, disruptive, and here today. How can human capital strategies power companies to thrive in this era of rapid change?

Our research shows a significant gap between the urgency of the talent and leadership issues leaders face today and their organizations' readiness to respond. On every critical issue—leadership, retention and engagement, learning and development, analytics—executives recognize the need to take action, but express reservations about their team's ability to deliver results.

One of the most important takeaways from this research is the fact that doing more is not enough. Today companies have to manage people differently – creating an imperative to innovate, transform, and reengineer human capital practices.

The 2014 Global Human Capital Trends report, developed after months of extensive global research, provides guidance and recommendations for these important strategies.

### Three key areas of strategic focus

This year's 12 critical human capital trends are organized into three broad areas:

- **Lead and develop:** The need to broaden, deepen, and accelerate leadership development at all levels; build global workforce capabilities; re-energize corporate learning by putting employees in charge; and fix performance management
- **Attract and engage:** The need to develop innovative ways to attract, source, recruit, and access talent; drive passion and engagement in the workforce; use diversity and inclusion as a business strategy; and find ways to help the overwhelmed employee deal with the flood of information and distractions in the workplace
- **Transform and reinvent:** The need to create a global HR platform that is robust and flexible enough to adapt to local needs; reskill HR teams; take advantage

Figure 1. Three key areas of strategic focus

Lead and develop	Attract and engage	Transform and reinvent
Leaders at all levels: Close the gap between hype and readiness	Talent acquisition revisited: Deploy new approaches for the new battlefield	The reskilled HR team: Transform HR professionals into skilled business consultants
Corporate learning redefined: Prepare for a revolution	Beyond retention: Build passion and purpose	Talent analytics in practice: Go from talking to delivering on big data
Performance management is broken: Replace "rank and yank" with coaching and development	From diversity to inclusion: Move from compliance to diversity as a business strategy	Race to the cloud: Integrate talent, HR, and business technologies
The quest for workforce capability: Create a global skills supply chain	The overwhelmed employee: Simplify the work environment	The global and local HR function: Balance scale and agility



of cloud-based HR technology; and implement HR data analytics to achieve business goals

## One of the largest global human capital surveys

When we set out to identify the top 12 global business challenges in talent management, leadership, and HR, we drew upon more than 15 years of research to examine the range of issues and the most effective solutions in the market. We also surveyed 2,532 business and HR leaders in 94 countries around the world, making it one of the largest global surveys of its kind.

This year, recognizing that global trends vary by a company's size, location, and growth rate, we are not only publishing our global perspectives, but also giving you access to our data so you can draw your own conclusions. In the spirit of big data and analytics, we have

created an interactive tool, the Human Capital Trends Dashboard, that allows you to drill into our survey data, investigate what it means, and apply it to your industry, your geography, and your company size.

## Taking the next step

The goal of this research is to give executives insight and perspective, while identifying solutions to help them set priorities for the coming year. We remain convinced that some of the biggest opportunities for companies to improve growth, innovation, and performance center squarely on how business leaders reimagine, reinvent, and reinvigorate human capital strategies—informed by a deeper understanding of the new 21st-century workforce.

We look forward to hearing from you as you dive into this report and reflect on what it means for your organization.

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Explore the Human Capital Trends Dashboard at <http://www.deloitte.com/hcdashboard>.

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## Endnotes

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# Global Human Capital Trends 2014 survey

## Top 10 findings

**T**O gain insights into the 2014 global human capital trends, we conducted a survey in the last quarter of 2013 that included 2,532 business and HR leaders in 94 countries. The survey covered the major industries and all of the world's geographies (survey demographics are summarized in the appendix to this chapter). Our goal was to better understand the priorities and preparedness of executives and HR professionals around the world, and to provide insight on what leaders can do to drive the talent and HR agenda.

This chapter provides a summary of our top findings from the global survey. We are also making views of the data available through the Deloitte Human Capital Trends Dashboard tool, which will be available on our websites.

### Finding 1. Leadership, retention, HR skills, and talent acquisition are the top global trends in perceived urgency

Across all respondents to our global survey this year, companies cite four issues as the most urgent: leadership, retention and engagement,

the reskilling of HR, and talent acquisition and access (see figures 1 and 2).

Building global leadership is by far the most urgent: Fully 38 percent of all respondents rated it “urgent,” almost 50 percent more than the percentage rating the next issue “urgent.” Companies see the need for leadership at all levels, in all geographies, and across all functional areas. This continuous need for new and better leaders has accelerated. In a world where knowledge doubles every year and skills have a half-life of 2.5 to 5 years, leaders need constant development. This ongoing need to develop leaders is also driven by the changing expectations of the workforce and the evolving challenges businesses are facing, including two major themes underlying this year's trends: globalization and the speed and extent of technological change and innovation.

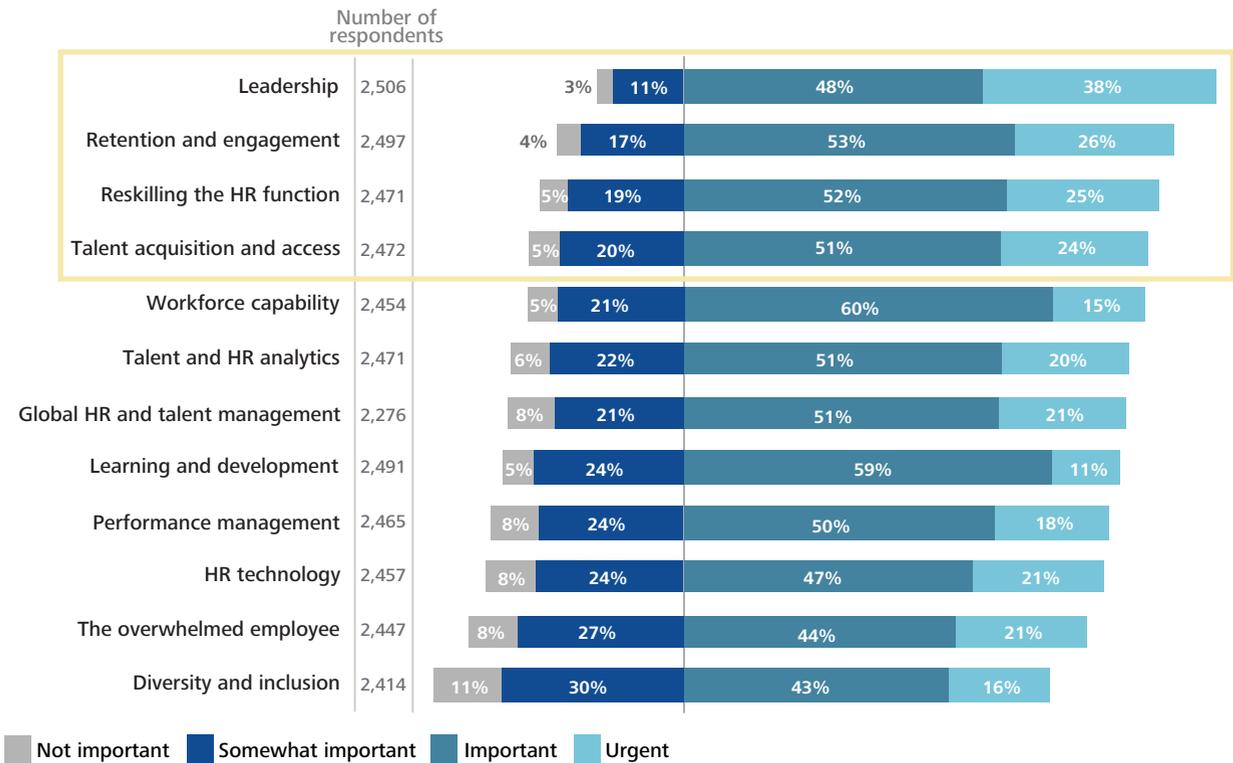
The second most urgent issue today is retention and engagement—a topic that often has no clear owner within HR or the business. Our research shows that “we all own this issue”: HR, top leadership, and all levels of management. As we discuss in the main report, companies should redefine their engagement strategy to move from keeping people to attracting them and creating a passionate and

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Explore the Human Capital Trends Dashboard at <http://www.deloitte.com/hcdashboard>.

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**Figure 1. Perceived urgency of 12 global trends**



Graphic: Deloitte University Press | DUPress.com

**Figure 2. Global trends categorized by urgency**

Highly urgent (≥25% of respondents rate as “urgent”)	Urgent (20–24% of respondents rate as “urgent”)	Important (10–19% of respondents rate as “urgent”)
<ul style="list-style-type: none"> <li>• Leadership</li> <li>• Retention and engagement</li> <li>• Reskilling HR</li> </ul>	<ul style="list-style-type: none"> <li>• Talent acquisition and access</li> <li>• Global HR and talent management</li> <li>• HR technology</li> <li>• Overwhelmed employee</li> <li>• Talent and HR analytics</li> </ul>	<ul style="list-style-type: none"> <li>• Performance management</li> <li>• Workforce capability</li> <li>• Diversity and inclusion</li> <li>• Learning and development</li> </ul>

compassionate place to work. Further, companies will benefit from having a clear point of view on how business executives, line leaders, and HR can more effectively work together and address this challenge.

The third most urgent issue is the reskilling of HR. This finding suggests that the HR and talent functions are in the midst of a transformation. HR is not making the grade as companies move away from HR as people administration to a focus on people performance. An essential part of this change is the

upskilling, reorganization, and transformation of HR and its relationship with business leaders and issues.

The fourth most urgent issue is talent acquisition and access. This continues to be one of the most important things companies do. In a skills-constrained environment, a company’s ability to find, attract, and access highly skilled people is critical to success. This area is going through a significant disruption as a result of globalization, technology, social media, changing workforce expectations, and the shrinking

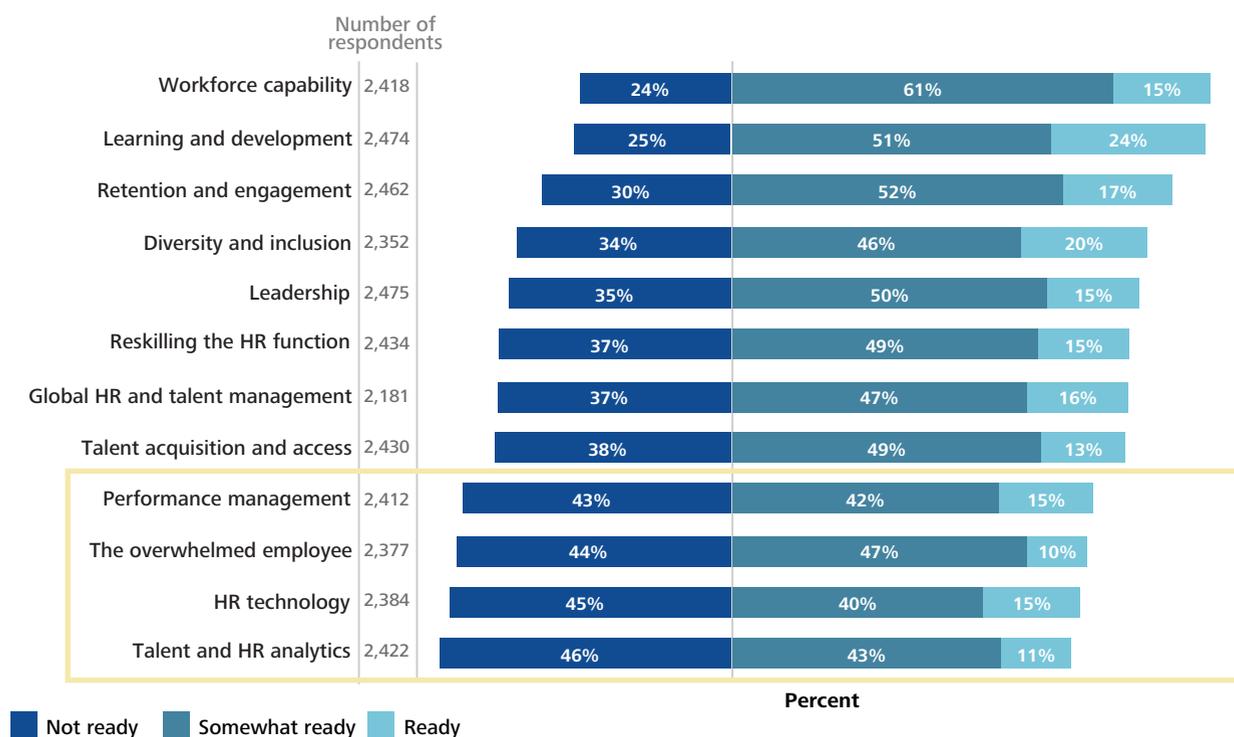
half-life of skills and technical knowledge. Tools such as LinkedIn, Facebook, Twitter, and others are changing recruiting into a strategic function focused on marketing, branding, and new tools and technologies.

## Finding 2. Companies report generally low levels of readiness to respond to the trends

Overall, survey respondents reported generally low levels of readiness to respond to the 12 global trends in our survey (figure 3).

In fact, on average across all trends, 36 percent of respondents reported they were “not ready” as opposed to 16 percent reporting they were “ready”—meaning that they were more than twice as likely to say they were “not ready” versus “ready” for the trends they see coming. Only in workforce capability did more than three-quarters of respondents feel either “somewhat ready” or “ready” to address the trend. These findings are sobering, given that each trend was rated “important” or “urgent” by at least 60 percent of respondents, while the top five trends were all rated “important” or

**Figure 3. Reported readiness for global trends**

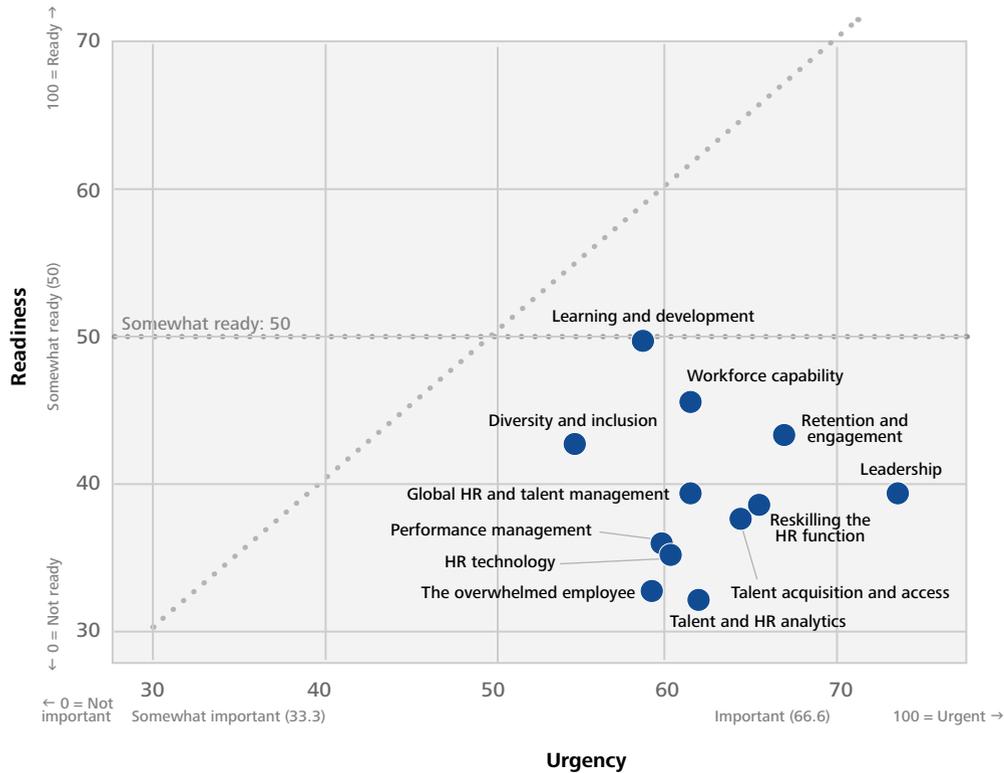


Graphic: Deloitte University Press | DUPress.com

**Figure 4. Perceived capability shortfalls**

Significant capability shortfalls (>40% rate as “not ready”)	Large capability shortfalls (31–40% rate as “not ready”)	Some capability shortfalls (20–30% rate as “not ready”)
<ul style="list-style-type: none"> <li>Talent and HR analytics</li> <li>HR technology</li> <li>Overwhelmed employee</li> <li>Performance management</li> </ul>	<ul style="list-style-type: none"> <li>Talent acquisition and access</li> <li>Global HR and talent management</li> <li>Reskilling HR</li> <li>Leadership</li> <li>Diversity and inclusion</li> </ul>	<ul style="list-style-type: none"> <li>Retention and engagement</li> <li>Learning and development</li> <li>Workforce capability</li> </ul>

**Figure 5. Global trends mapped against urgency (horizontal) and company readiness (vertical)**



Graphic: Deloitte University Press | DUPress.com

**The capability gap grid**

By plotting the gaps on a grid (with readiness on the vertical and urgency on the horizontal), we can see how capability gaps vary among the different trends.

- Capability gaps at the lower right part of the grid are those of high urgency and low readiness (areas that warrant major increases in investment).
- Capability gaps at the upper right part of the grid are highly urgent, but companies feel more able to perform in these areas (they warrant investment but are lower priority than those at the bottom right).
- Capability gaps on the left side of the grid are areas of lesser importance, and those lower in the grid are areas of less readiness.

“urgent” by at least 75 percent of respondents (figure 1).

More than 40 percent of respondents reported their companies were “not ready” to address talent and HR analytics, HR technology, the overwhelmed employee, and performance management—the lowest levels of readiness among all the trends (figure 4). These low reported levels of readiness and preparedness are a warning signal, considering the high levels of urgency and importance attributed to the trends in the global survey.

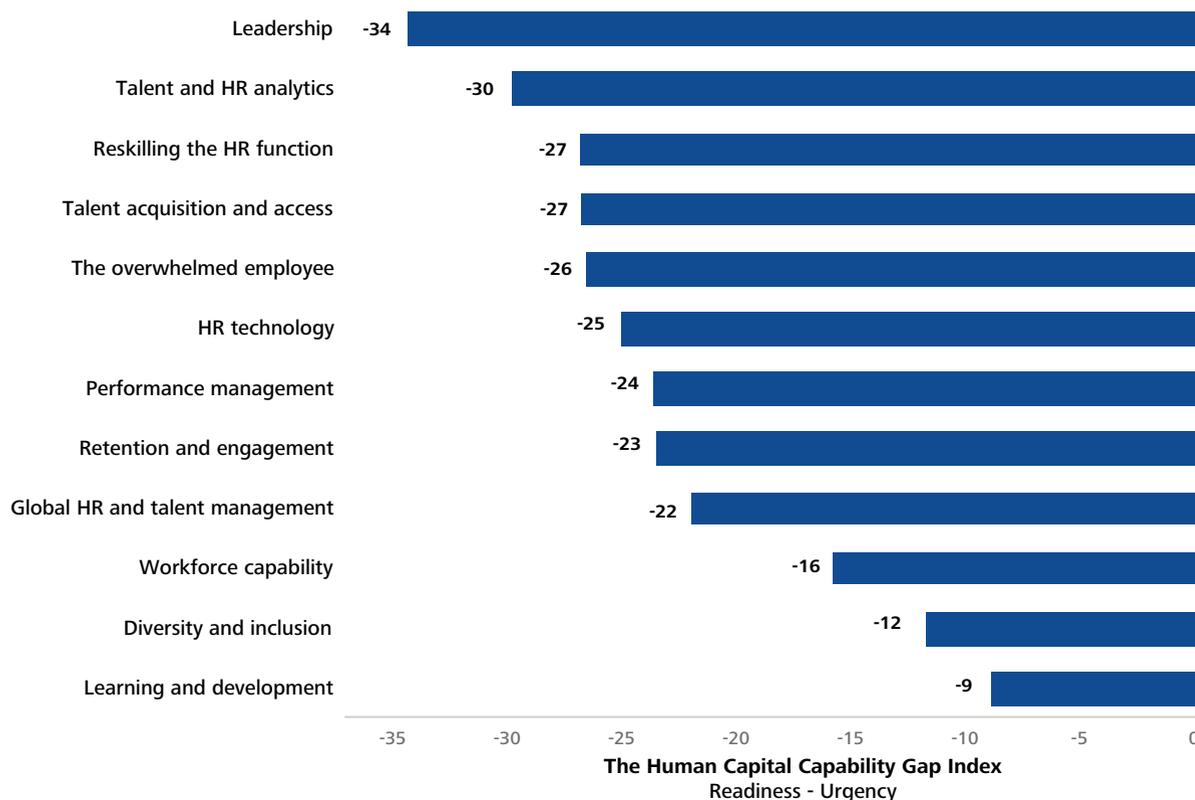
Figure 5 maps the 12 trends according to respondents’ ratings of both their urgency and their companies’ readiness to deal with them. Urgency is shown on the horizontal axis, with higher numbers indicating greater urgency;

readiness is shown on the vertical axis, with higher numbers indicating greater readiness. The resulting grid shows a clustering of the trends in the lower right, underscoring one of the major findings in the survey: the gap between these trends’ perceived importance and companies’ readiness to address them.

**Finding 3. The largest capability gaps are reported in leadership, analytics, reskilling HR, talent acquisition and access, and the overwhelmed employee**

To further highlight the near-pervasive gap between urgency and readiness, we calculated an index score for each trend that we call the

**Figure 6. Capability gap index for 12 global trends**



Graphic: Deloitte University Press | DUPress.com

**The Human Capital Capability Gap Index**

The Deloitte Human Capital Capability Gap Index is a research-based index that shows HR’s relative capability gap in addressing a given talent or HR-related problem. It is computed by taking an organization’s self-rated “readiness” and subtracting its “urgency,” normalized to a 0–100 scale. For example, if an organization feels that an issue is 100 percent urgent and it also rates itself 100 percent capable and ready to address the issue, the capability gap would be zero. These gaps, which are almost always negative, can be compared against each other.

**Figure 7. Capability gaps grouped according to importance**

Highly urgent (gap of -30 or more)	Urgent (gap of -25 to -29)	Very important (gap of -20 to -24)	Important (gap of -1 to -19)
<ul style="list-style-type: none"> <li>Leadership</li> <li>Talent and HR analytics</li> </ul>	<ul style="list-style-type: none"> <li>Reskilling HR</li> <li>Talent acquisition and access</li> <li>Overwhelmed employee</li> <li>HR technology</li> </ul>	<ul style="list-style-type: none"> <li>Performance management</li> <li>Retention and engagement</li> <li>Global HR and talent management</li> </ul>	<ul style="list-style-type: none"> <li>Workforce capability</li> <li>Diversity and inclusion</li> <li>Learning and development</li> </ul>

Deloitte Human Capital Capability Gap Index, a figure that shows HR’s relative capability gap in addressing a given talent or HR-related problem. It is calculated by taking an organization’s self-rated readiness and subtracting its urgency, normalized to a 0–100 scale. For example, if an organization feels that an issue is 100 percent urgent and it also rates itself

100 percent capable and ready to address the issue, the capability gap would be zero. These index scores, which are almost always negative, provide a “weighting” of gaps to help identify the biggest areas of need.

As figures 6 and 7 show, leadership (gap of -34) and analytics (gap of -30) are the areas with the biggest gaps between urgency

and readiness, and hence the most important areas on which to focus investment. Reskilling HR, talent acquisition, dealing with the overwhelmed employee, and the need to replace HR technology are close behind, with gap scores of between -25 and -27, inclusive. These indicate areas where companies need to rethink their strategies and reengineer their current approaches.

The challenges of revamping performance management, addressing retention and

engagement, and improving HR globalization received gap scores of between -20 and -24. These areas reflect a need to rethink HR strategies to deal with the 21st-century workforce.

The areas of workforce capability, diversity and inclusion, and learning and development also require attention. When weighted by importance, the gap between urgency and readiness is the smallest in our index, but these areas still represent potential opportunities for improvement.

**Figure 8. Regions where top five trends are most important**



Figures in each cell represent the number of respondents who viewed the given trend as one of the top five most important, and who felt that the trend would be important in the given region. Percentages are calculated on the total number of respondents who selected the given trend as one of the five most important overall.

Graphic: Deloitte University Press | DUPress.com

Figure 9. Priority areas for companies across different regions (by rank, top three only)

	Asia Pacific	Western Europe	Central and Eastern Europe	Africa	Middle East	North America	South America
<b>Above global average (+11% or greater)</b>	Trends are in line with global averages	Trends are in line with global averages	Performance management (17%)	Diversity and inclusion (106%)	Learning and development (127%)	HR technology (14%)	Retention and engagement (31%)
				Learning and development (64%)	Retention and engagement (58%)	Workforce capability (13%)	Talent and HR analytics (25%)
				Workforce capability (47%)	Workforce capability (47%)		HR technology (24%)
<b>Below global average (-11% or greater)</b>	The overwhelmed employee (-19%)	Workforce capability (-27%)	Diversity and inclusion (-50%)	Trends are in line with global averages	HR technology (-38%)	Diversity and inclusion (-19%)	Workforce capability (-47%)
	Global HR and talent management (-14%)	Retention and engagement (-23%)	Talent and HR analytics (-40%)		Reskilling HR (-24%)	Learning and development (-18%)	Performance management (-11%)
	Retention and engagement (-12%)	Performance management (-22%)	Global HR and talent management (-33%)		Talent acquisition and access (-21%)		

### Finding 4. Leadership is the top priority in developed and growing economies

We asked our respondents to identify in which of seven global geographies their top five trends were most important. As figure 8 shows, leadership, the most important overall trend in our survey, was identified as highly important in five of seven global regions: Asia Pacific, Western Europe, Central and Eastern Europe, North America, and South America. Note also that, in these regions, retention and engagement is a high priority as well, with North America facing the most acute need in this area.

This geographic pattern of leadership's perceived importance corresponds to global regions of business growth and opportunity. Asia and North America were rated as the two highest areas of growth in our survey, and Western Europe is undergoing a difficult economic transformation. Emerging economies (Middle East, Africa, and, to a degree,

South America) also report leadership as a top priority, balanced with the need for workforce capability, HR globalization, retention, and talent acquisition.

### Finding 5. While global trends are similar around the world, program needs vary by region

While most geographies have broadly similar priorities across the human capital trends, there are some variations, as figure 9 shows. North America reports the highest level of challenge from the overwhelmed employee. Asia Pacific- and South America-based companies report the need for improved workforce capabilities more strongly than companies in other geographies. Western Europe sees a greater need to reskill and transform HR than other regions.

This finding suggests that regional economic forces and cycles have an impact on human capital priorities. In figure 9, the high

urgency that companies in Africa, Latin and South America, and the Middle East report for many of the trends is striking. This underscores the value of HR and leadership teams understanding these variations and accommodating regional workforce priorities and dynamics as they globally hire, manage, and lead their people.

### Finding 6. Human capital priorities vary by industry, with one exception: Leadership

Different industries have different talent priorities—with one major exception (figure 10): Every industry sees leadership as its top priority. Retention and engagement was almost as consistently rated a high priority: It was the No. 2 trend for six of the eight industry groups.

Differences among industries include:

- Technology companies, life sciences, health care, professional services, and oil and gas companies rate talent acquisition and access particularly high, reflecting the important need in these industries to find key people with unique technical skills.
- Energy companies, life sciences companies, and technology, media, and telecommunications companies—three industries going through significant transformations—rate the need to reskill HR as a particularly high priority.
- Professional services companies, public sector organizations, and energy and resources companies rate building workforce capabilities particularly high—in the top two or three slots.

### Finding 7. “Excellent” HR companies and teams focus more intensely on the urgent global human capital trends

Our survey asked respondents to rate the overall performance of their HR and talent organizations and programs. When we looked at self-assessed “excellent” or “high performing” HR and talent teams, we found that they rated the top trends higher in urgency and importance (on average, seven percentage points more) compared to those who rated themselves “adequate” or “average” performers. These trends included:

1. Leadership: Rated as “urgent” or “important” by 88 percent of high performers vs. 85 percent of average performers
2. Talent acquisition and access: Rated as “urgent” or “important” by 85 percent of high performers vs. 74 percent of average performers
3. Reskilling HR: Rated as “urgent” or “important” by 84 percent of high performers vs. 76 percent of average performers
4. Retention and engagement: Rated as “urgent” or “important” by 83 percent of high performers vs. 79 percent of average performers
5. Talent & HR analytics: Rated as “urgent” or “important” by 82 percent of high performers vs. 71 percent of average performers

These findings suggest that top HR teams are even more focused on certain business and talent priorities, including leadership, talent acquisition, delivering a high-performing and highly engaged workforce, improving the HR function, and building analytics capability, than most companies’ HR teams.

**Figure 10. Areas of priority for different industries (by rank and percentage)**

Global	Trend	Consumer business	Energy and resources	Financial services	Life sciences and health care	Manufacturing	Professional services	Public sector	Technology, media & telecom
1 (86%)	Leadership	1 (85%)	1 (86%)	1 (89%)	1 (90%)	1 (84%)	1 (84%)	1 (84%)	1 (89%)
2 (79%)	Retention and engagement	2 (81%)	2 (79%)	2 (83%)	4 (78%)	2 (78%)	2 (79%)	5 (75%)	2 (80%)
3 (77%)	Reskilling the HR function	3 (76%)	2 (79%)	3 (77%)	2 (82%)	3 (76%)	4 (76%)	4 (76%)	3 (79%)
4 (75%)	Talent acquisition and access	7 (69%)	3 (78%)	4 (76%)	4 (78%)	6 (71%)	3 (78%)	8 (67%)	2 (80%)
5 (74%)	Workforce capability	6 (70%)	3 (78%)	6 (71%)	6 (73%)	5 (72%)	2 (79%)	2 (80%)	5 (77%)
6 (72%)	Talent and HR analytics	6 (70%)	5 (71%)	6 (71%)	3 (80%)	7 (66%)	5 (73%)	6 (71%)	4 (78%)
7 (71%)	Global HR and talent management	5 (71%)	4 (75%)	5 (73%)	8 (70%)	4 (74%)	7 (69%)	10 (57%)	6 (76%)
8 (70%)	Learning and development	4 (72%)	7 (66%)	7 (68%)	9 (69%)	8 (64%)	4 (76%)	3 (78%)	8 (67%)
9 (69%)	Performance management	8 (68%)	7 (66%)	7 (68%)	6 (73%)	9 (63%)	6 (72%)	9 (65%)	7 (70%)
10 (68%)	HR technology	9 (67%)	6 (70%)	9 (66%)	7 (71%)	11 (61%)	8 (67%)	6 (71%)	5 (77%)
11 (65%)	The overwhelmed employee	10 (62%)	8 (59%)	8 (67%)	5 (74%)	10 (62%)	6 (72%)	7 (68%)	9 (64%)
12 (59%)	Diversity and inclusion	11 (56%)	9 (56%)	10 (63%)	10 (57%)	12 (55%)	9 (64%)	10 (63%)	10 (55%)

Percentages indicate the percentage of respondents rating each trend as “urgent” or “important.”

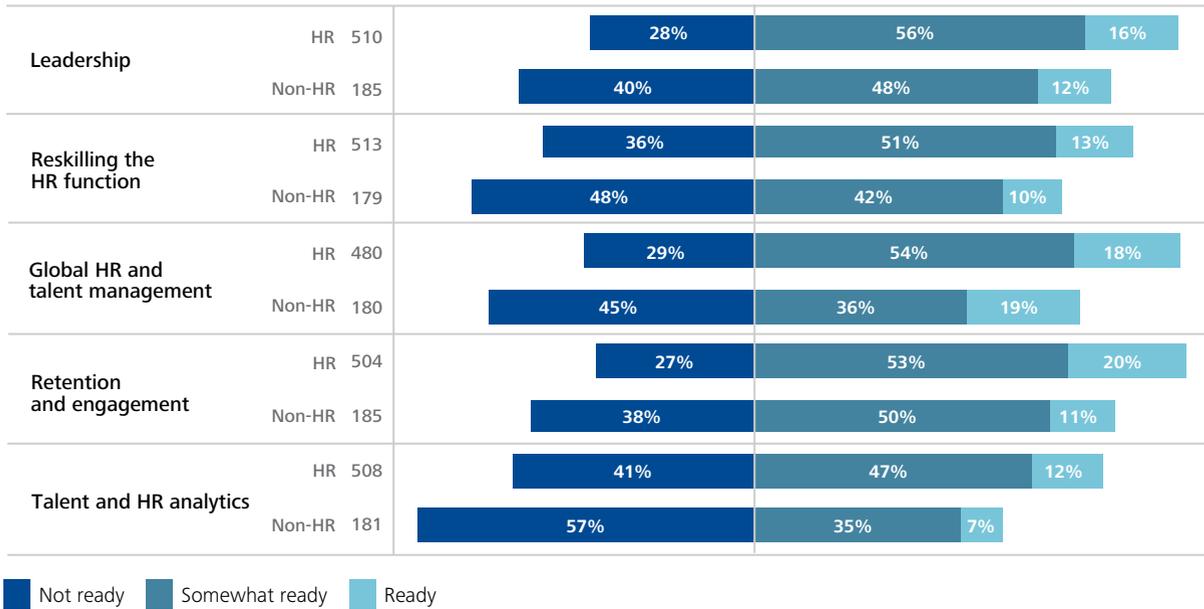
Graphic: Deloitte University Press | [dupress.com](http://dupress.com)

### Finding 8. Business leaders have less confidence in their organization’s readiness to deal with future trends than HR leaders

Our survey included the perspectives of both business leaders and HR leaders. For the five trends identified as most urgent overall, we observed substantial differences between

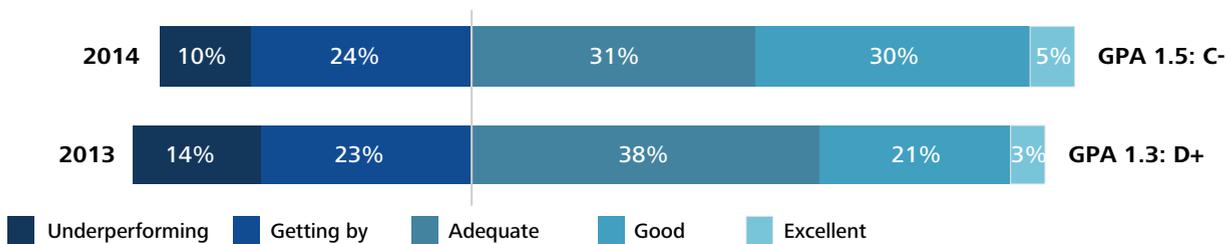
business leaders’ and HR leaders’ views on their organizations’ readiness for these trends. These differences were more pronounced for larger organizations—those with more than 10,000 employees. Among these organizations, business leaders rate their organizations’ readiness to address the top trends an average of 13 percentage points lower than HR’s assessment of readiness in leadership, reskilling HR, the globalization of HR, retention and engagement, and talent and HR analytics (figure 11).

**Figure 11. Business and HR leaders' perceptions of readiness for the top five trends (among organizations with more than 10,000 employees)**



Graphic: Deloitte University Press | DUPress.com

**Figure 12. HR's global report card: Trending toward "C-"**



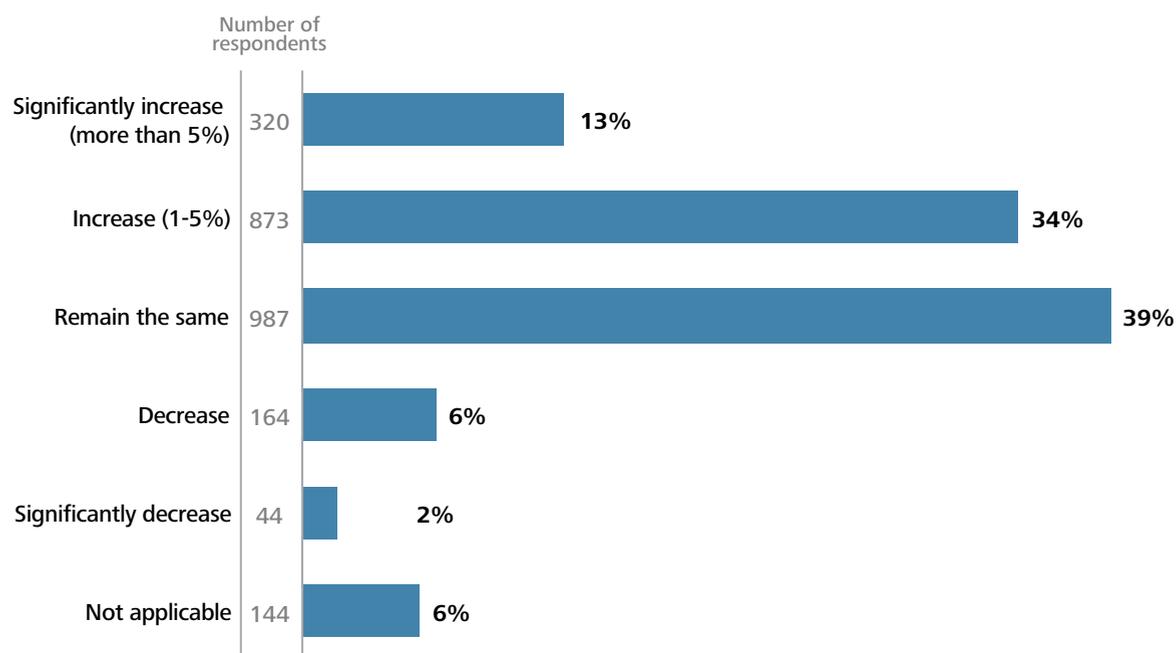
Graphic: Deloitte University Press | DUPress.com

While HR teams may understand their current programs, capabilities, and readiness in these areas, these results hint that business leaders may not. If this is so, then this finding highlights the importance of HR leaders and teams improving their engagement with business line leaders, ensuring that HR is focusing on critical business concerns, and partnering with the business effectively to share HR's capabilities and services. Of course, the finding may also point to underlying gaps that business leaders believe HR leaders need to address more fully.

### Finding 9. HR and talent executives grade themselves a C-minus for overall performance

When asked respondents to rate their organizations' HR and talent programs on a scale from excellent to underperforming, the HR organizations in our survey showed a minor improvement over last year's self-assessment. In 2013, 37 percent of respondents felt that their overall HR and talent programs were "underperforming" or just "getting by." This year, that number dropped to 34 percent.

While this improvement is a positive sign, the general picture is still one of widespread perceived mediocrity. If we evaluate HR

**Figure 13. Plans to invest in HR over next 12–18 months**

Graphic: Deloitte University Press | DUPress.com

organizations' overall self-assessed capabilities using a traditional grade-point scale (see figure 12), where "excellent" is a 4.0 or A, "good" is a 3.0 or B, "adequate" is a 2.0 or C, "getting by" is a 1.0 or D, and "underperforming" is a 0.0 or F, then this year's respondents rated themselves at the equivalent of a C-minus—in contrast to last year's D-plus. In 2014, twice as many global respondents gave their HR and talent programs an F as gave them an A (10 percent versus 5 percent). While this is not intended as a criticism of HR in general, it does reflect how challenging it is to build a world-class HR function and how far companies believe they are from this goal.

### Finding 10. Companies worldwide plan modest increases in talent and HR investments in 2014

Forty-seven percent of responding companies expect to increase their HR investments in 2014, with 13 percent anticipating increases of 5 percent or more. Eight percent of respondents expect to decrease these investments,

and 39 percent are planning to invest at the same level (figure 13).

Taking the weighted average across these increases, we found that 2014 should see a general growth in spending on HR of 1.32 percent. While this is a relatively small number, it is positive, indicating that companies are recognizing the need to invest in human capital and the value derived from those investments. Similar research shows a significant increase in spending in talent acquisition, training, reskilling, and employee engagement programs, with a flat to declining investment in HR staff and technology.

### Toward a 21st-century talent agenda: Are HR and business leaders ready?

The global Human Capital Trends 2014 survey strives to present critical insights for business and HR leaders on both their HR and talent priorities and their readiness to deal with the future. Given evolving business needs and a changing global employee landscape, there is a complex set of urgent and important

human capital challenges that require attention. At the top of the list are:

- Leadership
- Retention and engagement
- Reskilling HR
- Talent acquisition and access
- Global workforce capabilities

At the same time, new challenges, including talent and HR analytics as well as the “overwhelmed employee,” are being added to the human capital agenda.

While the priorities and challenges are clear—and seem to resonate in importance across industries and geographies—the readiness of HR teams to respond to these challenges is less certain. For almost every trend we identified, readiness scores lagged, in many cases substantially, behind the trend’s perceived urgency. In large organizations (those

with more than 10,000 employees), we saw the largest differences between business and HR leaders in their assessments of the readiness to respond to important trends.

Perhaps HR executives are being tough on themselves and their functions when they grade themselves an overall C-minus. But given the importance that both business and HR leaders place on the human capital and talent agenda, 2014 is a moment both to reflect on what else can be done and to take action: focusing on what more can be done, what should be done differently, and what might be improved to move the needle in this critical area.

Our findings outline an agenda that can guide business and HR leaders pivoting between the recession and future growth strategies. The trends discussed in the balance of this report represent opportunities for improvement in leadership and development, acquisition and engagement, and transforming and reinventing HR to support business priorities in a changing world.

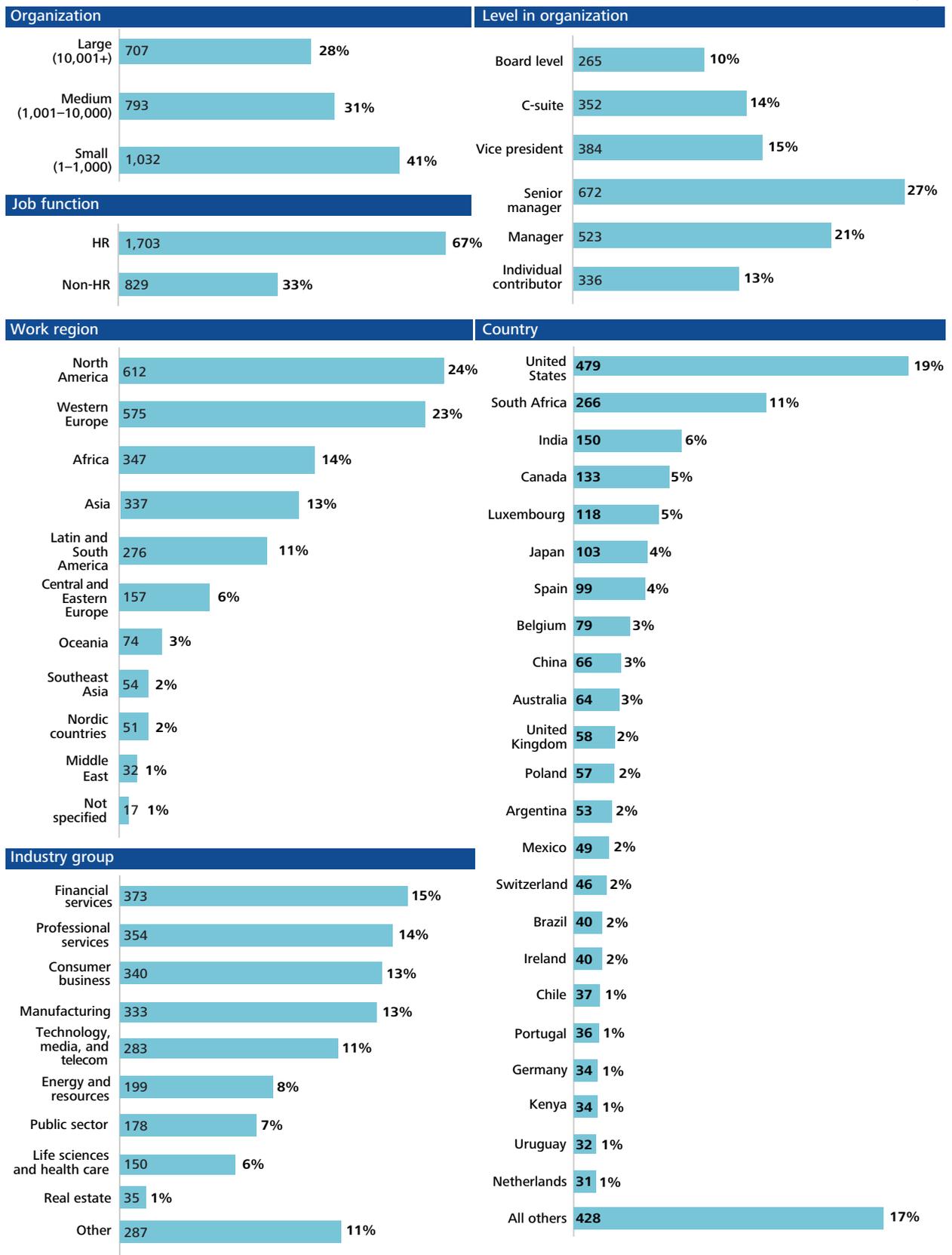
## Appendix: Global Human Capital Trends 2014 survey demographics

In the fourth quarter of 2013, Deloitte Consulting's global Human Capital practice conducted an extensive survey of HR and business leaders to understand their priorities and readiness to address 12 global HR and talent

trends. The survey included 2,532 respondents from 94 countries around the world. The key survey demographics are summarized in the following charts.

**Figure 14. Respondent demographics**

N = 2,532



Graphic: Deloitte University Press | DUPress.com

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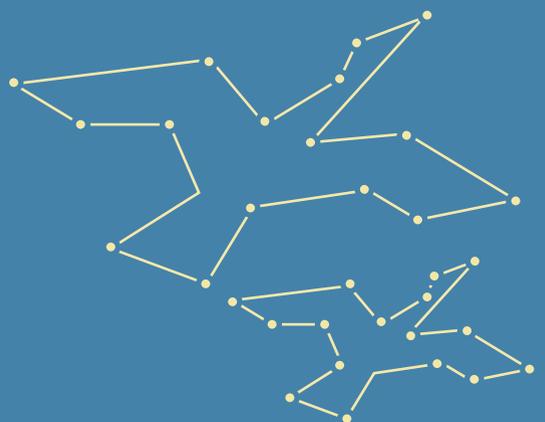
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## Endnotes

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3. The weighted average of 1.25 percent for HR investments is calculated by assuming average increases and decreases of 2.5 percent (given the range of 1–5 percent) and significant increases and decreases of 5 percent.
4. For more information, please see Karen O’Leonard, *The corporate learning factbook® 2013: Benchmarks, trends, and analysis of the US training market*, Bersin by Deloitte, January 2013, [www.bersin.com/library](http://www.bersin.com/library) or [www.bersin.com/factbook](http://www.bersin.com/factbook). This information is based on research that will be published throughout 2014 in a series of Bersin by Deloitte reports on the topic of high-impact HR.

# Lead and develop





# Leaders at all levels

## Close the gap between hype and readiness

- Companies face an urgent need to develop leaders at all levels—from bringing younger leaders online faster to developing leaders globally to keeping senior leaders relevant and engaged longer.
- Leadership remains the No. 1 talent issue facing organizations around the world, with 86 percent of respondents in our survey rating it as “urgent” or “important.” Only 13 percent of respondents say they do an excellent job developing leaders at all levels—the largest “readiness gap” in our survey.
- 21st-century leadership is different. Companies face new leadership challenges, including developing Millennials and multiple generations of leaders, meeting the demand for leaders with global fluency and flexibility, building the ability to innovate and inspire others to perform, and acquiring new levels of understanding of rapidly changing technologies and new disciplines and fields.

**F**OR companies around the world, a shortage of leaders is one of the biggest impediments to growth. This challenge is particularly acute today as the global recovery strengthens, companies seek to rapidly grow their businesses in new markets, and older leaders begin to retire at accelerating rates.

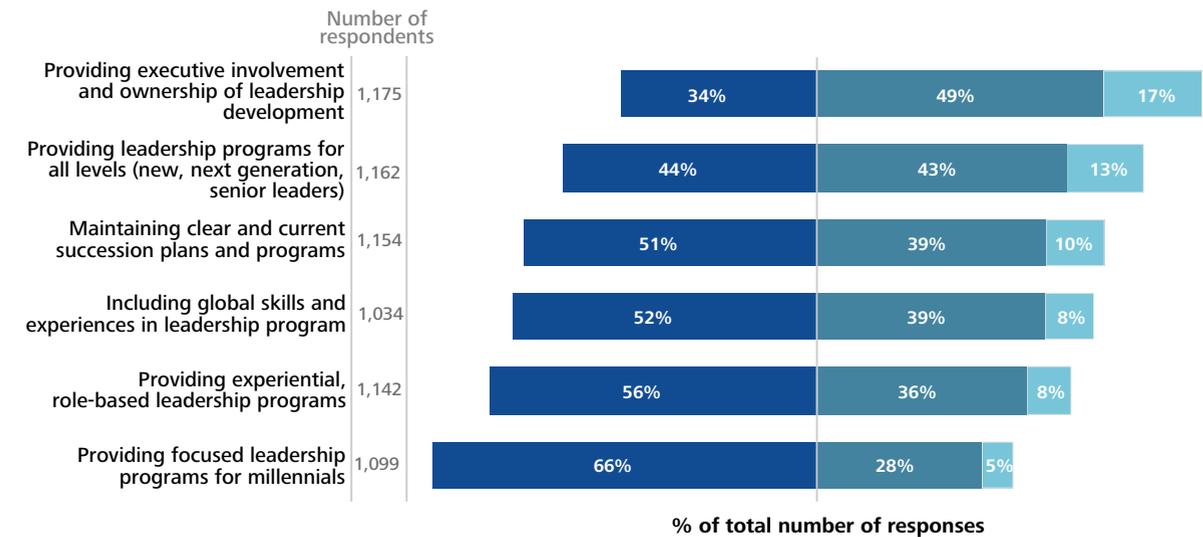
Leadership needs today are far broader and deeper than merely developing the next CEO or even building the C-suite pipeline. Companies face leadership gaps at every level of the organization. These gaps can only be filled through a sustained and systemic commitment to leadership development that identifies potential leaders earlier, brings young leaders online faster, develops senior leaders later in their careers and keeps them on the job longer, and builds new leadership pipelines at every level of the company.

The executives in our 2014 global survey viewed leadership as the highest-priority issue of all the issues we asked them about, with

86 percent rating it “urgent” or “important.” Yet, despite the acknowledged importance of leadership, most companies feel they are not meeting the challenge (figure 1):

- Only 13 percent of companies in our survey rate themselves “excellent” in providing leadership programs at all levels—new leaders, next-generation leaders, and senior leaders
- 66 percent believe they are “weak” in their ability to develop Millennial leaders, while only 5 percent rate themselves as “excellent”
- Over half (51 percent) have little confidence in their ability to maintain clear, consistent succession programs
- Only 8 percent believe they have “excellent” programs to build global skills and experiences

**Figure 1. Current leadership programs falling short**



HR executives' assessment of leadership program capability levels ■ Weak ■ Adequate ■ Excellent

Graphic: Deloitte University Press | DUPress.com

## Today's market environment places a premium on speed, flexibility, and the ability to lead in uncertain situations.

### Developing 21st-century leadership skills

Not only are companies not developing enough leaders, but they are also not equipping the leaders they are building with the critical capabilities and skills they need to succeed.

Today's market environment places a premium on speed, flexibility, and the ability to lead in uncertain situations. At the same time, the flattening of organizations has created an explosion in demand for leadership skills at every level.

Our research shows that foundational and new leadership skills are in high demand, including:

- **Business acumen:** Understanding the core business well
- **Collaboration:** Having the ability to build cross-functional teams

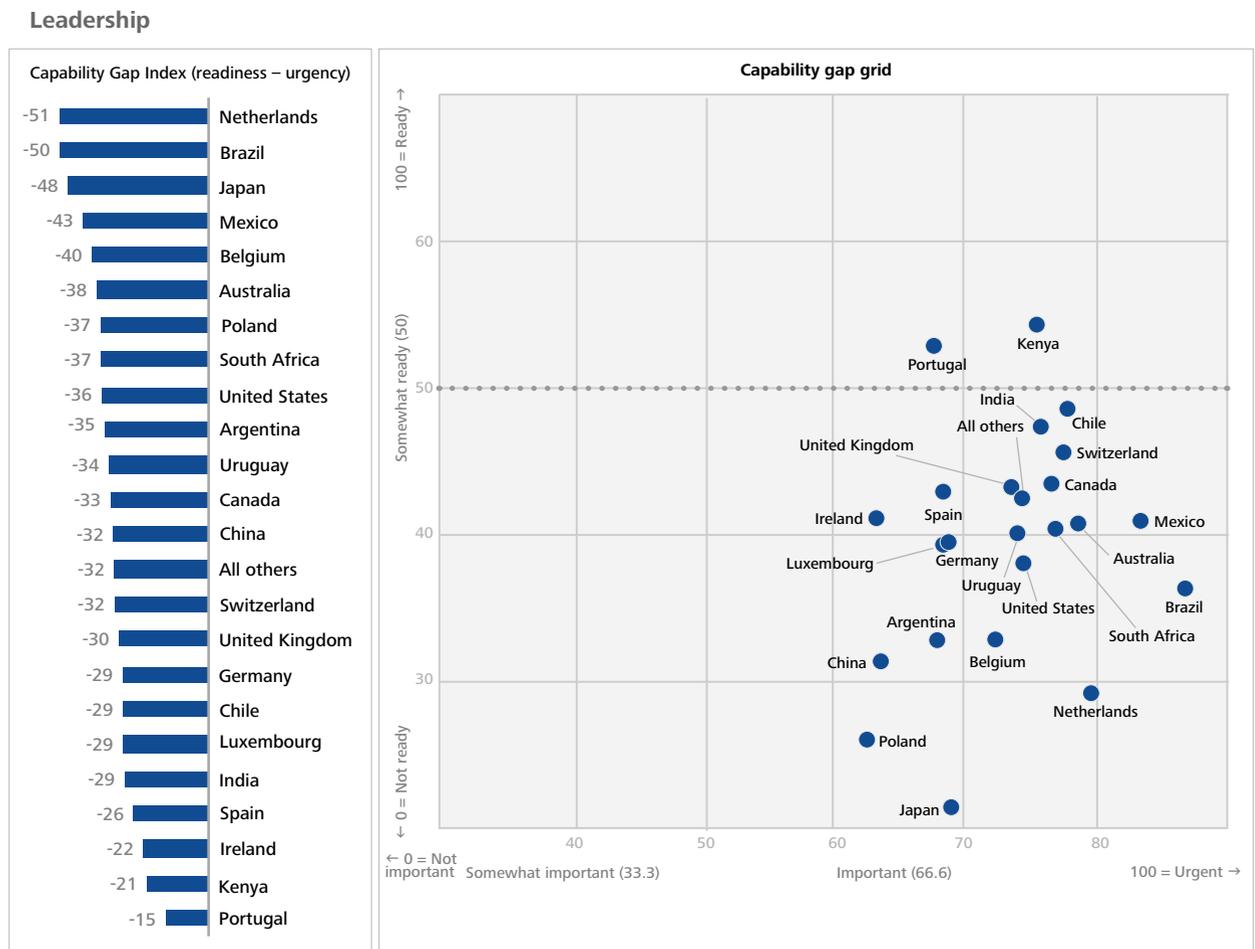
- **Global cultural agility:** Managing diversity and inclusion
- **Creativity:** Driving innovation and entrepreneurship
- **Customer-centricity:** Enhancing effective customer relationships
- **Influence and inspiration:** Setting direction and driving employees to achieve business goals
- **Building teams and talent:** Developing people and creating effective teams

A highly successful global technology company, for example, discovered that it needed four leadership archetypes: entrepreneurs who can start a business; scale leaders who can build up a business; efficiency leaders who reduce costs and improve operations; and fix-it leaders who turn businesses around.

The core capabilities for leadership are well understood. Yet Deloitte’s experience over the last decade suggests that the quality of leaders is declining. This would mean that companies need to reexamine and redesign their leadership development programs.

Our survey suggests this has become a highly urgent challenge for corporate leaders worldwide, especially in Brazil, Mexico, and the Netherlands. Executives in few countries appeared to be prepared to meet this challenge (figure 2).

**Figure 2. Urgency vs. readiness: Who is leading, who is lagging?**



Graphic: Deloitte University Press | DUPress.com

**The Human Capital Capability Gap Index**

The Deloitte Human Capital Capability Gap Index is a research-based index that shows HR’s relative capability gap in addressing a given talent or HR-related problem. It is computed by taking an organization’s self-rated “readiness” and subtracting its “urgency,” normalized to a 0–100 scale. For example, if an organization feels that an issue is 100 percent urgent and it also rates itself 100 percent capable and ready to address the issue, the capability gap would be zero. These gaps, which are almost always negative, can be compared against each other.

**The capability gap grid**

By plotting the gaps on a grid (with readiness on the vertical and urgency on the horizontal), we can see how capability gaps vary among different countries and industries.

- Capability gaps at the lower right part of the grid are those of high urgency and low readiness (areas that warrant major increases in investment).
- Capability gaps at the upper right part of the grid are highly urgent, but companies feel more able to perform in these areas (they warrant investment but are lower priority than those at the bottom right).
- Capability gaps on the left side of the grid are areas of lesser importance, and those lower in the grid are areas of less readiness.

## Building the pipeline takes investment, time, and expertise

Building a leadership pipeline requires a high level of sustained investment. The entire industry of leadership development represents a \$14 billion marketplace.<sup>1</sup> High-impact<sup>2</sup> companies in the United States spend more than \$3,500 per person each year to develop mid-level leaders and over \$10,000 to develop senior leaders.<sup>3</sup>

Strong leadership programs target leaders at all levels. At the early stages in the leadership pipeline, potential leaders need to acquire core skills in supervision and management, with frequent assignments to round out their skills. Later in their careers, rising leaders must understand all the business functions and how to run a P&L. As executives, leaders must learn business and product strategy and gain experience driving change among large teams.

It is also critical to understand that, despite the proliferation of leadership fads, there are no shortcuts to building a leadership team that is broad and deep. A new leader typically needs 18 months before feeling fully comfortable in a new role; for a mid-level leader, the time period stretches from 24 to 36 months.<sup>4</sup>

## Creating new leadership paths

While most companies develop somewhat rigid leadership tracks, they may be better served by developing paths to leadership that are more flexible.<sup>5</sup> Some leaders will move into a top role quickly due to situational needs or local talent gaps. Others will develop over the course of many years.

High-performing companies now develop leaders locally, tapping into local

cultural experiences of potential leaders in each country.

In a recent study of top leadership progression at a major energy company, we found that the paths for successful leaders in China were dramatically different than those for leaders in the United States.<sup>6</sup> US-based leaders took a more traditional path through a pre-defined set of business assignments; successful leaders in China were promoted much more rapidly. This discovery led top management to rethink the company's traditional model and enable local teams to be more flexible in the leaders they develop.

## The importance of leadership strategy

Building leaders requires more than a portfolio of training programs. Senior executives should create a culture that broadens the opportunity for leaders to develop in new ways. This means putting potential leaders in positions that stretch them beyond their current skill sets, and continuously coaching and supporting leaders so they can build their capabilities as rapidly as possible. While this is increasingly well known, in our experience it is simply not widely adopted and practiced.

This process is relevant to all levels of the organization and to all generations of employees. High-potential Millennial leaders are looking to be identified early and placed on accelerated development timetables. Mid-career leaders are looking for challenging roles that allow them to make capability leaps—deepening and broadening their leadership skills to prepare them for more senior roles and new business challenges.

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## LESSONS FROM THE FRONT LINES

### Building a “pathway” to leadership

ANZ, a leading Australian bank and financial services provider, set out to transform itself into a “super-regional bank,” focusing on achieving aggressive growth outside its home markets of Australia and New Zealand. To meet these goals, ANZ had to ensure that its leaders had the distinctive set of capabilities necessary for the transition.

The first phase of the program built the foundation for organizational leadership in the region through the development of a unique ANZ leadership model with the full commitment of senior executives. The model identified leaders at all levels and critical leadership transition points.

The competencies necessary for success were aligned to the new super-regional strategy and leadership model, and the company designed a “leadership pathway program,” including a set of bespoke learning programs for each leadership level, to support the development of super-regional leaders through enhanced leadership and business skills.

In the second phase, the pathway program was deepened through the adoption of an informal online learning tool implemented widely across the bank. A generalist bankers program brought the new strategy to one organizational level; an executive leader program was required for senior executives; and recommended learning was introduced for first-time managers. A speaker series brought the strategy to life for all staff.

Currently, in the third phase, the program has adopted a model of leaders teaching leaders, with a renewed focus on identifying and targeting high-potential leaders for the executive leader program. Thus far, over 5,400 people have completed programs in the pathway, logging close to 110,000 hours of learning. Business results for the bank have continued to improve throughout the strategy’s implementation. The bank is increasing its rate of internal leader promotions as well.

Thanks to a high level of commitment to the strategy throughout the company, measures of employee engagement have risen significantly, and senior executives are actively building and demonstrating the culture change necessary to achieve the strategy’s goals.

### Leadership development at all levels enables mission success

Few organizations face more pressing demands for leadership than the United States Department of Defense.<sup>7</sup>

With more than 1.4 million men and women on active duty, 1.1 million serving in National Guard and Reserve forces, and 718,000 civilian personnel, the Department of Defense requires leaders at all levels capable of understanding complex security threats around the world, making split-second life-or-death decisions, and achieving mission success—all in highly volatile, ambiguous, and constantly changing environments.

To accomplish this goal, the department invests heavily in developing well-rounded leaders at all levels. Leadership training is embedded into every stage of a military member’s career. Completion of this training is typically required for promotion and advancement, so leadership is effectively built into the department’s performance and rewards system.

Prospective officers—the high-potential leaders of the military—undergo four years of progressively more challenging leadership training, either at a service academy or in an ROTC (Reserve Officers Training Corps) program, before they receive their commissions or first assignments. Officer candidates are pushed into leadership roles early and often, allowing them to continually build their leadership skills over time.

Upon graduation, officers typically receive leadership training at every stage of their careers. Those officers that reach the highest levels of command typically attend at least three formal schools, with specific leadership training that ranges from several weeks to up to nine months. During this time, officers focus solely on improving their leadership skills and are free from day-to-day assignments that distract them from their training.

At every stage in their career, officers are pushed to expand their leadership skills through training and hands-on field experience. Critical skills such as teamwork, clear communication, contingency planning, adaptability, time management, and aligning priorities and strategy are continually reinforced. The result is a leadership training program that embodies best practices and builds leaders at every level of the organization.

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## Where companies can start

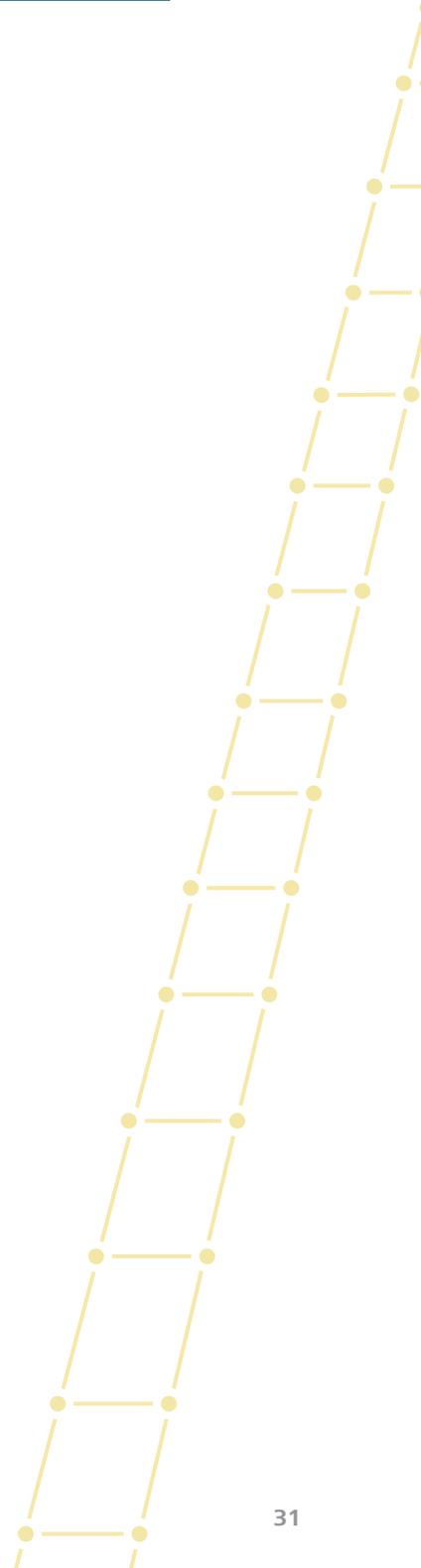
**B**UILDING a global leadership pipeline takes time, investment, and executive focus.

Potential starting points include:

- **Engage top executives to develop leadership strategy and actively govern leadership development:** Focus on gaining executive commitment to the process. Two trends are gaining traction. First, companies are involving their executive teams, and increasingly boards of directors, in the leadership process by providing them visibility to and soliciting their input on the leadership pipeline, gaps, and programs. Second, business leaders are recognizing that their direct involvement in leadership pipelines and gaps is critical for anticipating challenges in developing and implementing future strategies.
- **Align and refresh leadership strategies and development to evolving business goals:** Different business goals—growth, innovation, quality, new markets, acquisitions—require different combinations of leadership experiences and capabilities. As businesses, technology, and competitive and regulatory environments rapidly change, companies are challenged to create new types of leaders with more varied and deeper leadership experiences.
- **Focus on three aspects of developing leaders:**
  - Develop leaders at all levels. Companies are run by first-line supervisors and middle management. Invest in these levels as well as in top leadership roles.
  - Develop global leaders locally. The days of expatriate leaders are over; high-performing companies build local leaders from the ground up.<sup>8</sup>
  - Develop a succession mindset. It takes years to build great leaders; the pipeline should be growing continuously.
- **Implement an effective leadership program:** Each company needs a unique leadership program. Successful organizations often ensure that their programs feature current leaders teaching future leaders—an idea that has been around for some time, but just not practiced widely enough. Assign a top business and HR executive to take responsibility and be prepared to spend significant time and money. In developed markets this can be in the range of \$2,000 and \$10,000 per leader every year. Focus on how to develop leaders more quickly by simplifying competency models, using action learning, and assessing leaders with analytics.<sup>9</sup>

## BOTTOM LINE

As in previous years, leadership continues to top the priority list in the 2014 Human Capital Trends survey. The challenge is to develop leadership pipelines that are global, broad, and deep, reaching to every level of the organization. This involves a significant investment of time and resources and a commitment to leadership from the board and executive team. Perhaps the biggest challenge is for business and HR leaders to ask whether they are confident that they are doing enough and whether they are exploring new approaches to move the needle on their business's leadership requirements.



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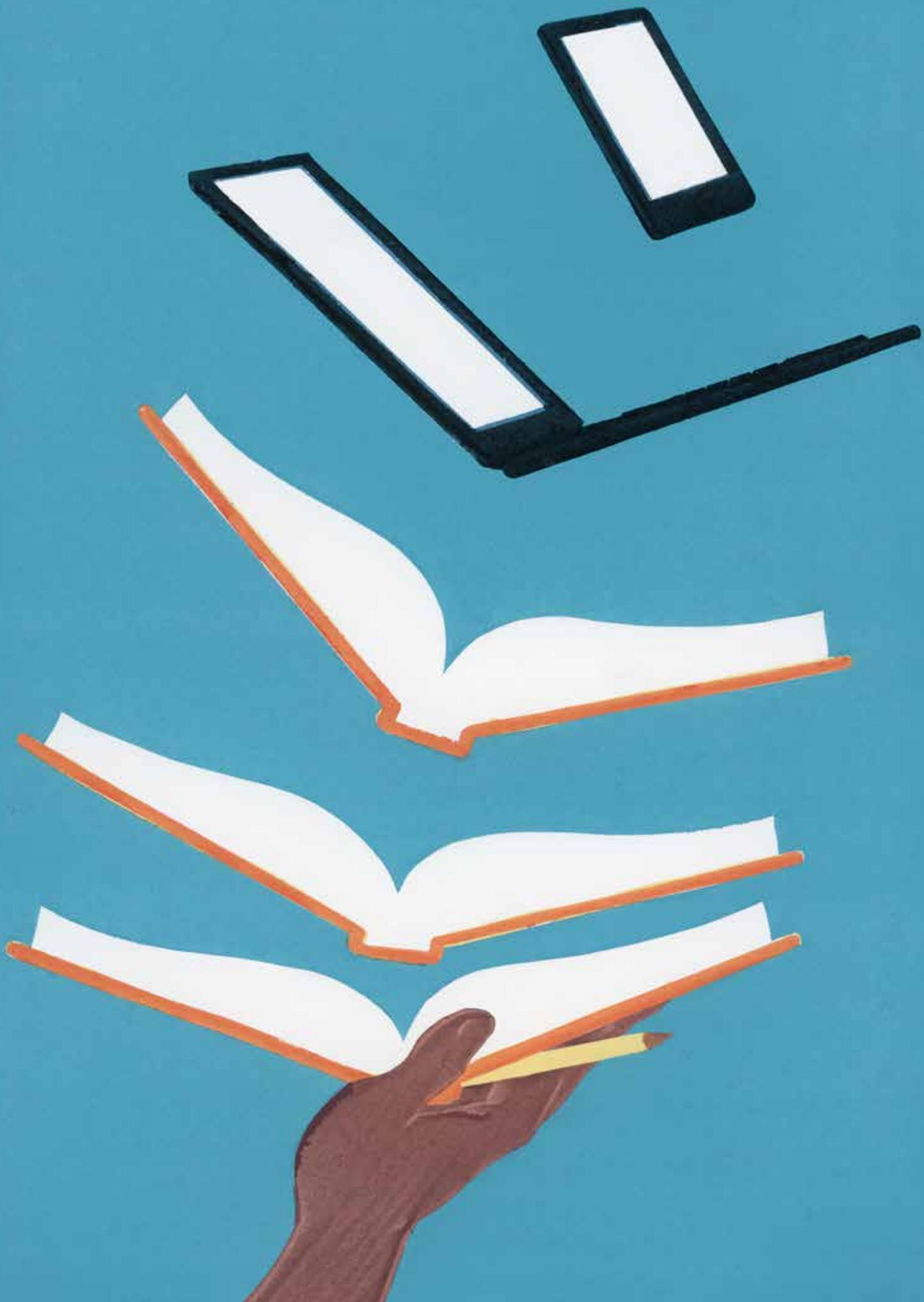
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## Contributors

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## Endnotes

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2. "High-impact" learning organizations (HILOs) are those in the top 10 percent of the Bersin by Deloitte benchmarking database, measured by business outcomes, learning effectiveness, learning alignment, and learning efficiency. See [www.bersin.com/library](http://www.bersin.com/library) for more details.
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# Corporate learning redefined

## Prepare for a revolution

- Traditional employee training is being revolutionized by flipped classrooms, learning-centric models, and an explosion of content delivered over a variety of new online and mobile platforms.
- More than two-thirds of companies in our global survey see this trend as “urgent” or “important,” yet only 6 percent believe they have mastered the content and technology capabilities needed to make online learning an accessible tool and a compelling experience for their employees.
- By empowering employees to become equal partners in the learning process, HR organizations can foster a culture of development and growth—driving performance, engagement, and career development.

**B**ACK in 1999, Cisco CEO John Chambers predicted that the Internet would transform education so completely it would “make email usage look like a rounding error.”<sup>1</sup> While it took nearly 15 years, that day has finally arrived.

The explosive growth of online learning—from the pioneering Khan Academy and edX to Coursera and dozens of MOOCs (massive open online courses)—is democratizing education for millions by putting learners at the center of the education process.<sup>2</sup> We estimate that more than 24 million people have tried online education, and most young employees today come to work ready and excited to build their job skills through online learning.

Yet, at a time when employees should be able to access training as easily as a YouTube video, most training and development organizations have not kept pace with advances in technology or the evolution toward employee-centered learning.

As figure 1 indicates, more than two-thirds (71 percent) of executives believe their companies are “weak” when it comes to using advanced media. Slightly more than six in ten say they are also “weak” in providing mobile

and social learning (63 percent) and using MOOCs as development tools (67 percent).

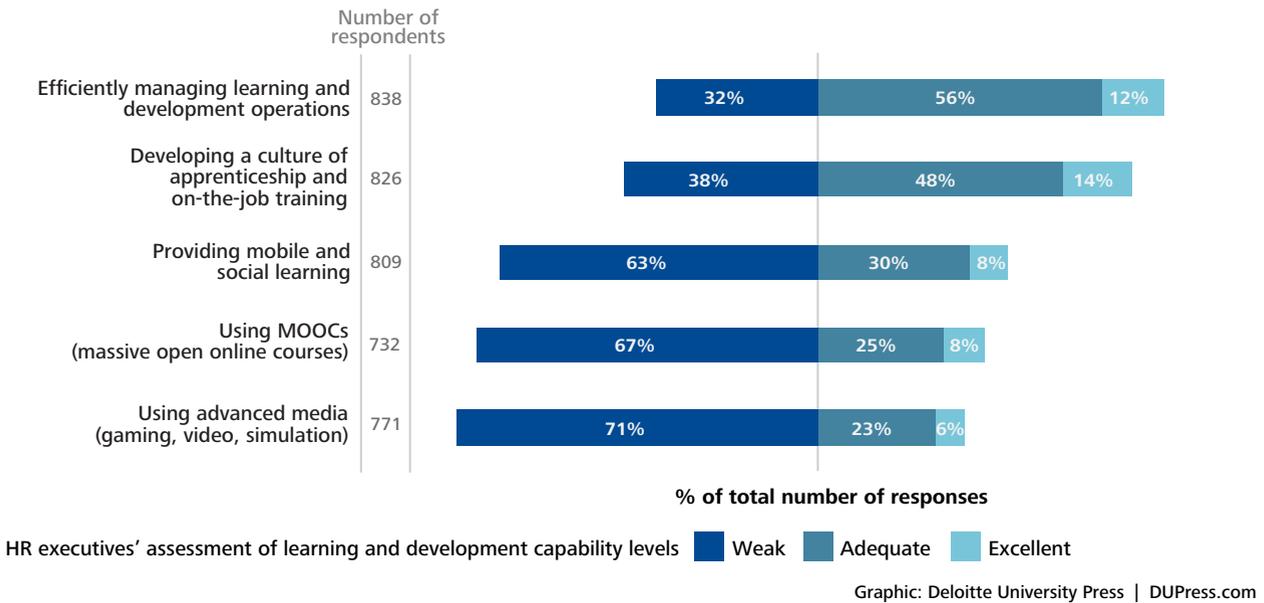
### The need to rationalize learning and development spending

Traditional employee training represents a \$130 billion global market.<sup>3</sup> While most organizations spend millions of dollars on training today, most are not sure exactly where this massive investment is spent or what results, if any, it delivers.

One of the biggest problems is the uncoordinated structure of learning and development itself. Our research and conversations with clients show a surprising lack of discipline and structure within the training function at many companies. Only 49 percent of organizations have a senior leader running the training function and fewer than 45 percent have a written business plan for learning.<sup>4</sup>

With little leadership or planning, it is not surprising that most companies see a lot of waste and redundancies. One chief learning officer told us the company had 7,000 courses listed in its training catalog and nearly 60 percent were duplicative. Rationalizing

**Figure 1. Slow adoption of leading-edge learning tools**



and consolidating these programs is clearly a crucial first step in creating a next-generation learning environment.

### Continuous learning and the move from “push” training to “pull” learning

Historically, most training programs have followed a “push” model. An employee was invited to a training session in a classroom at a specified time, listened to a series of lectures, and was sent back to work. Content was pushed down to employees based on the training department’s schedule and success was measured by how many employees attended the class.

Today’s employees typically have different expectations of how to acquire and develop skills. Younger Millennial and Generation X workers expect training and support to be as readily and rapidly accessible as a Google search. In this “pull” model, learning and development is a continuous process, with training pulled seamlessly through computers or mobile devices anywhere, anytime. The training class schedule has been replaced by the mouse click and the screen tap.

As careers become longer and more diverse, the half-life of skills also becomes shorter and shorter, placing a premium on continuous training and development. Millennials can look forward to multi-chapter careers lasting 50 years, with career paths that cross many businesses and functions.

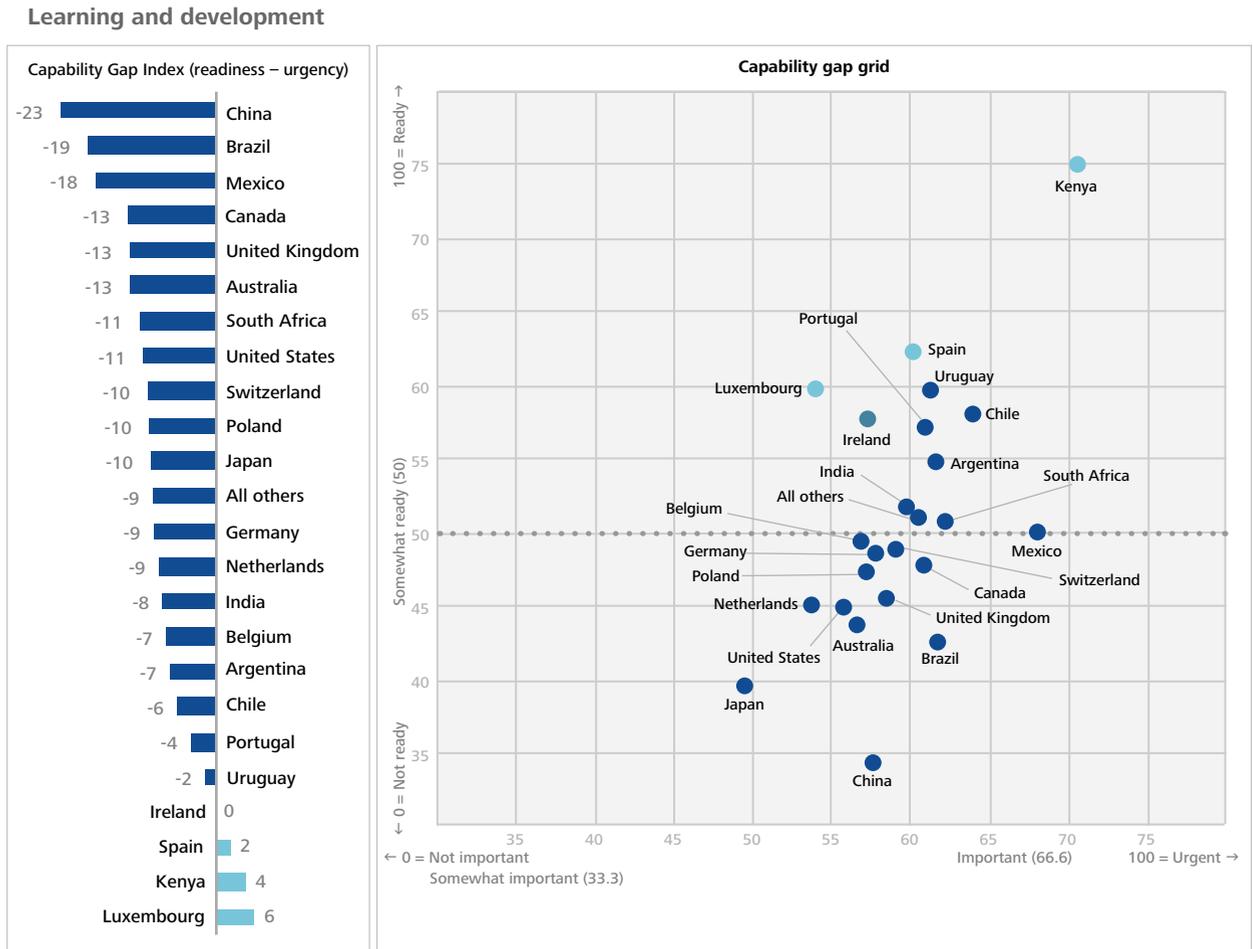
To address the new dynamics of the 21st-century employee, companies are replacing traditional training classrooms with a tapestry of easy-to-use learning approaches and resources. These new tools allow employees to continuously upgrade skills by incorporating learning into everyday work experience and progressing at their own rate.

Companies in Ireland, Spain, and Luxembourg report that they are successfully making the transition from traditional training to individual learning. While companies in China and Brazil understand this need, they appear less prepared to act (figure 2).

### A new employee-employer contract offering tours of duty

Underlying this shift in the way people learn and acquire skills is what Reid Hoffman, founder of LinkedIn, calls the new “employee-employer contract.”<sup>5</sup> Companies no longer

**Figure 2. Urgency vs. readiness: Who is leading, who is lagging?**



Graphic: Deloitte University Press | DUPress.com

**The Human Capital Capability Gap Index**

The Deloitte Human Capital Capability Gap Index is a research-based index that shows HR’s relative capability gap in addressing a given talent or HR-related problem. It is computed by taking an organization’s self-rated “readiness” and subtracting its “urgency,” normalized to a 0–100 scale. For example, if an organization feels that an issue is 100 percent urgent and it also rates itself 100 percent capable and ready to address the issue, the capability gap would be zero. These gaps, which are almost always negative, can be compared against each other.

**The capability gap grid**

By plotting the gaps on a grid (with readiness on the vertical and urgency on the horizontal), we can see how capability gaps vary among different countries and industries.

- Capability gaps at the lower right part of the grid are those of high urgency and low readiness (areas that warrant major increases in investment).
- Capability gaps at the upper right part of the grid are highly urgent, but companies feel more able to perform in these areas (they warrant investment but are lower priority than those at the bottom right).
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provide employees a lifetime career. Instead, they offer “tours of duty”—assignments for a period of time that gives employees new skills, education, and a set of experiences that provide benefits over a lifetime.

Under this new contract, skills are acquired and developed rapidly. Employees become

not only more capable, but more loyal to the organization. According to our research, employee development is one of the biggest drivers of retention and engagement.<sup>6</sup> In other words, tours of duty create employees who are not only more capable, but also more engaged and motivated.



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## LESSONS FROM THE FRONT LINES

### **Transforming corporate learning drives business change**

In fall 2007, employee engagement at Canadian-headquartered TELUS, a national telecommunications company, sat at 53 percent. Learning took place solely at formal training events and open leadership was a foreign concept to the company's 40,000+ employees. Collaborative technologies were nowhere to be found, and customers scored the company low when asked if they would recommend TELUS to others.

Fast forward to fall 2013: 83 percent of employees are engaged and 73 percent of customers are likely to recommend TELUS.

How did this transformation happen? TELUS took many actions to drive change.

To foster a culture of learning, in 2009, the organization launched its Learning 2.0 model, which redefined learning as equal parts formal, informal, and social. Collaborative technologies—including video- and photo-sharing, blogs, micro-blogging, wikis, virtual worlds, gamification, and instant messaging—encouraged employee alignment and the adoption of the new learning model.

To properly benchmark and assess Learning 2.0, TELUS developed its own internal “return on performance” metric system. Between 2009 and 2013, team member return on performance increased from 62 percent to 75 percent, proving that effective learning can drive performance.

In 2010, the organization launched the TELUS Leadership Philosophy (TLP)—an enterprise-wide open and collaborative leadership framework that promotes consistency in performing, managing, and leading. TLP represented an important shift in leadership strategy. Today, all team members are encouraged to take the lead.

TLP is now embedded into recruitment, onboarding, learning, succession planning, and performance development. As a result, TELUS saw its leadership engagement rise to 82 percent by 2013.

### **Transforming learning and development to align with business strategy**

A global diversified health and well-being company with thousands of employees in over 80 countries embarked on a series of strategic restructuring programs—including operations, corporate culture, and business processes—to meet a rapidly changing business environment. The company knew that this restructuring could likely succeed only if its learning function were reshaped as well, realigning it with the company's new strategic business objectives.

The company's goal was both ambitious and necessary: to transform a learning program scattered across different business units into an integrated, global learning function with measurable results and cost transparency.

The company's “as-is” assessment identified significant opportunities to increase the quality of learning and development while generating savings of up to 15 percent on total learning spending. Thousands of older, often-unused offerings were eliminated; others were reassessed to determine their alignment with business strategy and ability to advance critical skills.

In the course of these changes, learning became more employee-centric and more mobile. Content is no longer prescribed for each employee. Instead, employees and their managers construct individualized programs based on career plans and performance goals.

By transforming corporate learning, the organization laid the foundation for a global corporate university. Today it offers specialized academies and shared services that are fully focused on building the critical capabilities the company needs around the world.

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## Reinvent learning and development by putting employees in charge

As employees become active drivers of the learning experience, HR's role in the process becomes both more interesting and more critical.

Today's effective learning and development organizations should strive to become facilitators of learning and curators of content, not just developers and deliverers of training programs. They bring to this task a deep understanding of the capabilities and skills companies need to successfully execute their business plans and achieve their performance goals.

Employees are asking—and being asked—to take responsibility for developing their skills continuously over the course of their careers. In a “pull” learning environment, workers take it upon themselves to find information, educate themselves, and share their own expertise. In fact, our research shows that creating this type of learning culture, where employees willingly share skills and knowledge, is now one of the most important factors in business success.<sup>7</sup>

Companies are experimenting with strategies that enable employees to share what they learn on the job—and they are getting positive results. BT, for instance, encouraged video sharing by field service agents over the last five years and found that customer service quality improved threefold.<sup>8</sup>

## Where companies can start

**H**OW can organizations reengineer their learning strategy to address an explosion of content and a flipped model in which employees are more empowered to manage their careers? Starting points include:

- Rationalize training:** Know where the training budget is being spent and use this knowledge to rationalize training. Categorize training spending, identify areas of overlap, bring in a senior leader to accelerate the transition, and set up standard services for technology, content management, authoring tools, and other parts of the learning architecture.
- Redesign training roles:** Embrace leader-led training and subject-matter authored content and bring social and collaborative learning into every program offered.
- Create content curators:** Establish HR as curators of content and facilitators of experiences, not merely content archivists. Experiment with the fast-growing areas of employee-authored content, mobile learning, gaming, and other advanced learning techniques.
- Standardize, simplify, and integrate learning technology:** Employees want a single place to access content, share experiences, and find formal programs. Simple, integrated, mobile-enabled learning platforms drive adoption.
- Assess your learning culture:** Do your managers help develop people or just drive the numbers? Does your organization stop and reflect? Are your leaders open to bad news? Is employee development truly important and valued in your organization?

## BOTTOM LINE

Corporate training today requires content, context, and deep expertise. Companies should rationalize their HR spending, develop a global learning architecture, and shift the focus from “delivering training” to “developing capability.”

Many leading companies focus on putting the learner in charge (flipping corporate training in the same way schools are experimenting with flipped classrooms), building mastery, improving time to autonomy, and unlocking the power of expertise to ensure it is shared throughout the firm. Effective corporate learning encourages a culture of growth, empowering employees and driving performance, engagement, and career development.

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Josh Haims brings more than 15 years of consulting experience to the clients that he supports. He leads Deloitte's Learning Solutions practice and is the co-lead of the global Learning Solutions team. Haims specializes in delivering talent, performance, and rewards projects, including enterprise learning strategy and training program design, strategic change management, and talent strategies in a variety of industries.



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Bill Pelster is a Deloitte Consulting LLP principal with over 20 years of industry and consulting experience. In his current role, he is responsible for leading the Integrated Talent Management practice, which focuses on issues and trends in the workplace. In his previous role as Deloitte's chief learning officer, Pelster was responsible for the total development experience of Deloitte professionals, including learning, leadership, high potentials, and career/life fit. Additionally, he was one of the key architects of Deloitte University.



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Bernard van der Vyver is a leading advisor on human capital matters, focusing on learning and development. By merging his background in technology and its effective use with the development of people, he brings a unique strength to the HR domain. As global Learning Solutions leader, he aspires to grow and strengthen the global learning community by leveraging knowledge and expertise to deliver learning solutions that bring unique value to clients.

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# Performance management is broken

## Replace “rank and yank” with coaching and development

- Today’s widespread ranking- and ratings-based performance management is damaging employee engagement, alienating high performers, and costing managers valuable time.
- Only 8 percent of companies report that their performance management process drives high levels of value, while 58 percent said it is not an effective use of time.
- Leading organizations are scrapping the annual evaluation cycle and replacing it with ongoing feedback and coaching designed to promote continuous employee development.

**T**RADITIONAL performance management—the annual process of rating employees’ performance and ranking them against their colleagues—is widely considered to be broken.

These “forced curve” evaluations became popular under the influence of the GE model during Jack Welch’s tenure, but they were originally conceived around the turn of that century—the turn of the 19th to the 20th century, that is. At that time, employees were viewed strictly as “workers” whose performance could be accurately measured by output: the number of railroad ties installed, hours worked, or other numeric measures.

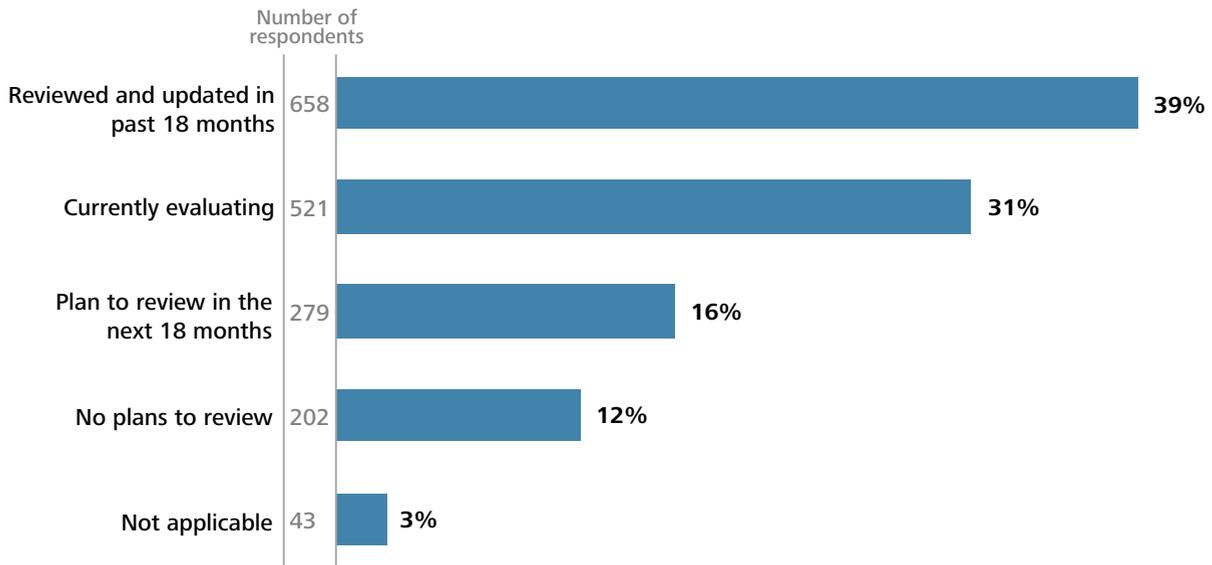
Today, more than 70 percent of all employees work in service or knowledge-related jobs. Their performance is driven by their skills, attitude, customer empathy—and by their ability to innovate and drive change by working through teams. These skills must be built over time, and successful performance management must be focused on constantly developing these capabilities rather than ranking them at a moment in time.

In addition, today’s business climate and business priorities seldom follow the annual evaluation cycle. Goals shift, strategies evolve, and employees often switch between multiple projects under various team leaders. Given this dynamic, it is hardly surprising that our research shows that organizations where employees review their personal goals quarterly—or even more often—were nearly four times more likely to score at the top of Bersin by Deloitte’s Total Performance Index.<sup>1</sup>

Many of today’s employers understand that it is time to reassess their performance management systems. Fully 70 percent of our survey respondents stated that they are either “currently evaluating” or have recently “reviewed and updated” their performance management systems (figure 1).

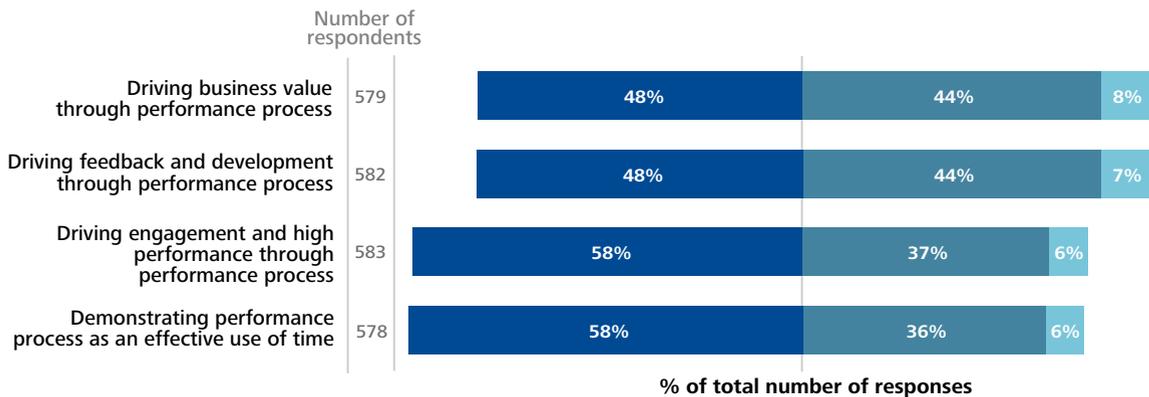
In a world where employee retention and workforce capability are significant indicators of business success, the performance management process should focus on continuous coaching and development, rather than competitive evaluation. Managers who provide regular feedback and opportunities to improve are

**Figure 1. A strong majority rethinking performance management**



Graphic: Deloitte University Press | DUPress.com

**Figure 2. HR executives' assessment of performance management**



HR executives' assessment of performance management capability levels: Weak (Dark Blue), Adequate (Medium Blue), Excellent (Light Blue)

Graphic: Deloitte University Press | DUPress.com

far more likely to field high-performing teams than those who retain once-a-year rankings.

### Why grading on the curve consistently fails

Perhaps the fundamental aspect of traditional performance management is grading by the curve or forced ranking of employees. This process, widely known as “rank and yank,” has been found in many companies to demoralize

employees, create animosity, and spur good people to look elsewhere for work.

At Microsoft, which recently abandoned the practice, the ranking process resulted in “capricious rankings, power struggles among managers, and unhealthy competition among colleagues.”<sup>2</sup>

The distribution of employee performance more often follows the “long tail” rather than the traditional “bell curve,” especially at talent-intensive companies that thrive on expertise and innovation. In other words, some

employees are hyperachievers, while many others work at the middle level of performance. In industries such as software, a top performer can often outperform a mid-level performer by as much as tenfold.

In these companies, the performance management system should treat high performers very well, while encouraging mid-level employees to improve through coaching and development. A forced bell curve diminishes the value of the top performers and pushes many mid-level performers into the bottom. In the process, it inadequately rewards top performers and fails to motivate middle-of-the-road employees.

Many corporate executives acknowledge that their current performance systems are not working (figure 2). More than half of executives surveyed believe their current performance process does not drive employee engagement and high performance (58 percent) and is not an effective use of anyone's time (58 percent). Just under half say their performance processes are "weak" in improving

development (48 percent) and driving business value (48 percent).

## A new role for managers

Shifting away from annual performance evaluations toward a process of continuous coaching and improvement requires a new role for managers.

The days when managers could lead from a position of command and control are over. In today's high-performing teams, employees must take ownership of their performance and act on their own to improve their capabilities. Managers become coaches, rather than evaluators.

## Decoupling compensation from evaluations

A critical feature of the new "coaching and development" model of performance management is separating feedback provided to employees from compensation decisions.

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## LESSONS FROM THE FRONT LINES

### A continual and collaborative approach to performance development

Prior to radically reforming its performance management system, managers at multinational software company Adobe spent over 80,000 hours per year on traditional performance evaluations—a process one manager described as "soul-crushing."<sup>8</sup>

Adobe, a company of 11,000 employees, 54 percent of whom work in North America, tried for five years to modify the traditional performance management system before abandoning it as inconsistent with Adobe's strong culture of teamwork and collaboration.

Today, Adobe has a far simpler, but far more effective, system.

Either an employee or a manager may request a "check-in" every three months. Before the actual meeting occurs, a group of employees provides feedback on the employee's performance.

The results form the basis of a conversation about performance improvement, rather than a zero-sum dispute about compensation or ranking. The goal is to make coaching and developing a continuous, collaborative process between managers and employees—a far more motivating outcome.

Importantly, Adobe's new system focuses on both ends of the performance curve—keeping high performers happy and offering practical advice for lower performers looking to improve. Group performance is also evaluated, leading to a more rational determination of group compensation.

The results have been profound: Since rolling out the new approach worldwide, Adobe experienced a 30 percent reduction in voluntary turnover in a highly competitive talent environment.

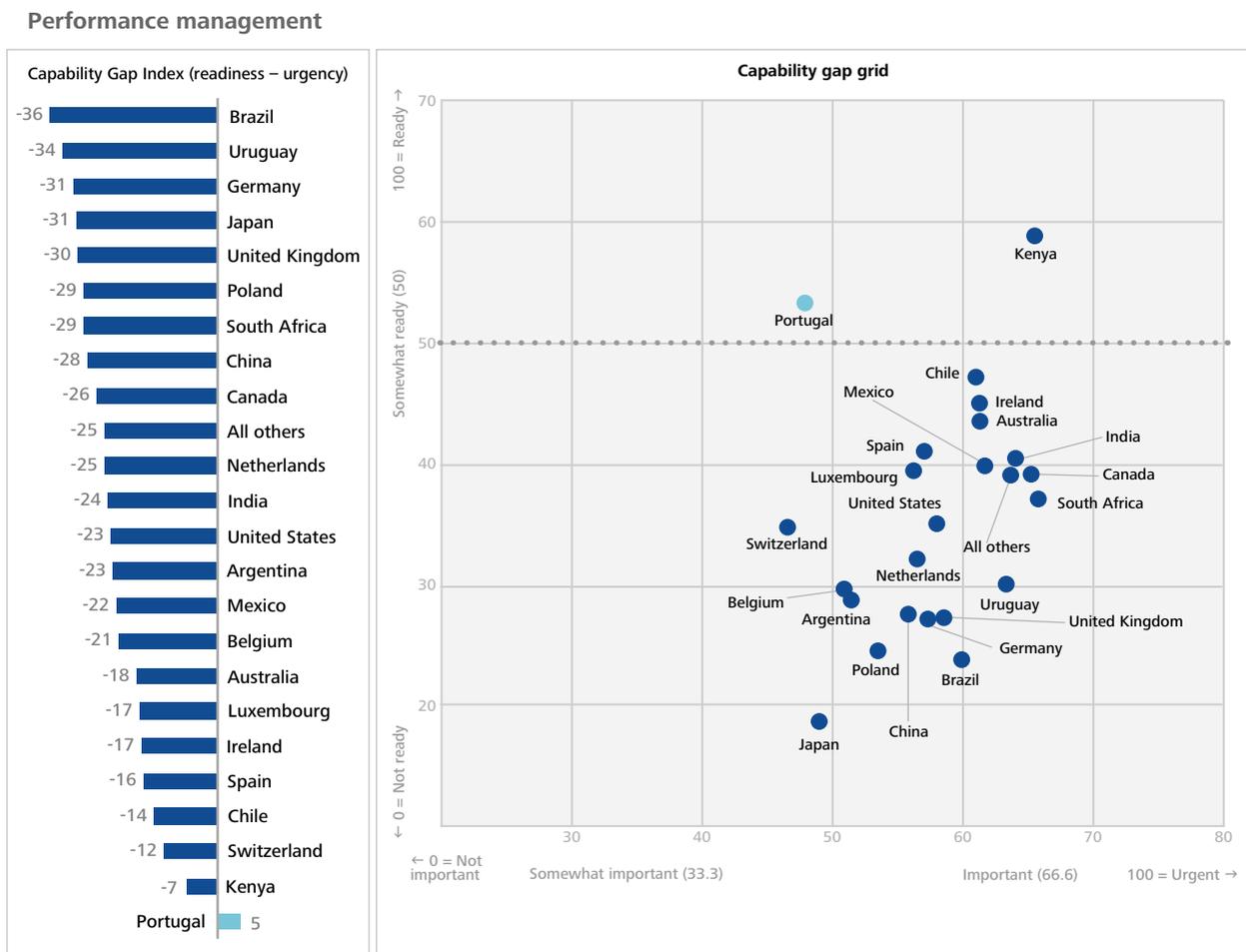
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Neuroscience research shows that conversations about compensation provoke an almost primordial “fight or flight” reaction among employees, which obviously inhibits the coaching process.<sup>3</sup> Rather than directly linking ratings and salary increases or bonuses, compensation decisions should be based on

the critical nature of an employee’s skills, the cost of replacing them, their value to customers, and the external labor market.

While employees need to be held accountable for the results they produce, most people perform best when they are given tools to succeed and coaching to improve performance.

**Figure 3. Readiness vs. urgency: Who is leading, who is lagging?**



Graphic: Deloitte University Press | DUPress.com

**The Human Capital Capability Gap Index**

The Deloitte Human Capital Capability Gap Index is a research-based index that shows HR’s relative capability gap in addressing a given talent or HR-related problem. It is computed by taking an organization’s self-rated “readiness” and subtracting its “urgency,” normalized to a 0–100 scale. For example, if an organization feels that an issue is 100 percent urgent and it also rates itself 100 percent capable and ready to address the issue, the capability gap would be zero. These gaps, which are almost always negative, can be compared against each other.

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Companies like Juniper Networks,<sup>4</sup> New York Life,<sup>5</sup> Motorola Solutions,<sup>6</sup> Kelly Services,<sup>7</sup> and others have all reengineered their process, eliminated ratings, and found substantial improvements in engagement and

performance as a result. Companies in other countries like Brazil, Germany, the United Kingdom, and Japan are eager to follow their lead, and recognize that they are far from ready (figure 3).

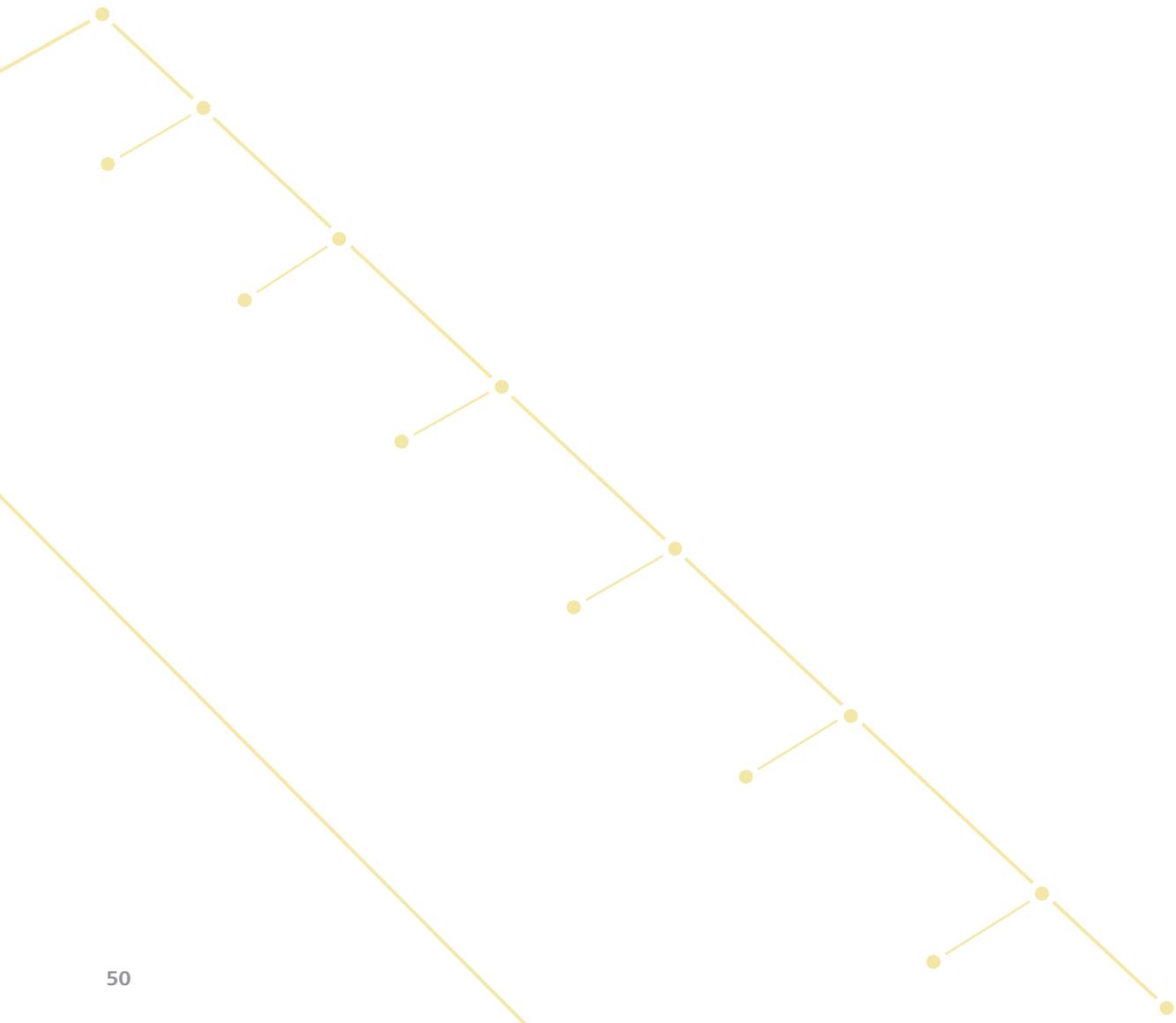
## Where companies can start

**A** SUCCESSFUL shift to leading-edge performance management—replacing annual ranking and yanking with continuous feedback, coaching, and development—begins with a frank determination of whether rigid performance evaluation systems are advancing a company’s business priorities. If not, as many organizations increasingly recognize, it is time to take action. Potential starting points include:

- **Get senior leaders involved—and keep them involved:** Hold a senior executive-level conversation about the strategy and philosophy for employee performance in the company. What does the organization hope to achieve as a result of performance management activities? What system will best reinforce the organization’s talent management strategy?
- **Use performance management to build skills:** Switch from rigid performance reviews to flexible performance conversations aimed at providing employees at all levels with practical steps they can take and the skills necessary to reach the next level of achievement within the organization.
- **Teach managers to give better feedback:** Boost the skills of managers to enable them to have productive yet less formal conversations about performance that will drive improvement rather than drive employees to look outside the organization.
- **Simplify the process:** Separate the performance coaching and evaluation process from determinations of compensation. Reduce the number of forms and make them very simple and easy to use. Ignore the advanced features in performance management software.
- **De-link performance scores and compensation:** Consider revising compensation structures to include broader considerations, such as how the outside talent market would compensate an employee or how difficult the employee would be to replace. Analyze the extent to which the organization can take a broader approach to total rewards by offering growth opportunities to employees who have outperformed their peers.
- **Coach everyone:** Search for opportunities for employees in the “broad middle” of the performance distribution to see themselves as valued contributors to organizational success, rather than merely looking up to the perceived superstars. Hold everyone accountable, but give everyone coaching, development planning, and training to improve.

## BOTTOM LINE

Today's workers expect to be held accountable for results—but they also expect coaching, development, and regular feedback. Look carefully at the performance management process to see if it truly drives performance today or is merely an artifact of the past. In many cases, a shift from “evaluation” to “development and performance improvement” will drive appreciable results.



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## Contributor

**Terry Patterson**

## Endnotes

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# The quest for workforce capability

## Create a global skills supply chain

- Corporations now compete globally for increasingly scarce technical and professional skills.
- While 75 percent of survey respondents rate workforce capability as an “urgent” or “important” challenge, only 15 percent believe they are ready to address it.
- Companies that succeed in building a global “supply chain” for skills will be positioned for success in innovation and performance.

**O**RGANIZATIONS around the world are experiencing disruptive change in the demand for critical skills. Not only are specialized skills increasingly scarce, but they are also unevenly distributed across the global economy.

As a result, companies are often looking in the wrong places when it comes to building workforce capabilities—and coming up short. In fact, according to our global survey, executives rank building workforce capability as one of the top three challenges facing their organization over the next 18 months.

This trend helps explain the “talent paradox” that has emerged in recent years: High unemployment rates point to a surplus of labor, yet companies report great difficulty finding and keeping the skills most important for their growth.

The global competition for skills is even tougher in fast-growing new business areas. The supply of skills in software engineering, mobile computing, big data analytics, life sciences, advanced manufacturing, and new energy technologies is struggling to keep up

with demand. Engineers, life scientists, statisticians, geophysicists, and others with technical skills are in short supply.

At the same time, these skills are in demand over a broader range of industries. Auto manufacturers now compete with Silicon Valley for software talent; retailers battle manufacturers for IT skills; and large pharmaceutical companies recruit against fast-growing startups for life scientists.

Moreover, the capabilities gap is actually far broader than a lack of engineers and scientists. In addition to the need for technical skills, companies are also facing shortages in first-line supervisors throughout sales, customer service, manufacturing, finance, and other business functions. Retailers, hospitality companies, software firms, and all manner of service providers need people who understand how to sell, communicate, serve customers, and solve problems.

The expected shortage of 38 to 40 million college-educated workers by 2020 further fuels this challenge.<sup>1</sup>

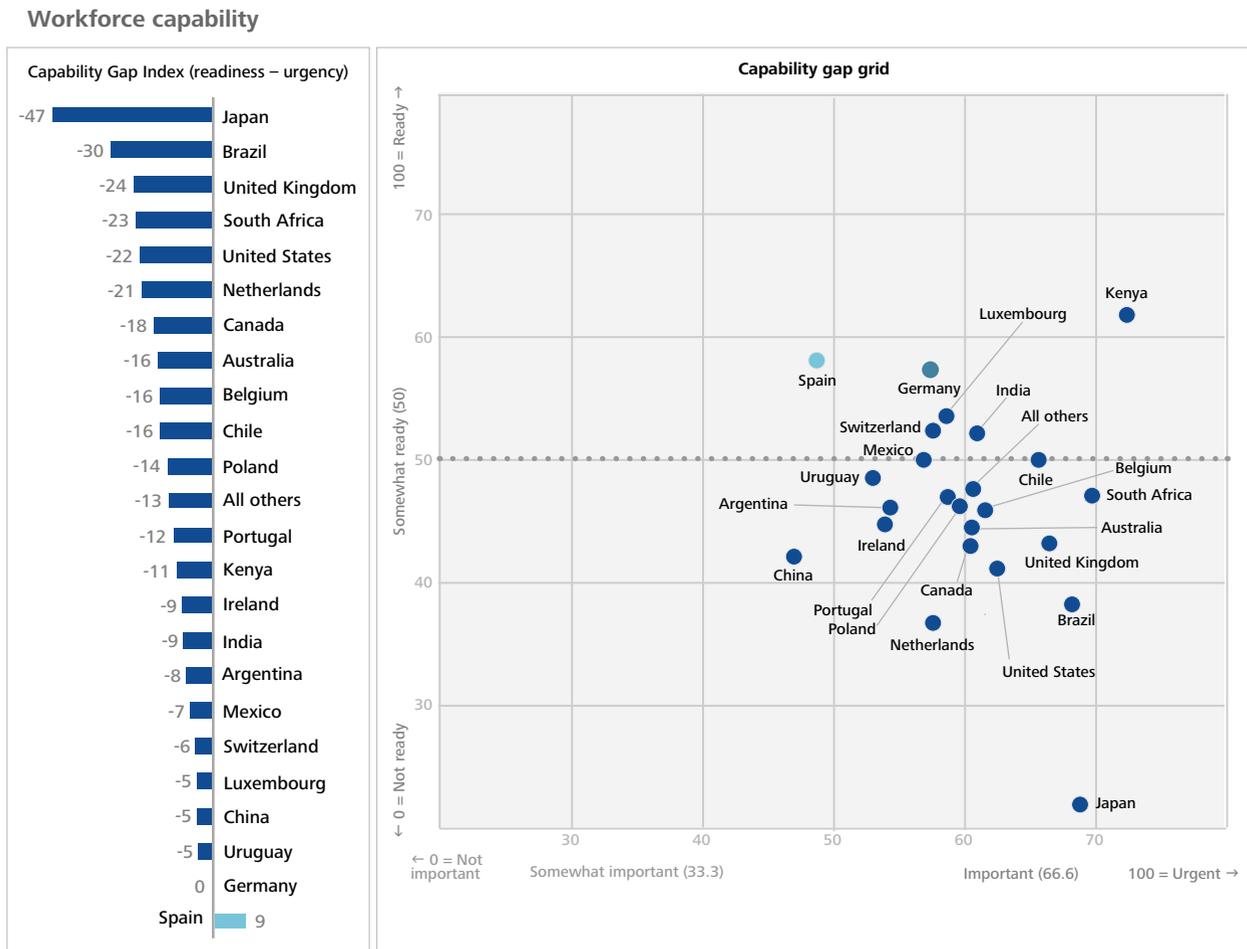
## Deep capabilities drive performance—and take years to build

One of the ways to assess a company’s competitiveness is to understand its talent and workforce capabilities.<sup>2</sup> Companies that

can attract, retain, and develop deep, specialized technical skills are generally well positioned to outperform their peers—in nearly every industry.

Apple and Samsung succeed by attracting leading skills in engineering, innovation, and marketing. Amazon drives performance by

**Figure 1. Urgency vs. readiness: Who is leading, who is lagging?**



Graphic: Deloitte University Press | DUPress.com

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## Traditional learning and development programs, which typically sprinkle training across the organization, are simply not dynamic enough.

constantly building its capabilities to leverage technology, the user experience, and data. Google has become a market leader by turning itself into a destination employer for talented people with scarce innovation, technology, and business model skills.

As the environment in which businesses operate becomes more complex, skills evolve and become obsolete more rapidly.

Our global Human Capital Trends 2014 survey suggests that respondents clearly understand this challenge, with 75 percent rating workforce capabilities as “urgent” or “important.” However, only 15 percent believe their companies are “ready” to address the challenge. This gap is particularly wide in many major economies, including Japan, Brazil, the United Kingdom, South Africa, and the United States (figure 1).

Why the capability gap?

First, many organizations are looking in the wrong place, believing they can fill their capability gaps by “hiring the right person” in their current markets. Yet this traditional approach is increasingly a zero-sum game with as many losers as winners. Even if companies can identify the right people, they must then attract them, compete with others to hire them, and train them further once they are on the job. The reported backlog of skills gaps appears to suggest the old way is no longer working.

Second, it takes many years to develop deep skills within the workforce. One major oil company explained that, because of its long-standing investment in proprietary processes and technologies, a new engineer requires five to seven years on the job to become fully autonomous and productive.<sup>3</sup>

Third, many companies have not built development programs that create capabilities in a continuous way. Traditional learning

and development programs, which typically sprinkle training across the organization, are simply not dynamic enough. Robust capabilities are not built through episodic training, but through continuous education, experience, exposure, and the right environment.<sup>4</sup> Companies have the opportunity to build more integrated development strategies that include formal and informal training, expertise sharing, apprenticeship, management support of learning, and ongoing performance support and coaching.

### Succession planning: Beyond the C-suite

Given the competitive challenges of finding talent in the marketplace, coupled with the long lead times needed to build deep skills, succession management should expand well beyond the C-suite.

Traditionally, succession planning has concentrated on identifying high-potential leaders and developing them for senior roles in the organization. Rather than just focusing on these managerial positions, this process should be expanded to include other key roles as well—including key technical specialists, people in critical customer-facing roles, and expert operations and project managers. Oil companies, utilities, and manufacturers, for example, now regularly develop succession plans across a range of technical professions.

### Creating a global skills supply chain

Given the scarcity of skills and the high level of demand, the annual training and development planning cycle is being replaced with a “supply chain” approach to developing workforce capabilities. This involves a systematic,

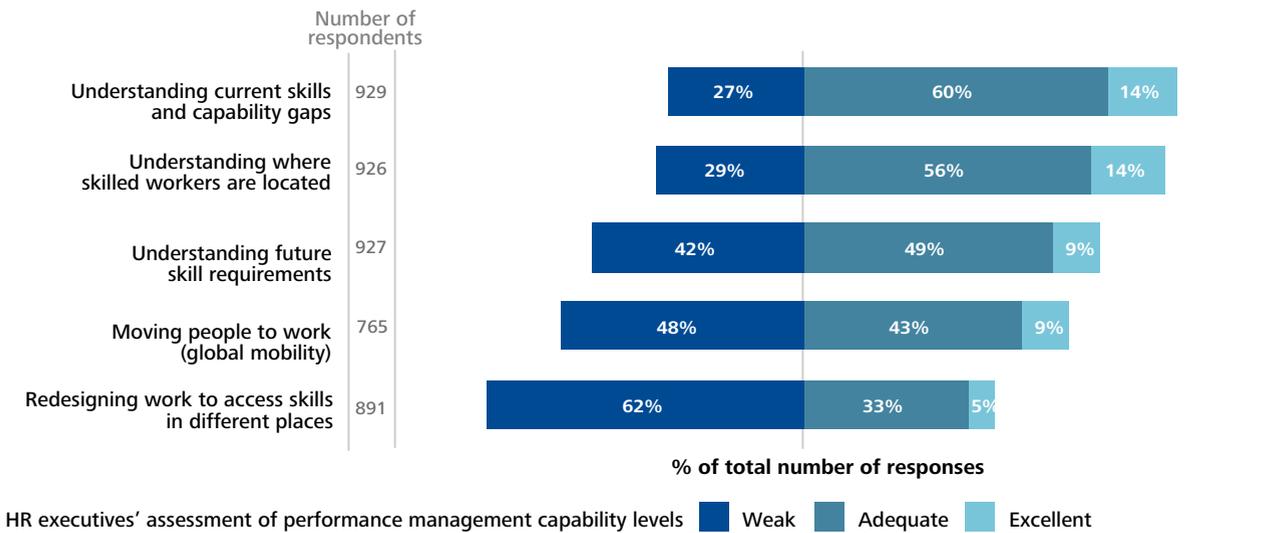
continuous process rather than a “once and done” annual event.

Under a supply chain approach, companies examine their capabilities at all levels and project gaps into the coming years. Once these gaps are visible, companies can focus on which

skills they will need and where they might need them.

As figure 2 shows, executives in our global survey generally believe their companies are doing an adequate job of identifying skills gaps and understanding where skilled workers are located. However, they are struggling to access

**Figure 2. Companies struggle to close skill gaps**



Graphic: Deloitte University Press | DUPress.com

## LESSONS FROM THE FRONT LINES

### German apprenticeship model champions early workforce training

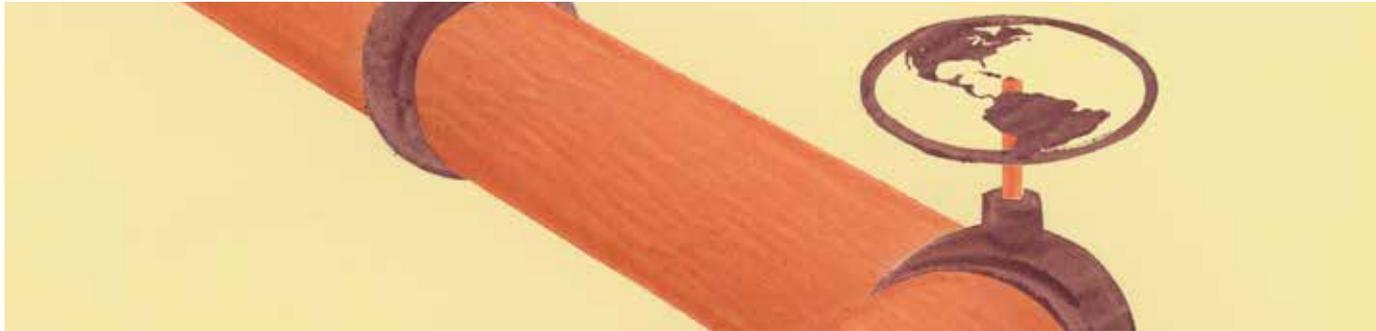
The German apprenticeship model has become a standard for workforce training programs. Seen as a driver of Germany’s impressive export growth, the apprenticeship model relies on a close working relationship between secondary schools and local businesses and factories. Now, some elements of that model are expanding abroad, including to the United States,<sup>5</sup> as German companies such as Siemens and Volkswagen seek to ensure a strong school-to-workplace link in US regions where they have built factories.

### Oil and gas industry takes charge of workforce development

The rapid evolution of the oil and gas industry creates a constant pressure to develop new workforce capabilities and skills. As mentioned above, one industry executive told us that training an already-experienced petroleum engineer to its company’s specific standards takes five to seven years—nearly the equivalent of earning a second doctorate.

In order to address a chronic shortage of skills, the oil and gas industry has pioneered efforts to extend workforce training back into the classroom. Starting in secondary school—and even at the elementary school level—companies are dedicating resources to spur broader interest in math and science.

The idea is to build a broader potential talent pool of people with the scientific background and technical skills the industry requires for future growth.<sup>6</sup> Some companies are targeting these programs at local markets where oil and gas is extracted in order to develop talent locally, rather than relying on expatriates to fill capability needs.



those skills, particularly when it comes to moving talent to the work and redesigning work to access skills in new places.

To overcome this challenge, organizations can search internally and externally for capabilities by exploring new approaches for

accessing talent, building continuous learning programs, and turning leaders into “capability development champions” with a responsibility for producing deeper levels of talent on their own teams.

## Where companies can start

**B**USINESSES react in a variety of ways when building their supply chain for talent.

Here are a few starting points:

- **Understand skills gaps today and into the future:** Begin by identifying key talent segments, then project needs and expected supply into the future. Factor in company growth, retirement, and attrition.
- **Bring the work to the skills:** Conduct a broader global scan of technical and specialist skills around the world and in your own country. Investigate new skill pools, such as part-time or retired workers. Explore relationships with colleges and schools to build a deeper pipeline and help educational institutions prepare workers for the business’s evolving requirements.
- **Extend the global supply chain:** Study the extended supply chain: Identify where key skills are located, where they are going, and where and how to source or locate work to tap into talent hubs. Develop new talent centers in emerging markets. Partner with local colleges, institutes, or global universities to build a pipeline of candidates. Consider “acqui-hire” strategies that enable companies to acquire talent by purchasing specialized firms.
- **Extend the time horizon:** Recognize how long it will take to fully develop key skill sets—the “time to proficiency”—and model the education, experience, and exposure necessary to build these capabilities.
- **Foster continuous skill development:** Build an environment and a culture of continuous learning. Encourage everyone in the organization to become a talent manager and their own “chief skills officer.” Measure leaders and employees by their ability to produce rather than merely to “consume” skills and talent.<sup>7</sup>

## BOTTOM LINE

Given the complexities and continuous disruptions in the global economy, it is no surprise that building global workforce capability emerged as one of the top three challenges in our global survey. The issue is skills: finding them, accessing them, developing them, and bringing the work to them.

Companies that develop a deep understanding of their capability gaps can then build a global skills supply chain to address critical needs. This supply chain can be filled by tapping into new skills pools in new locations, creating innovative new ways of working that provide access to a broader range of talent, and developing skills throughout the workforce—from the youngest recruits to the most experienced employees.



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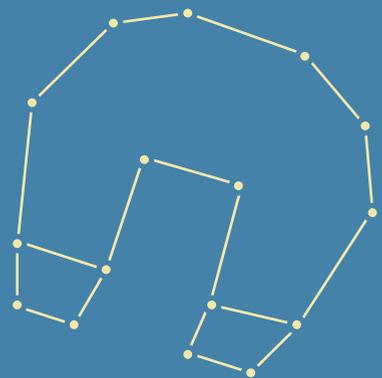
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# Attract and engage





# Talent acquisition revisited

## Deploy new approaches for the new battlefield

- Companies looking to recruit and acquire talent must now compete on a new battlefield—a battlefield shaped by new global talent networks and social media and defined by employment brands and changing views of careers.
- Sixty percent of respondents to our global survey have updated or are currently updating and revamping their talent sourcing strategy, and another 27 percent are considering changes.
- Faced with a scarcity of key skills and rapidly evolving talent demands, companies that fail to adapt will likely be on the losing end when it comes to attracting and accessing the people and skills they need.

**T**ODAY, talent, especially people with the most desired and in-demand skills, is scarce. Employees with high-demand skills have choices, and a company's employment brand is easy to ascertain without even stepping into the office. At the same time, the Internet has revolutionized the way people learn about companies and apply for jobs.

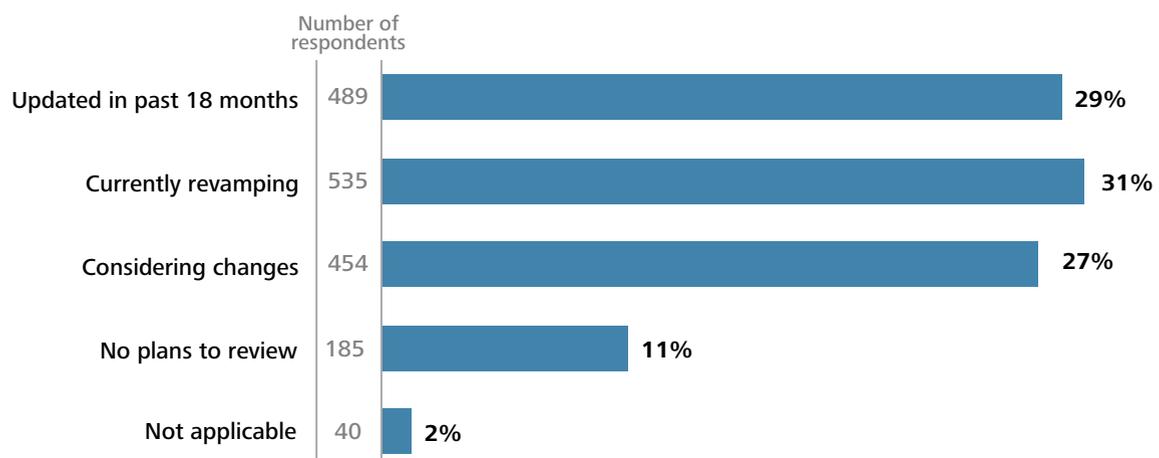
In many ways, acquiring and accessing talent is among a company's most critical goals.

Without critical talent and skills, companies cannot grow their businesses. Yet in today's new environment, the old ways of recruiting, acquiring, and accessing talent are no longer effective. Companies that fail to adapt will likely be on the losing end when it comes to attracting the people they need.

Executives appear to be aware of the challenge, with 58 percent saying they are "currently revamping" (31 percent) or "considering

**Figure 1. Most companies reviewing or changing sourcing and recruiting**

*"When did you last revamp or reengineer your talent acquisition process and strategy?"*



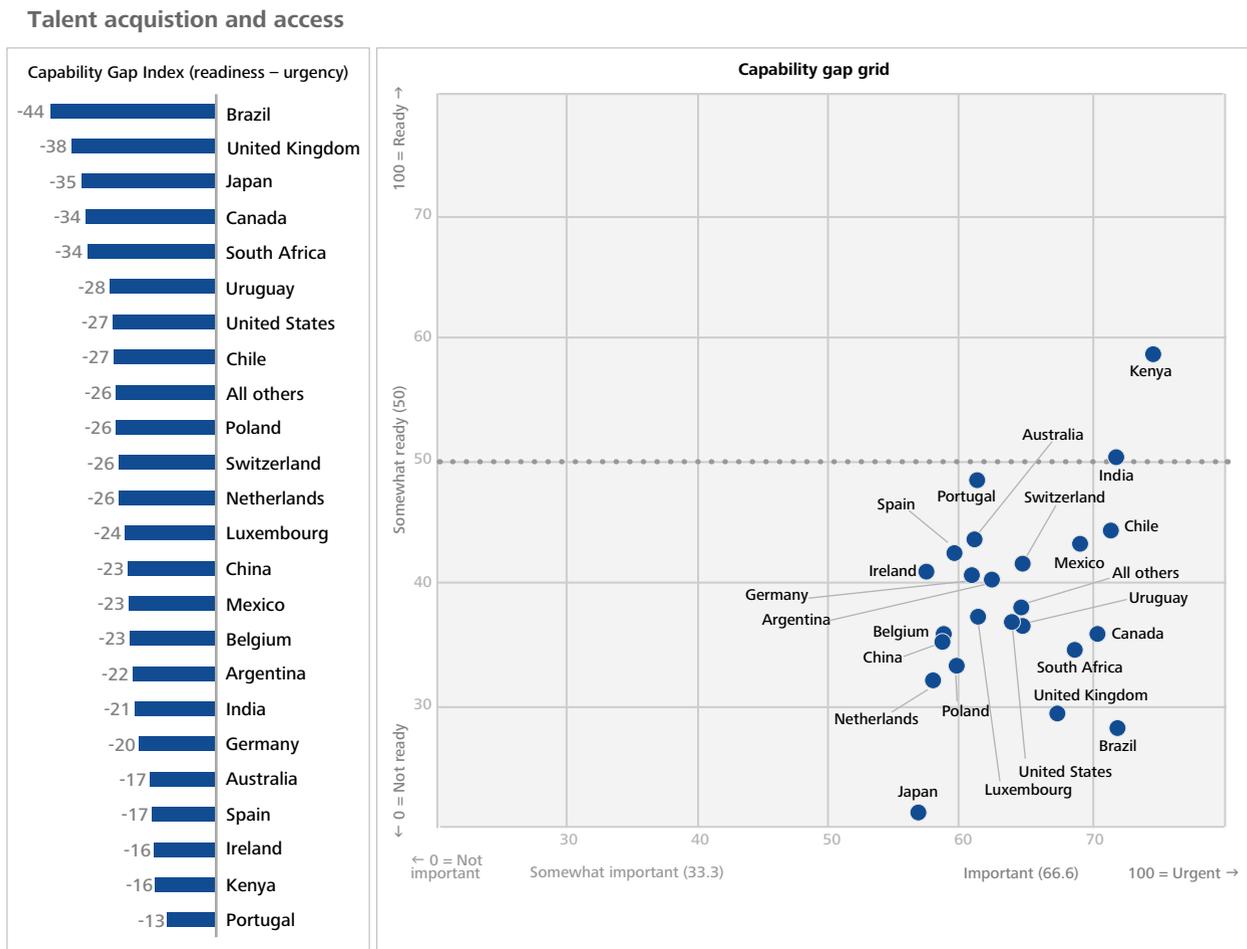
changes” (27 percent) to their talent sourcing and recruiting strategies (figure 1).

Nonetheless, few HR and corporate leaders report that their companies are currently capable of adapting to today’s new talent acquisition realities. Executives in Brazil, the United Kingdom, Japan, South Africa, and Canada are acutely aware of the urgent need to change strategies, but are especially behind

other countries in terms of putting capabilities in place (figure 2).

To be successful in this new environment, companies should constantly attract new talent and “re-recruit” the talent that is already in place. The traditional “staffing” team is being replaced by a strategic “talent acquisition” function, focusing on building an employment brand, sourcing people in new places

**Figure 2. Readiness vs. urgency: Who is leading, who is lagging?**



Graphic: Deloitte University Press | DUPress.com

**The Human Capital Capability Gap Index**

The Deloitte Human Capital Capability Gap Index is a research-based index that shows HR’s relative capability gap in addressing a given talent or HR-related problem. It is computed by taking an organization’s self-rated “readiness” and subtracting its “urgency,” normalized to a 0–100 scale. For example, if an organization feels that an issue is 100 percent urgent and it also rates itself 100 percent capable and ready to address the issue, the capability gap would be zero. These gaps, which are almost always negative, can be compared against each other.

**The capability gap grid**

By plotting the gaps on a grid (with readiness on the vertical and urgency on the horizontal), we can see how capability gaps vary among different countries and industries.

- Capability gaps at the lower right part of the grid are those of high urgency and low readiness (areas that warrant major increases in investment).
- Capability gaps at the upper right part of the grid are highly urgent, but companies feel more able to perform in these areas (they warrant investment but are lower priority than those at the bottom right).
- Capability gaps on the left side of the grid are areas of lesser importance, and those lower in the grid are areas of less readiness.

using social media tools, creating opportunities for internal candidates, and leveraging the huge network of referral relationships within the company.

Talent acquisition is also being expanded as companies look for new ways to access and engage people, including through joint ventures, contracting, freelancers, and open source talent.<sup>1</sup> These approaches are pushing the boundaries of talent acquisition to include new models of employment and new types of relationships for accessing skills and ideas.

High-performing companies build unique and powerful ways to source and access top employees. One innovative tactic is the use of social networks to build talent “communities” supported by full-time employees, retired workers, independent contractors, and everyone in between. AT&T’s talent community, for example, attracts potential team members by providing a forum to talk about mobile computing and telecommunications in a fun and exciting way.

Many companies are also leveraging LinkedIn, Facebook, Twitter, Glassdoor,

Google, and other social networks to build a compelling employment brand, find talent, and market their companies to passive job candidates. They aggressively deploy referral marketing programs and send their key executives to universities and other critical sources of new talent around the world.

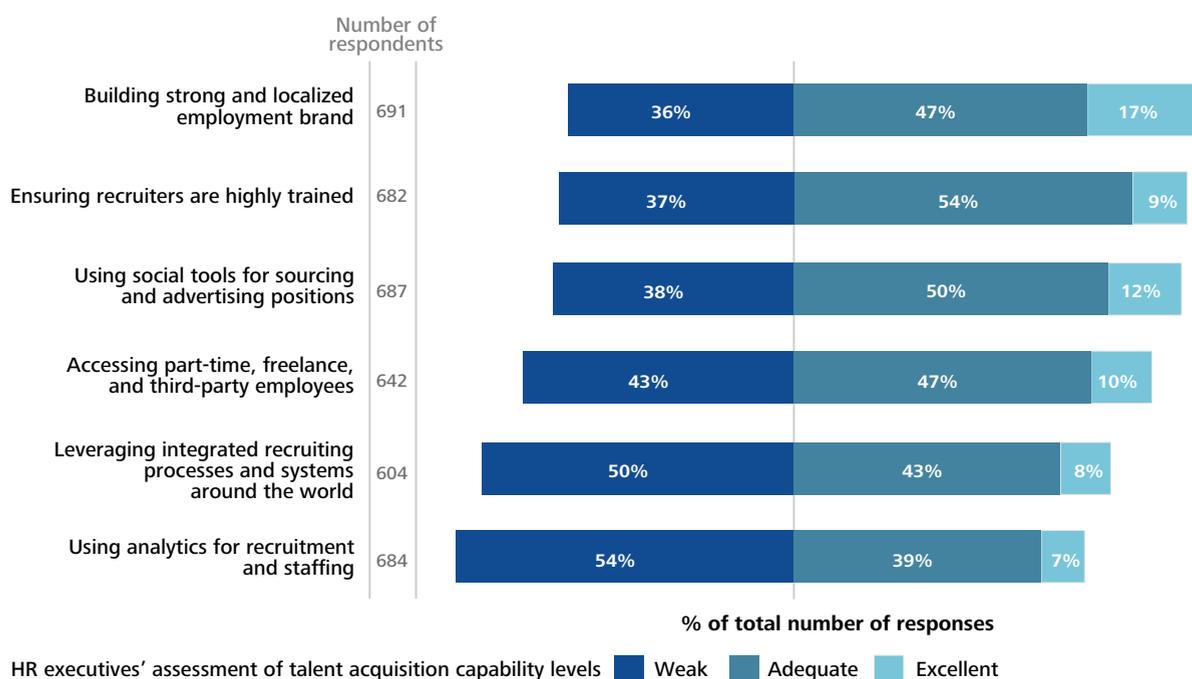
Slightly more than six in ten executives (62 percent) participating in our global survey report that they rely on social tools for sourcing and advertising positions. Organizations also report that they are beginning to utilize analytics for recruitment and staffing, though a majority (54 percent) say they are still “weak” in this area (figure 3).

## The transition from recruiting to marketing

As the battlefield for scarce talent continues to shift, talent acquisition is becoming more like marketing every day.

Candidate relationship tools market a company through stories and products aimed at drawing in new prospects and cultivating

**Figure 3: Mixed levels of talent acquisition capabilities**



them from the point of initial interest through their decision to apply for a job and join the company. Companies like Ford and Delphi, for example, produce blogs to attract car fans, engineers, and manufacturing workers who may want a career in the auto industry.

Talent acquisition leaders use a variety of other marketing techniques to source talent—and are increasingly partnering directly with corporate marketing in their outreach efforts. They visit and advertise at colleges and educational institutions, buy targeted ads on social media sites (LinkedIn, Facebook, Google, Yahoo) to attract employees from old and new competitors, and strategically target veterans, minorities, and other groups.

Just as marketing produces sales, candidate marketing produces hires. Recruitment

marketing also reduces staffing costs, attracts higher-quality candidates, and improves internal employee retention. It also helps build a network of part-time workers and ultimately makes the job of the recruiter and hiring manager far easier.

On the employee side, social networks have made the employer brand fully available to the public. If recruiting is difficult, it is not just HR's problem; it is the executive team's problem as well.

Employers of choice treat their employment brand like their consumer brand. They analyze it, understand it, cultivate it, and carefully manage it. And they localize it for each major market where they do business.

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## LESSONS FROM THE FRONT LINES

### **Auto manufacturer uses talent communities to source skills**

As General Motors sought to ramp up the production of its flagship electric vehicle, the Volt, the company faced a significant talent challenge—a shortage of engineers and scientists with a background in electronics.

Drawing talent from Silicon Valley and other technology centers to Detroit proved difficult initially. GM's answer was to enhance its recruiting process by building talent communities, drawing more and more people with the required skills into its network.

To help build these communities, GM enlisted engineers and technical staff to write about their jobs, highlighting the exciting work; the rewarding, socially important job opportunities at the company; the high quality of life and relatively low cost of living in Detroit's suburban neighborhoods; and the many cultural attractions and professional sports teams in the city.

Starting gradually, the company built a growing talent network, amplifying it through social media. New facts and insights about the company were shared among wider circles of talent, creating a positive ripple effect and a more robust talent network. This approach helped GM attract the talent needed to meet deadlines, hiring requirements, and project demands.

### **Company ambassadors provide a creative solution to talent needs**

Red Hat was the first open source software company to reach \$1 billion in annual revenues. With plans to hire an additional 600 to 800 employees this fiscal year, Red Hat is on an aggressive search for new talent. A key component of its sourcing strategy is its employee referral program.

The employee referral program, called Red Hat Ambassadors, is a tiered reward system where eligible employees can receive cash bonuses and Red Hat-branded memorabilia for every new hire they attract. Red Hatters who refer five employees to the company receive the title of "Ultimate Ambassador." These employees earn two generous cash bonuses as well as Red Hat-branded memorabilia and a slot on the company's Red Hat Ambassador advisory board. Additionally, referrals that come from Ultimate Ambassadors get priority treatment by the company's talent acquisition team. The program has resonated with employees, and today, more than half of all new Red Hat hires come in through employee referrals.<sup>2</sup>

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## Where companies can start

**B**EFORE the explosion of social media and mobile computing—nearly 45 percent of job candidates now apply for jobs on mobile devices<sup>3</sup>—companies simply posted openings on the “careers page” on their website. This is no longer nearly enough. Creative companies are discovering new ways to access talent. Starting points include:

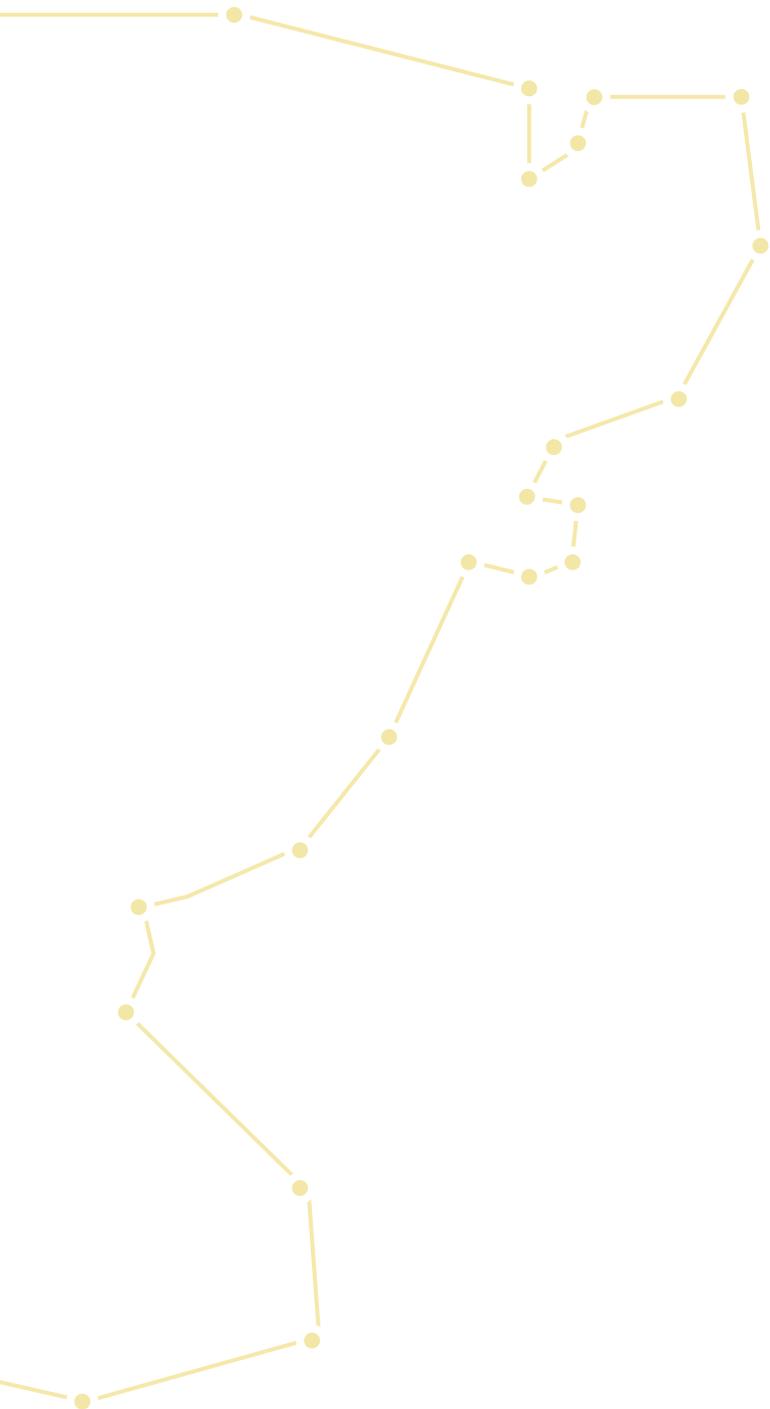
- **Treat recruiting like marketing:** Partner with corporate marketing to build an integrated branding and communications strategy that attracts candidates and employees, not just customers.
- **Innovate—who and where:** Extend the targets for strategic recruiting. Who are you looking for? Are there new talent pools? Ones you can develop? Perhaps talent you can access (such as freelancers) but not hire? Also consider where you are looking: Search globally as well as across industries and functions.
- **Go beyond Facebook—way beyond:** Nearly every company uses social networks to post job openings. Innovative companies also leverage social media to build broader,

more robust talent communities—networks of people interested in the company’s products or the company itself who might turn into high-quality recruits.

- **Use big data to deepen talent networks:** Organizations can now leverage big data tools from vendors such as LinkedIn, Facebook, Entelo, Gild, TalentBin, Work4, Identified, and others to identify and source quality candidates around the world.<sup>4</sup> Leverage new scientific assessments and big data tools to locate and assess high-quality candidates who fit the style and type of workers needed.<sup>5</sup> Apply talent analytics to identify the company’s top sources of talent, understand effective interviewing techniques, and determine “goodness of fit” to improve the quality and efficiency of hiring.
- **Maintain an active and deep candidate bench:** Use candidate relationship management to cultivate prospects and keep people engaged throughout their careers, turning them from passive to active candidates.

## BOTTOM LINE

Talent acquisition and access has changed in fundamental ways due to shifts in global talent markets, skills shortages, new ways of working, and the growing importance of social media and employment brand. To compete for talent in 2014, HR teams must move to more marketing-oriented, innovative, social media-savvy, and global approaches to talent acquisition. This demands innovation on the front end of recruiting, coupled with the need to “re-recruit” employees, managers, and leaders every day.



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# Beyond retention

## Build passion and purpose

- Companies around the world agree that employee engagement is vital. Our global survey showed that executives rate “retention and engagement” their No. 2 priority.
- A focus solely on retention, however, may be misplaced. Companies should shift from strategies to “hold people here” to “attracting and engaging people” through measures that build commitment, align employee goals and experience with corporate purpose, and provide engaging work and a culture of development and growth.
- Employees make the decision of whether to “re-up” every day when it comes to motivation and productivity. Millennials in particular are looking for work that inspires passion and allows them to fulfill their professional, personal, and social goals.<sup>1</sup>

**I**N recent years, large employers have learned the logic of improving employee retention. They know that as jobs in most sectors become increasingly knowledge-intensive, the cost of replacing capable workers is high. Human resources functions have focused tightly on attrition rates and worked to discover effective managerial interventions to limit turnover. Indeed, in an era of growing enthusiasm for workforce analytics, the very ease of objectively measuring retention has helped to make it a focal point.

Beyond the fact that retention metrics are a lagging indicator, though, the question is whether “retention” is the right place to focus. As some HR leaders are now realizing, focusing so intently on retention can lead to additional investments in some tools and initiatives that aren’t proving very valuable—while neglecting others that may be much more so. Part of the problem with today’s thinking about retention is that it seems to reflect a military-style model, with its assumption that people decide to “re-up” periodically—but infrequently and on a fairly predictable schedule.

Today’s reality is that people continually make choices, consciously or not, as to how

committed they are to their work and the enterprise. Their levels of engagement and motivation are subject to constant fluctuation in response to micro signals—small indications of whether the company is committed to their growth, whether it really believes in serving a higher purpose, what kinds of behavior are rewarded, how much can be learned from working there, and more.

In knowledge-based businesses, people should increasingly be enticed to “re-up” every day—and HR leaders are in a position to reframe the retention and engagement challenge and lead the ongoing “reenlistment” process. The best of them already know this and are finding ways to continually monitor, encourage, and respond to people’s enthusiasm for their work.

### The challenge of multiple generations in the workforce

Attracting and retaining Millennials is a vexing challenge. The younger employees who comprise the Millennial generation make up 34 percent of the global workforce and will swell to 75 percent by 2025.<sup>2</sup> They also come to the job with a very different set of

“CFO asks CEO: “What happens if we invest in developing our people and they leave?”

CEO: “What happens if we don’t, and they stay?””

— Source: “Peter Baeklund resourceful leadership,” <http://www.peterbaeklund.com/>.

aspirations than their Generation X and Baby Boomer colleagues.

About 70 percent of Millennials want to launch their own businesses at some point in their careers. Only 20 percent want to work in companies with more than 10,000 employees. With corporate hierarchies flattened, nearly half (45 percent) are already in leadership roles, while their Baby Boomer and Generation X peers were likely to serve in less senior positions at this age.<sup>3</sup>

Just as with earlier generations, Millennial attitudes toward work are driven by their cultural and educational experiences growing up. They are comfortable with technology and have been raised with the tools of transparency, hardly remembering a time when instant messaging, Twitter, Google, and Facebook were not a part of their lives. They value and thrive on innovation, with more than three-quarters (78 percent) stating that they are strongly influenced by how innovative a company is when considering employers.<sup>4</sup> Millennials also want to work for organizations that provide flexibility and that are purpose-driven, tackling broad societal challenges such as resource scarcity, climate change, and income equality.<sup>5</sup>

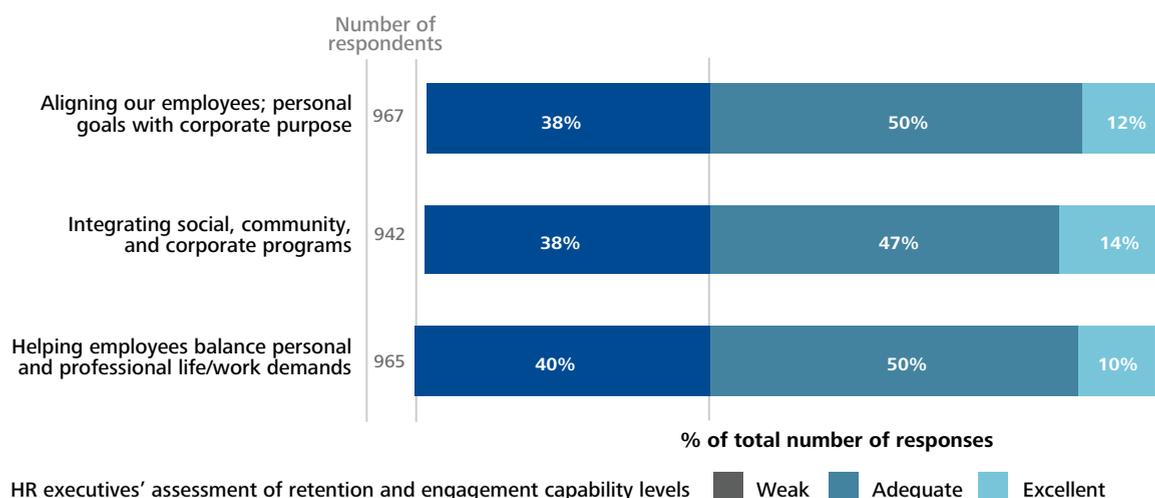
The influence of Millennials is already pushing companies to redefine leadership development programs and redesign the work environment. Sixty-six percent of the respondents in our global survey reported that they have “weak” capabilities when it comes to providing focused leadership programs for Millennials. Further, 58 percent of executives reported “weak” capabilities in “providing programs for younger, older, and multi-generation

workforces,” underscoring that Millennials are not the only challenge.

Increased longevity and health, and the aftermath of the Great Recession, are encouraging greater numbers of older people to remain longer in the workforce. By 2025, the number of workers aged 55–64 is forecast to rise by 89 percent, while for those aged 65 and above the percentage is even higher.<sup>6</sup> And Boomers, too, are subscribing to younger attitudes toward work, with 70 percent citing career-life fit as a top priority. [This Boomer trend](#) may be a silver lining, given concerns by HR and business line leaders about the looming brain drain.<sup>7</sup> Employers across both private and public sectors express worry that a significant proportion (anecdotally, 40 percent is the most consistently stated percentage) of their workforce is eligible to retire over the next five years, taking with them the relationships, skills, expertise, and knowledge of the informal networks and systems that make their organizations work.

## What’s (really) behind this retention-to-reenlistment trend?

Despite the unfortunate reality of high unemployment rates across many economies, most corporate employers would agree that there is still a talent paradox. In California, a global center for the technology industry, unemployment hovers around 9 percent—yet there are 840,000 jobs available.<sup>8</sup> The highly educated knowledge workers employers require are in short supply. In light of this talent scarcity, companies have awakened to

**Figure 1. Companies struggle to instill passion and purpose**

Graphic: Deloitte University Press | DUPress.com

the fact that “unwanted attrition” is extremely costly and have begun the search for the keys to retention.

By their own admission, most executives have a long way to go. In our global Human Capital Trends survey, they tended to rate themselves as either “weak” or just “adequate” in several key retention capabilities. More than a third (38 percent) report they are “weak” at integrating social, community, and corporate programs, the same number as those who say they are “weak” at aligning employee and corporate goals. Four in ten (40 percent) state their organization is “weak” in helping employees balance their personal and professional lives (figure 1).

People today don’t choose whether to “re-up” their employment contract once every few years, or only when a life event unfolds. In the emerging open talent economy,<sup>9</sup> employees—particularly those with highly relevant and contemporary skills—make that decision every day. Any workplace that lags in inspiring passion and purpose will suffer by losing key employees—and at an increasing rate as the global economy picks up momentum.

## Metrics for business and HR

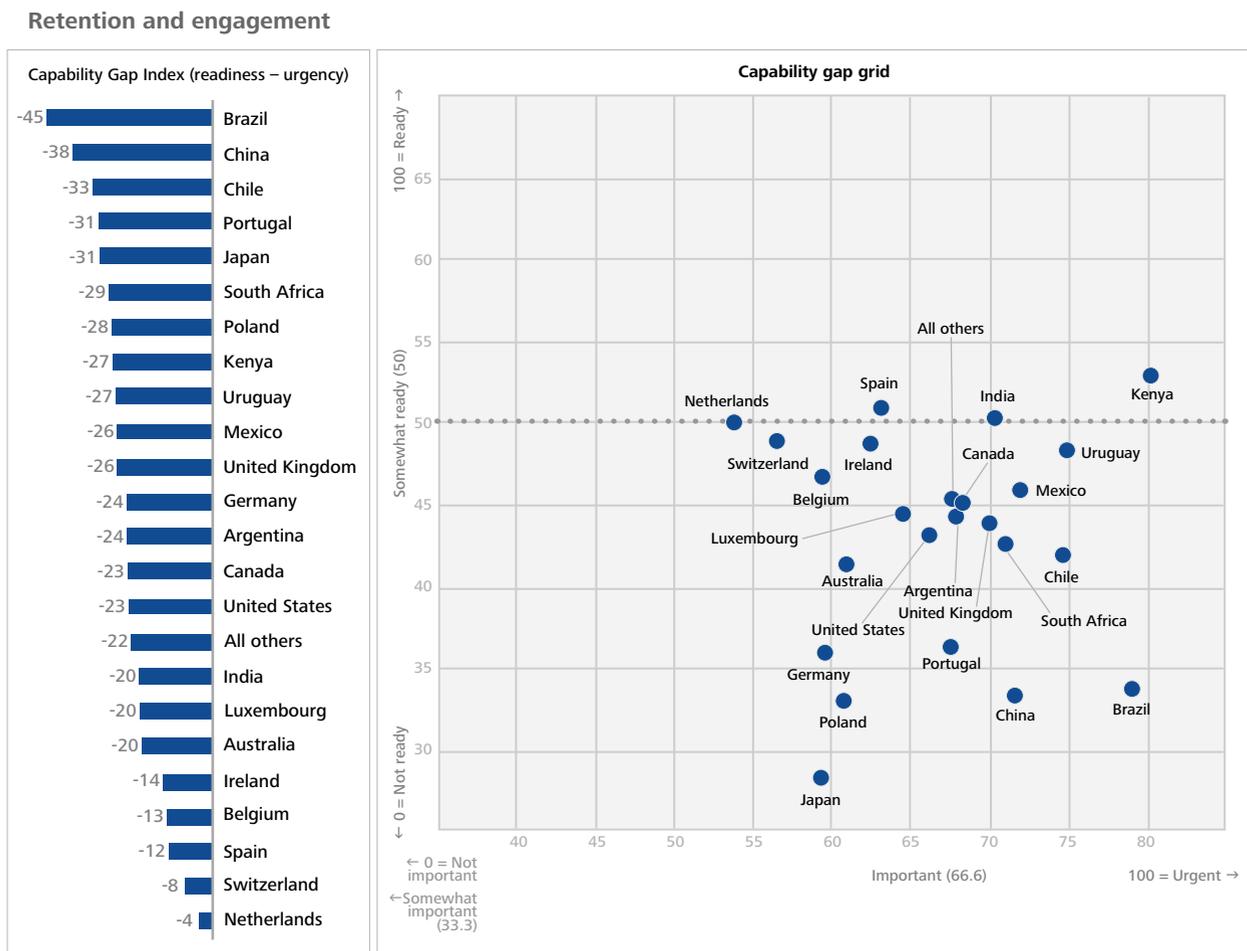
For the rapidly professionalizing field of human resources, retention is a particularly tempting goal because, unlike so many aspects of human experience, it is objectively measurable. Performance metrics within businesses can include retention numbers and trends that are as valid as any financial results. And now with the advent of human capital analytics, other measurable phenomena, such as compensation histories, performance ratings, and participation in training programs, can be correlated with retention trends. Most HR departments also use engagement surveys to better understand what factors people value most in a workplace and what might motivate them to leave. Statistical analysis can show how changes in these factors of engagement translate into higher or lower retention—and therefore guide thoughtful interventions. The challenge is to link retention and engagement insights to business results—for example, by finding a way to lower turnover in traditional high-churn but mission-critical teams, such as technical sales. This clearly requires more than an annual engagement survey.

## Increasing flexibility

One of the earliest and broadest changes resulting from the quest for higher retention has been the corporate embrace of “flexibility.” There is no question that flexibility has emerged as a matter of utmost importance to many workers—both women and men.

In a recent survey, professionals were asked what organizations could do to meet their career needs. Among generational bands from Boomers to Millennials, a top response was “provide flexible working conditions and better work-life integration.”<sup>10</sup> Their voices add to a rising chorus, signaling important shifts in

**Figure 2. Urgency vs. readiness: Who is leading, who is lagging?**



Graphic: Deloitte University Press | DUPress.com

### The Human Capital Capability Gap Index

The Deloitte Human Capital Capability Gap Index is a research-based index that shows HR’s relative capability gap in addressing a given talent or HR-related problem. It is computed by taking an organization’s self-rated “readiness” and subtracting its “urgency,” normalized to a 0–100 scale. For example, if an organization feels that an issue is 100 percent urgent and it also rates itself 100 percent capable and ready to address the issue, the capability gap would be zero. These gaps, which are almost always negative, can be compared against each other.

### The capability gap grid

By plotting the gaps on a grid (with readiness on the vertical and urgency on the horizontal), we can see how capability gaps vary among different countries and industries.

- Capability gaps at the lower right part of the grid are those of high urgency and low readiness (areas that warrant major increases in investment).
- Capability gaps at the upper right part of the grid are highly urgent, but companies feel more able to perform in these areas (they warrant investment but are lower priority than those at the bottom right).
- Capability gaps on the left side of the grid are areas of lesser importance, and those lower in the grid are areas of less readiness.

the cultural dynamics of the workforce. One out of every five employees, for example, now cares for an elderly parent.<sup>11</sup> Women, who tend to report a preference for more free time over more money, now make up nearly 60 percent of the US workforce.<sup>12</sup> Men's attitudes about long hours seem to have changed as well: 80 percent say they would like to work fewer hours.<sup>13</sup>

## The power of purpose

While increasingly important, a flexible work environment alone is not enough to ensure engagement. The 21st-century employee, at whatever level in the organization, is looking for more than the right balance between hours and pay. People now look for “good work” in the sense that authors and educators including Howard Gardner, Mihaly Csikszentmihalyi, and Bill Damon use the term—meaning work that benefits the broader society.

In other words, engagement isn't only about doing work on acceptable terms. *It's the work itself.*

A growing body of literature aimed at business practitioners reflects this change of

heart. *Conscious Capitalism*, for example, by Whole Foods founder John Mackey and Raj Sisodia, makes a strong call for engaging in commerce only in ways that leave the world better off.<sup>14</sup> Sisodia's earlier book *Firms of Endearment* (with Jagdish Sheth and David Wolfem) offers compelling evidence that more socially responsible and valuable companies outperform their peers in terms of engagement and retention, customer service, and long-term profitability. The book's subtitle sums it up: *How World-Class Companies Profit from Passion and Purpose*.<sup>15</sup> Today's most talented people want to join organizations whose work engages their interests and deserves their passion. Companies endure when they manage to endear.

Executives around the world agree that making work matter drives employee engagement and retention. Yet only respondents based in the Netherlands, Switzerland, Spain, and Belgium report that their organization's readiness to address retention—by redefining engagement to align with personal, corporate, and social purposes—is close to matching their sense of urgency in this area (figure 2).

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## HOW A TAX SERVICE PROVIDER SEES RETURNS ON FLEXIBILITY

From its 1991 founding to the mid-2000s, tax service provider Ryan LLC enjoyed a continual history of revenue and headcount growth, as well as high client satisfaction scores. The culture at Ryan was historically hard-driving, and until 2008, obsessed with tabulating and rewarding long hours logged at the office.

Despite its generous compensation packages, the firm was developing a reputation as a highly skilled sweatshop, making it difficult to recruit new talent. Turnover rates were rising while employee satisfaction scores fell. To combat these issues, Ryan developed a flexible work environment program, dubbed myRyan, that eliminated its metric of hours logged, replacing it with a set of financial targets and performance measurements. Employees can now work where, when, and how they want, as long as they hit their benchmarks. Flexible work does not mean “work in a vacuum,” however. Teams establish work blueprints, creating guidelines for how they will work together.

Since implementing myRyan, the company has restored high customer and employee satisfaction scores, reduced turnover, and lowered the associated costs of hiring and training new employees. These improvements have helped make it once again a desirable place to work. By one internal estimate, 85 percent of new hires join the company at least partly because of the myRyan program. Ryan's revenue has doubled since the program's debut.

— Brenda Kowske, *The flexible workplace delivers results: How Ryan, LLC transformed its workplace culture to increase earnings and retain its highly skilled employees*, Bersin by Deloitte, August 2013, [www.bersin.com/library](http://www.bersin.com/library).

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## LESSONS FROM THE FRONT LINES

### **Making flexibility pay off**

In response to the need for flexibility, innovative companies have revamped schedules and invested in tools to open up possibilities for when, where, and how work gets done. Some organizations let employees take as much vacation as they want. Companies in high-demand industries routinely offer free food, onsite gyms and other wellness benefits, and even laundry services and ping-pong tables—all to relieve workers of personal stress because of the hours they put in at the office. (For an example of how flexible work arrangements pay off, see the sidebar on the previous page, “How a tax services provider sees returns on flexibility.”) In some firms, the “have it your way” ethos has extended to flexibility in surprising areas. Netflix famously allows employees to decide their own expense policies and select their preferred mix of salary and stock options.

### **A premium on personal development**

People also value workplaces that contribute to their personal development as professionals. Young workers in particular—but Boomers, too—prefer working for companies that invest in developing their capabilities and keeping their skill sets relevant through constant learning and development opportunities:

*Talented people seek out opportunities to grow, and they will flock to organizations that provide ample opportunities to do so. Retention also becomes a non-issue; if people are developing more rapidly than they could anywhere else, why would they leave? If companies are truly serious about attracting, retaining, and developing high-quality talent, they need to view themselves as growth platforms for talent where people can develop themselves faster than they could elsewhere. This, in turn, can create a self-reinforcing cycle as talent creates more opportunities for growth.<sup>16</sup>*

Deloitte’s focused research on Millennials shows that this rising generation of business leaders has a relatively high desire to be entrepreneurial, to move into leadership roles, and to have the opportunity to innovate and create. Very few expect to work for any one company for a long time; they see work as a series of experiences that help them develop over time. Today’s most talented people of all ages want to work for employers that are committed to developing their skills and capabilities by providing continuous training as well as enriching “tours of duty”—to use a phrase being popularized by Reid Hoffman, founder of LinkedIn—that allow them to work on projects in different parts of the company.

### **The need for affirmation**

People value being valued—and not only, or even primarily, in monetary terms. Companies are learning to reward and recognize employee achievement in more meaningful ways. While every employee would like to earn more money, research has shown that a more important driver of retention than above-average compensation is a “high-recognition culture.” Companies that have built a strong culture of “thank you” and “recognition” have a 31 percent lower turnover rate than their peers, driving higher productivity and tremendous savings in turnover costs.<sup>17</sup>

It’s a finding that Dan Pink, author of the best-selling *Drive*, would second. He asserts that high-performing employees want three things: autonomy, mastery, and purpose. Rigid goals and “pay for performance” plans, according to Pink, can in many situations actually lead to lower performance and less innovation. The company where people want to work allows employees to work independently, focus on their strengths, and align themselves with well-understood corporate goals.

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## Where companies can start

**B**UILDING a work environment in which passion and purpose among employees can flourish is a noble though tricky business. Several new practices and priorities are emerging:

- **Ask your employees what matters:** Survey employees regularly—not just annually about how they experienced the organization over the past year, but frequently and “in the moment” through pulse surveys and roundtables—to find out what makes them passionate about work and what parts of the environment are irritating or too bureaucratic.
- **Remember: It is the work:** Make sure the organization is feeding employees’ needs for purpose and meaningful work. While there is a necessary focus on benefits, compensation, and workplace flexibility, research suggests that these are table stakes. A more important dimension for retention is the work itself.
- **Make development part of the job, not a perk:** Opportunities for challenge and development may be the most overlooked element of retention and engagement. Give every employee—not only high performers or leadership candidates—opportunities to build networks within the organization, along with skills and career development opportunities. Chances may be that the organization already is, so be sure these opportunities are couched so individuals see them as such and value them more.
- **Study retention continuously:** Keep your finger on the pulse of the organization—regularly, not just annually or periodically. Use exit surveys and manager interviews to understand what was missing. Provide open blogs and communication tools to help people talk openly about what they need—and what they particularly value.
- **Build a proactive retention model to identify potential problems before they occur:** Adopt talent analytics to uncover the hidden drivers of retention. Several of our clients have now built statistically validated retention models that help predict why and when an employee will leave. Design work environment solution sets around the findings to drive greater performance, passion, and retention stickiness.
- **Collaborate with other top leaders:** The CEO’s executive committee should play a role in developing and nurturing a compelling corporate mission, including determining how to integrate social and community goals into the work and daily activities of the company.
- **Challenge the performance management process:** Is it timely enough? Does it provide actionable feedback? Is the focus disproportionately on areas for development, giving short shrift to strengths and contributions?
- **Understand and improve diversity and inclusion:** People want to work in an environment that respects them and customers are looking for companies that reflect their diversity and perspectives as well.
- **Focus on your [employment brand](#) and talent experience:** When competing for customers, companies relentlessly focus on differentiating their products, services, and customer experience. The same should be true for the talent experience—and, in today’s socially driven, transparent world, the line between the two is blurring. Challenge your business and HR leaders to structure work, jobs, and development so they are interwoven with what people do—and the company’s employment brand.

## BOTTOM LINE

Companies already recognize that success depends on three things: keeping good people, keeping them engaged and productive, and understanding that these two aims are not one and the same. As Deloitte's 2014 Human Capital Trends survey points out, the challenge of retention and engagement ranks in the top echelon. But framing the challenge according to the traditional binary view of retention vs. attrition is proving inadequate. The secret is designing a suite of systems (work, culture, flexibility, and social and community purpose) that supports a talent experience that makes it easy for individuals to continually reenlist for their tour of duty.

Already, today's most successful employment brands align business and corporate objectives with the professional, personal, and social goals of their employees. They provide an environment where employees believe they are making a difference, not just clocking their time. To reach new heights in retention and engagement, world-class managers will focus on growing a talent brand that weaves together the critical elements of work itself, the desire for personal growth and development, the power of passion, and the intrinsic reward of serving society as part of a brand of which employees can be proud.



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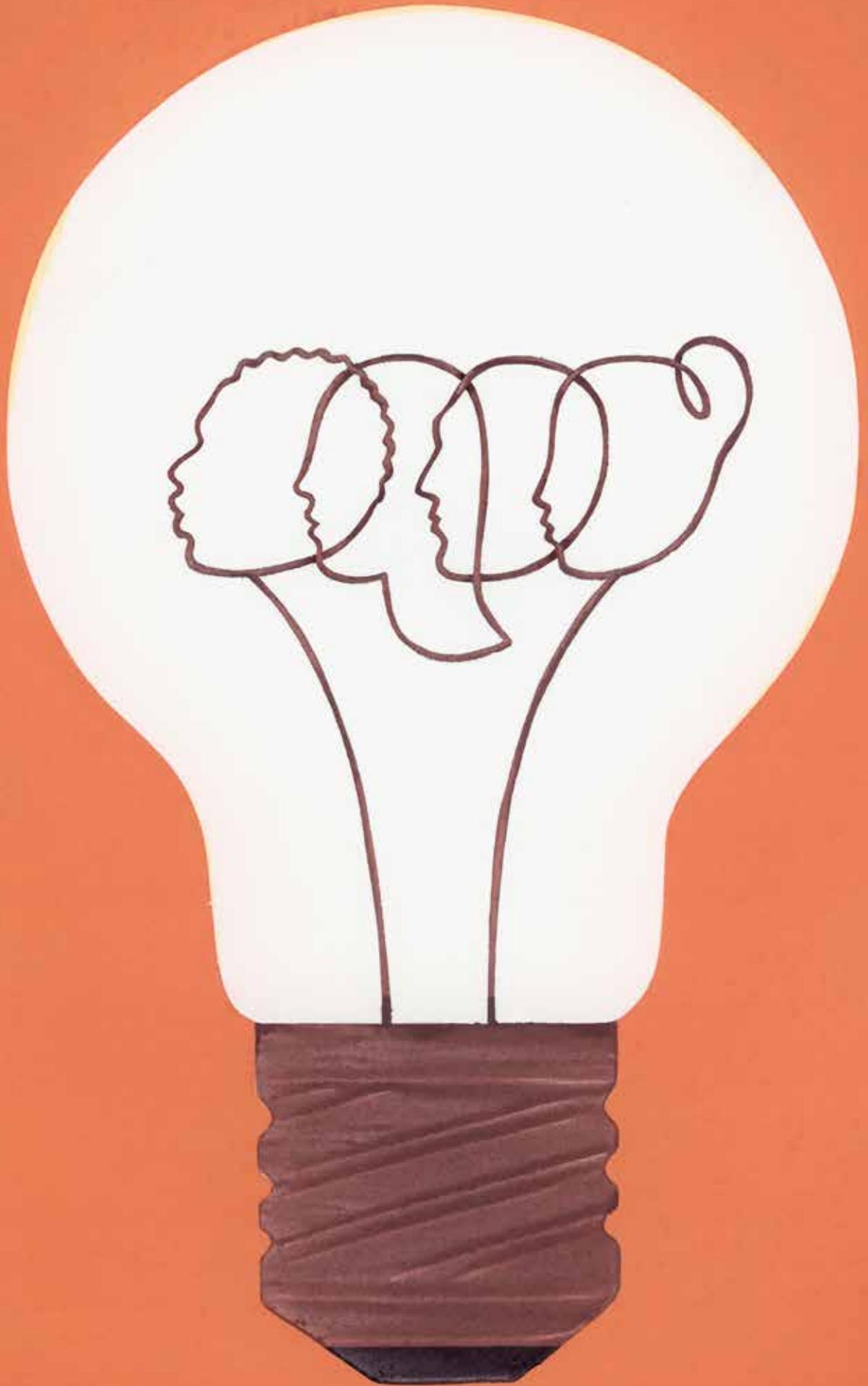


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# From diversity to inclusion

## Move from compliance to diversity as a business strategy

- Many organizations promote diversity while struggling to fully leverage the business benefits of a diverse workforce.
- Nearly one-third of respondents to the Human Capital Trends global survey say they are unprepared in this area, while only 20 percent claim to be fully “ready.”
- In a recent study, 61 percent of employees report they are “covering” on some personal dimension (appearance, affiliation, advocacy, association)<sup>1</sup> to assimilate in their organization.<sup>2</sup>
- Leading companies are working to build not just a diverse workforce, but inclusive workplaces, enabling them to transform diversity programs from a compliance obligation to a business strategy.

**I**N 2014, promoting diversity is an expected commitment; like workforce safety, it's now a ticket to play. And while unwavering support is claimed, far fewer organizations can talk to the benefits of diversity beyond the attraction of talent and reputation. Why is that? Surely a focus on diversity is the way to uncover and optimize talent? Is it focus, effort, a failure to move diversity from the fringe to the center, or level of difficulty?

One clear factor, according to our global survey, is that only one company in five (20 percent) believes it is fully “ready” to address this issue. The gap between the urgency of this trend and companies’ readiness to address it is particularly wide in Japan, South Africa, and China (figure 1).

Why are so many companies falling short? One view is that many companies still treat diversity primarily as a matter of compliance—a regulatory box to be checked. Not enough organizations take the next essential steps of creating a work environment that promotes inclusion in all its variations. Taking a step back from individual organizations to a more

country-based analysis, we can see that most countries do not have a strong sense of readiness and most hover around a medium sense of urgency.

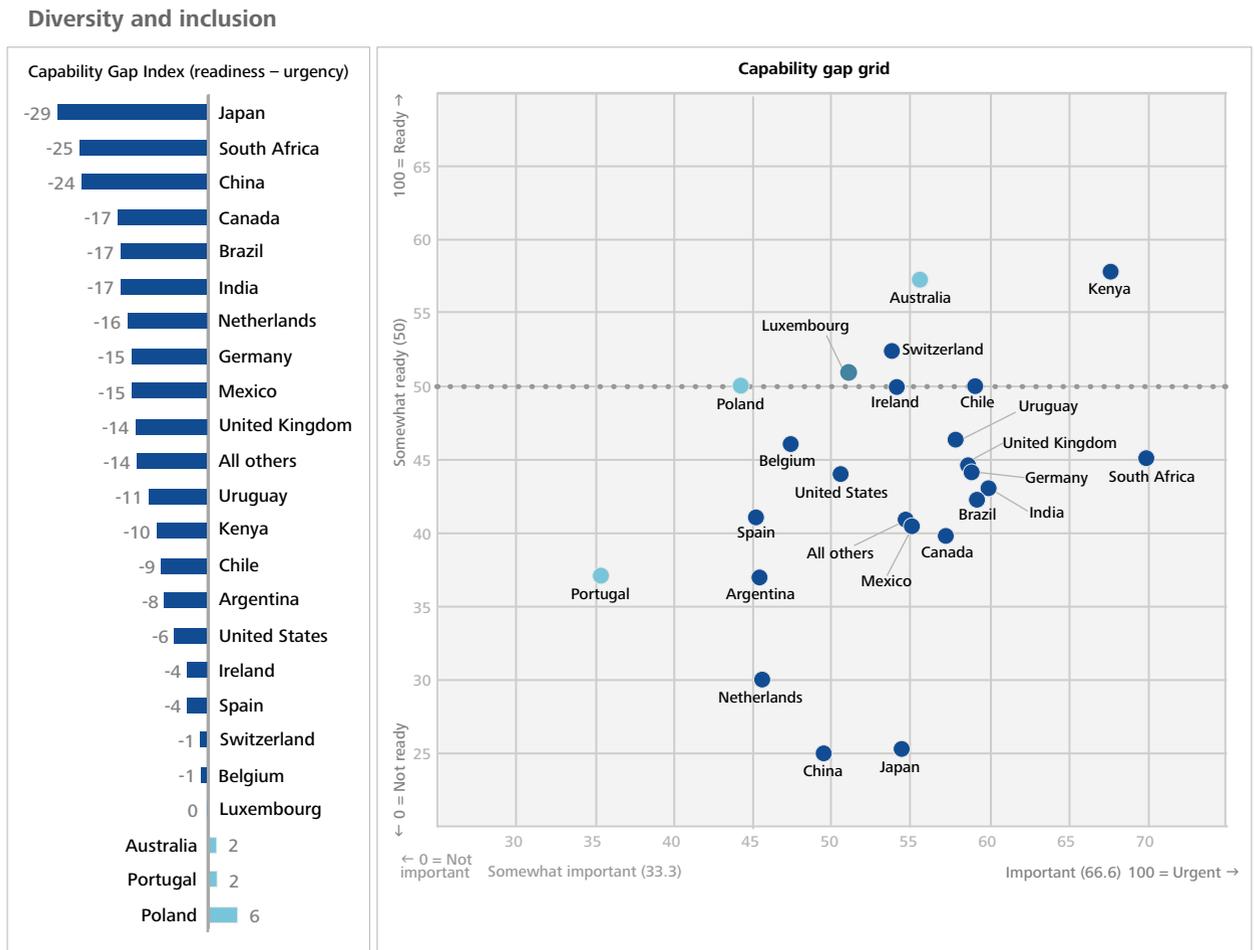
Using this lens, we see two major themes emerging that can help companies transition from simply meeting minimum regulatory requirements for diversity to building an inclusive workplace that inspires all employees to perform at their highest level:

1. Diversity of thinking as a business imperative
2. A focus on inclusion as well as diversity itself

### Diversity of thinking as a business imperative

Organizations can start by broadening their understanding of diversity to focus not only on the visible aspects of diversity, such as race, gender, age, and physical ability, but also diversity of thinking. This means deriving

**Figure 1. Urgency vs. readiness: Who is leading, who is lagging?**



Graphic: Deloitte University Press | DUPress.com

**The Human Capital Capability Gap Index**

The Deloitte Human Capital Capability Gap Index is a research-based index that shows HR’s relative capability gap in addressing a given talent or HR-related problem. It is computed by taking an organization’s self-rated “readiness” and subtracting its “urgency,” normalized to a 0–100 scale. For example, if an organization feels that an issue is 100 percent urgent and it also rates itself 100 percent capable and ready to address the issue, the capability gap would be zero. These gaps, which are almost always negative, can be compared against each other.

**The capability gap grid**

By plotting the gaps on a grid (with readiness on the vertical and urgency on the horizontal), we can see how capability gaps vary among different countries and industries.

- Capability gaps at the lower right part of the grid are those of high urgency and low readiness (areas that warrant major increases in investment).
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- Capability gaps on the left side of the grid are areas of lesser importance, and those lower in the grid are areas of less readiness.

value from people’s different perspectives on problems and different ways to address solutions. It’s a complex world, it’s a global world, and maximal participation is required from every workplace participant from the bottom to the top. Thinking of diversity in this way

helps organizations to see value and to be conscious of the risk associated with homogeneity, especially in senior decision makers. And this means that diversity is no longer a “program” to be managed—it is a business imperative.

## Uncovering talent: A new model of inclusion<sup>3</sup>

An importance advance in thinking about inclusion is the recent work on “uncovering talent” from Kenji Yoshino, at NYU Law School, and Christie Smith, the head of Deloitte University’s Leadership Center for Inclusion. Their research suggests that current inclusion initiatives often implement formal inclusion (that is, “participation”) without recognizing how that inclusion is predicated on assimilation. In response to pressures to assimilate, individuals downplay their differences. This behavior is referred to as “covering” and can include how individuals behave along four dimensions:

- **Appearance:** Individuals may blend into the mainstream through their self-presentation, including grooming, attire, and mannerisms.
- **Affiliation:** Individuals may avoid behaviors widely associated with their identity, culture, or group.
- **Advocacy:** Individuals may avoid engaging in advocacy on behalf of their group.
- **Association:** Individuals may avoid associating with individuals in their own group.<sup>4</sup>

Yoshino and Smith’s research reports that covering behaviors are widespread, costly to individuals and their organizations, and often misaligned with values of inclusion. Organizations should be interested in covering not because they are “playing defense” against lawsuits, but because they are “playing offense” to create a more inclusive culture over and above legal compliance. Most Fortune 500 companies are seeking to create that kind of culture.

## Linking diversity of thinking and inclusion

Bringing these two themes together—diversity of thinking and inclusion—we suggest that organizations consider the importance of diversity when it comes to meeting specific business objectives:

- **Accessing top talent:** Companies should recruit top people from a globally diverse workforce. The importance of leadership pipelines, the No. 1 priority in our global trends survey, underscores the importance of broadening leadership pipelines and accelerating the development of diverse leaders. Given the transparency of the employment “brand” today, in order to attract the best people, organizations must create a diverse workplace. When candidates research a prospective employer online, interact as customers, or interview with the company, they have to feel as if they would “fit” into the work environment.
- **Driving performance and innovation:** A significant body of research shows that diverse teams are more innovative and perform at higher levels.<sup>5</sup> Companies that build diversity and inclusion into their teams reap the benefits of new ideas, more debate and, ultimately, better business decisions.
- **Retaining key employees:** One reason people leave organizations is that they feel they no longer “belong.” Or perhaps they feel they will “belong” and thrive in another organization that appreciates their unique value. A company that fails to create a diverse and inclusive workplace risks alienating or excluding key employees, who are then more likely to disengage or eventually leave the organization.
- **Understanding customers:** There’s a thin line between customers and employees, with current and former employees purchasing their companies’ products and

services, acting as advocates, and sensing customer needs. How better to understand and respond to diverse customer needs than by tapping into diverse employees? From where we sit, this is one of the most significant gaps in the diversity story, with the breadth of ideas and experiences from a more diverse front line falling by the wayside as decisions are made by more distant, homogenous teams that sometimes fail to fully include diverse perspectives. In a broad range of industries—including retail, hospitality, food service, oil and gas, insurance, and even banking—a diverse workforce creates opportunities to appeal to a more diverse customer base.<sup>6</sup>

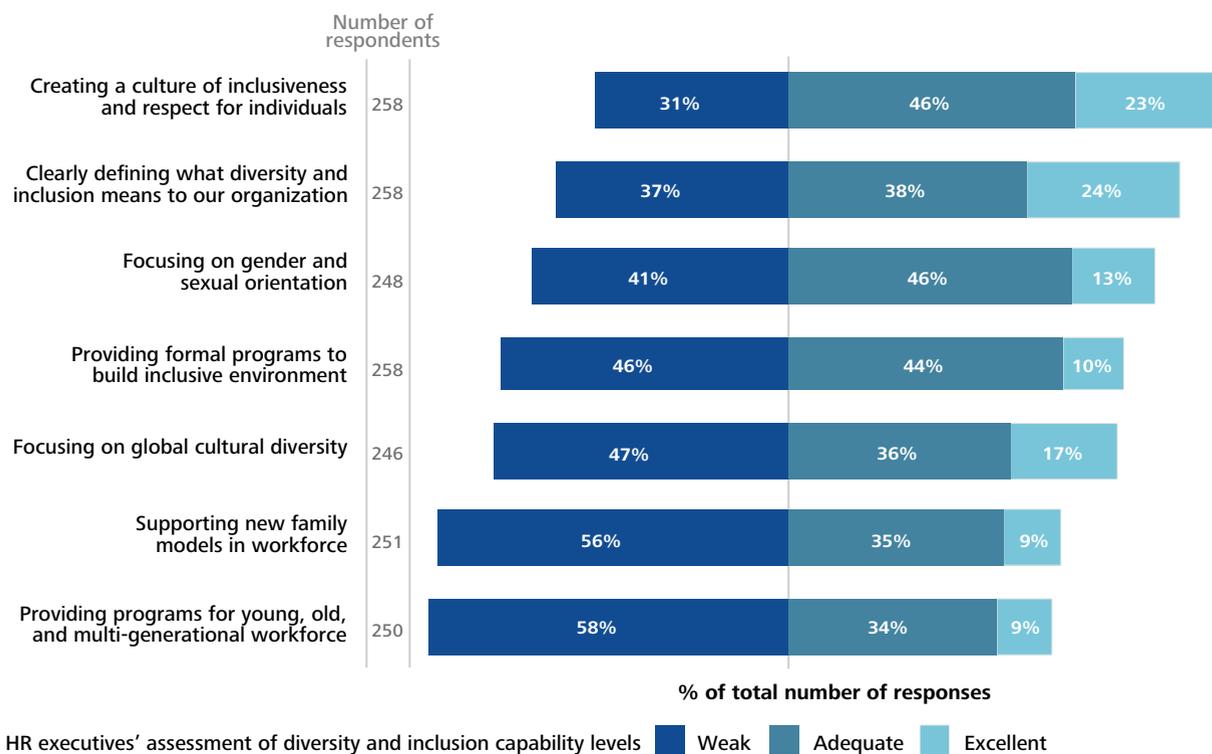
### Diversity is the measure: Inclusion is the mechanism

What this all adds up to is that high-performing organizations recognize that the aim of diversity is not just meeting compliance

targets, but tapping into the diverse perspectives and approaches each individual employee brings to the workplace. Moving beyond diversity to focus on inclusion as well requires companies to examine how fully the organization embraces new ideas, accommodates different styles of thinking (such as whether a person is an introvert or an extrovert), creates a more flexible work environment, enables people to connect and collaborate, and encourages different types of leaders.

While nearly one-quarter of executives (23 percent) believe their companies have done an “excellent” job creating a culture of inclusiveness, and defining what it means (24 percent), the overwhelming majority rate their effort as “adequate” or “weak.” Clearly, there is much more to be done to turn the vision of diversity and inclusion into a daily reality (figure 2). Much more than a focus on programs, this effort needs to focus on cultural change: behaviors, systems and symbols, and an explicit understanding of the extent and causes of “covering” in organizations.

**Figure 2. Challenges to creating an inclusive workplace**



Research by Deloitte Australia shows that high-performing organizations are characterized by their commitment to diversity and a culture of inclusion. In the areas of customer service, innovation, safety, and more, the message from employees is the same: Organizations that support diversity and that also make employees feel included are much more likely to meet business goals than those organizations that focus on diversity and inclusion in isolation (or focus on neither).<sup>7</sup> The question is, how do you get there?

One essential component of building a strategy of inclusion is recognizing the biases in the way each of us receives and processes information and the historical biases in our systems of work.<sup>8</sup> Addressing these processing biases is critical because leaders—as they themselves feel high levels of inclusion—often do not understand levels of alienation in an organization. Given the critical importance of retention in our survey, inclusion becomes a key strategy for success.

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## LESSONS FROM THE FRONT LINES

### **Adopting diversity and inclusion to solve a demographic mismatch**

BHP Billiton’s marketing division was highly diverse in terms of gender and ethnicity in non-executive positions, but there was a demographic mismatch between the global talent pool and the company’s senior team.<sup>9</sup>

Mike Henry, the president of health, safety, environment, and community, marketing, and technology, observed this misalignment. He concluded that the only reasonable explanation was an unconscious bias within the organization and a tendency to do things as they had always been done—particularly the fact that leading talent was primarily sourced from BHP Billiton’s traditional hiring bases in Australia, the United Kingdom, North America, South Africa, and the Netherlands.

Following the closure of BHP Billiton’s marketing office in The Hague—a traditional hub for recruiting and developing marketing executives—Henry decided to take action to prevent narrowing the leadership pipeline even further.

With strong support from the CEO, Henry began seeking out broad-based leadership engagement and took steps to understand BHP’s unconscious biases. He led by example, taking the Harvard Implicit Association Test and sharing the results with his team. He aimed to prove his commitment to diversity and inclusion and show that he could only mitigate his own unconscious biases by being aware of them first.

Next, Henry had BHP Billiton’s marketing organization conduct an inclusive leadership program for its top 150 leaders, which included measuring perceptions on diversity and inclusion. The program involved interactive workshops, storytelling, videos, self-paced activities, homework, coaching, and reading, all designed to help leaders shift their mindsets and behaviors. And it broadened the conversation from one about diversity to one about diversity and inclusion, from demographics to diversity of thinking, and from compliance to business imperative. To help take this from a program to a sustained focus of attention, Henry appointed a full-time diversity and inclusion manager to implement change. During a time of downsizing, this was a potent symbol of the value he placed on diversity and inclusion.

These steps yielded several notable results. Nine months after the first leadership intervention, 88–94 percent of leaders reported that they understood what they needed to do, that they had changed their behaviors, and that they knew they were accountable for change. Critically, 72–76 percent of staff agreed that their leaders were behaving differently—that is, more respectfully and inclusively—and that their teams were now more collaborative. In 2013, the program was expanded to include all leaders and all staff, which was a huge investment of time and energy. Mindsets have shifted, and while employee statistics have been slow to change, the 2013 results of BHP Billiton’s marketing organization’s annual “inclusion index” diagnostic reveal that representation of women and talent from outside the companies’ traditional hiring bases has increased at leadership levels—a trend that has continued year on year since the first diagnostic was run in 2011.

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## Where companies can start

**M**ANY organizations have not put enough effort into understanding what makes people feel included. Do employees feel they are known and valued as individuals? Are they well-connected to other people in the organization? Are they given a voice in decision making? Is there an understanding of the types and extent of covering in the organization (appearance, affiliation, advocacy, association)? In addition to examining these fundamental questions, companies looking to build a more inclusive workplace should consider the following steps:<sup>10</sup>

- **Create inclusion labs to help educate leaders about unconscious bias and covering behaviors:** Encourage leaders to honor other people's opinions and promote constructive debate. Understand covering biases and behaviors and approaches to changing them. Leadership drives inclusion; the process should start at the top.
- **Embed diversity and inclusion in leadership pipelines and programs:** Include the diversity and inclusion initiative in leadership development programs, new manager

programs, and talent acquisition programs. Give particular focus to supporting diversity of thinking—for instance, by selecting people from diverse backgrounds for leadership development.

- **Conduct a gap analysis of talent systems and processes:** How is the principle of merit-based decision making transparently embedded into systems, from recruitment, remuneration, and training to career development opportunities and succession? Review the outputs of these decisions in terms of equity, such as via a pay equity audit.
- **Develop a diversity and inclusion scorecard and measure business impact:** Hold leaders and managers accountable and identify outliers in the diversity and inclusion initiative.
- **Install governance and resource the effort appropriately:** Create a council with representatives from different parts of the business that is properly resourced to be a change agent.

### BOTTOM LINE

Diversity is not a program or a marketing campaign to recruit staff. Thinking of diversity in this way relegates it to its compliance-driven origins. A diverse workforce is a company's lifeblood, and diverse perspectives and approaches are the only means of solving complex and challenging business issues. Deriving the value of diversity means uncovering all talent, and that means creating a workplace characterized by inclusion. Our research shows that most organizations are not there yet, but change is in the wind, and market leaders are starting to move from compliance to inclusion as a business strategy.

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# The overwhelmed employee

## Simplify the work environment

- Information overload and the always-connected 24/7 work environment are overwhelming workers, undermining productivity and contributing to low employee engagement.
- Sixty-five percent of executives in our survey rated the “overwhelmed employee” an “urgent” or “important” trend, while 44 percent said that they are “not ready” to deal with it.
- HR has an opportunity to lead efforts to manage the pervasive communications practices that overwhelm employees, simplify the work environment, create more flexible work standards, and teach managers and workers how to prioritize efforts.

**A**N explosion of information is overwhelming workers, while smartphones, tablets, and other devices keep employees tethered to their jobs 24/7/365. The *Atlantic* recently termed this trend “hyper-employment,” noting that even the unemployed can suffer from it.<sup>1</sup>

Studies show that people check their mobile devices up to 150 times every day.<sup>2</sup> Yet despite employees being always on and constantly connected, most companies have not figured out how to make information easy to find. In fact, nearly three-quarters (72 percent) of employees have told us they still cannot find the information they need within their company’s information systems.<sup>3</sup>

This constant and frenetic level of activity also costs money, perhaps \$10 million a year for mid-size companies.<sup>4</sup> According to one study, 57 percent of interruptions at work resulted from either social media tools or switching among disparate stand-alone applications.<sup>5</sup>

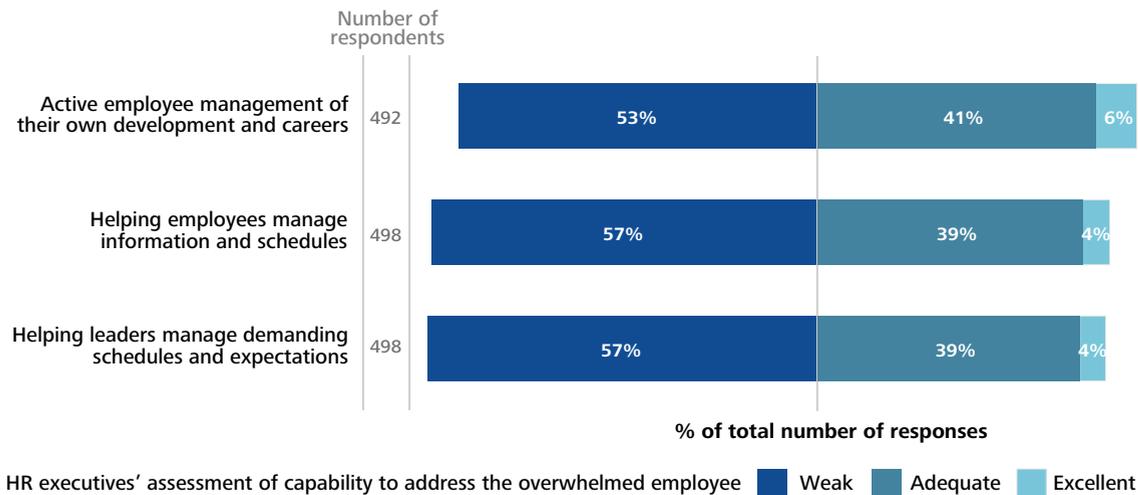
The true downside of this information overload is harder to measure. With everyone hyper-connected, the reality may be that

employees have few opportunities to get away from their devices and spend time thinking and solving problems. And the problem is getting worse. The sun never sets on a global company, so someone is always working, awaiting a response to an email or phone call. The weekend as a time away from work is also becoming a thing of the past.

More than half of the respondents to our Human Capital Trends survey believe that their organizations are not doing a good job helping workers address information overload and today’s demanding work environment. Nearly six in ten respondents (57 percent) say their organizations are “weak” when it comes to helping leaders manage difficult schedules and helping employees manage information flow (figure 1).

According to our global survey, executives around the world are sounding the alarm, with respondents in most countries recognizing the urgent need to address this challenge. But, with the exception of Spain and Kenya, executives in few countries report their capabilities are equal to the sense of urgency (figure 2).

**Figure 1. An underwhelming response to today's overloaded employee**



Graphic: Deloitte University Press | DUPress.com

## Creating more time to think and produce

How serious is the problem? Julian Birkenshaw and Jordan Cohen studies the productivity of knowledge workers and found that people waste as much as 41 percent of their time on things that offer little personal satisfaction and do not help them get work done.<sup>6</sup>

One reason employees are so busy is they may be afraid to delegate tasks, while more and more employees, particularly men, view “being busy” as a badge of honor. In fact, new research shows that 29 percent of men with children work more than 50 hours per week—a “workaholic” lifestyle that increases with income and seniority.<sup>7</sup>

Many have suggested that, as organizational leaders and as individuals, we need to learn new skills to manage time. While Yahoo’s CEO Marissa Mayer made headlines when she asked employees to stop working at home, what she was really saying was that “we want to know what you’re working on so we can make sure you prioritize well.”<sup>8</sup>

## The value of smaller, agile teams

Organizations are beginning to acknowledge their share of responsibility for the

problem of the overwhelmed employee and take steps to help solve it.

Historically, managing time and information was viewed as an employee’s personal concern. If employees were overwhelmed, the thinking went, they were expected to fix it themselves—by taking a course in time management, for instance. Now, some employers are treating overload as a shared problem requiring a company response. In short, the overwhelmed employee is being viewed as a business and productivity challenge, as well as a personal one.

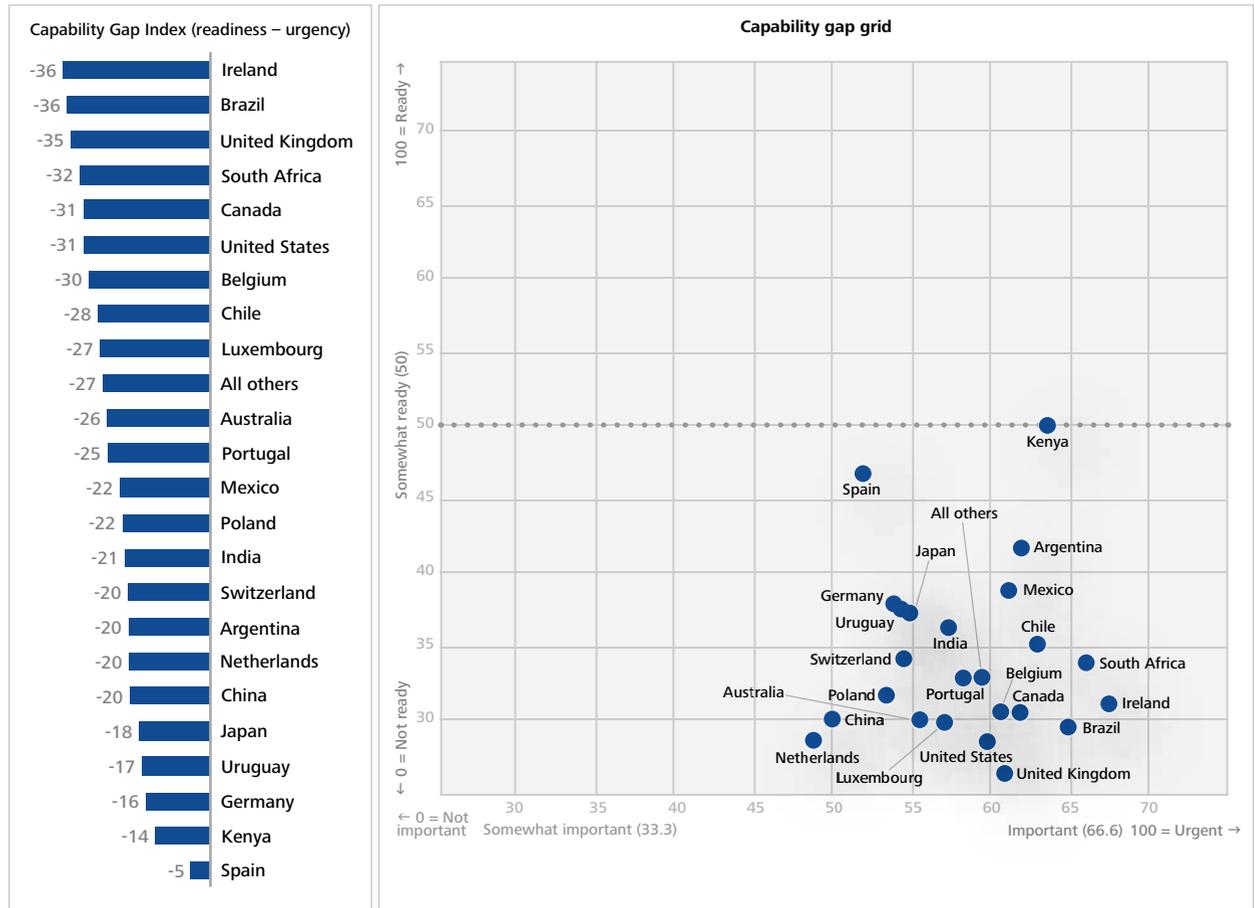
One strategy companies are following to help employees become more productive with their time is creating smaller, more agile teams.

The software industry, which is widely known for experimenting with innovative management practices, has been revolutionized by the “agile” model.<sup>9</sup> Under this system, teams are broken up into small groups that regularly hold short, face-to-face meetings. Each day, these teams have daily “scrums” and “stand up meetings.” These events last no longer than 15 minutes, forcing people to rapidly discuss issues, resolve problems, and get back to work.

This practice is backed up by research from Richard Hackman, a former professor at Harvard University and Yale University, which

**Figure 2. Urgency vs. readiness: Who is leading, who is lagging?**

**The overwhelmed employee**



Graphic: Deloitte University Press | DUPress.com

**The Human Capital Capability Gap Index**

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**The capability gap grid**

By plotting the gaps on a grid (with readiness on the vertical and urgency on the horizontal), we can see how capability gaps vary among different countries and industries.

- Capability gaps at the lower right part of the grid are those of high urgency and low readiness (areas that warrant major increases in investment).
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found that small teams outperform big ones.<sup>10</sup> Hackman also demonstrated that teams where members know each other well communicate more quickly, with far fewer words and emails.

To make meetings shorter and more efficient, Jeff Bezos, CEO of Amazon, hit

on a novel approach he calls the “two pizza” rule. Every meeting at Amazon should be small enough to feed everyone with two pizzas—limiting attendance to around five to seven employees.



## Simplifying HR practices and employee systems

It's likely that many organizations will look to their HR leaders to help figure out how to address worker overload. Some HR organizations are already stepping up to the challenge.

Best Buy, for example, adjusted its “flexible working” policies to encourage employees to take time off and recharge. Adobe eliminated steps in its performance appraisal process, helping managers and employees save several weeks each year.

Simplifying business and HR systems and making them easier to use can also make employees more productive. People no longer want more features in their enterprise software; they want “one click” or “one swipe” transactions. We call this the “consumerization” of corporate systems—which really amounts to valuing the time of a company's employees as much as it respects the time of its customers.

In our most recent research on HR systems adoption, ease of use and user interface integration were rated as the most important factors in driving user adoption.<sup>11</sup>

This finding raises many important questions: How many steps does it take at your company to appraise an employee? To fill in an expense report? To register for a corporate course? How easy is it to find information, people, and resources in your company? If the HR and IT departments are not working

together to make things easier, they are taking away valuable employee time.

## Outsourcing or insourcing non-core tasks

Companies are also looking at ways to outsource or insource repetitive, non-core tasks to free up employee time and energy.

Pfizer developed a program called PfizerWorks that allows employees to off-load technical and administrative non-core tasks, such as statistical analysis, writing, and publishing. Scientists claim it saves months of time per year, allowing them to dedicate more time to strategic work and their scientific skills.<sup>12</sup>

## Changing work expectations

Does everyone need to be online all day and night? Some executives now deliberately avoid sending emails at night or on weekends, sending a signal to the team that it is OK to disconnect and unwind.

Professional services organizations are increasingly asking teams to travel less and offering the option to work at home, enabling them to save time and energy on commuting and travel.

More and more companies are experimenting with “email free” times and the use of collaborative web tools that slow down massive email distribution and focus communications directly to the smaller working team.

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## LESSONS FROM THE FRONT LINES

### Saving employee time by promoting effective communication

A global health care company initiated a major program to address the issues of information overload, meeting ineffectiveness, and unnecessary travel. The project produced four recommendations:

- Enforceable guidelines on sending emails, holding meetings, and traveling—and educating staff in these areas. Meetings were limited to 30 minutes, while the use of “cc” and “reply all” in emails was curtailed.
  - Empowering leaders to replace some travel by making greater use of virtual technology—including Live Meeting, WebEx, Skype, and MS Lync—and improving the overall virtual technology experience in the company.
  - Dedicating half a day per week to focus on company’s leadership initiatives, with an emphasis on connecting with customers.
  - Promoting accountability in decision making in these areas by working with HR.
- 

## Where companies can start

**T**HE point of these and similar efforts is not merely to save employees’ time, reduce stress, and foster employee engagement, important as those aims are. Rather, it is also to free up unproductive time to permit more-engaged employees to focus deeply on business imperatives. Here are a few starting points:

- **Lead through example:** Change is often most powerful when it comes from the top. Leaders should have—and should grant themselves—permission to take these steps, setting an example to help their employees deal with being overwhelmed.
- **Get input:** Assess employees’ current workloads and what issues trouble them most. Rather than ask high-level engagement questions, survey them on their most “frustrating” work practices or systems.
- **Simplify HR and talent programs:** Reduce the number of steps and make it possible to complete an entire process in a few minutes.
- **Simplify information and HR systems:** Consolidate HR and employee systems in favor of what we call a “learning architecture”—one integrated place to find information, people, and content.
- **Publicize and celebrate flexible work policies:** Employees need to understand that it is OK to work at home, take time off during the day, and miss meetings. Clear policies help make it possible for people to disengage from less important tasks when they are busy with other projects or personal needs.
- **Make meetings productive:** Post guiding principles in every meeting location to encourage effective meetings. Help people reduce the size of meetings, number of emails, and frequency of communication. Schedule meetings for 20 or 50 minutes rather than 30 or 60. “Stand up” meetings are a powerful way to keep people from wasting time.
- **Delegate decision making:** Is it clear who makes decisions in your workgroup? Can people make their own decisions without involving many others or asking others for help? Push decisions down, and people’s lives become easier.

## BOTTOM LINE

Companies need to recognize that the overwhelmed, hyper-connected employee is a business concern. As employees become more connected and messages and information proliferate, it is increasingly important for employers to develop standards, principles, and technologies that simplify work. The opportunity for business and HR leaders is to find ways to make information easier to find, simplify processes and systems, keep teams small, and make sure leaders provide focus. The result will likely be improved employee satisfaction, teamwork, and productivity.



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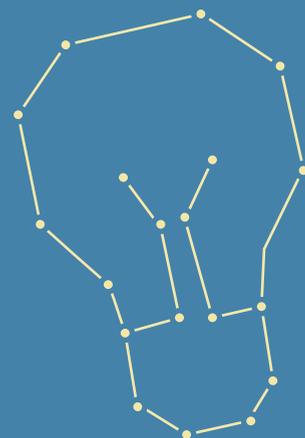
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# Transform and reinvent





# The reskilled HR team

## Transform HR professionals into skilled business consultants

- Less than 8 percent of HR leaders have confidence that their teams have the skills needed to meet the challenge of today's global environment and consistently deliver innovative programs that drive business impact.
- Business leaders agree: 42 percent of business leaders believe their HR teams are underperforming or just getting by, compared to the 27 percent who rate HR as excellent or good when assessing HR and talent programs.
- To become an effective business partner, HR teams need to develop deeper business acumen, build analytical skills to underwrite their leadership, learn to operate as performance advisors, and develop an understanding of the needs of the 21st-century workforce.

CEOs now see human capital strategies as one of their top priorities for growth.<sup>1</sup>

In order to meet their business goals, senior executives today are holding HR departments accountable for developing creative new ways to acquire talent, build employee skills, develop leaders, engage employees at all levels, and retain critical workers.

This challenge comes at a time when shifting demographics, rapid technological advances, increasing globalization, and the rise of new work arrangements are forcing companies to reengineer many of their people strategies. Many businesses have also told us that they are seeing a “disruption” of the CHRO role in their organizations and are refocusing HR as a “business contribution” function—a role that demands deeper skills in data and analytics as well as MBA-level business capabilities.

The critical question is whether HR teams have the skills they need to rise to the challenge. According to our global survey, more than one-third of respondents report that

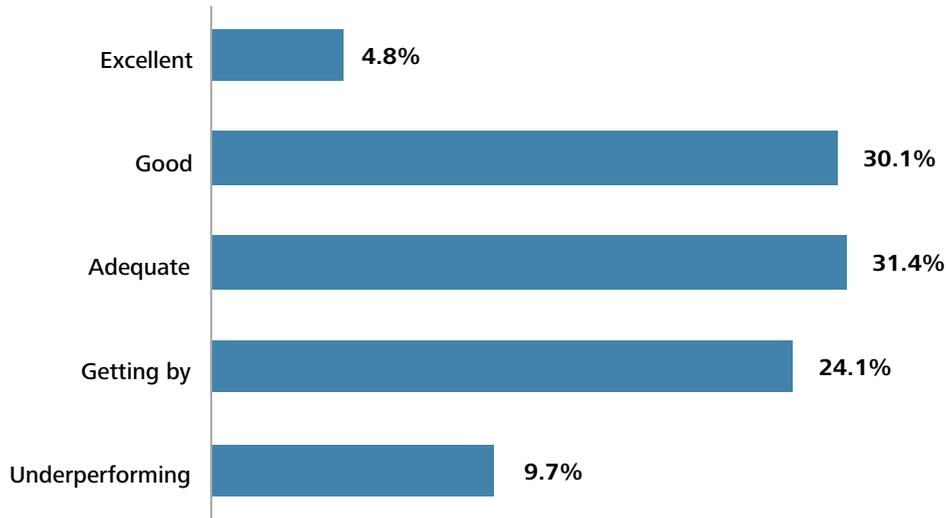
their HR and talent programs are just “getting by” or even “underperforming.” Twice as many respondents say that their HR and talent programs are “underperforming” (10 percent) as consider them “excellent” (5 percent) (figure 1).

When asking about organizations’ readiness to respond to the 12 global trends, our global survey revealed significant differences between business executives and HR leaders. For the five most urgent and important trends we identified, business executives at large companies (10,000+ employees) believe that their companies are less ready to address these issues than HR leaders report (figure 2):

- **Leadership (the most urgent trend according to our survey):** 40 percent of business leaders reported that their company is “not ready,” compared to 28 percent of HR leaders
- **Reskilling HR:** 48 percent of business respondents reported that HR is “not ready,” compared to 36 percent of HR respondents

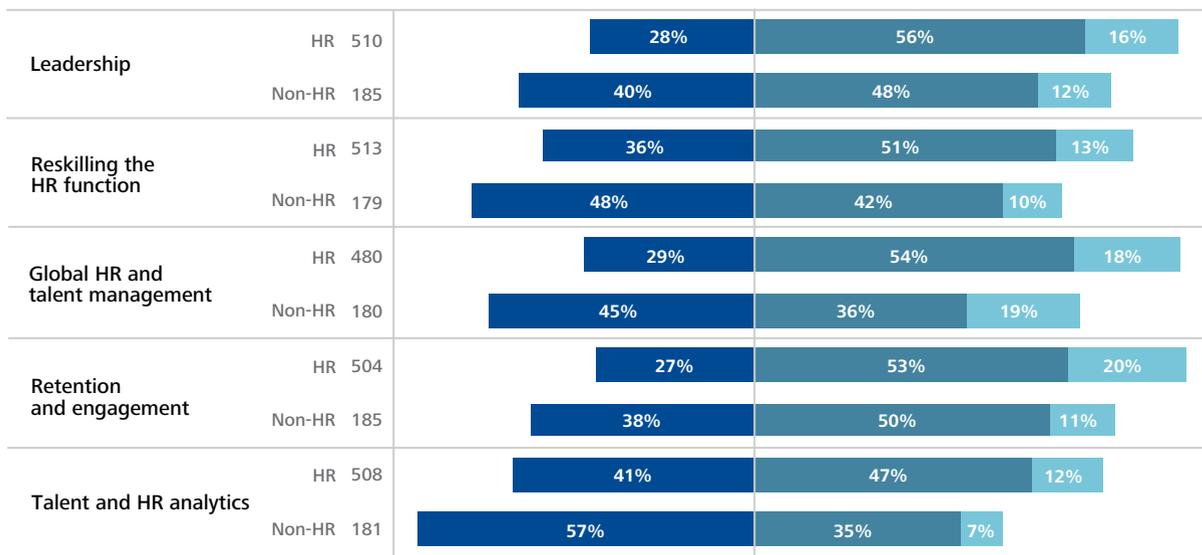
**Figure 1. Rating HR performance**

*“How would you assess your HR and talent program capabilities?”*



Graphic: Deloitte University Press | DUPress.com

**Figure 2. Business leaders and HR executives’ take on their readiness level for the five most “urgent” and “important” trends (companies with 10,000+ employees)**

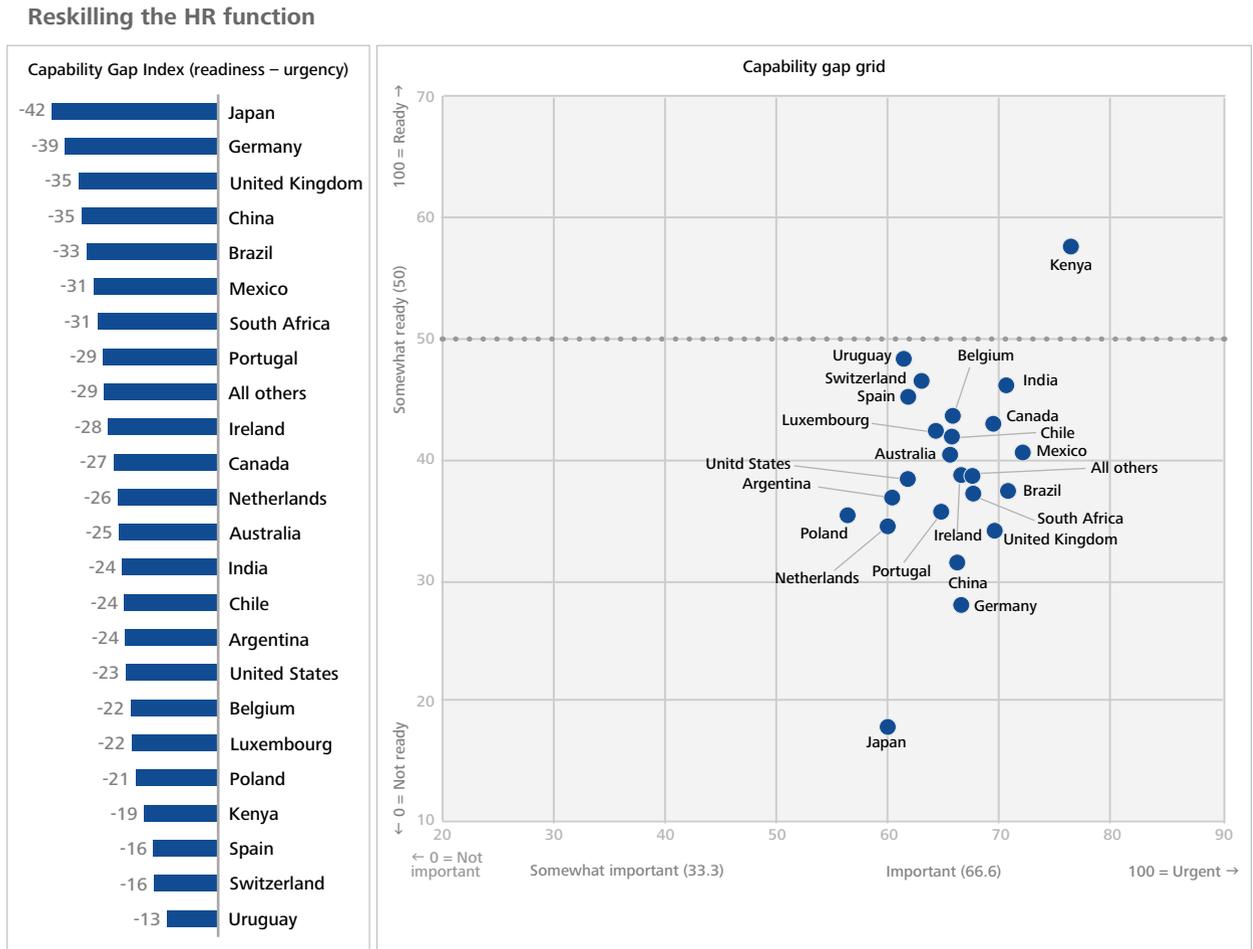


■ Not ready ■ Somewhat ready ■ Ready

Graphic: Deloitte University Press | DUPress.com

- **Global HR and talent management:** 45 percent of business executives reported that the company is “not ready,” compared to 29 percent of HR executives
- **Retention and engagement:** 38 percent of business executives reported that their company is “not ready,” compared to 27 percent of HR executives
- **Talent and HR analytics:** 57 percent of business respondents reported that their company is “not ready,” compared to 41 percent of HR respondents

**Figure 3. Urgency vs. readiness: Who is leading, who is lagging?**



Graphic: Deloitte University Press | DUPress.com

**The Human Capital Capability Gap Index**

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**The capability gap grid**

By plotting the gaps on a grid (with readiness on the vertical and urgency on the horizontal), we can see how capability gaps vary among different countries and industries.

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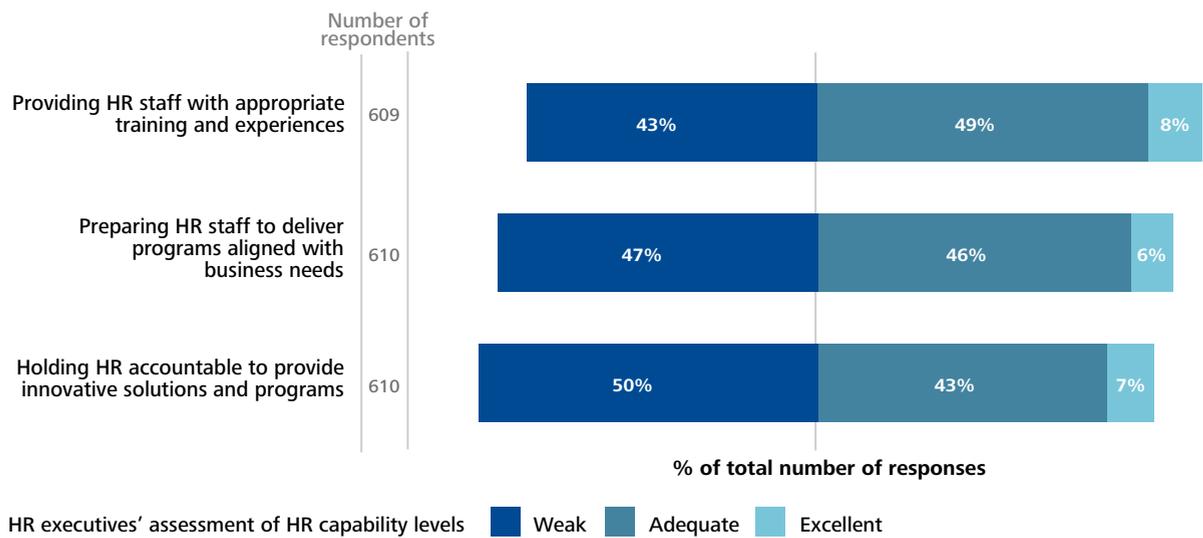
Differences in perceived readiness exist, not just between HR and non-HR respondents, but among global regions as well. Executives in Japan, Germany, the United Kingdom, and China all recognize the importance of reskilling HR, but doubt their companies’ ability to respond (figure 3).

**Ramping up HR skills**

What is behind this perceived lack of HR skills? The problem is relatively easy to understand at one level, yet elusive at another.

More than 70 percent of all HR professionals enter the field without a specific degree or certification in business or human resources.<sup>2</sup>

**Figure 4: HR teams report they are poorly prepared to integrate HR and business strategy**



Graphic: Deloitte University Press | DUPress.com

Given that many organizations do not invest in developing either the HR or the business skills of their HR teams, it is no surprise that they are falling behind.<sup>3</sup> This lack of skills severely limits HR's ability to impact business strategy and advance business goals. For example, a 2013 study found that only 14 percent of companies reported that their HR teams have the capabilities to utilize talent analytics—a critical function as HR becomes more data-intensive.<sup>4</sup>

This year's global survey supports this finding. Forty-three percent of respondents stated that their companies are "weak" when it comes to providing HR with appropriate training and experiences; 47 percent rate their companies "weak" on preparing HR to deliver programs aligned with business needs; and 50 percent rate their companies "weak" when it comes to providing innovative solutions and programs (figure 4).

Companies need to challenge themselves to develop programs and professional expectations to transform HR employees into skilled business consultants. What skills does HR need to more effectively meet the demands of today's businesses? The specific list will vary across companies, but all share the need to develop skills in three primary areas:

1. HR and talent skills
2. Business, industry, and global skills
3. Management, leadership, and program implementation skills

### HR and talent skills

- **Technical HR skills.** Specialists should have deep skills in training, recruiting, sourcing, organizational design, employee relations, labor relations, compensation strategies, benefits, and many other areas. These technical skills should be refreshed every year as new vendors, technologies, and strategies emerge.
- **Labor market and workforce knowledge.** HR teams should have a deep understanding of the labor markets and workforces where their companies operate. What cultural, demographic, and local labor market trends affect a company's ability to hire, retain, and engage people? How do high-performing leaders in Japan, for example, compare with high-performing leaders in China or Brazil? What will attract engineers in San Jose vs. Munich vs. Bangalore?

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## LESSONS FROM THE FRONT LINES

### Prioritizing skill development to raise retention and performance

A fast-growing global health care company realized five years ago that it lacked leadership capabilities, talent mobility, and managerial practices, resulting in high turnover and low levels of service.<sup>5</sup> The CEO recruited a new CHRO to upgrade the skills of the HR team from top to bottom. Specific reforms included:

- Asking the HR team to evaluate its own performance and assessing why some areas were rated poorly
- Developing a senior peer-to-peer certification for senior HR business partners
- Establishing technical centers of excellence in talent acquisition, performance management, talent mobility, compensation and rewards, retention and engagement, and analytics
- Recruiting MBAs into the HR department
- Creating an internal research and tools group within HR focused on research and methodology development
- Pushing the team to develop small consulting groups that brought HR practices together to work on business-unit-specific programs

Today, this company is a leader in innovative HR practices and has become an employer of choice in its markets. Five years of investment in HR skills and capability have paid off in higher employee retention, better engagement, and stronger performance.

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- **Managing a service operation.** HR teams must understand how to manage to service levels, design service-centric systems and solutions, measure quality of service, and implement self-service technology.
  - **Technology and analytics.** It is impossible to run or manage HR without a deep understanding of multiple technologies—from payroll systems to social sharing tools. Cloud, mobile, and social technologies are critical areas where HR professionals should develop leading skills. As big data becomes a pervasive resource and tool, HR professionals should also develop skills and comfort with data, statistics, and analytics. This area may be one of the largest gaps for HR teams as they reskill for the future.
- understanding of business and industry trends: how the company makes money, what drives long-term competitive advantage, what skills are needed to maintain and drive improved profits, what new products are underway, how customers perceive value, and how to drive innovation. The challenge for HR professionals is to help the business create value through their understanding of talent, such as by identifying new sources of talent in new markets.

- **Global insights.** Most businesses, large and small, operate globally when it comes to customers, supply chains, and talent markets. HR professionals must be innovative in accessing talent in global geographies, determining what is required to be effective in local talent markets, and understanding how to integrate HR programs across countries and regions to provide “one source of truth” for HR and talent data and insights.

### Business, industry, and global skills

- **Business and industry acumen.** HR professionals should develop a deep



## Management, leadership, and program implementation skills

- **Management and leadership.** HR professionals must understand how people lead, how to coach leaders, and how to lead their own teams. They should have the confidence and the leadership experience to interact with senior business professionals in a meaningful way.
- **Project and change management skills.** It is easier to design a “picture-perfect”

program than to get managers and employees to adopt it. Focusing on the realities of change and achieving practical results should be in the crosshairs of every HR manager.

- **Continuous development and knowledge sharing.** Just as IT, finance, sales, and customer service invest heavily in training and certifications, HR should develop an “HR for HR” team that certifies, develops, and continuously improves the skills of the entire HR function.

## Where companies can start

**T**HE CHRO should play the role of “chief change officer,” championing the HR team’s expansion from providing HR services to business consulting.

Fifty-nine percent of respondents in a recent global report rated “increased change management” their top concern for improving their business transformation efforts.<sup>6</sup> Business leaders are waiting for HR leaders and professionals to reskill and up their game.

Critical starting points include:

- **Invest in HR professional development:** Our benchmarks show that high-impact HR teams spend between \$1,200 and \$2,500 annually per HR professional on training, development, research, and tools, compared to an average of \$500 across all organizations.<sup>7</sup>
  - **Elevate and deepen the business partner role:** Our research shows that the future of HR consists of highly trained expert
- business partners coupled with networks of deep specialists, supported by service centers for transactional work.
- **Focus on emerging business-critical skills:** Business leaders rated analytics, workforce planning, and leadership as the most important HR skills, reinforcing that reskilling HR is not about “doubling down” on traditional HR skills but about expanding into delivering insights on analytics, business, and globalization.
  - **Establish a professional development team:** An “HR for HR” team can apply the same level of skills assessment, development planning, and career development to HR as HR does to the rest of the organization.
  - **Conduct self-assessments:** Define roles clearly and then honestly benchmark roles, structure, and skill levels. How proficient is

the HR team compared to other companies? Where it is strong and where is it weak? Be honest with this assessment.

- **Diversify HR to meet business goals:** Consider HR to be an internal consulting organization and bring the strongest HR leaders together to take action where business needs demand it. At the same time, HR can be strengthened with an infusion of professionals with strong business backgrounds—as long as they master the critical HR skills necessary for their tasks.
- **Break down silos within HR:** Connect specialists with each other and with HR

centers of excellence, encourage deep skill building and knowledge sharing, and create communities of practice. Encourage centers of excellence to work together on major initiatives like turnover, workforce planning, engagement, and leadership development.

- **Change the measurement of HR business partners:** Rather than measuring HR business partners by “client satisfaction,” use talent metrics (quality of hire, leadership progression, retention) so that HR feels responsible for outcomes, not just administrative services.

## BOTTOM LINE

The global economy is poised for a growth cycle. A limiting factor will be the increasing scarcity of talent, which will only intensify the need for HR to ably lead the organization forward. HR teams that rise to the challenge will see their internal effectiveness, external market value, and overall stature climb.

Reskilling HR was rated the third most urgent and important trend in our 2014 global survey, with 77 percent of respondents ranking it as “urgent” or “important.” Businesses report that their HR teams are “not ready” or up to the job in critical areas including leadership, retention, global, and analytics. To achieve better business results, companies will need to reskill and invest in their HR and talent capabilities. Focusing on emerging HR skills, such as analytics and deep business and global skills, is a place to start.

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Hugo Walkinshaw leads the Human Capital practice and the manufacturing industry sector in Southeast Asia, and is the Asia Pacific HR Transformation practice leader. He is primarily focused on delivering large-scale HR Transformation programs, working with both captive and outsourced service delivery models. With over 20 years of experience, Walkinshaw has provided assistance to clients in Japan, China, Hong Kong, Taiwan, the Philippines, Indonesia, Malaysia, Thailand, and Singapore, as well as in the United States and Europe.

## Contributors

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# Talent analytics in practice

## Go from talking to delivering on big data

- HR is evolving into a data-driven function, with the focus shifting from simply reporting data to enabling the business to make informed talent decisions, predict employee performance, and conduct advanced workforce planning.
- While 78 percent of large companies (with 10,000 or more employees) rated HR and talent analytics as “urgent” or “important,” enough to place analytics among the top three most urgent trends, 45 percent of the same companies rated themselves “not ready” when assessing their readiness in HR analytics—among the lowest readiness rankings for any of the 12 global trends. Only 7 percent of large companies rated their organizations as having “strong” HR data analytics capabilities today.
- Companies that successfully leverage analytics and big data will be positioned to outperform their peers in executing their talent strategies.

**A**T a time when big data is becoming a mainstream strategy in many business functions, HR is playing catch-up. Right now, 86 percent of companies report no analytics capability in the HR function, compared to 81 percent of companies that utilize analytics in finance, 77 percent in operations, 58 percent in sales, and 56 percent in marketing.<sup>1</sup>

The good news is that 57 percent of HR teams increased their investment in measurement and analytics in 2013.<sup>2</sup> Companies that are ahead of the game in this area are doubling their improvements in recruiting, tripling their leadership development capabilities, and enjoying 30 percent higher stock prices than their peers.<sup>3</sup>

Today’s focus on HR analytics is not new. Companies have been trying to understand workforce data since the early 1900s. The evolving discipline of talent analytics, however, combines workforce data with business data to help companies make better business decisions about people. Critical questions—such as whom to hire, how to manage people, and what drives performance, retention, and

customers—can now be understood statistically and answered with data, not just opinion or experience.

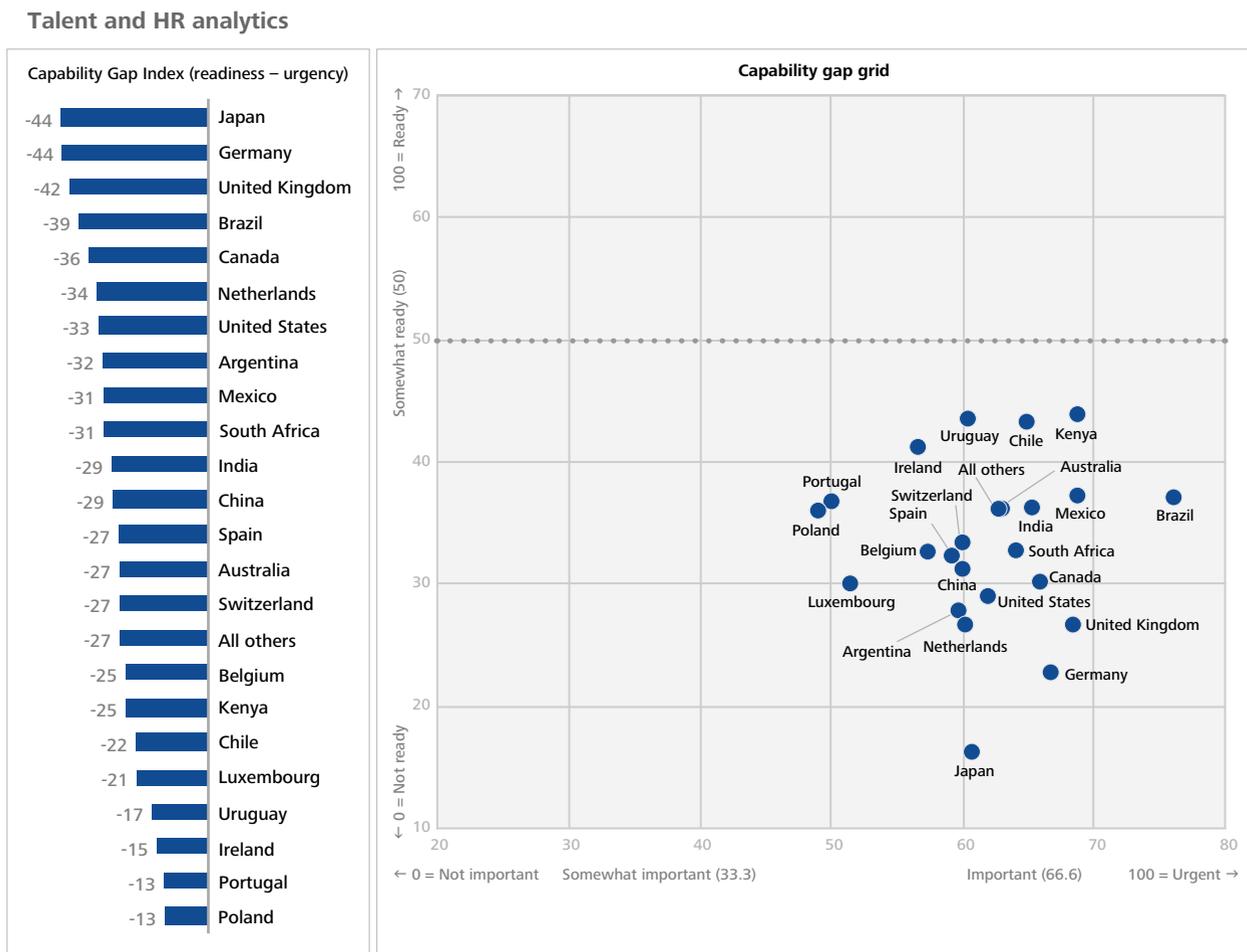
Despite understanding the importance of HR analytics, respondents to our survey are largely unprepared to meet this challenge. Companies in major industrialized nations, such as Japan, Germany, and the United Kingdom report that they are especially behind the curve (figure 1).

### The key leap from talk to action

Despite the powerful improvements analytics can deliver, most companies have yet to convert these capabilities into action. While 14 percent of companies now have some form of analytics capabilities, more than 60 percent are still stuck with a disorganized set of HR systems and no clear way to make meaningful data-driven decisions.<sup>4</sup>

This may be one reason why at least nine in ten respondents in our survey rate their companies as “weak” or just “adequate” when judging their current talent and HR analytics capabilities. Organizations rate themselves

**Figure 1. Urgency vs. readiness: Who is leading, who is lagging?**



Graphic: Deloitte University Press | DUPress.com

**The Human Capital Capability Gap Index**

The Deloitte Human Capital Capability Gap Index is a research-based index that shows HR’s relative capability gap in addressing a given talent or HR-related problem. It is computed by taking an organization’s self-rated “readiness” and subtracting its “urgency,” normalized to a 0–100 scale. For example, if an organization feels that an issue is 100 percent urgent and it also rates itself 100 percent capable and ready to address the issue, the capability gap would be zero. These gaps, which are almost always negative, can be compared against each other.

**The capability gap grid**

By plotting the gaps on a grid (with readiness on the vertical and urgency on the horizontal), we can see how capability gaps vary among different countries and industries.

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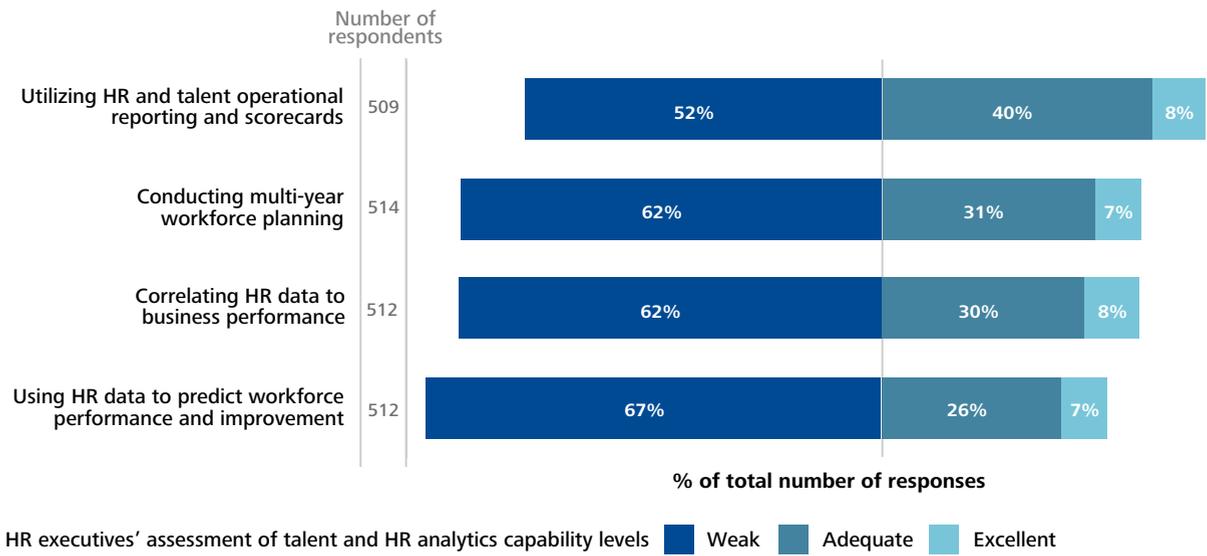
poorly when using HR data to predict work-force performance and improvement, with more than two-thirds (67 percent) calling this capability “weak” (figure 2).

Aware of their weaknesses, nearly half (48 percent) of global respondents are actively developing or planning to move ahead with talent and HR analytics capabilities (figure 3).

In 2014, the focus on big data in business will challenge HR leaders to build a talent analytics team, bring together multi-disciplinary skills, and develop a long-range plan to “datafy” HR.<sup>5</sup>

A transition of this magnitude cannot happen overnight, but more than 60 percent

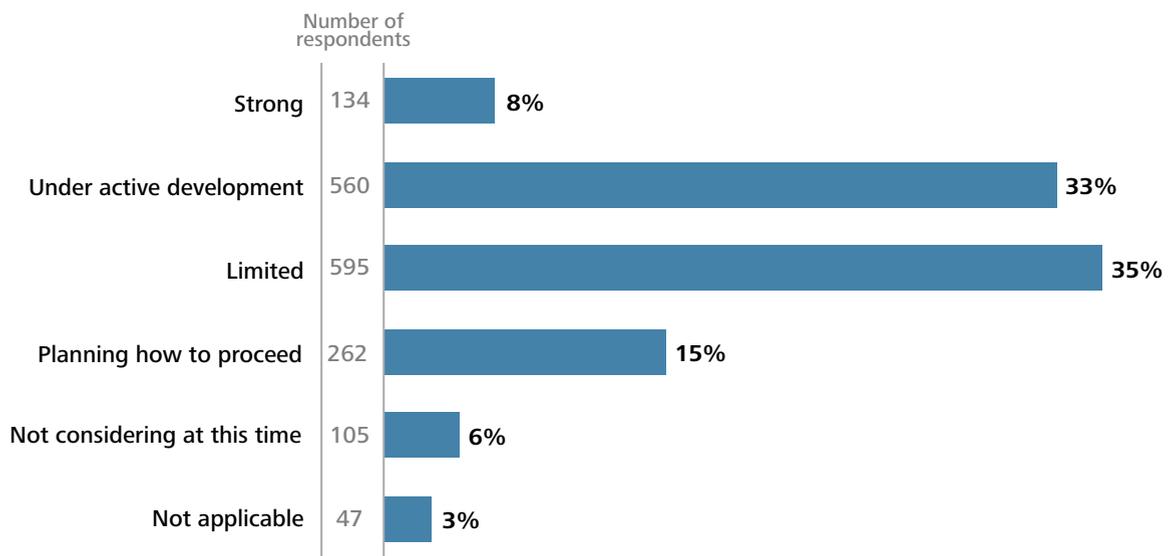
**Figure 2. A big challenge with big data**



Graphic: Deloitte University Press | DUPress.com

**Figure 3: Nearly half of the companies surveyed are moving forward**

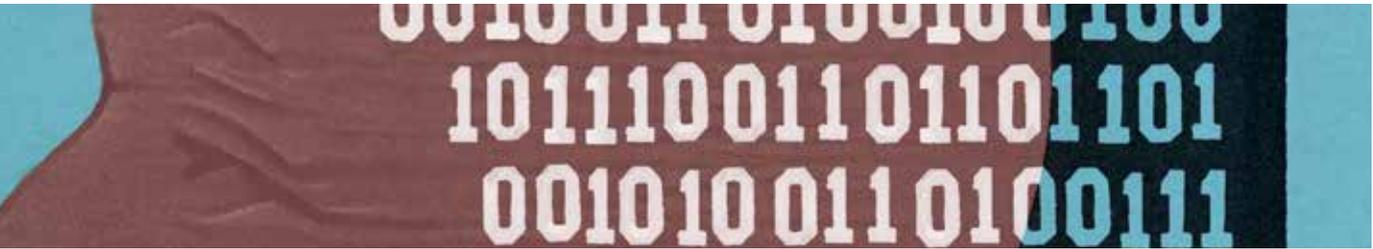
Talent and HR analytics: State of HR analytics capabilities



Graphic: Deloitte University Press | DUPress.com

of companies are putting plans in place now.<sup>6</sup> Examples of high-value solutions include:

- Understanding the characteristics of high-performing salespeople to better select and attract leading candidates
- Identifying work-related factors that correlate to fraud and accidents, enabling managers to dramatically reduce loss by focusing on well-known patterns
- Setting up an internal platform for veteran employees to find new positions within a firm by matching skills with jobs
- Creating analytics models that understand and predict turnover so managers can more



rapidly change work conditions or behavior to keep top people from leaving

- Understanding the impact of pay increases in detail to make more scientific decisions about where to invest to maximize performance

Successful talent analytics programs require focused investment, dedicated cross-functional teams, and strong partnerships between HR, IT, and business operations. HR should take a leadership role by embracing this positive

disruption—an opportunity to bring together different parts of the business to solve problems and drive business results.

A key insight provided by talent analytics is the ability to link business goals directly to talent strategies. Rather than focusing on HR spending and measuring HR metrics alone, talent analytics today has the power to analyze the contribution people make to business outcomes across the board—from sales and customer service to accident reduction and quality improvement.

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## LESSONS FROM THE FRONT LINES

### Using analytics to understand turnover and raise retention

A global pharmaceutical company facing an extremely competitive talent market in China understood it had to reduce workforce turnover to meet its growth targets. It embarked on a predictive analytics effort to improve retention, particularly among its sales force.

Using data from the previous three years, the company developed and implemented a model to provide predictive insights on critical sales roles for the company and pivot points that influenced retention. The model enabled prediction down to the level of the individual employee, identifying which variables were strong predictors of retention and turnover, and informing the development of focused retention strategies. For example, despite an intensely competitive talent market, compensation was not the primary driver of turnover.

Using this highly data-driven model to improve the targeting and effectiveness of its retention strategy, the company has been able to use the analysis to take targeted action to improve retention. The company was able to focus its investments on the retention initiatives that offer the highest value and impact.

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## Where companies can start

**F**OR many companies, the transition from data reporting to data analytics is a leap into the unknown. HR teams question if they have the skills and understanding to put this function together. Industrial and organizational psychologists, statisticians, and data analysts may all be needed to help HR build this new capability.

Potential starting points include:

- **Look for skilled analysts to lead the team:** Having a skilled analyst on your team isn't the same as having a skilled analyst lead the team. That said, depending on the maturity of the organization, a skilled salesperson may be better equipped at leading the team, given the amount of convincing the organizations (both HR and business) will likely require on the topic.
- **Add a couple of outlier profiles to the analytics team,** such as econometricians, demographers, computer/applied scientists, and business intelligence specialists. They usually bring in a different view to the challenges at hand while being hands-on with numerical analyses, fact-finding, and generating insights from data.
- **Create a community of practice** where intrinsically interested professionals can share experiences and best practices. They will become your best ambassadors, and establishing a community of practice ties in to the overall action of raising visibility for fact-based decision making through analytics.
- **Equip analysts** with HR technology, performance consulting, visualization, and project management skills. Build a close relationship between HR and IT; HR organizations working in predictive analytics often have an IT specialist on the HR staff.
- **Identify specific business challenges to be addressed:** Use data to meet visible business challenges by working with business units to agree on deliverables, reports, and expectations. Don't just try to analyze data; start by focusing on business problems.
- **Build capabilities by experimenting:** Choose a business problem, bring people from different functions together, consider which types of data might help solve that problem, and find the techniques that might help the team analyze the data and devise solutions.
- **Make analytics user-friendly for the entire organization** through the use of tools such as dashboards in order to provide maximum value to business units.
- **Do not let the perfect be the enemy of the good:** Recognize that without quality data, analytics projects will likely fail; at the same time, insisting on 100 percent data quality means a project will likely never begin. Data quality remains a challenge for all functions in analytics; it is valuable to leverage the data that does exist to start improving people-related decisions today.

## BOTTOM LINE

Over a decade ago, author Michael Lewis's book *Moneyball*<sup>7</sup> told the story of how people decisions in professional sports could be dramatically improved by using numbers and analysis, rather than on the basis of subjective opinion alone—a conclusion that has been widely accepted in business. In the 2014 Global Human Capital Trends survey, companies indicated that they understood the importance of building their HR and talent analytics capabilities, but also revealed significant gaps in their current readiness and capabilities. It can take three to five years to build a strong talent analytics function and the same length of time, or longer, to develop a mindset and culture in which people make decisions based on data and not just instinct. It is important to start laying the groundwork. In 2014, companies should take action to build HR and talent analytics capabilities, to seek out and conduct pilot projects focused on critical business and talent problems, and to invest in developing the analytics capabilities to drive the HR function going forward. Recognizing HR's reputation as a profession and function that shies away from numbers and data, it is critical to move from talk to action.



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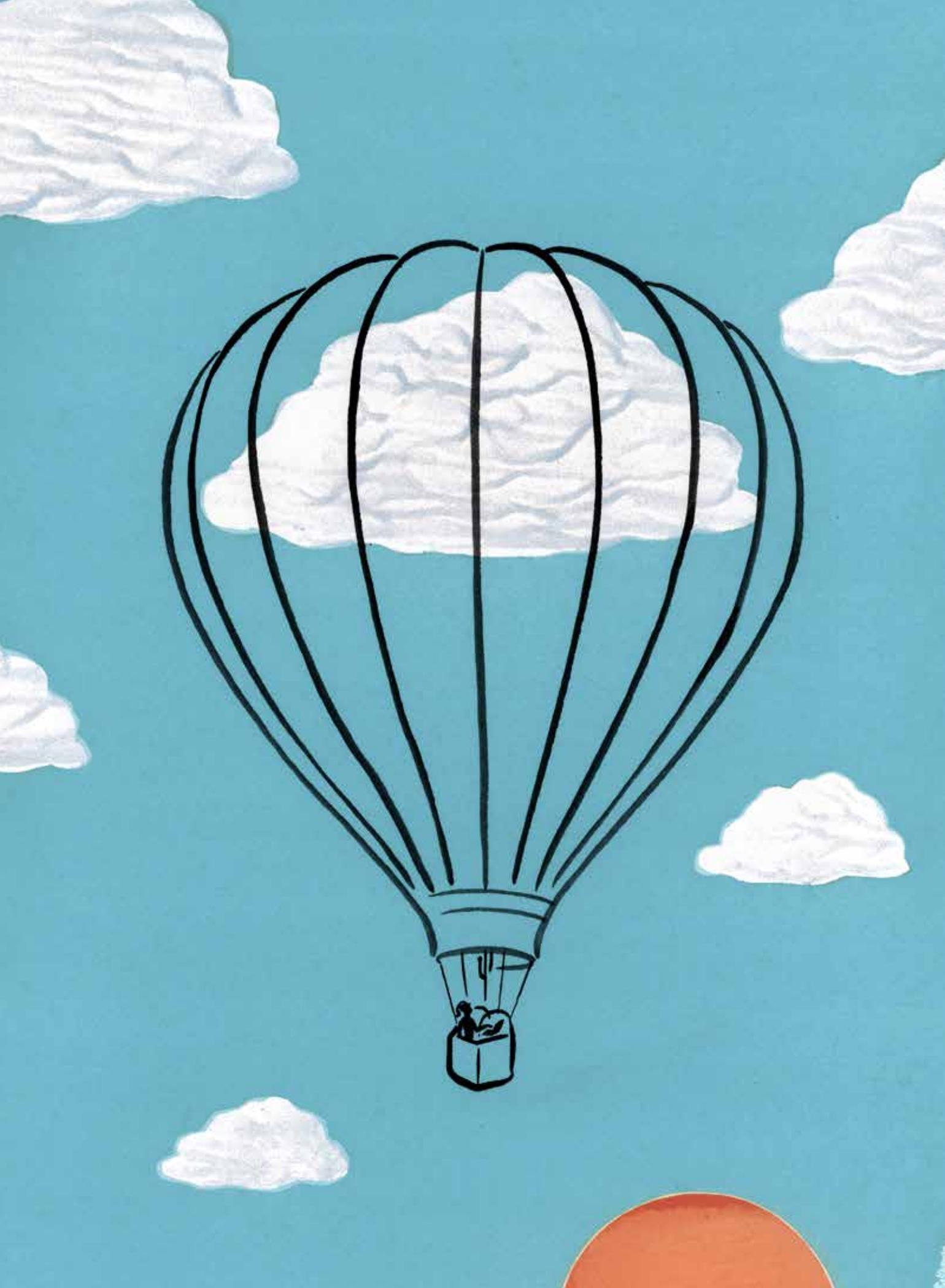
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# Race to the cloud

## Integrate talent, HR, and business technologies

- Companies are rapidly moving away from legacy systems to implement a new breed of highly integrated, cloud-based talent and HR systems.
- Two-thirds of our global survey respondents say that HR technologies are “urgent” or “important,” yet 56 percent report that their companies are either not considering updating their systems or have no definitive plans to do so.
- Companies that adopt cloud-based talent solutions ahead of their peers may gain an advantage in driving employee satisfaction, engagement, capability development, and performance—and generating data for the emerging wave of talent analytics.

**T**HE HR technology marketplace is one of the fastest-growing areas of business. The market for integrated talent management systems will reach nearly \$5 billion in 2014, and the market for human resources management systems (HRMS) is now over \$12 billion.<sup>1</sup>

Why the dynamic growth?

Today, perhaps for the first time in nearly 20 years, cloud computing has brought vendors together around a common set of technologies, making solutions more integrated, easier to use, and easier to deploy than ever. Organizations can select and implement a wide range of HRMS and talent management tools in record time, eliminating the need to build an enormous IT team to install, configure, and customize software.

Interestingly, however, given the size of the HR technology market, less than half of our global survey respondents said that they were in the process of updating their HR and talent systems, and over 56 percent of respondents reported they have no definitive plans or no plans in this area (figure 1).

Companies that update their HR and talent systems are using technology to change the organization, rather than making technology

the change in itself. Research suggests there are four key factors that determine success—or failure—for companies moving to cloud-based HR technology platforms: integration, ease of use, industrial strength, and implementation and support.<sup>2</sup>

### Shifting from legacy silos to a single integrated system

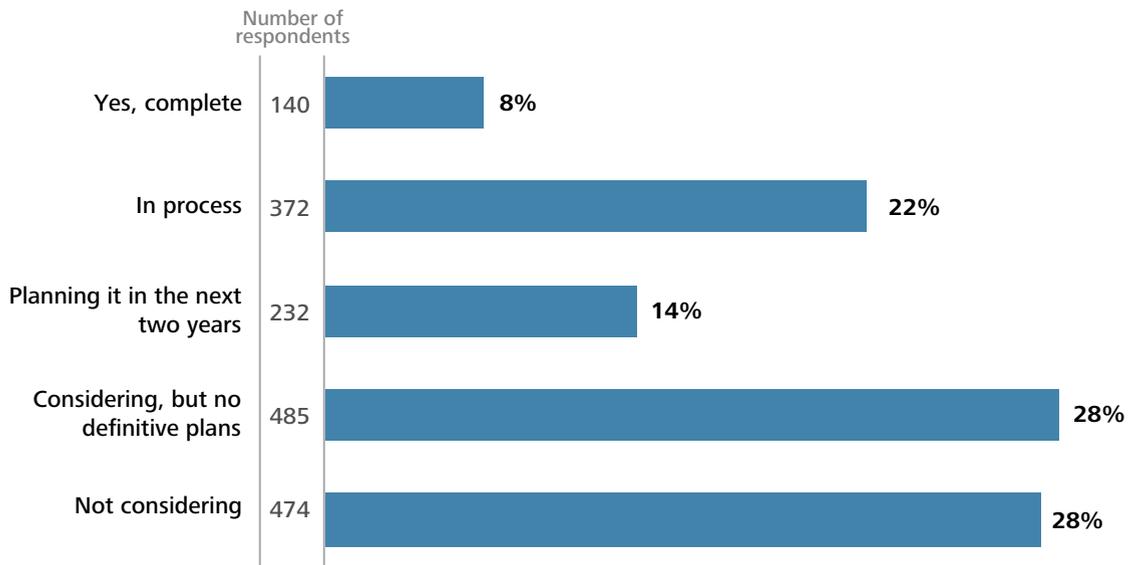
The average large company has seven HR systems of record.<sup>3</sup> These systems typically do not communicate well, if at all—a problem that has been frustrating HR and business leaders for years.

A 2012 global survey found that two-thirds of companies are willing to sacrifice technical features for a single-vendor or highly integrated solution.<sup>4</sup> Today, implementing integrated HR systems is increasingly within reach.

Most of the major ERP providers (Oracle, SAP, Workday, ADP, Infor, and NetSuite) are building highly integrated end-to-end HR, payroll, and talent management platforms. In 2014, these technology companies will likely focus heavily on incorporating analytics platforms, mobile interfaces, and better recruiting systems.

**Figure 1: Limited investment in HR and talent systems**

*“What are your plans to replace current HR technology with new integrated cloud-based systems?”*



Graphic: Deloitte University Press | DUPress.com

Companies across the world recognize the importance of implementing these kinds of systems, but almost all are unprepared to do so. With the exception of companies in just a few countries—for example, Switzerland—most are far behind in the race to replace legacy HR technologies with integrated cloud-based solutions (figure 2).

### Mobility drives ease of use and impact

The ultimate success of HR software is directly dependent on its adoption by users. Embracing mobile access is an essential feature of any easy-to-use technology platform. Organizations tell us that upwards of 40 percent of job applications now come via mobile devices.<sup>5</sup> Employees want mobile access for time and expense reporting, employee directory, knowledge sharing, and other HR applications.

Unfortunately, many employers are currently unable to provide such tools. A solid

majority (60 percent) of global survey respondents acknowledge that their organizations have not implemented HR technology that is “up to date, easy to use, and mobile-accessible” (figure 3).

HR applications benefit by having a mobile strategy, both to promote ease of use and increase business impact. Today’s HR software is not only a system of record; it is a “system of engagement.”<sup>6</sup> Employees and managers use these systems for everyday support, including collaboration, learning, goal setting, and expertise sharing. When companies roll these systems out, they are creating a new way of working for most of the organization.

## Today’s HR software is not only a system of record; it is a “system of engagement.”

### Providing industrial-strength implementation and support

HR technology is complex and offers thousands of features and applications.

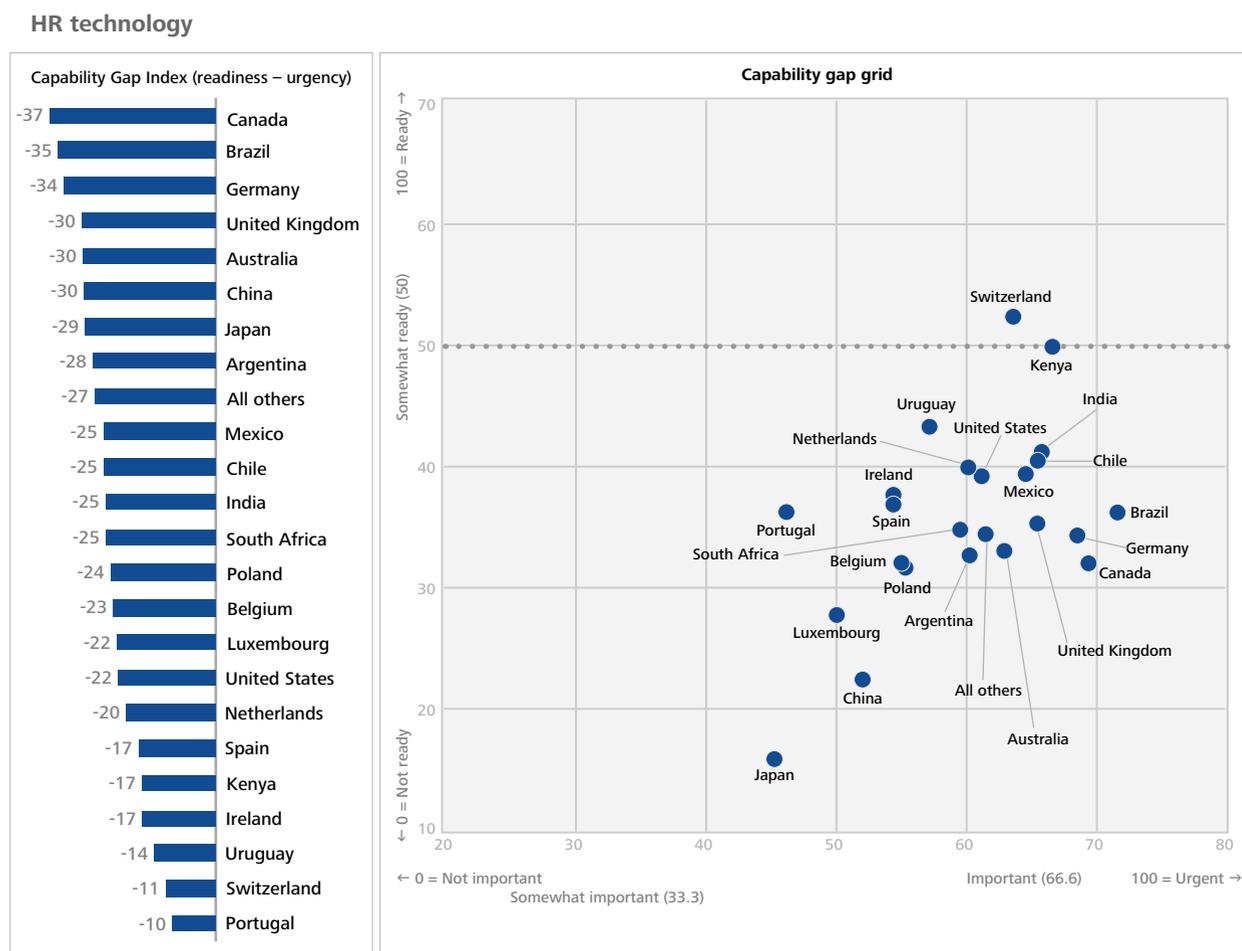
While the cloud has made system installation easier, companies still need a support team behind them. Vendors, for example, can now upgrade systems automatically every three to six months, rather than waiting for corporate IT departments to plan updates. Companies need a process to manage this change, along with processes for data quality and error

handling. Moreover, it is increasingly important to avoid costly customization.

## Data-driven decision making

HR systems now have “embedded analytics”—dashboards that instantly show rankings, ratings, and graphical views of people-related data in two-dimensional form. Therefore, an

**Figure 2. Readiness vs. urgency: Who is leading, who is lagging?**



Graphic: Deloitte University Press | DUPress.com

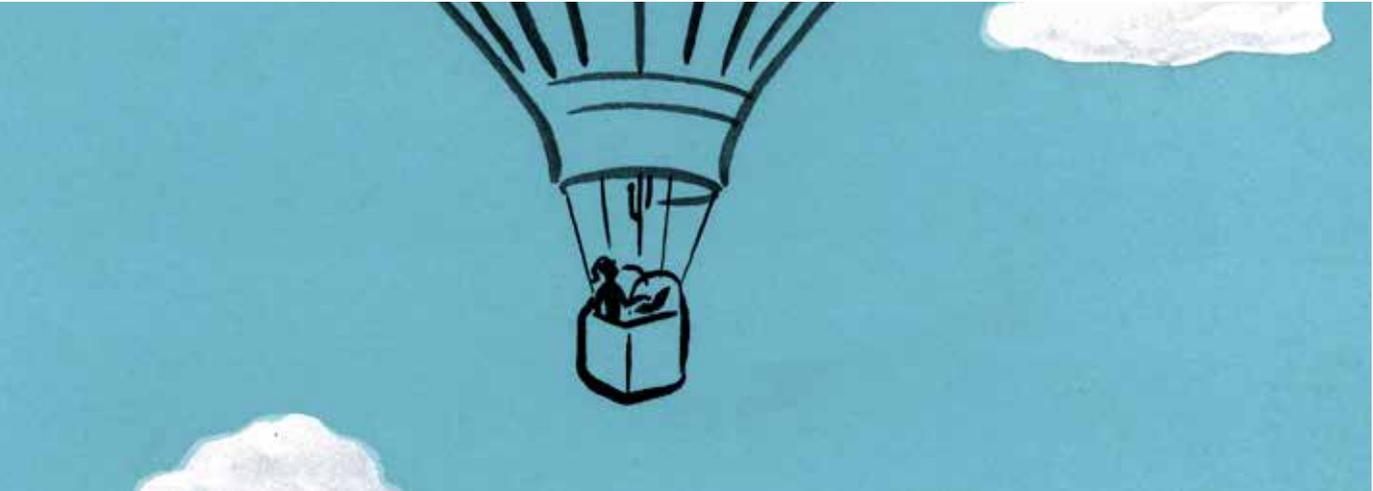
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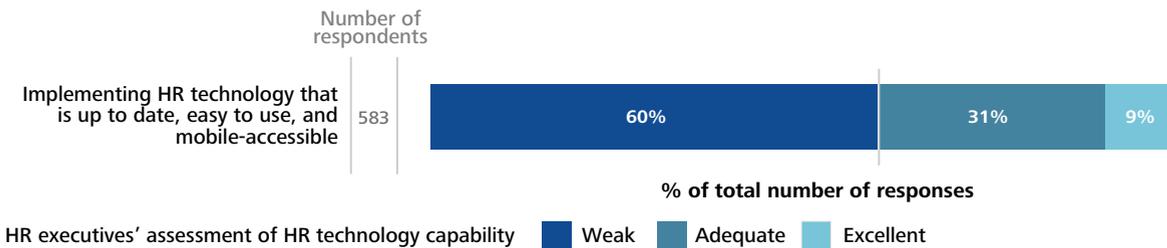
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**Figure 3. HR technology deployment not keeping up**



Graphic: Deloitte University Press | DUPress.com

important step in any new systems project is to define data standards and establish a data dictionary.<sup>7</sup> When these standards are established early, the results can be groundbreaking, providing companies with data to inform and drive decision making.

In addition to considering data issues during system implementation, companies should also train HR business partners and

line managers to use the new data made available to them. Companies should build simpler dashboards and graphical tools that make data easy to use and actionable. Line managers, for example, do not need to be trained analysts or statisticians, but they need to understand how to access data that can help them make better business decisions.

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## LESSONS FROM THE FRONT LINES

### Using the cloud to simplify data management

Seeking to replace redundant manual processes and manage its global workforce more efficiently, cosmetics and beauty products leader Elizabeth Arden decided to move its HR technology to the cloud. In 2011, the company selected long-time partner Oracle to deploy the Oracle Fusion HCM cloud-based solution.

The rollout was planned in phases. Since the company's non-US businesses were expected to grow faster than US operations and had significantly fewer capabilities to manage their workforce, Elizabeth Arden planned a phased deployment. Phase 1 of the program focused on its largest and most complex non-US markets—the United Kingdom and Switzerland. Phase 2 continued the program's global rollout to the remaining European and Asian countries. Phase 3 will focus on the United States.

The scope of the project was quite broad. It included implementing a global set of "good practice" HR processes and creating a single global source for employee data. Workforce reporting and analytics tools were also built into the system.

The solution streamlines core human capital and talent management functions such as performance, compensation, and employee objectives and goals. HR can now easily extract information and upload it to existing payroll systems, while an automated annual compensation process allows for more consistent and equitable compensation practices, at both the global and the local level. Employees can now enter and access their personal information easily, and managers enjoy faster, more consistent data management processes.<sup>8</sup>

Users describe the new system, MyHRDoor, as "employee-friendly" and "ready to use" while also providing more robust reporting and analytics capabilities for management. The end result is less paperwork, much simpler business processes, and more reporting at the user's fingertips. As a result of this move to the cloud, Elizabeth Arden has significantly improved its workforce reporting and analytics capabilities, enabling the company to dramatically raise its ability to manage a variety of HR responsibilities critical for today's global businesses—from increasing global mobility to more effective performance management and succession planning.

Equally important, the solution can constantly evolve to meet the company's changing needs. New Oracle upgrades can be uploaded easily every few months, delivering greater functionality with every new release. The process of applying upgrades to cloud solutions is significantly less time-consuming than for traditional ERP technology, and is a critical differentiator for cloud solutions.

For Elizabeth Arden, the ease of use, greater functionality, and sharply heightened analytics capability mean that its cloud-based solution reaches beyond technology and process improvement to serve as a catalyst for broader organizational and cultural change.

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## Where companies can start

If cloud-based talent solutions are so powerful, what is holding some companies back from adopting them? Mainly, it's coming to the realization that cloud solutions are now mature enough to make a real difference—and mustering the activation energy to get started. Potential starting points include:

- **Be prepared to sprint, but start with a plan:** Take advantage of the shorter time frames needed to implement cloud-based HR and talent technologies. Develop a game plan in which process improvement and data and analytics are priorities that guide the selection and implementation process.
- **Align with critical and emerging business goals and metrics:** Ensure that HR has a strong understanding of the organization's emerging and core business issues and key metrics and performance indicators to determine what HR-related data will be most useful in aligning and driving business performance.
- **Assign a joint HR/business/IT leadership team:** Create a team to promote active cooperation and interaction among HR specialists, as well as between business and HR, to ensure effective integration strategies, security, mobile access standards, and vendor selection.
- **Refresh the HR service delivery model:** Use the opportunity provided by the implementation of new technology to rethink how HR serves users, how it will support self-service technology, and how local business partners will leverage the system.
- **Promote broad adoption:** Bring together all stakeholders early to encourage widespread adoption of the system once it is rolled out. Make the system easy to use for both HR managers and employees.

## BOTTOM LINE

The race to the cloud presents an opportunity for HR transformation. A new cloud-based platform allows companies to consolidate legacy systems and dramatically improve decision making. These systems also help redefine the role of HR, set up a more scalable service delivery model, and improve the effectiveness of HR business partners. Today's integrated HR platforms are not just systems of record, but "systems of engagement." When adopted widely, these platforms enable dramatic improvements in productivity, capability development, collaboration, and data-driven decision making.



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# The global and local HR function

## Balance scale and agility

- Business and talent strategies should be global in scale and local in implementation. Effective programs recruit, train, and develop people locally.
- Global HR and talent management is the second most urgent and important trend for large companies around the world (those with 10,000 or more employees), according to our global survey.
- Companies face the challenge of developing an integrated global HR and talent operating model that allows for customizable local implementation, enabling them to capitalize on rapid business growth in emerging economies, tap into local skills, and optimize local talent strategies.

**G**LOBAL businesses should have a global HR function. At the same time, in order to compete successfully in diverse markets, companies should recruit, train, and manage people locally—reflecting local culture, local labor markets, and the needs of diverse local business units.

Creating global standards, platforms, and service centers addresses only part of the challenge. Leading companies are developing HR operating models that are flexible enough to allow for local implementation and agile enough to adapt to local markets and business needs. The ultimate goal: to combine scale and agility to optimize talent management in every market where the company does business.

### The global side of the equation

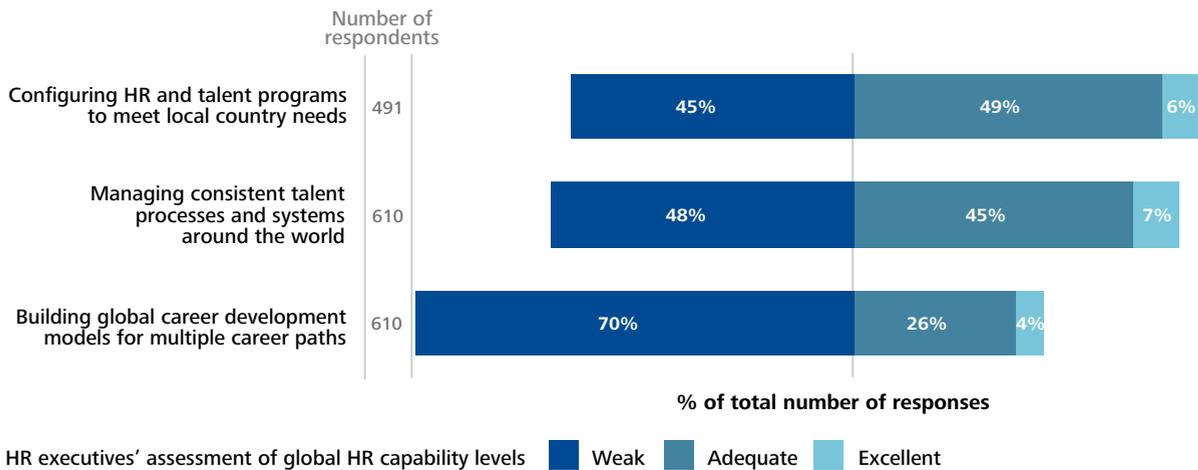
For many organizations, one of the key drivers of a globally integrated HR strategy is the need for talent mobility within the company. Leading companies often move talent from region to region to address key talent gaps.

Consider a business unit in California with a strong need for engineering skills. The company may have a team in Moscow with precisely the right skills that has just finished a similar project. Unless the company's talent practices are globally integrated, this match between business need and existing skills may never take place.

Companies operating on a global basis often offer high-potential employees global developmental assignments as one of their “tours of duty.” They also face the need to move specialists to global assignments rapidly. Globally integrated HR is critical to this process, but many companies do not have the systems in place to accomplish these increasingly common HR responsibilities.

In fact, when HR readiness was compared among more than 20 talent practices, the implementation of global mobility and career programs was among the lowest rated—more than 40 percent lower than the average for all other HR practices. More than two out of three executives (70 percent) rate their

**Figure 1. Building a new global HR operating model**



Graphic: Deloitte University Press | DUPress.com

company's ability to deliver on this need as "weak" (figure 1).

### Adapting global HR to local talent marketplaces

While businesses today operate in a pervasively global environment when it comes to customers, talent, and supply chains, each local labor market has vastly different dynamics. To balance strong global HR strategies and platforms, companies should build flexibility and agility into HR so it can be customized for local markets.

The talent markets in Asia, for example, are far different from those in Western Europe and North America. Critical skills are in short supply; top candidates change jobs every nine to twelve months; salaries are increasing nearly 10 percent annually. To adapt to these conditions, talent strategies should focus on recruiting, rapid talent mobility, onboarding, and accelerated leadership development.

Of course, these variances are not limited to Asia. Localized challenges drive demand for local talent solutions in every region where a company does business. Labor regulations, compensation expectations, workplace culture, and many other factors vary significantly among regions. While global consistency and

standards drive efficiency and scale, local flexibility powers growth and employee engagement. To achieve both, companies should move toward a new HR operating model.

When asked how well their companies are adapting HR and talent programs to local needs, executives were roughly split between "weak" and "adequate," while less than 10 percent rated themselves as "excellent" (figure 1).

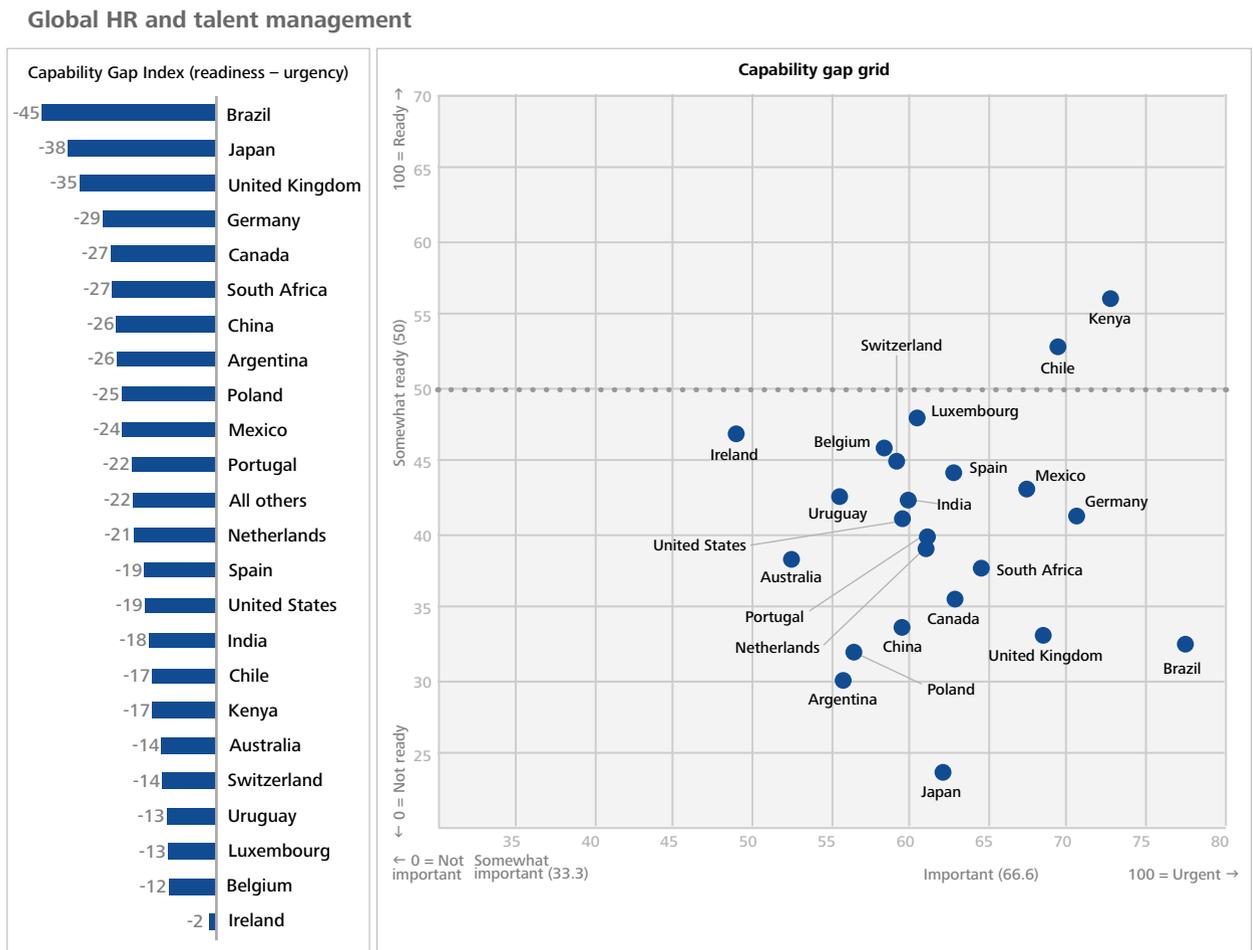
### Moving from globally rationalized to globally optimized

For the past decade, many companies have been implementing a shared services model for HR to reduce global costs and improve service delivery. In most large companies, this "rationalized" model delivers tremendous benefits. It saves money, increases service to managers and employees, and provides global scale.

But for companies trying to recruit and optimize their teams in disparate markets, this shared services model is neither robust enough nor flexible enough to address the widely differing challenges that come from operating in dozens of individual markets.

How can companies aggressively recruit and build leaders in fast-growing Asian markets? How should organizations reskill

**Figure 2. Readiness vs. urgency: Who is leading, who is lagging?**



Graphic: Deloitte University Press | DUPress.com

**The Human Capital Capability Gap Index**

The Deloitte Human Capital Capability Gap Index is a research-based index that shows HR’s relative capability gap in addressing a given talent or HR-related problem. It is computed by taking an organization’s self-rated “readiness” and subtracting its “urgency,” normalized to a 0–100 scale. For example, if an organization feels that an issue is 100 percent urgent and it also rates itself 100 percent capable and ready to address the issue, the capability gap would be zero. These gaps, which are almost always negative, can be compared against each other.

**The capability gap grid**

By plotting the gaps on a grid (with readiness on the vertical and urgency on the horizontal), we can see how capability gaps vary among different countries and industries.

- Capability gaps at the lower right part of the grid are those of high urgency and low readiness (areas that warrant major increases in investment).
- Capability gaps at the upper right part of the grid are highly urgent, but companies feel more able to perform in these areas (they warrant investment but are lower priority than those at the bottom right).
- Capability gaps on the left side of the grid are areas of lesser importance, and those lower in the grid are areas of less readiness.

and retain employees in Western Europe or the United States? What is the most effective strategy for developing talent in India? These and many other issues demand a balance of global standards that can be customized to fit local needs.

Addressing issues like these requires a shift from global rationalization to global

optimization. Yet our survey found that many companies are struggling to adapt, particularly organizations in Brazil, Japan, and the United Kingdom (figure 2).

To make progress in this area, companies should focus on implementing an integrated HR operating model that centralizes critical



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## LESSONS FROM THE FRONT LINES

### Driving business change through HR integration

In 2010, a large financial services company began a business transformation that included significant investments to modernize the firm's service infrastructure. This included the modernization of human resources policies, programs, and infrastructure to support new compensation and talent management programs, the development of global centers of excellence, regional shared services, and the implementation of global HR platforms—all aligned to support a globally integrated operating model with the flexibility to adapt to local needs.

This task was made more complex by the organization's history of acquisitions and decentralized operations. As a result, HR had operations in over 90 countries and more than 200 HR and payroll systems. This decentralized operating structure made it difficult to meet the growing need for global HR data and processes for managing talent, performance, and compensation. The result was duplication of effort, high costs, HR service quality problems, and inadequate data for both HR and business-unit managers.

To lead the transformation of HR, the organization hired leaders and staff from the outside with experience doing similar projects for other large global companies. The program was ambitious. During the initial phase, an intense, thorough review of all HR systems confirmed the presence of a wide variety of unintegrated technological solutions and an unusually high-touch, local HR service delivery model—even by the standards of its industry. Based on this review, the company developed a design for a standard global HR operating platform supported by regional shared service centers.

A senior team of project managers focused on both global and local priorities—including designing new HR processes at both levels, building regional HR shared services centers, implementing global HR systems, and redesigning the operating model with a global emphasis. Larger countries participate fully in the new "targeted operating model," which includes shared services. Smaller countries use an "express" version supported by a more locally delivered Workday solution.

With this global model in place, the initial phase of implementation focused on compliance, access to global HR data, platform rationalization, and associated cost reduction.

The company decided to launch its new model in Asia because its US operations already had shared services in place and a relatively standard, though old, operating platform. A new shared services center in Asia was followed by deployments in other regions, including a region comprising the Middle East, Africa, and Eastern Europe, and then a further rollout in Latin America.

In tandem with its global emphasis, the model also accounted for the critical importance of the local layer. The initial design phase included workshops on regional and, in several cases, country-specific requirements. Proposals for regional or local adaptations were referred back to the global HR organization for a thorough vetting process.

Simultaneously, a second aspect of the project's global-local dynamic emerged as a key driver of success. In response to the perception that the effort was a US-driven global program, the project team shifted considerable responsibility and authority to regional HR transformation teams, while at the same time setting ground rules to retain the integrity of the new operating model. Making this change improved decision-making speed while also improving the perception and reality that regional and local HR teams were involved in the transformation.

The results have been impressive. To date, the transformation has consolidated over 70 legacy systems, reduced HR administrative work by 30 percent, improved compliance, and allowed HR services to more fully support the global alignment of the company's businesses.

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core areas and empowers local HR teams to customize programs for local needs.

## A high-impact global HR operating model

Our global survey shows that 81 percent of large organizations (10,000 employees or more) report that implementing an HR global operating model is “urgent” or “important” today. This urgent need aligns with our research into ways to create a high-impact HR operating model that combines global

integration with local optimization. Key features of this model include:

- Implementing a global technology platform that provides common HR standards, frameworks, and tools
- Empowering local teams to innovate and to customize corporate programs
- Defining HR success not simply in terms of cost-cutting, but by HR’s ability to drive business performance and growth

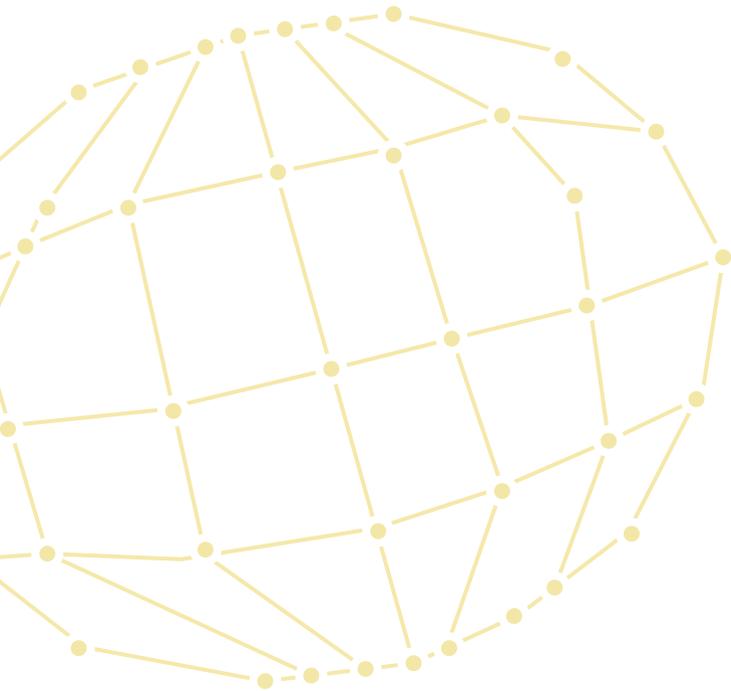
## Where companies can start

**A** GLOBALLY integrated, locally customized talent and HR strategy demands a combination of centralized, global standards and services coupled with distributed, highly trained experts. Our research suggests a clear set of starting points:

- **Leverage global technology:** Implement a common global technology platform to support the global HR organization and offer easy-to-use self-service capabilities to managers and employees.
- **Rationalize core global services:** Establish a core set of services for HR administration and talent communities of expertise. Encourage communities of expertise to learn from local business partners to determine leading practices in the field.
- **Encourage country initiatives within global processes:** Once global processes, roles, and expectations are created, expand the team to include communities of expertise and let local HR leaders create, customize, and deliver local programs. They can leverage the corporate infrastructure and standards to optimize talent strategies and HR programs in each business and geography, driving impact at the country level.
- **Create deep specialists:** Reduce the need for HR generalists and move them into the role of HR specialists, focused on recruiting, organizational development, employee relations, and compensation. These specialists can be located in or assigned to the business, but they should operate as a “network of expertise,” sharing skills with each other.
- **Build HR “skill masters”:** Invest in training, certifying, and developing the HR team to ensure that each member knows how to use all tools and data and feels connected to the larger community of leading practices and new ideas in the marketplace. Deep expertise belongs in HR no less than in other functions.

## BOTTOM LINE

Global integration and local optimization are twin goals attainable through global technology platforms and proper role and process definition. Global consistency and standards ensure efficiency and scale; local flexibility drives agility, growth, and employee engagement. Both are necessary to develop an HR organization that is globally “fit for purpose.”



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