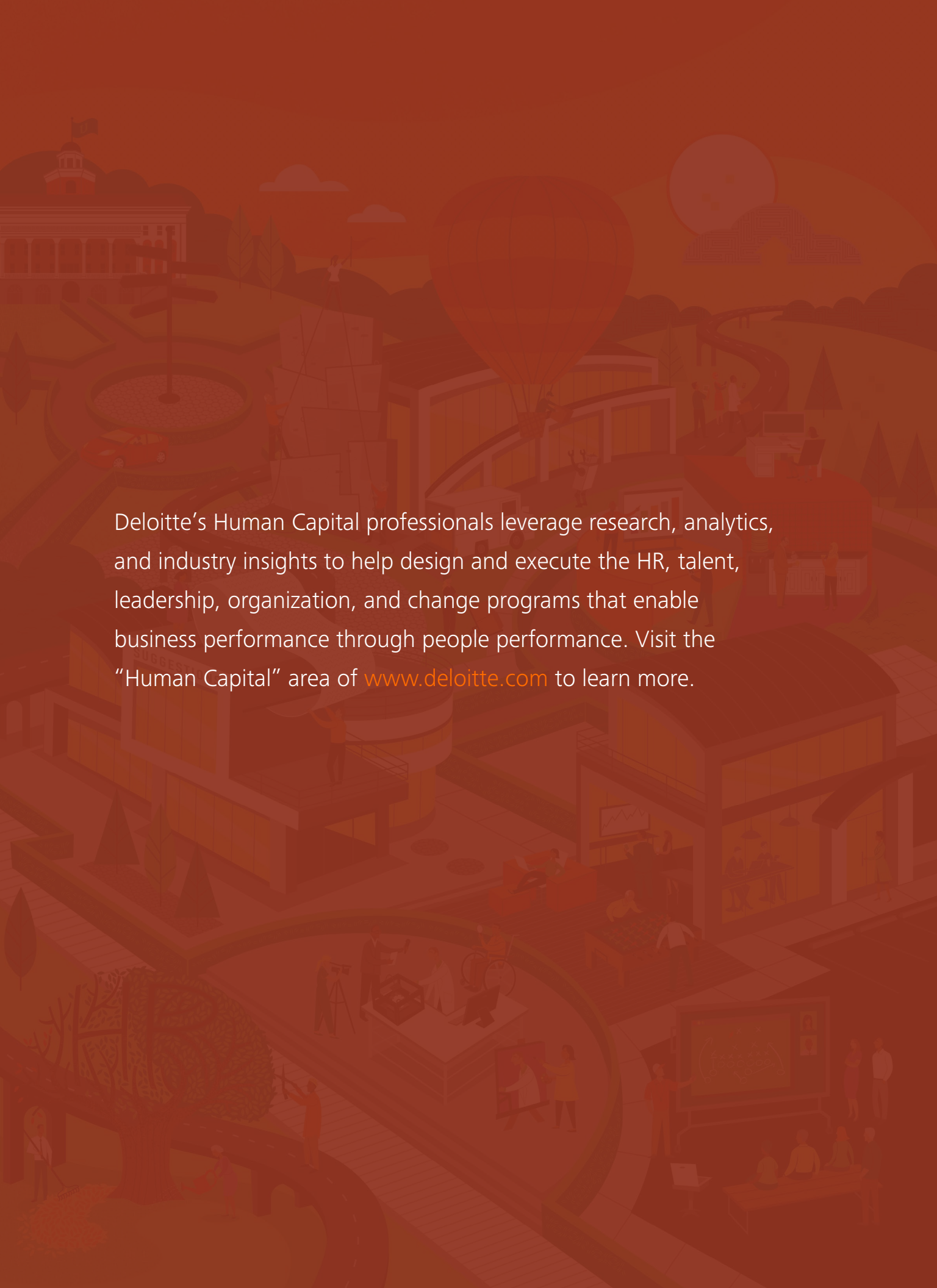


Global Human Capital Trends 2016

The new organization: Different by design





Deloitte's Human Capital professionals leverage research, analytics, and industry insights to help design and execute the HR, talent, leadership, organization, and change programs that enable business performance through people performance. Visit the "Human Capital" area of www.deloitte.com to learn more.

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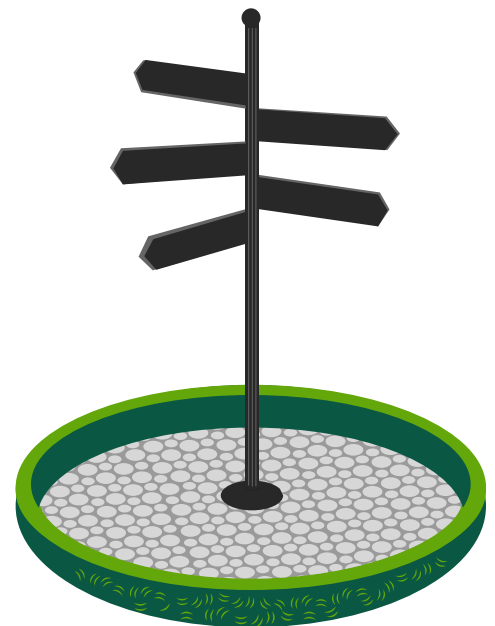
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The new organization

Different by design

Sweeping global forces are reshaping the workplace, the workforce, and work itself. To help organizations and their leaders understand these changes, Deloitte presents the 2016 *Global Human Capital Trends* report, based on more than 7,000 responses to our survey in over 130 countries around the world.

THE theme of this year's report—"The new organization: Different by design"—reflects a major finding: After three years of struggling to drive employee engagement and retention, improve leadership, and build a meaningful culture, executives see a need to redesign the organization itself, with 92 percent of survey participants rating this as a critical priority. The "new organization," as we call it, is built around highly empowered teams, driven by a new model of management, and led by a breed of younger, more globally diverse leaders.

To lead this shift toward the new organization, CEOs and HR leaders are focused on understanding and creating a shared culture, designing a work environment that engages people, and constructing a new model of leadership and career development. In competition for skilled people, organizations are vying for top talent in a highly transparent job market and becoming laser-focused on their external employment brand. Executives are embracing digital technologies to reinvent the workplace, focusing on diversity and inclusion as a business strategy, and realizing that, without a strong learning culture, they will not succeed.

Amidst these changes, the HR function is taking on a new role as the steward and designer of these new people processes. The mission of the HR leader is evolving from that of "chief talent executive" to "chief employee experience officer." HR is being asked to simplify its processes, help employees manage the flood of information at work, and build a culture of collaboration, empowerment, and innovation. This means

After three years of struggling to drive employee engagement and retention, improve leadership, and build a meaningful culture, executives see a need to redesign the organization.

that HR is redesigning almost everything it does—from recruiting to performance management to onboarding to rewards systems. To do this, our research suggests that HR must upgrade its skills to include the areas of design thinking, people analytics, and behavioral economics.



The forces of global change

What are the forces driving this demand to reorganize and redesign institutions around the world? We see a series of drivers coming together to create disruptive change in the talent landscape:

First, *demographic upheavals* have made the workforce both younger and older, as well as more diverse. Millennials now make up more than half the workforce, and they bring high expectations for a rewarding, purposeful work experience, constant learning and development opportunities, and dynamic career progression. At the same time, Baby Boomers working into their 70s and 80s are being challenged to adapt to new roles as mentors, coaches, and often subordinates to junior colleagues. Also, the global nature of business has made the workforce more diverse, demanding a focus on inclusion and shared beliefs to tie people together.

Second, *digital technology is now everywhere*, disrupting business models and radically changing the workplace and the way work is done. Technologies such as mobile devices, 3D printing, sensors, cognitive computing, and the Internet of Things are changing the way companies design, manufacture, and deliver almost every product and service, while digital disruption and social networking have changed the way organizations hire, manage, and support people. Innovative companies are figuring out how to simplify and improve the work experience by applying the disciplines of design thinking and behavioral economics, embracing a new approach that we call “digital HR.”

Third, the *rate of change* has accelerated. Fifty years of operating under Moore’s Law—the axiom that computing power doubles every

We see a series of drivers coming together to create disruptive change in the talent landscape.

two years—have not only propelled technology innovation forward but also significantly increased the pace of change in business as a whole, requiring organizations to be more agile. Rapid business-model innovation from companies such as Uber and Airbnb is forcing organizations to respond and reposition themselves quickly to meet new challenges. In our highly connected, fast-changing world, “black swan” events (those of low probability and high impact) also seem to be more significant, reinforcing the need for agility.

Fourth, a *new social contract* is developing between companies and workers, driving major changes in the employer-employee relationship. The days when a majority of workers could expect to spend a career moving up the ladder at one company are over. Young people anticipate working for many employers and demand an enriching experience at every stage. This leads to expectations for rapid career growth, a compelling and flexible workplace, and a sense of mission and purpose at work. Today, contingent, contract, and part-time workers make up almost one-third of the workforce,¹ yet many companies lack the HR practices, culture, or leadership support to manage this new workforce.

Our global research

Now in its fourth year, Deloitte’s 2016 *Global Human Capital Trends* report is one of the largest longitudinal studies of talent, leadership, and HR challenges and readiness around the world. The research described in this report involved surveys and interviews with more than 7,000 business and HR leaders from 130 countries. (See the appendix to this chapter for details on survey demographics.)

Figure 1. The 2016 *Global Human Capital Trends* research identified 10 important trends



Graphic: Deloitte University Press | DUPress.com

The survey asked business and HR respondents to assess the importance of specific talent challenges facing their organization.

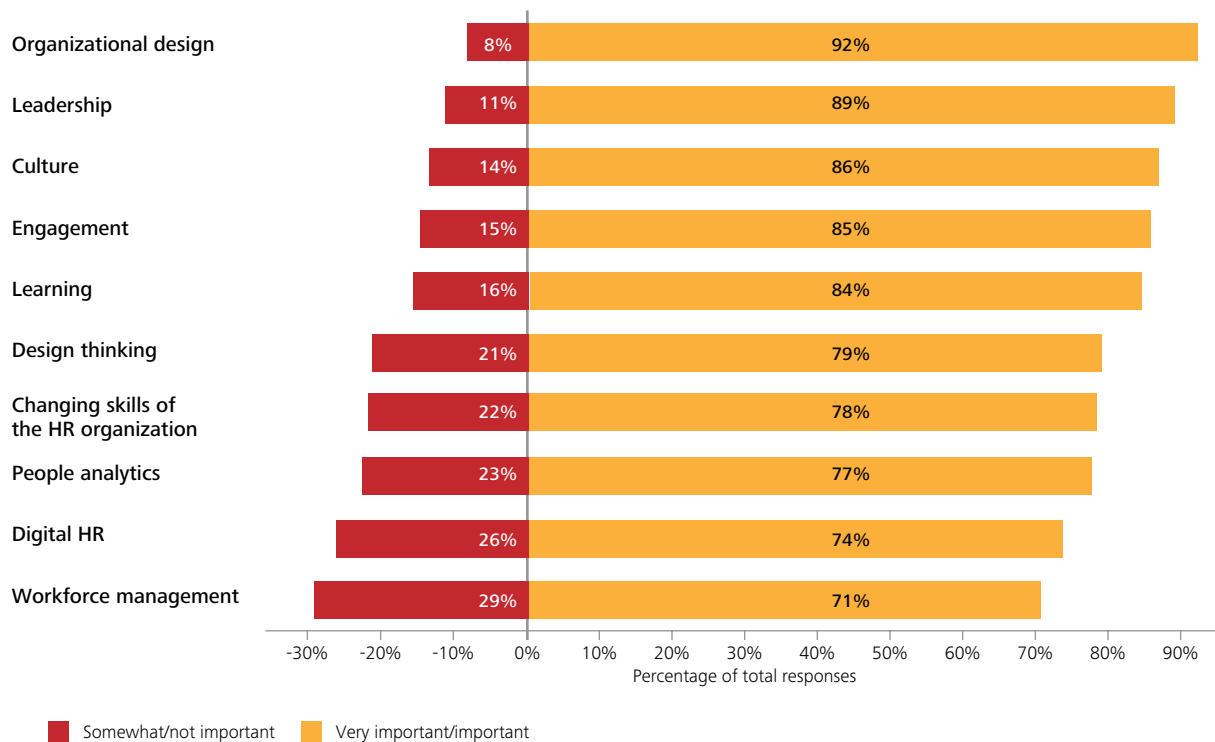
The top 10 human capital trends for 2016

In 2016, organizational design rocketed to the top of the agenda among senior executives and HR leaders worldwide, with 92 percent rating it a key priority. Perennial issues such as leadership, learning, and HR skills continue to rank high in importance, as they have in each of the four years of this annual study. Yet this year, a key shift is under way, as corporate leaders turn a more focused eye toward adapting their organization's design to

compete successfully in today's highly challenging business environment and competitive talent market.

Culture and engagement are also a major concern for the C-suite. This reflects, in part, the rise of social networking tools and apps that leave companies more transparent than ever, whether they like it or not. Top executives increasingly recognize the need for a conscious strategy to shape their corporate culture, rather than having it defined for them through Glassdoor or Facebook.

Figure 2 presents this year's trends ranked in order of their importance as rated by survey respondents.

Figure 2. The 10 trends ranked in order of importance

Graphic: Deloitte University Press | DUPress.com

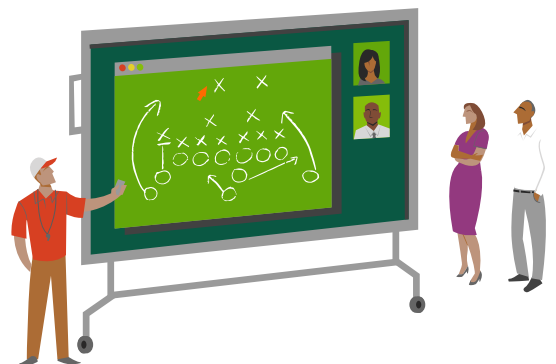
Organizational design: The rise of teams

As companies strive to become more agile and customer-focused, organizations are shifting their structures from traditional, functional models toward interconnected, flexible teams. More than nine out of ten executives surveyed (92 percent) rate organizational design as a top priority, and nearly half (45 percent) report their companies are either in the middle of a restructuring (39 percent) or planning one (6 percent).

A new organizational model is on the rise: a “network of teams” in which companies build and empower teams to work on specific business projects and challenges. These networks are aligned and coordinated with operations and information centers similar to command centers in the military. Indeed, in some ways, businesses are becoming more like Hollywood

movie production teams and less like traditional corporations, with people coming together to tackle projects, then disbanding and moving on to new assignments once the project is complete.

This new structure has sweeping implications, forcing programs such as leadership development, performance management,



learning, and career progression to adapt. Challenges still remain: Only 14 percent of executives believe their companies are ready to effectively redesign their organizations; just 21 percent feel expert at building cross-functional teams, and only 12 percent understand the way their people work together in networks.

Leadership awakened: Generations, teams, science

Fully 89 percent of executives in this year's survey rated the need to strengthen, reengineer, and improve organizational leadership as an important priority. The traditional pyramid-shaped leadership development model is simply not producing leaders fast enough to keep up with the demands of business and the pace of change.

More than half of surveyed executives (56 percent) report their companies are not ready to meet leadership needs. Only 7 percent state

that their companies have accelerated leadership programs for Millennials, although 44 percent report making progress—a jump from 33 percent last year. While investment in leadership development has grown by 10 percent since 2015, progress has been uneven. In fact, more than one in five companies (21 percent) have no leadership programs at all.²

Our findings suggest that organizations need to raise the bar in terms of rigor, evidence, and more structured and scientific approaches to identifying, assessing, and developing leaders, and that this process needs to start earlier in leaders' careers. This is likely to also involve teaching senior leaders to take on new roles to make way for younger leaders.

Shape culture: Drive strategy

Last year, “culture and engagement” ranked as the most important issue overall. This year, we asked executives about culture

Figure 3. The relationship between culture and engagement



Graphic: Deloitte University Press | DUPress.com

and engagement separately—and both placed near the top of the importance list, with 86 percent citing culture as an important or very important issue.

Why the separate rankings? Both are critical human capital issues today, and each requires a CEO-level commitment and strong support from HR if they are to be understood, measured, and improved. However, they are different concepts and need a different focus and set of solutions. Culture describes “the way things work around here,” while engagement describes “how people feel about the way things work around here.”

That said, culture and engagement are also linked. When a company’s culture is aligned with its values, it attracts those who feel comfortable in that culture, which in turn helps companies to motivate people, leading to a

(85 percent) ranked engagement as a top priority (that is, important or very important).

Building a compelling and meaningful work environment is a complex process.³ At the same time, the world of employee engagement and feedback is exploding. Annual engagement surveys are being replaced by “employee listening” tools such as pulse surveys, anonymous social tools, and regular feedback check-ins by managers. All these new approaches and tools have given rise to the “employee listening” officer, an important new role for HR.

In terms of readiness, companies are making progress. The percentage of executives who believe their organizations are “very ready” to deal with engagement issues increased from 10 percent in 2015 to 12 percent in 2016, while those who feel they are “fully ready” rose from 31 percent to 34 percent. These are hope-

ful signs, but even with this increase, only 46 percent of companies report that they are prepared to tackle the engagement challenge.

Culture describes “the way things work around here,” while engagement describes “how people feel about the way things work around here.”

high level of engagement (see figure 3).

In this year’s survey, the percentage of executives who believe their companies are driving the “right culture” rose from 10 percent to 12 percent—a small sign of progress. Yet fewer than one in three executives (28 percent) report that they understand their organization’s culture.

Engagement: Always on

Employee engagement is a headline issue throughout business and HR. An overwhelming majority of executives in this year’s survey

Learning: Employees take charge

This year, 84 percent of executives rated learning as important or very important. This focus on learning seems appropriate, as learning opportunities are among the largest drivers of employee engagement and strong workplace culture—they are part of the entire employee value proposition, not merely a way to build skills.

Compared to last year, companies appear to be making strides in adopting new technologies and embracing new learning models. The percentage of companies that feel comfortable incorporating massive open online courses (MOOCs) into their learning platforms rose to 43 percent from 30 percent last year, while the percentage who said the same about advanced video tripled from 5 percent to 15 percent.

These gains signal increasing recognition among executives and HR leaders that learning

must adapt to a world where employees demand continuous learning opportunities through innovative platforms tailored to their individual schedules. A new type of employee learning is emerging that is more “consumer-like” and that brings together design thinking, content curation, and an integrated model offering an end-to-end designed learning experience. However, companies still face tremendous challenges in realizing this vision. Even as spending on learning rose 10 percent last year (to over \$140 billion),⁴ only 37 percent of companies believe their programs are effective, and only 30 percent believe corporate learning is the center of learning today.⁵

Design thinking: Crafting the employee experience

Design thinking is emerging as a major new trend in HR. *Global Human Capital Trends* highlighted the first inklings of this issue two years ago when we identified the “**overwhelmed employee**” as a significant talent concern, with employees struggling to deal with a flood of emails and information, grappling with demanding work assignments and being on 24/7. Last year’s *Global Human Capital Trends* report identified HR’s attempts to “**simplify**” the work environment as a response to the overwhelmed employee situation.

Now, innovative HR organizations are taking their efforts a step further by incorporating design thinking into their approach to managing, supporting, and training people. Instead of building “programs” and “processes,” leading HR organizations are studying people to help develop interventions, apps, and tools that help make employees less stressed and more productive.

In this year’s survey, 79 percent of executives rank design thinking as a high priority when it comes to meeting talent challenges. While only 12 percent of respondents overall believe that design thinking is prevalent in their current talent programs, 50 percent of those executives who rate their talent programs as excellent state that they apply design thinking well, and self-identified high-performing companies are three to four times more likely than their competitors to be applying design thinking to their people practices. Clearly, design thinking is emerging as a best practice for leading companies and innovative HR organizations.



HR: Growing momentum toward a new mandate

Many HR organizations appear to be “getting it” when it comes to upgrading the skills, capabilities, and experience of their teams. Compared to last year, the percentage of executives who rank HR skills as a top priority fell slightly. More than two-thirds of executives in this year’s survey (68 percent) report their companies have solid development programs for HR professionals, and 60 percent believe they are holding HR accountable for talent and business results—both a higher proportion than a year ago.

Best of all, HR organizations’ scorecard shows a marked and steady improvement. Four out of ten executives report their companies are ready to address the skills gaps in HR—an increase of 30 percent over 2015. And the percentage of executives who rate their HR organizations as “good or excellent” in delivering business-relevant talent solutions increased as well.

For the first time in the four years of the *Global Human Capital Trends* report, there are

real signs of change and progress: HR teams are learning to experiment with new ideas; they are making significant steps to upgrade skills; and a new generation of younger, more business-savvy and technology-empowered people is entering the profession.

People analytics: Gaining speed

As technology makes data-driven HR decision making a possibility, 77 percent of executives now rate people analytics as a key priority, up slightly from last year. In response, companies are building people analytics teams, rapidly replacing legacy systems, and combining separate analytics groups within HR into one strategic function. In 2016, 51 percent of companies are now correlating business impact to HR programs, up from 38 percent in 2015. Forty-four percent are now using workforce data to predict business performance, up from 29 percent last year.

One of the biggest new trends in people analytics is also starting to accelerate: leveraging external data—such as data from social networking platforms, employment brand data, data on hiring patterns, and external turnover and demographic data—to predict workforce trends and target top talent. Today, 29 percent of companies believe they are performing well in this area, and 8 percent rate themselves excellent.

A variety of new tools and data sources have entered this domain. Employee feedback and engagement systems, real-time narrative analysis, and off-the-shelf predictive models from almost every talent management vendor are now available.

Companies are entering a “golden age” of people analytics—and progress could accelerate.



Companies are entering a “golden age” of people analytics—and progress could accelerate.

Digital HR: Revolution, not evolution

The all-digital world is changing how we live and work, creating two major challenges. First, how will HR help business leaders and employees shift to a “digital mind-set”—a digital way of managing, organizing, and leading change? Second, how will HR itself revolutionize HR processes, systems, and organizations to adopt new digital platforms, apps, and ways of delivering HR services?

This year’s chapter on digital HR focuses on the second part of the challenge: how to reimagine HR and the employee experience in a digital world. Innovative HR organizations are integrating mobile and cloud technologies to build an app-based set of services designed to incorporate HR programs into an employee’s daily life. More than simply replacing old HR systems, digital HR means creating an entire platform of services built around ease of use. By bringing together design thinking and mobile technology, companies can now develop their own custom apps to make work easier, more productive, and more enjoyable.

This year, 74 percent of executives identified digital HR as a top priority, and it will likely be a major focus in 2016. The trend is moving rapidly: 42 percent of companies are adapting their existing HR systems for mobile, device-delivered, just-in-time learning; 59 percent are developing mobile apps that integrate back-office systems for ease of use by employees; and 51 percent are leveraging external social networks in their own internal apps for recruitment and employee profile management.

The gig economy: Distraction or disruption?

When it comes to meeting heightened talent needs, top HR organizations must increasingly learn to integrate and leverage the part-time and contingent workforce. More than seven out of ten executives and HR leaders (71 percent) ranked the trend as important or very important.

Operating effectively in the gig economy poses a number of questions. How can companies best use and schedule external staff to improve the productivity of their own workers and increase profitability? How can companies leverage contingent workers to access some of the most talented and highly skilled people in the workforce?

Many companies are struggling with the challenge. Only 19 percent of executives surveyed believe their companies fully understand the labor laws that govern contingent workers, and only 11 percent have complete management processes for the contingent part of the workforce. This

suggests that companies need to take a more deliberate approach as the size and scope of the contingent workforce continues to grow in the coming years. Workforce management will also have to address the tremendous growth in cognitive computing and other smart technologies that are likely to eliminate jobs, create new jobs, change the nature of work, and disrupt the workforce.

A year of change and disruption

Taken together, the 2016 *Global Human Capital Trends* report sketches out a vast and varied series of changes and challenges. As the pace of change accelerates, business and HR leaders who move aggressively to address these trends will likely gain an advantage over their competitors and find themselves on the winning side in the global competition for talent.



Appendix

SELECTED data from this year's survey can be viewed by geography, company size, and industry using an interactive tool, the Human Capital Trends Dashboard. This tool, available at <http://www.deloitte.com/hcdashboard>, lets you explore the data visually to see how talent priorities vary around the world.

This year's survey results showed remarkable consistency across geographies.

Figure 4. Importance of challenges in different regions

Region	AMERICAS		EUROPE, MIDDLE EAST, & AFRICA					ASIA PACIFIC		
	North America	Latin & South America	Nordic countries	Western Europe	Central and Eastern Europe	Middle East	Africa	Asia	Oceania	Southeast Asia
Organizational design	90	92	87	92	88	93	95	95	88	91
Leadership	87	89	89	87	89	87	90	90	93	97
Culture	87	86	87	84	86	90	87	89	93	90
Engagement	86	85	79	85	84	80	86	86	91	92
Learning	79	87	75	81	83	89	87	88	80	91
Design thinking	70	80	71	75	78	83	85	85	81	84
Changing skills of the HR organization	73	78	67	76	81	73	86	80	78	87
People analytics	78	77	76	72	78	76	80	81	83	85
Digital HR	69	71	74	73	74	74	79	74	77	83
Workforce management	67	74	63	65	74	67	73	72	81	80

Higher percentages  Lower percentages

Graphic: Deloitte University Press | DUPress.com

Note: Figures represent the percentage of respondents who rated each issue "important" or "very important."

As with global regions, survey results were also similar across different industries, suggesting broad agreement on key trend priorities.

Figure 5. Importance of challenges in different industries

Industry	Consumer business	Energy & resources	Financial services	Life sciences & health care	Manufacturing	Professional services	Public sector	Technology, media, & telecommunications
Organizational design	93	92	93	92	94	91	87	92
Leadership	88	86	91	89	92	90	85	88
Culture	89	83	89	88	86	86	80	85
Engagement	86	82	87	87	88	85	83	85
Learning	83	81	86	84	83	86	83	83
Design thinking	77	75	81	79	79	82	74	83
Changing skills of the HR organization	81	79	81	83	80	71	74	76
People analytics	79	77	80	80	76	74	73	78
Digital HR	73	72	76	75	68	72	73	78
Workforce management	69	73	65	68	73	71	74	69

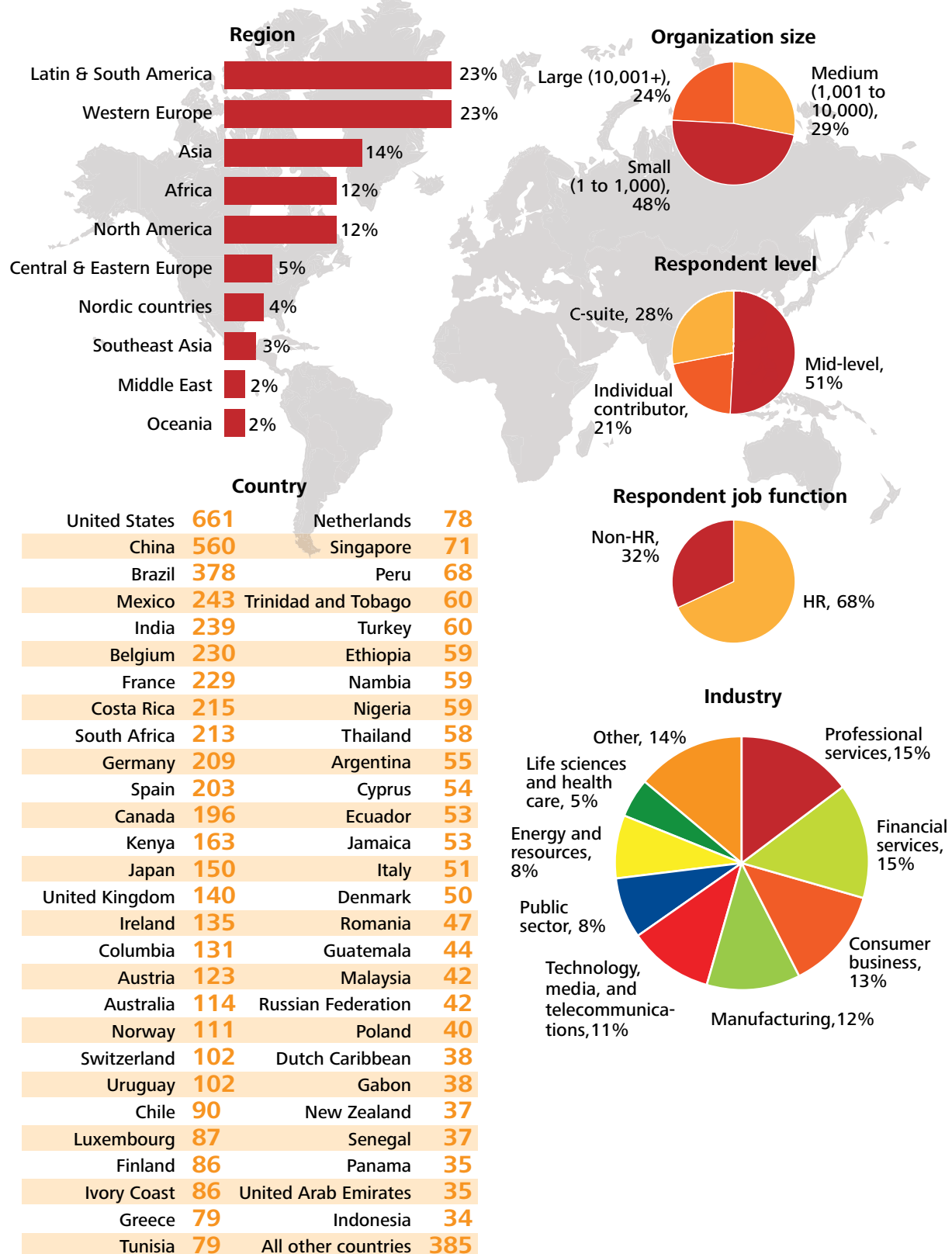
Higher percentages  Lower percentages

Graphic: Deloitte University Press | DUPress.com

Note: Figures represent the percentage of respondents who rated each issue “important” or “very important.”

Figure 6. Survey demographics

Our survey includes data from 7,096 business and HR leaders.



Figures may not total 100 percent due to rounding.

Source: Data from Human Capital Trends 2016 survey.

Graphic: Deloitte University Press | DUPress.com

Endnotes

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Organizational design

The rise of teams

Fast-moving global markets and digital disruption have forced companies to innovate rapidly, adapt their products and services, and stay closer than ever to local customers. This has prompted a resurgence of interest in business organization. Our findings in this area are startling: 92 percent of companies believe that redesigning the organization is very important or important, making it No. 1 in ranked importance among this year's respondents. Companies are decentralizing authority, moving toward product- and customer-centric organizations, and forming dynamic networks of highly empowered teams that communicate and coordinate activities in unique and powerful ways.

- Many companies have already moved away from functional structures: Only 38 percent of all companies and 24 percent of large companies (>50,000 employees) are functionally organized today.
- The growth of the Millennial demographic, the diversity of global teams, and the need to innovate and work more closely with customers are driving a new organizational flexibility among high-performing companies. They are operating as a network of teams alongside traditional structures, with people moving from team to team rather than remaining in static formal configurations.
- Over 80 percent of respondents to this year's global survey report that they are either currently restructuring their organization or have recently completed the process. Only 7 percent say they have no plans to restructure.

IN his book *Team of Teams*, General Stanley McChrystal describes how the US military's hierarchical command and control structure hindered operational success during the early stages of the Iraq war.¹ After watching Al-Qaeda disrupt his army and win battles, McChrystal's solution was dramatic: Decentralize authority to highly trained and empowered teams and develop a real-time information and operations group to centralize information and provide all teams with real-time, accurate data about war activities everywhere.

McChrystal did not change the formal structure of the military. Rather, he created a new structure that allowed for dynamism and flexibility within the overall organizational structure. This new structure enabled officers to quickly move from their administrative positions to mission-oriented projects for a set purpose, knowing that they would once again have a home to return to within the larger organizational structure after the mission was completed.

This new mode of organization—a “network of teams” with a high degree of

empowerment, strong communication, and rapid information flow—is now sweeping businesses and governments around the world. It is built on several fundamental principles:

- Move people into customer-, product-, or market- and mission-focused teams, led by team leaders who are experts in their domain (not “professional managers”).
- Empower teams to set their own goals and make their own decisions within the context of an overarching strategy or business plan, reversing the traditional structure of goal and performance management.
- Replace silos with an information and operations center to share integrated information and identify connections between team activities and desired results.
- Organize these teams around mission, product, market, or integrated customer needs rather than business function. (For instance, a health care company might have an “Orthopedic and Rheumatology Institute” to bring together orthopedic surgeons, rheumatologists, and counselors, rather than have them siloed in functional groups.)²
- Teach and encourage people to work across teams, using techniques like “liaison officers” (the US military), “hackathons,” open office spaces that promote collaboration (Apple Inc. and Cleveland Clinic), and job rotation to give teams a common understanding of each other.³
- Enable people to move from team to team as needed—similar to the way experts come together on Hollywood movie sets or in global consulting firms—and then

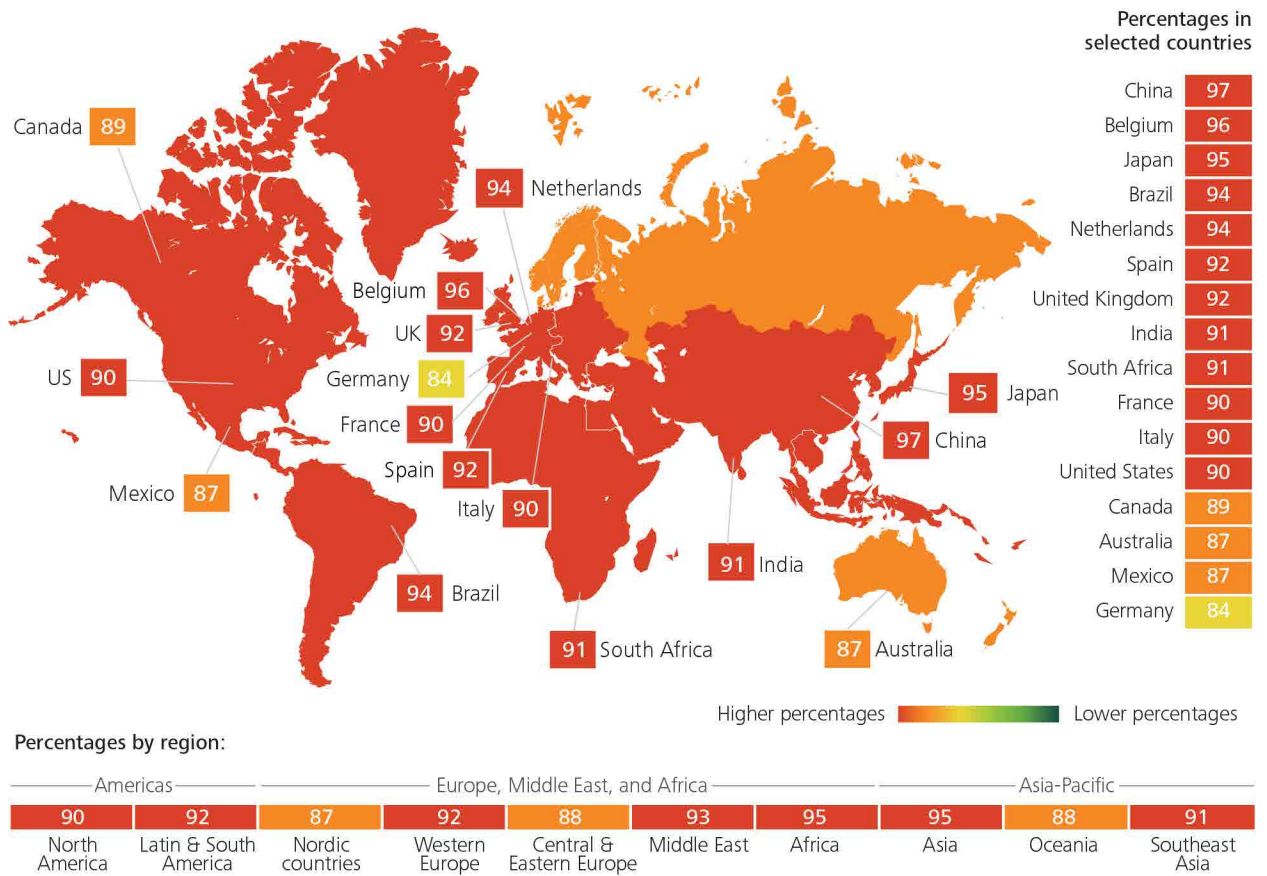
ensure that people have a home to return to once a team-based project is done. This changes the concept of a “job description” to that of a “mission specialist” or “technical specialist.”

- Shift senior leaders into roles focused on planning, strategy, vision, culture, and cross-team communication.

Examples of this new structure are appearing throughout business and government, in each case dramatically changing the effectiveness of the organization. The Cleveland

This new mode of organization—a “network of teams” with a high degree of empowerment, strong communication, and rapid information flow—is now sweeping businesses and governments around the world.

Clinic reorganized its entire hospital network around patient medical problems, moving beyond traditional functional medical practices—which separated surgeons and medical specialists—to combine personnel into patient-centric teams, dramatically improving patient outcomes. Hospitals and health care organizations around the world are similarly reorganizing around patient needs and away from traditional medical specialties.⁴ 3M, Nestlé, and other innovation- and service-centric companies are decentralized and use shared service centers and information centers to help teams maintain productivity and alignment with overall business strategy.⁵ And companies like GE and IBM now post leaders in regional centers of excellence, dispensing

Figure 1. Organizational design: Percentage of respondents rating this trend “important” or “very important”

Graphic: Deloitte University Press | DUPress.com

with the notion that “leaders” only operate out of corporate headquarters.⁶

This new type of organization, which we call a “network of teams,” moves beyond the concepts of the unwieldy 1960s-era matrix organization. Integral to an effective network of teams is to define the mission of each team clearly, delegate responsibility, assign strong team leadership, and build a shared culture and set of information and communication tools that help teams align with each other.

Why is this trend so prominent now, with 92 percent of our survey respondents rating redesigning the organization very important or important? (See figure 1 for our survey respondents’ ratings of organizational design’s importance across global regions and selected countries.) Two major factors are driving change. First, the pressure to get products to market quickly, combined with a generally greater sense of empowerment among the

workforce, is making small teams a more natural and productive way to work. Small teams can deliver results faster, engage people better, and stay closer to their mission.

Second, the digital revolution helps teams stay aligned. Today, teams can easily use web or mobile apps to share goals, keep up to date on customer interactions, communicate product quality or brand issues, and build a common culture. Rather than having to send messages up and down the corporate pyramid, people can access information immediately, with companies using roles like “liaison officers” to make sure teams know what other teams are doing.

Academic research supports this strategy. Sociologist Robert Dunbar proved that the optimum number of people any individual can know well and communicate with is around 150, a phenomenon known as the Dunbar Effect.⁷ Smaller organizational units tap into

the human strengths of communication: People simply know each other better. As Jeff Bezos, CEO of Amazon, puts it, “If I see more than two pizzas for lunch, the team is too big.”⁸

To prevent silos from impeding effectiveness and to improve collective thinking, digital information centers help teams share common knowledge and see the relationships between elements. In the Iraq war, McChrystal set up an information center to monitor seemingly random attacks by Al-Qaeda so he could help teams see the patterns. Each team had a “liaison officer” responsible for communicating with other teams when information was needed quickly.

The same principle applies in business. At Nestlé, a digital information center brings

One major health product and pharmaceutical company is completely reorganizing its sales force to sell integrated solutions to meet the needs of its health care clients’ outcome-based organizations.¹¹ A major IT provider that sells computers and servers is going through the same transition to meet the integrated needs of IT departments that are also now organized by team rather than technology.¹²

Team-based operating practices are part of a larger trend toward new models of management. Hierarchically structured organizations were designed around traditional management thinking in which leaders “tell people what to do, set goals, and create standards.”¹³ In contrast, in many new management models, goals are set at the bottom, leaders are evaluated by performance and not span of control, and performance management occurs continuously rather than once per year.¹⁴ (More than two-thirds of the companies polled in our survey this year are redesigning their performance management practices.)

Middle management is continuing to thin out. Research shows that US companies today have an average span of control—the number of people reporting to a supervisor—of 9.7, rising as high as 11.4 at large companies.¹⁵

Despite the massive changes underway, in this new world, formal and flexible structures will continue to coexist. Perhaps ironically, it still takes formal structure to ensure that a structure of teams works effectively. Putting this insight into practice, the ability to quickly build, deploy, disband, and reform teams is a critical skill for today’s organizations.

Functional organizations, then, are not going away, but they are being supplemented by “service centers” and “centers of excellence” to provide scale and consolidate administrative tasks. To enable this kind of operating model, functions like IT, HR, and finance must all be reorganized to support such teams locally.

Smaller organizational units tap into the human strengths of communication: People simply know each other better.

together social network, TV, and news information about all of Nestlé’s food brands around the world to help product businesses see where a brand is succeeding or failing to gain traction. Corporate headquarters in Switzerland serves as a clearinghouse and strategic planning center, distributing information everywhere and empowering the businesses to grow.⁹

A team-based organization structure can itself enable rapid business disruption. For example, in each new city into which it expands, Uber relies on a three-pronged leadership model consisting of a city general manager, a community manager, and a driver operations manager. The rest of the organization is built out based on the unique needs of the city.¹⁰

As organizations shift to this new model, so must vendors and consultants who serve them.

Figure 2. Two types of managers in a network of teams

Administrative or talent manager	Mission or project manager
Focuses on the individual's career and development goals	Focuses on the project and mission objectives
Measures an individual's achievement against individual goals, capabilities, and potential	Measures an individual against contribution to mission, team, project, and organizational results
Listens to individuals' long-term career goals and helps them reach those goals	Listens to individuals' desires for that mission or project and helps align them with the project or mission needs
Gives the individual coaching and development toward their career capabilities, career goals, and specialization objectives	Gives the individual coaching and development toward their role in the team and the project, focusing on how they can contribute more and how they can work better with the team
Makes sure the individual has "rights of return" to another organization and takes care of "return trip" after each project completes	Focuses on getting the right people into the project or mission, regardless of their individual career journeys at the moment
Tracks and monitors the individual's career progression and patterns of success or weakness	Tracks and monitors individuals' contribution to the project or team and how they can improve their value to that team

What does the "new organization" look like in practice? We envision a management model that draws clear distinctions between two necessary roles and types of management: the administrative or talent manager (reflecting the traditional, formal structure) and the mission or project manager (representing the new, team-based structure) (see figure 2).

Managing two different types of functions in an organization can be challenging, but a few principles illustrate the shift in mind-set necessary to make this work. Companies should view employees fundamentally as resources of the organization rather than as resources of the manager. This is why the military developed the parallel ideas of administrative control and operational control. Administrative control refers to the employee's home structure and to how an employee is developed and supported, the home to which an employee returns when a team-based project is finished. Operational control, by contrast, refers to the process of ensuring that the mission to which an employee is assigned is accomplished successfully. By its nature, it

includes performance management for the employee during that period.

Companies' definitions of the line between administrative and operational control will vary, but the fundamental concept will not. In every organization, an important key to the success of this model is that each employee has a "home" to which he or she can return. Fear that one will not have such a home can weaken strong teaming and lead to perverse incentives for employees—an obstacle to success in a network of teams.

For HR, the implications of such changes to organizational design can be profound. Job titles and descriptions, to cite an example, are becoming more flexible and broad to account for an individual's potential to be deployed to a variety of teams. HR organizations will need to adapt to address the concept of administrative and operational control as companies switch from highly functional and hierarchical models to project-based organizations in which employees are constantly embedded in teams and ecosystems that form teams.

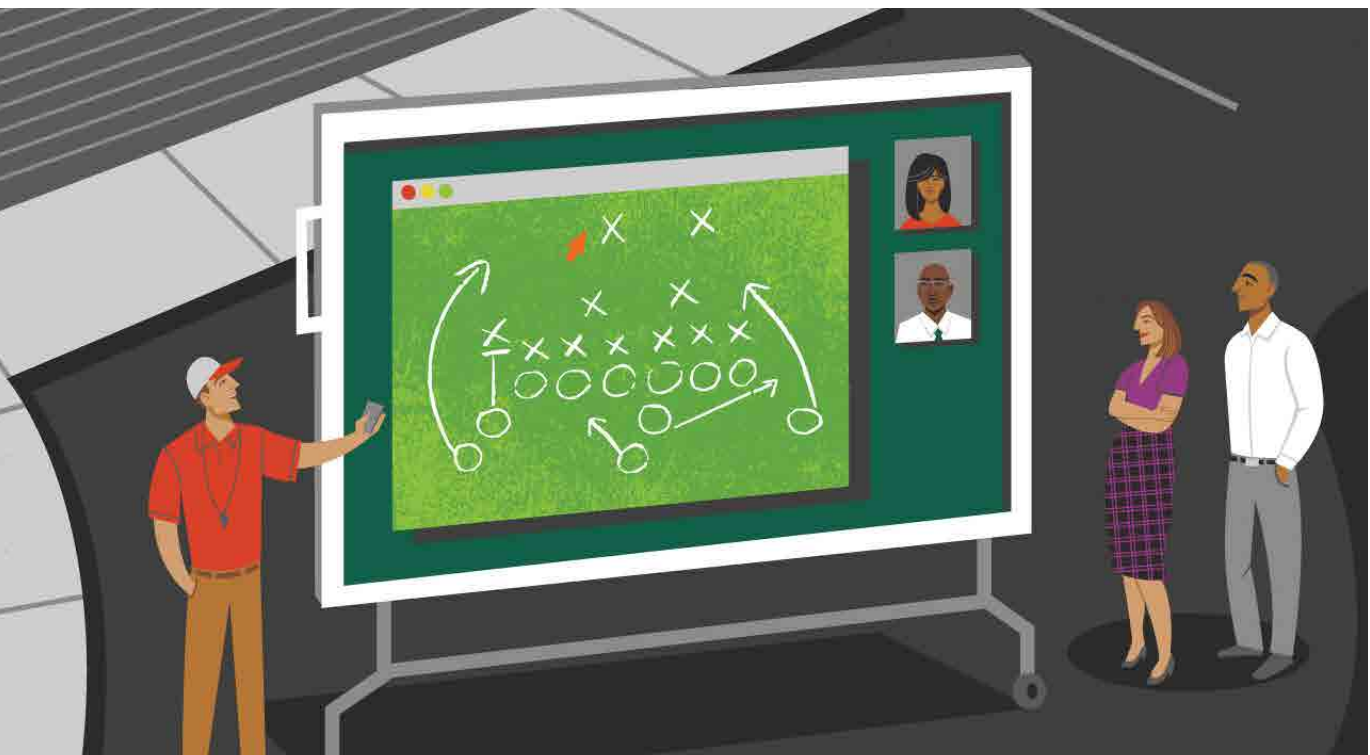
Performance management in an organization designed around empowered teams also

looks significantly different. Traditionally, managers rate employees with little input from others, but this is not a sufficient test of performance under a team-centric approach. The critical question now, with all team members invited to weigh in, is: “Would we want this person on our team again?” It is not, “Did you make your manager happy?” In such an environment, engagement can improve as well, because employees generally feel more connected to their “team” than their “organization.”¹⁶

Lessons from the front lines

Cisco, one of the world’s most successful and enduring technology companies, sees a team-based organizational model as fundamental to its strategy. According to John Chambers, executive chairman and former CEO, speed and time to market are central to the company’s success: “We compete against market transitions, not competitors. Product transitions used to take five to seven years; now they take one to two.”¹⁷

To address this continued disruption and the highly competitive nature of its business, Cisco has set up a new talent organization, Leadership and Team Intelligence, focused entirely on leadership and team development, team leader selection, performance management, and intelligence-gathering for Cisco teams and their leaders around the world. Ashley Goodall, the senior vice president who runs this group, is leading a wide-ranging redesign of Cisco’s talent practices and technologies to focus on the optimization of team performance, team leaders, succession management, and talent mobility between teams. He plans to use real-time performance conversations, ongoing pulse surveys, and text analytics to monitor and benchmark team performance. The intent is to build information about how the best teams work together and how they drive results, and then embed these insights into the company with a direct focus on employee engagement, strengths, and empowerment.¹⁸



Where companies can start

- **Revisit your organization's design:** Look at ways to bring functional experts into “mission-driven” teams focused on customers, markets, or products.
- **Set up a real-time information network:** A successful network brings together disparate information on customers or products to give team members integrated data on performance in real time. Look at how people seek and find information today using [design thinking](#).
- **Eliminate organizational layers:** Departments whose mandate is to fix or service other parts of the organization should be converted to shared-service groups. Question the role and the need for middle managers.
- **Rethink your rewards and goals:** Optimize performance management around “team performance” and “team leadership” rather than focusing solely on individual performance and designating individuals as leaders simply by virtue of their title or role. Reward people for project results, collaboration, and helping others.
- **Adopt new team-based tools:** Put in place tools and measurement systems that encourage people to move between teams, and share information and collaborate with other teams. Consider performing an organizational network analysis.
- **Let teams set their own goals:** Teams should be held accountable for results—but let them decide how to perform and socialize and communicate these goals among the team.
- **Communicate shared vision and values from top leaders:** Encourage senior leaders to focus on strategy, vision, and direction, and teach them how to empower teams to deliver results.

BOTTOM LINE

The days of the top-down hierarchical organization are slowly coming to an end, but changing the organization chart is only a small part of the transition to a network of teams. The larger, more important, and more urgent part is to change how an organization actually works. Now, more than ever, is the time to challenge traditional organizational structures, empower teams, hold people accountable, and focus on building a culture of shared information, shared vision, and shared direction.

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Leadership awakened

Generations, teams, science

Leadership continues to be a pervasive concern among HR and business leaders around the world, ranking higher in importance than it did in last year's global survey. As organizations become increasingly team-centric, the workforce becomes both younger and older, technology catalyses faster change, and business challenges grow more global and diverse, fresh challenges in leadership development emerge. Organizations need to refocus on leadership as a whole to build versatile leaders earlier in their careers, form leadership teams that mix different generations and varieties of leaders, and develop leaders deeper in the organization—all with a structured and evidence-based foundation for leadership priorities, programs, and investments.

- The leadership challenge is urgent and growing in importance. In 2016, 89 percent of companies see leadership as an important or very important issue (up from 87 percent in 2015), and 57 percent cite leadership as very important (up from 50 percent).
- Twenty-eight percent of respondents reported weak or very weak leadership pipelines.
- The profile for top leaders is complex and evolving. Organizations need to develop fundamental leadership capabilities among critical individuals and teams—capabilities that include the ability to collaborate across boundaries, conceptualize new solutions, motivate diverse teams, and develop the next generation of diverse and global leaders.

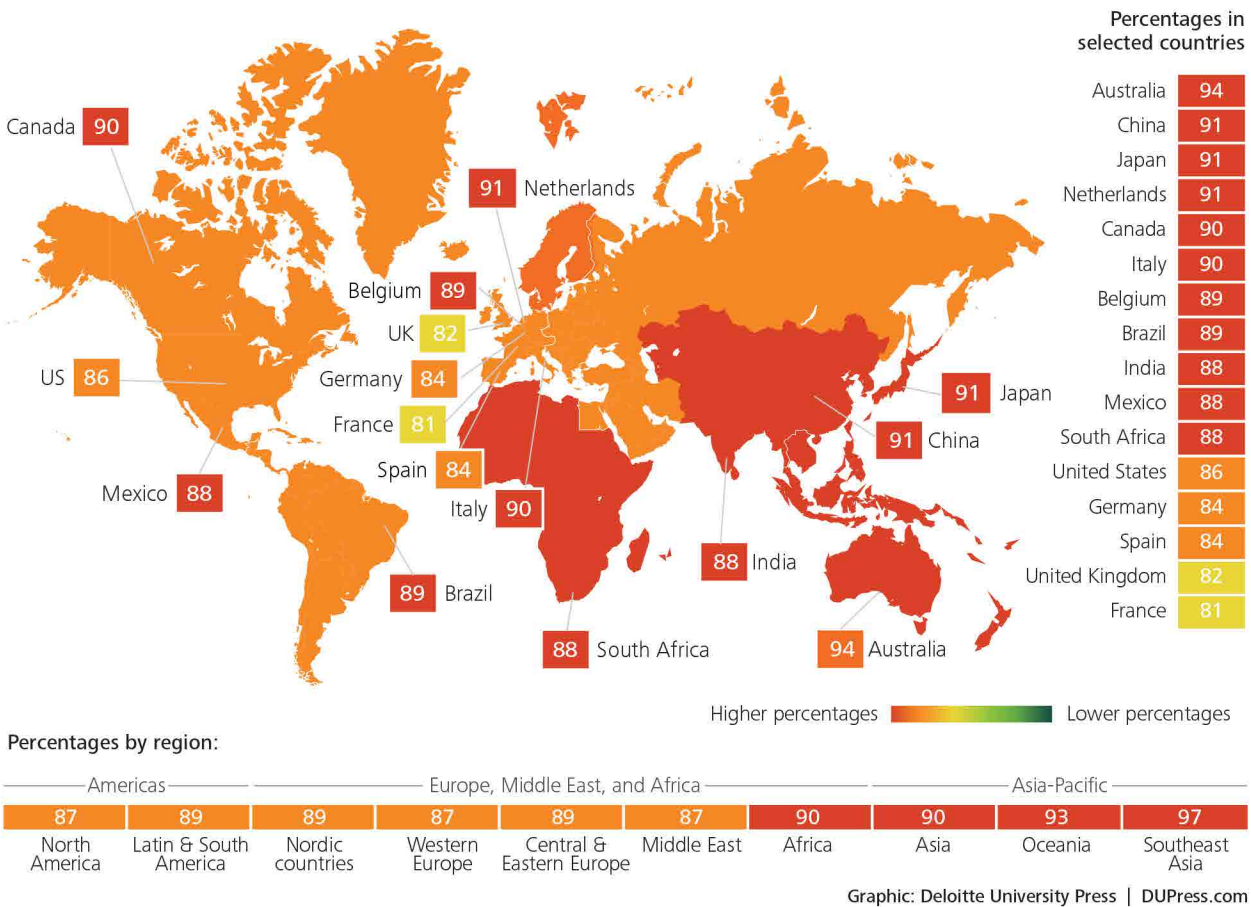
LEADERSHIP remains a top priority in C-suites worldwide, ranking second in overall importance in this year's survey. (See figure 1 for our survey respondents' ratings of leadership's importance across global regions and selected countries.) The percentage of companies that rate this issue as important or very important grew to extremely high levels. Nor is this surprising, as the challenges are immense.

Today, organizations need to explore new approaches to leadership development. They should seek to apply rigorous, structured, scientific approaches to succession planning

and development, aiming to identify potential leaders earlier and fast-track them into leadership positions. Also important is to find ways to develop leaders who can collaborate extensively, recognize the need for new leadership skills (such as conceptual thinking), and focus on new leadership cohorts (Millennials, women, and diverse individuals). All of this requires implementing a comprehensive culture around leadership to address the leadership gap continuously and systemically.

While companies believe they are making progress in some areas—for instance, the percentage of companies with strong role-based

Figure 1. Leadership: Percentage of respondents rating this trend “important” or “very important”



and experiential leadership programs grew from 9 percent last year to 20 percent this year—many major gaps remain:

- Only 7 percent of companies believe they are “excellent” at building Millennial leaders.
- Only 13 percent of companies report they are “excellent” at building global leaders.
- Only 14 percent of companies surveyed described themselves as “strong” at succession planning throughout the business.

These data, along with the data gathered by *Global Human Capital Trends* over the past three years, suggest that the leadership development paradigm that many companies around the world follow is simply not delivering what is expected and necessary.

Last year, companies spent nearly \$31 billion on leadership programs.¹ Yet, as Barbara Kellerman of Harvard University (*The End of Leadership*) and Jeffrey Pfeffer of Stanford University (*Leadership BS*) have recently written, the leadership world continues to be dominated by stories, myths, and fads, often promoting superficial solutions that appear effective but fail to address the issue of helping leaders to learn and that do not deliver measurable impact and results.² Indeed, 40 percent of our survey respondents believe that their current leadership programs provide only “some” value, and 24 percent report that they yield little to no value.

Why do organizations find this issue so intractable, even after investing heavily in leadership programs? If investment in IT and learning delivers results, why can’t HR show similar benefits from investments in leadership development? Why is it so difficult for so many

Why is it so difficult for so many organizations to identify potential leaders and develop them?

organizations to identify potential leaders and develop them?

First, despite a 10 percent increase in spending on corporate leadership programs last year,³ the quality, rigor, and investment for leadership efforts remain uneven across companies. High-performing companies outspend their competitors on leadership by almost four times.⁴ Not only do they spend more, they spend smarter. Surprisingly, most leadership programs are evaluated primarily by so-called “smile sheets”—in effect, feedback from participants on how they enjoyed the leadership program, instructor, and venue. Too few leadership programs are designed on a foundation of research, clear priorities, and assessments of needed leadership thinking and outcomes. Best-practice organizations are developing an integrated system of leadership that includes a specific leadership strategy, detailed pre- and post-program assessments to measure effectiveness, research-driven content, and blended learning programs with stretch assignments, intensive coaching, and continuous opportunities for leadership development—all relying heavily on data, evidence, and science-based approaches.

A second reason leadership remains a challenge may be that, as organizational design shifts from a structured hierarchy to a [network of teams](#), companies require different types of leaders and inclusion capabilities. As organizations grow flatter and more diverse, and as the global operating environment becomes increasingly more complex, there is a stronger demand for people who can lead at all levels of the company. Companies in this environment are finding that they must identify

potential leaders much earlier in their careers and accelerate their movement through the leadership ranks.

Yet another challenge is that the entire concept of leadership is being radically redefined. The whole notion of “positional leadership”—that people become leaders by virtue of their power or position—is being challenged. Leaders are instead being asked to inspire team loyalty through their expertise, vision, and judgment. The number of employees supervised by each first-line manager is increasing, to more than 10 among US companies and as high as 13 in industries such as health care.⁵ This broad span of control demands leaders who are skilled coaches, not strictly supervisors—leaders with the ability to attract, inspire, and retain great people, not just make the numbers. Collaboration, too, is becoming a critical leadership skill: With organizations continuing to evolve rapidly beyond vertically integrated enterprises to networks and ecosystems, groups of leaders are being forced to work together in new ways, including collaboration across generations, geographies, functions, and internal and external teams.

Lastly, the demographic realities of an aging population cut in different directions, causing a leadership shortage at some companies and limited leadership opportunities for younger employees at others. At companies where senior leaders are reluctant to yield up their responsibilities, HR should develop solutions that promote development among up-and-coming leaders. These solutions could include implementing active career management for high-potential employees, constructing teams with multigenerational leadership, and offering other opportunities for younger leaders to develop experience *before* they are ready. The goal is to create a robust pipeline of new, more innovative leaders that takes advantage of the strengths and skills of both younger and older leaders.

Surprisingly, 59 percent of respondents to our survey report little to no investment in diverse leaders, with similar findings for



Millennials (59 percent) and women (49 percent). Such investments, though, are extremely important to allow companies to leverage the strengths of Millennial leaders—often well-suited to fast learning and conceptual thinking—and Baby Boomer leaders in their 50s and 60s—who often bring strengths in behavior and influence along with valuable institutional knowledge. The challenge is to combine and build the strengths of leaders at all levels and of all descriptions.

This leads to an important question: Are companies ready for the new leaders who are needed today? Many organizations may not be prepared to accept a new generation of leaders, or even to build an environment that allows them to emerge. Yet consider some of today's leaders. Google's Larry Page was 38 at the time of his appointment; PetSmart's David Lenhardt, 43; GameStop's J. Paul Raines, 46. This new breed of CEOs is younger, more global, and more digitally savvy than their predecessors. They rose up from the ranks, often leapfrogging incumbents to go on to transform their businesses.⁶

At the same time, the impact of leaders is too high to simply jettison one generation of leaders for another. As organizations become flatter and more dispersed, companies need better strategies for developing leaders to perform both as individuals and in teams—to operate in dyads and triads as well as on one's own.

Important to this effort is to think systematically about leadership. A portfolio approach that simply assembles a selection of offerings from different vendors is unlikely to promote consistency in leadership development or to ensure that future leaders receive the training they need to direct today's team-focused organizations. Identifying and developing exceptional leaders require a far more rigorous process, including:

- The use of evidence and analytics to identify game-changers who may be going unnoticed
- Expanding the use of online tools to enable organizations to identify high-potential employees earlier in their careers and potential leaders around the world
- Better use of leaders in the later stages of their careers to team with, mentor, and develop the next generation of leaders
- The development of a comprehensive leadership system—not simply a collection of training packages—that can effectively assess talent across the organization; focus training on high-potential employees; and provide opportunities for younger leaders to gain the skills, experiences, and insights they need to thrive in leadership roles

Every aspect of leadership—from strategy and assessment to leadership development and program evaluation—should be executed with a degree of rigor and the use of data that is simply not part of most leadership programs today.

Lessons from the front lines

In 2012, Macquarie Group Limited, a global investment banking and diversified financial services group, reevaluated its leadership development programs.⁷ The company's goal was to ensure that leadership offerings continued to build capability at the director level in order to allow Macquarie to identify and take advantage of new opportunities in a complex and rapidly evolving market. Macquarie aimed to design and deploy a best-in-class global leadership development experience. The new program would have a clear focus on fast-tracking leaders and on further broadening its leaders' perspectives. The program needed to be highly practical and business-focused, while also underpinned by a strong scientific foundation and rigorous learning methodology.

Following a six-month analysis and design process, Macquarie launched a pilot program in early 2014. Offered to a selection of associate directors located in Macquarie's major hub cities in Europe, Asia, Australia, and the United States, the program consisted of two three-day workshops delivered over a 12-month period, supplemented with a series of one-on-one coaching sessions, a 360-degree assessment, and a skilled volunteering experience.

Recognizing that Macquarie staff lean strongly toward intellectually challenging and practical learning, the associate director

program provided Macquarie leaders with a strong mental framework as well as easily digestible and readily applicable tools for their day-to-day work. The cornerstone of the program's success was to not give participants a set of generic answers, but instead to teach leaders a set of questions they could ask themselves to help solve their own unique challenges. They were not taught how to behave, but how to think: The program's catchphrase is "Think. Lead. Act." Built around six core capabilities such as "setting direction," "inspirational leadership," and "collaboration," this flexible and innovative approach to learning allowed the

content to be applied easily across business lines and geographies.

Since 2014, over 500 associate directors have enrolled in the program. Feedback from both participants and the business has been overwhelmingly positive, indicating that the program's commercially focused and

Rigorous analysis and evidence should inform every step of the leadership development process.

cognitive approach to development was much more effective than more traditional, static approaches. Participants reported the ability to readily apply their newly gained knowledge to their roles, enabling directors to thus focus more on commercial priorities. In addition, in Macquarie's recent global staff survey, alumni of the program were significantly more positive in their attitudes toward career progression and development opportunities than their peers.

Based on the success of the associate director program, Macquarie designed and piloted a program at the division director level in 2015. This program builds upon the associate director program's highly practical approach to broadening participants' thinking through simple and memorable concepts, while integrating several new learning innovations.

These include a “lab-based” approach to learning in which participants work on challenges as a group, supported by several coaches in the room. The program also focuses on establishing greater connections between participants, giving them a more integrated understanding of each arm of the business as well as helping them identify commercial synergies and potential client opportunities.

Where companies can start

- **Take a fresh, hard look at leadership development strategy:** Many companies find that this is the best place to start. Nearly two in three of our respondents (61 percent) report that they have updated their leadership strategy in the last year or are currently doing so. Perhaps most important is to challenge the current strategy: Is it delivering the impact, results, leadership pipeline, and caliber of leaders the business needs now and in the future?
- **Cast a wider and deeper leadership net:** Many organizations are trying to broaden the definition of leaders and leadership, yet too often that definition is still not broad enough. The potential leadership pool must expand teams and networks of teams beyond organizational boundaries.
- **Build leadership programs on a foundation of evidence, data, and analytics:** Insights from data can help organizations identify the DNA of successful leaders. Rigorous analysis and evidence should inform every step of the leadership development process, including candidate identification, development, coaching, and career progression. Leadership programs should be evaluated by their impact—their ability to strengthen leaders and the results they deliver—and rapidly move beyond the edutainment focus of many of today’s programs.
- **Broaden and deepen leadership capabilities:** Today’s leaders need both traditional leadership capabilities and new skills. Rotational programs may be an effective way to identify and develop future leaders. Stretch programs across functions and businesses, as well as in nontraditional areas (for example, the social and not-for-profit sectors), can offer opportunities to develop and test emerging leaders.
- **Identify and foster teams of leaders:** An important goal for most organizations is to develop new models of leadership teams, combining leaders of different generations and perspectives. For many organizations, this is a new focus and will be critical in the future, when organizations will need both teams of leaders and leaders who can drive and motivate teams.
- **Focus on young, diverse leaders:** Identifying great leaders as early as possible is an important way to deepen the leadership bench and promote dramatic change.
- **Rethink leadership investment:** Simply spending more money on leadership programs is unlikely to be enough. To deliver a superior return on investment, leadership spending must be far more focused on and targeted at what works. Leading companies both spend more and spend more wisely, with a focus on evidence and results.

BOTTOM LINE

We have written in the past of the “**overwhelmed employee**.”⁸ Today, perhaps the theme should be the “overwhelmed leader”—underscoring the need to identify new leaders early and develop them appropriately.

Is the organization’s leadership strategy, pipeline, and programs up to the task? Our data on this question over the past several years suggest not. To make progress on the perennial and pervasive challenges of leadership, companies need to ask hard questions. Who in the organization is likely to be a true game-changer? Does the organization tend to promote people who look and think like current leaders? Do current leaders conduct deep analyses to identify and develop people with potential, wherever and whomever they may be? How much time do leaders in the organization spend on elevating team effectiveness? Are the strategy, focus, and rigor of leadership programs up to the needs, skills, and challenges of the future? Only by answering such questions can organizations find ways to effectively cultivate the leadership talent that they will need to compete—today and in the future.

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Shape culture

Drive strategy

Culture has become one of the most important business topics of 2016. CEOs and HR leaders now recognize that culture drives people's behavior, innovation, and customer service: 82 percent of survey respondents believe that "culture is a potential competitive advantage." Knowing that leadership behavior and reward systems directly impact organizational performance, customer service, employee engagement, and retention, leading companies are using data and behavioral information to manage and influence their culture.

- Culture is a business issue, not merely an HR issue. The CEO and executive team should take responsibility for an organization's culture, with HR supporting that responsibility through measurement, process, and infrastructure.
- While culture is widely viewed as important, it is still largely not well understood; many organizations find it difficult to measure and even more difficult to manage. Only 28 percent of survey respondents believe they understand their culture well, while only 19 percent believe they have the "right culture."
- Culture can determine success or failure during times of change: Mergers, acquisitions, growth, and product cycles can either succeed or fail depending on the alignment of culture with the business's direction.

FEW factors contribute more to business success than culture—the system of values, beliefs, and behaviors that shape how real work gets done within an organization. Its close connection to performance is not lost on HR and business executives: Nearly nine in ten (87 percent) of our survey respondents say that culture is important, and 54 percent rate it as very important, nine percentage points more than last year. (See figure 1 for our survey respondents' ratings of culture's importance across global regions and selected countries.)

Culture brings together the implicit and explicit reward systems that define how an organization works in practice, no matter what an organizational chart, business strategy, or corporate mission statement may say.

A staggering number of companies—over 50 percent in this year's survey—are currently attempting to change their culture in response to shifting talent markets and increased competition.

In an era in which bad news travels instantaneously and an organization's culture is both [transparent](#) and directly tied to its employment brand, great companies consciously cultivate and manage their culture, turning it into a competitive advantage in the marketplace. Have you ever wondered why certain companies hire great engineers, deliver seemingly endless innovations, and generate consistent growth, while others always seem to be reinventing themselves? A large part of the answer, in one word, is culture.

This year, unlike in past reports, *Global Human Capital Trends* treats culture and engagement as two distinct topics. Why? Because, while the two issues are intimately connected, the differences between them are significant, and the importance of each has risen to justify a separate treatment and a separate, well-defined approach to tackling it.

Culture describes “the way things work around here.” Specifically, it includes the values, beliefs, behaviors, artifacts, and reward systems that influence people’s behavior on a day-to-day basis. It is driven by top leadership and becomes deeply embedded in the company through a myriad of processes, reward systems, and behaviors. Culture includes all the behaviors that may or may not improve business performance. Today, culture is a CEO-level issue and something that can be measured and improved to drive strategy.

Engagement, in contrast, describes “how people feel about the way things work around here.” It is a way of describing employees’ level of commitment to the company and to their work. According to our model, engagement encompasses five broad areas: meaningful work and jobs, management practices and behaviors, the work environment, opportunities for development and growth, and trust in leadership.¹ When engagement is poor, employees feel uneasy or uncommitted, resulting in high turnover, low performance, and low levels of innovation and customer service. New tools are enabling companies to monitor engagement on a detailed, real-time basis, delivering specific, actionable information to continuously improve the work environment.

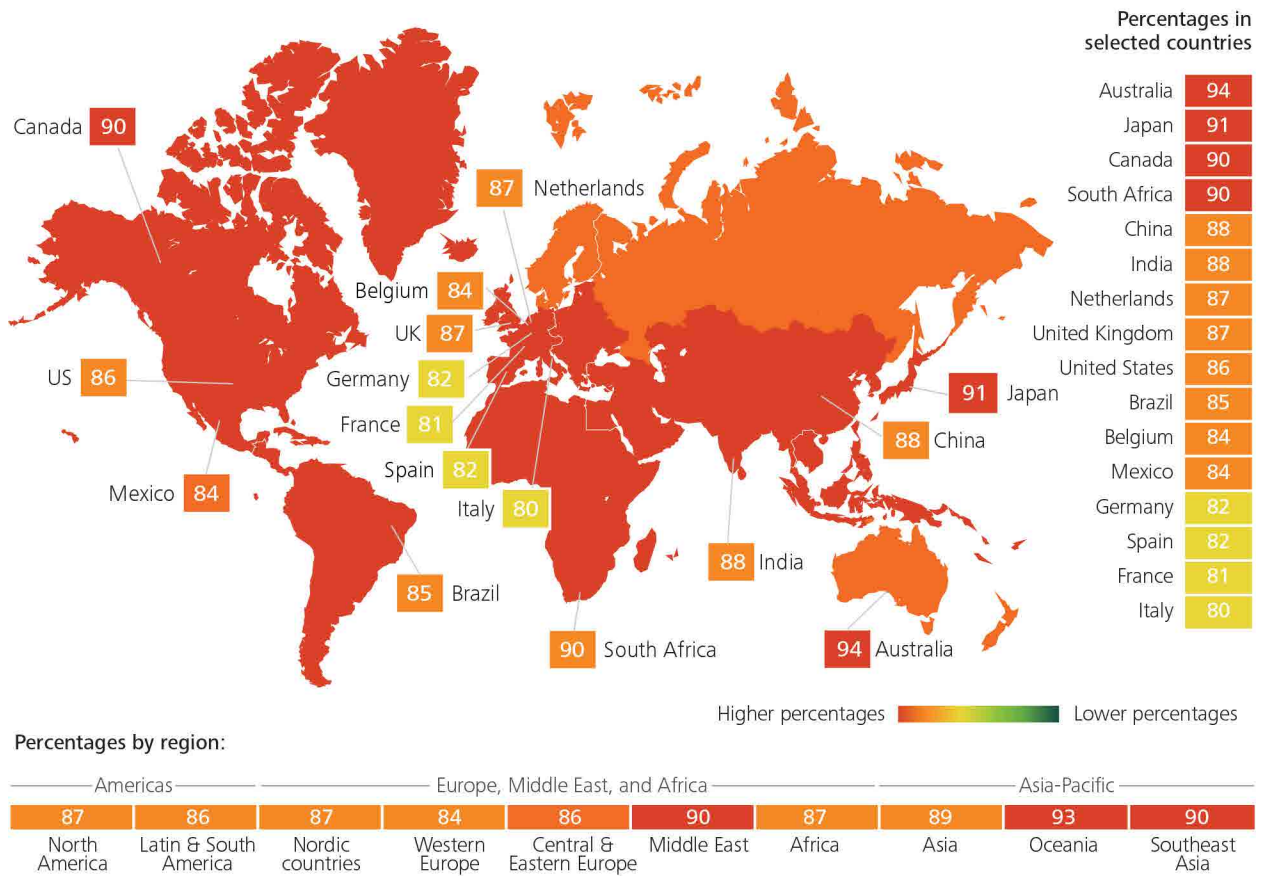
The two are connected. When a company’s culture is clearly aligned with business strategy, it attracts people who feel comfortable in it, which in turn should produce a high level of engagement. Conversely, programs to improve engagement often discover cultural issues, forcing the company and its leadership to question and change its values, incentives, programs, and structure. Both culture and engagement require CEO-level commitment and strong support from HR to understand, measure, and improve.

The importance of culture is readily apparent when things go wrong. When two large companies merged last year, for example, it became clear that one company had a culture of “low cost” while the other had a culture of “quality service.” Employees received mixed signals for months until the new management team took the time to carefully diagnose and redefine many business processes throughout the company.

Given the importance of culture and the consequences of cultural issues, many companies are proactively defining culture and issuing culture “manifestos.” The Netflix culture presentation,² often used as an example, has been downloaded more than 12 million times since 2009.³ The presentation clearly describes a culture that combines high expectations with an engaging employee experience: Generous corporate perks such as unlimited vacation, flexible work schedules, and limited supervision balance a strong focus on

results with freedom and appreciation for the expected achievement.⁴

The financial services industry, still restoring its brand after the 2008 financial crisis, is sharply focused on culture. One organization is using a variety of initiatives to help employees understand “how the bank does business,” including offering speaker series on topics such as compensation packages, customer satisfaction, and maintaining regulatory standards. Citigroup has an entire committee focused on ethics and culture and has implemented a series of web-based videos detailing real workplace ethical dilemmas. Bank of America is focusing its corporate culture transformation on encouraging employees to report and escalate issues or concerns, as well as incorporating a risk “boot camp” into their current training. Wells Fargo is increasing its efforts to gather employee survey feedback to understand current trends and potential areas of weakness in its culture.⁵

Figure 1. Culture: Percentage of respondents rating this trend “important” or “very important”

Graphic: Deloitte University Press | DUPress.com

A new industry of culture assessment tools has emerged, enabling companies to diagnose their culture using a variety of well-established models.⁶ Yet despite the prevalence of these tools, fewer than 12 percent of companies believe they truly understand their culture.⁷ That's where HR can help. As businesses try to understand and improve their culture, HR's role is to improve the ability to curate and shape culture actively. An organization's capabilities to understand and pull the levers of culture change can be refined and strengthened. HR has a natural role to play in both efforts.

As operations become more distributed and move to a structure of “[networks of teams](#),” culture serves to bind people together and helps people communicate and collaborate. When managed well, culture can drive execution and ensure business consistency around the world. HR has an opportunity to assume the role of champion, monitor, and

communicator of culture across, and even outside, the organization. Once culture is clearly described, it defines who the company hires, who gets promoted, and what behaviors will be rewarded with compensation or promotion.

To effectively understand and manage their organization's culture, business and HR leaders must collaborate to answer a daunting set of questions. For example:

- How do we create more high-impact customer and employee experience moments and ensure that we deliver them consistently?
- How well does our performance management or compensation system reinforce or improve our culture?
- Are we willing to reduce productivity temporarily to invest the time it takes to build a culture of learning?

Given the importance of culture and the consequences of cultural issues, many companies are proactively defining culture and issuing culture “manifestos.”

- What cultural issues lie behind problems such as fraud, loss, or compliance issues? Is punishing the offenders and reinforcing good behavior enough, or does supporting ethical conduct require changing cultural norms that enable or even encourage bad behavior?
- In M&A situations, how can cultural barriers to integration be identified and addressed before they become problematic?
- In today’s competitive talent environment, how does our culture affect our employment brand and ability to attract, hire, and retain top talent?

CEOs and senior business leaders should work with HR to take a hands-on, data-driven approach to managing culture. To monitor and reinforce culture, companies must regularly assess employee behavior and revisit reward systems and business practices in all areas of the company.

The good news is that there are many new ways to research, measure, and monitor culture, enabling companies to approach the issue rigorously and systematically. Just as [employee engagement](#) is being transformed by internal and external tools for feedback, corporate culture is now transparent and open. Indeed, many companies’ cultures are constantly being discussed, shaped, and rated for the entire world to see on social media platforms like Glassdoor and LinkedIn.⁸

Some companies are taking action to actively manage and change their culture:

- Nordstrom has formed a People Lab Science Team in an effort to define and curate a culture that will attract top talent and enable the retailer to compete with tech companies such as Tableau and Microsoft. The team takes a multidisciplinary approach to designing programs to define and reinforce Nordstrom’s culture.⁹
- Starbucks analyzed thousands of social media entries to gain an objective view of its culture through the eyes of its employees and take specific actions to reinforce its cultural strengths and address cultural weaknesses.¹⁰
- Securitas Belgium has defined the behaviors associated with its vision for culture, performed an analysis of its current state, and developed a detailed, measurable change plan for 150 of its managers.¹¹
- Software giant SAS was recently rated the best place to work by the Great Place to Work Institute. It is also highly successful, with 37 consecutive years of record earnings (it earned \$2.8 billion in 2012). SAS has identified trust as a critical cultural attribute and regularly surveys its employees on elements of trust: communication, respect, transparency, and being treated as a human being.¹²

Once an organization develops a clear understanding of its culture and decides on a direction for cultural change, it is critical to move rapidly from analysis to action. Moving from talking to doing is the only way to build momentum. For companies pondering a cultural transformation, the time to start is now—because many companies are already way ahead.

Lessons from the front lines

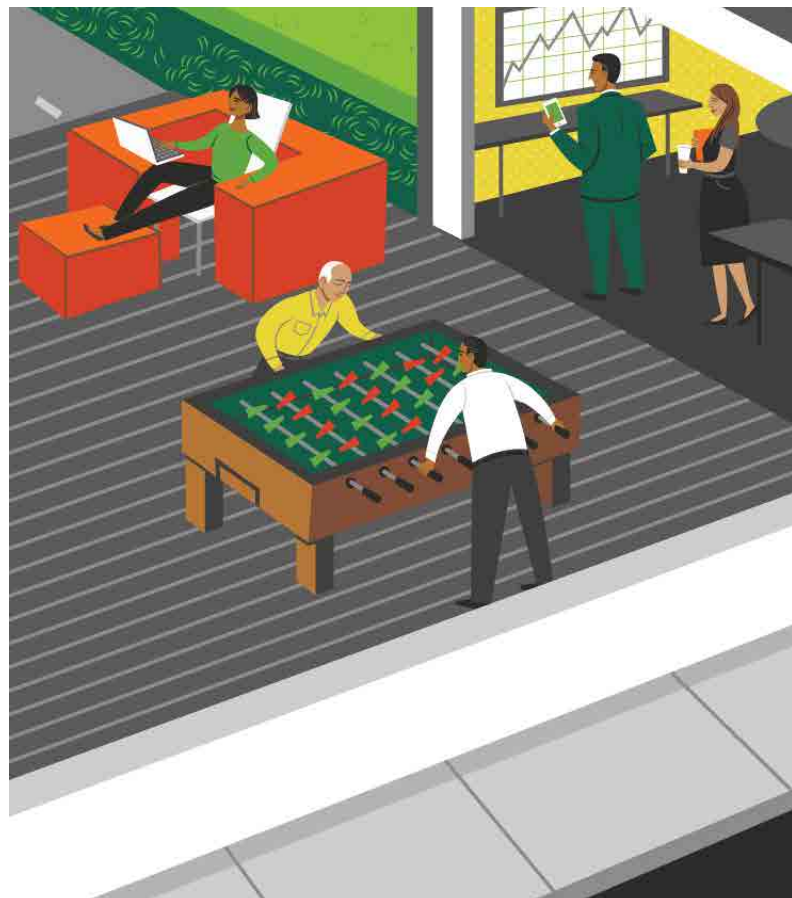
Culture is particularly important during times of great change, such as mergers and acquisitions or corporate divestitures, which offer an opportunity for a fresh start on culture.

Take the example of HP Inc., a global technology company headquartered in Palo Alto, CA, which began when Hewlett-Packard Co. split into HP Inc. and Hewlett-Packard Enterprise on November 1, 2015. The company used the separation as a unique opportunity to reinvent the sales culture and create an environment that supports high-performing sales organizational behaviors for the entire global sales team of more than 6,500 employees. It took a systematic approach, using a quantitative tool to assess sales behaviors for all regions and sales roles. Analyzing the complex intersection of sales behaviors, activities performed by salespeople, sales competencies, and compensation has provided insights that create top-performing sales representatives, sales managers, and teams. The findings from this multifaceted analysis has enabled HP's top sales leaders to make "culture commitments" at their global sales meeting in an effort to begin to transform the company's sales culture.¹³

As another example, following its July 2015 spin-off of PayPal, eBay took the opportunity to implement a deliberate approach to redefining and actively managing its culture.¹⁴ eBay's CEO has declared himself to be "chief culture officer" to emphasize his personal commitment to driving change. On the first day of the new company, he introduced a refreshed company purpose and five new values that are intended to create a more brand-focused, inventive, and bold work environment. eBay is relying on new company values to turn its culture aspiration into reality. The value statements are being monitored using a quantitative approach to measuring and disseminating them: eBay's team

of organizational development experts and data scientists actively measures the strength and adoption of these new values, regularly surveying eBay employees on over 50 cultural attributes that are mapped to the five recently formulated values, and conducting employee engagement surveys. This data is then combined with operational metrics to assess the extent to which compliance with cultural values impacts the business.

To compare the internal view—that of eBay's employees—with an external view, the analysts also conduct both thematic and natural-language analysis on news articles and Glassdoor content, to gain a data-driven understanding of the ways that people discuss eBay's culture in the open market. This strong effort has enabled eBay to quantify elements of its culture and gain a more accurate understanding of how people both inside and outside the company view it.



Where companies can start

- **Culture cannot be delegated—it must be on the CEO’s list of top priorities:** C-suite executives must clearly understand their company’s cultural values, determine how they relate to business strategy, and take responsibility for shaping them, while also analyzing whether their own behaviors reinforce the desired culture.
- **Understand both the current and the desired culture:** Business leaders should closely examine current business processes step by step to identify which practices are aligned with the desired culture and which are destructive and require change—which begins by uncovering the values and behaviors that allowed those practices to develop. While many HR organizations are building teams to better communicate leaders’ vision of the desired culture, these teams do not
- always connect cultural change programs to behaviors and business strategies.
- **Examine the organization to determine whether the targeted culture is taking hold:** Executives can drive permanent cultural change throughout the organization by reminding employees that culture is a tangible set of attributes and behaviors that can be clearly recognized at visible “touchpoints” among employees and people outside the firm.
- **Measure culture:** Use empirical tools to understand employee attitudes and actions. If measurement reveals that current behaviors conflict with desired cultural values, refine the program to communicate and model culture throughout the organization. HR should take the lead in this effort.

BOTTOM LINE

Although HR has a distinct and proactive role to play in driving cultural change—one that leading HR organizations have already embraced—the challenge of culture should be owned at the highest level: by the leaders who are responsible for business strategy. Just as the CEO is ultimately responsible for business strategy, the CEO is ultimately responsible for culture.

In short, leaders must understand that their beliefs and actions are the primary drivers of the organization’s culture. In the “**new organization**,” senior leaders must drive cultural change just as they do other cross-organization issues, reinforcing the behaviors necessary to support the business strategy. Start by identifying the practices that need to change before any cultural transformation can take hold, and then use the new tools available today to measure and manage culture toward alignment with business goals.

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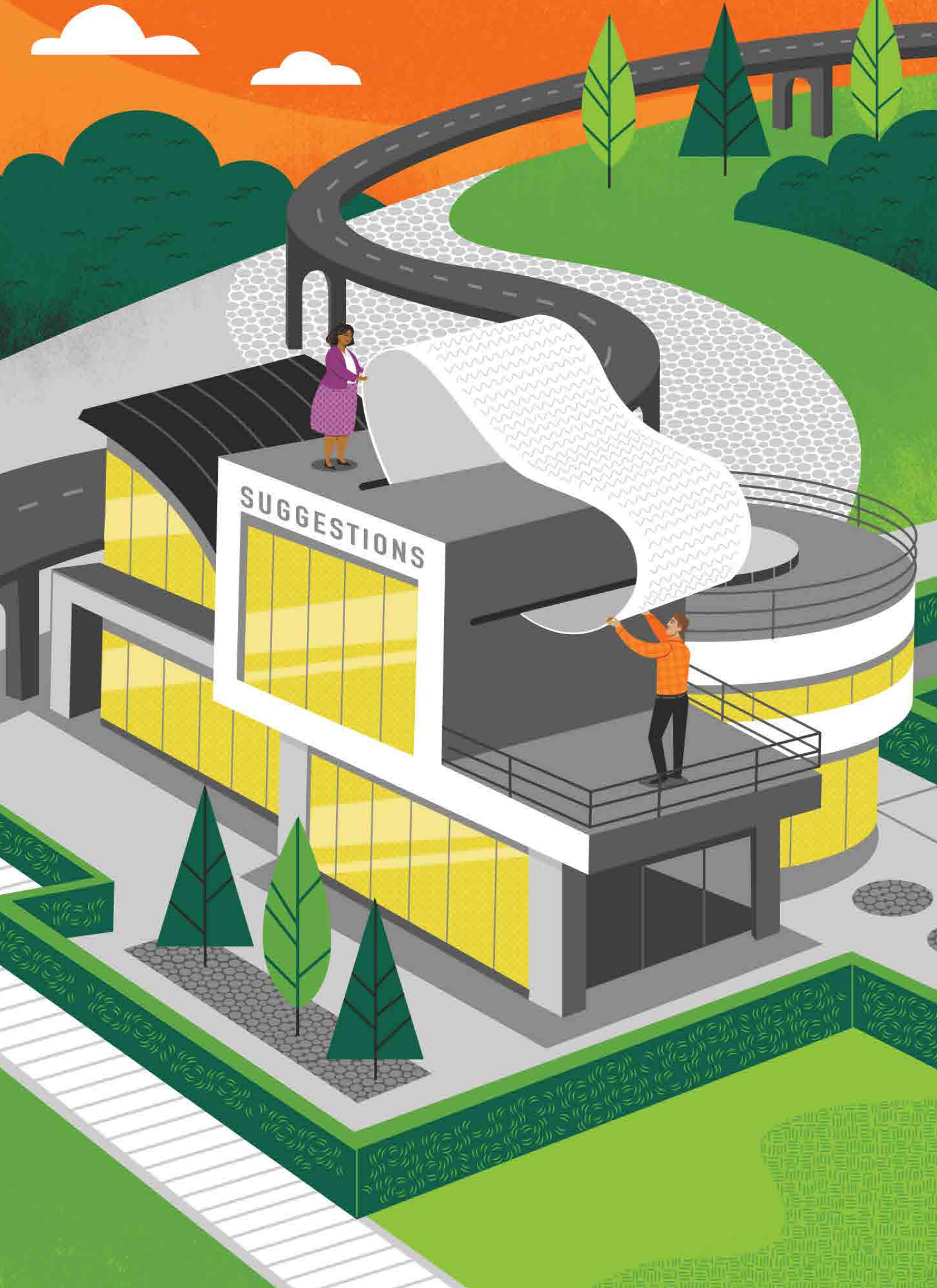


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Engagement

Always on

Employee engagement continues to be a challenge for businesses, with 48 percent of this year's survey respondents citing it as very important. The demands and expectations of today's diverse, multi-generational, mobile workforce require a more flexible, employee-centric work environment, one which companies are just beginning to learn to develop. This year will see a strong focus on listening to employees, workforce health and well-being, job redesign, and an enterprise-wide analysis of all dimensions of employee engagement—all factors in what we call the “simply irresistible” organization.¹

- Employee engagement is a business imperative for leaders at all levels—above all, the CEO—and no longer something to be measured just once a year by taking a look in the rear-view mirror.
- Despite the emergence of many tools for frequently evaluating employee sentiment, 64 percent of organizations still only measure employee engagement annually.
- Managers and leaders are now accountable for engagement, but HR has to be proactive, implement the right tools, and give business leaders a continuous stream of data with which to make future decisions, promote a culture of listening, and ensure that reward systems are consistent with engagement and retention goals.

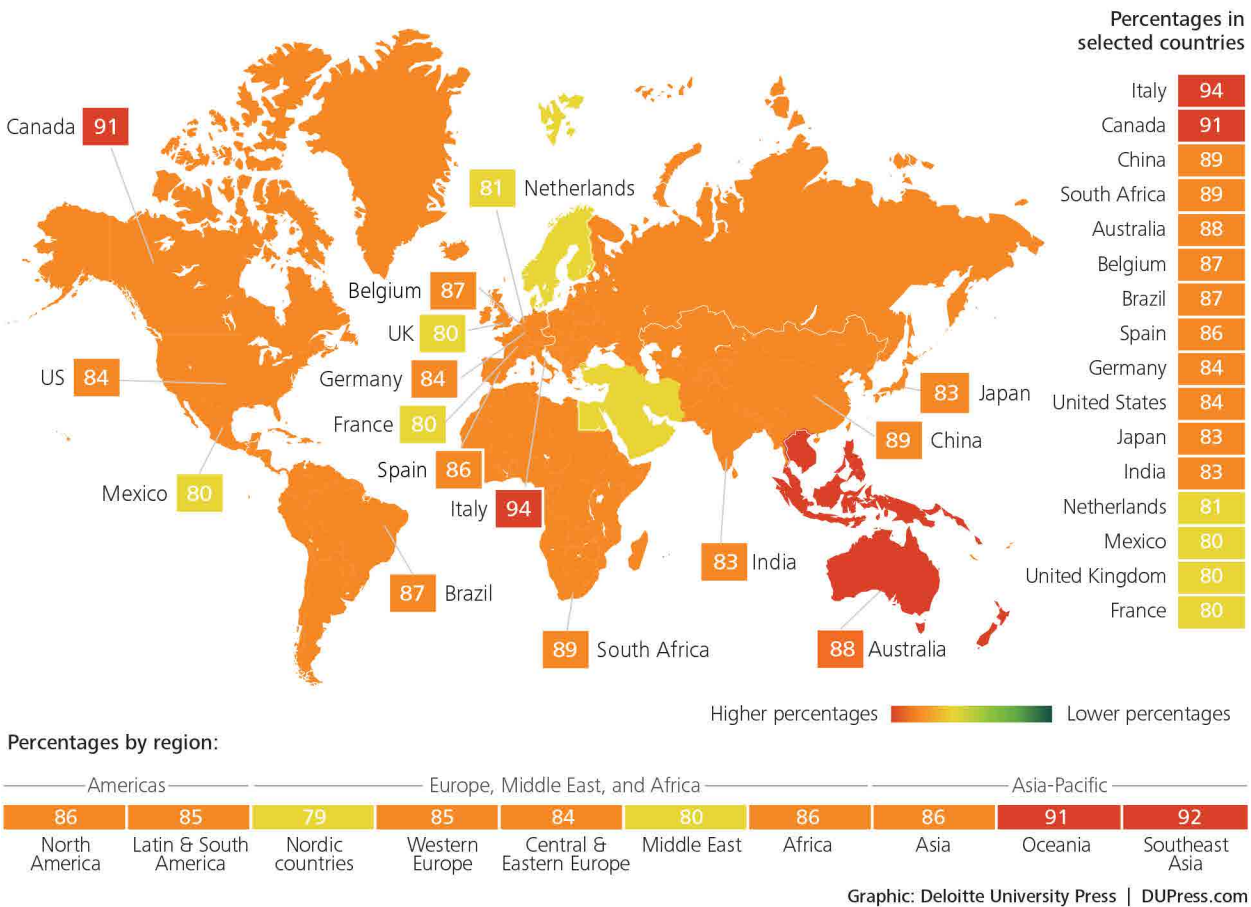
Employee engagement, like culture, has become a CEO-level issue. Companies now compete to win “best place to work” surveys and monitor social media carefully. There is an escalating war to design great workspaces, provide flexible benefits, and create great corporate cultures in an effort to drive higher engagement. Nearly nine in ten executives (85 percent) in this year's survey rated engagement as an important (38 percent) or very important (48 percent) priority for their companies. (See figure 1 for our survey respondents' ratings of engagement's importance across global regions and selected countries.)

In the chapter on [culture](#), we define both the connections and the differences between culture and engagement. Culture is the sense of “how things are done around here”; engagement is “how employees feel about how things

are done around here.” Engagement is an aspect of workplace life that can—indeed, should—be continuously monitored in a proactive way. It is about the future of an organization; it is a measure of corporate health and a key window into the potential for future issues and workers' support for change.

Three factors stand out as driving this focus on engagement. First, there is intense competition for talented Millennials, many of whom are less loyal to organizations than ever before. Second, companies face a continued need to attract workers with technological and other specialized skills, as every company digitizes its business. And third, an organization's employment brand is now [open and transparent](#), so job candidates can easily see if a company is a great place to work.

Figure 1. Engagement: Percentage of respondents rating this trend “important” or “very important”



The role of employee engagement within HR is changing as well. Today, we find Chief Learning Officers who own the engagement challenge and executives with titles like “Chief Employee Listening Officer.” These new titles show how the topic of engagement has become broader and more embedded in everything HR must do.

Many companies still conduct some form of employee engagement survey. Indeed, 64 percent of senior executives in this year’s *Global Human Capital Trends* survey noted that their companies survey employees on engagement. Yet many traditional engagement models have fallen behind, precluding a more complete view of the problem. Instead, engagement today demands understanding a highly inclusive, empowering work environment.

For one thing, today’s workforce is more diverse than ever. Companies must manage as many as five generations of workers,

dispersed global teams, and a heterogeneous mix of genders, races, cultures, and sexual orientations. They also have many types of workers in the mix: full-time and part-time people, employees working at home, and workers employed by contract agencies. Yet despite this highly diverse population, research finds that only 11 percent of companies have a highly inclusive work environment, and 47 percent have cultural barriers preventing the use of part-time people. Only 4 percent of our respondents believe they are very good at engaging Millennials and other generations in the work environment.²

This is insufficient in a workplace in which everything seems to be changing at once.

Employee demands are changing. Today’s workers place a higher premium on flexibility, creativity, and purpose at work. The [structure of companies is changing](#), putting a greater emphasis on empowered teams and

team leadership. Companies are becoming dependent on a new breed of **empowering, supportive, and open leaders** at a time when companies still struggle to find the leaders they need.

The nature of careers is also changing. Companies used to invest heavily in employees with the intention of keeping them for decades and seeing them grow and contribute for the foreseeable future. Today, because employees change jobs more rapidly, employers must provide development more quickly, move people more regularly, provide continuous cycles of promotion, and give employees more tools to manage their own careers.

Engagement, in many ways, is the temperature gauge of a company's ability to proactively address all these issues on behalf of the workforce. And research clearly shows that when employees feel empowered and have a sense of ownership for their jobs, their engagement is significantly higher.³

Companies are just now beginning to adapt to a new, implicit social contract between employers and employees—one where people can now easily explore new jobs or new companies online. This new reality is pushing employers to think of talent as “volunteers” and constantly consider how they can make work more meaningful and rewarding. After all, in a world of social media recruiting sites such as LinkedIn, employees are “always on” the hunt for new possibilities.

Engagement likewise needs to adopt an “always on” approach. Fortunately, new solutions have emerged in the marketplace to assess employee engagement. A new generation of “pulse” survey tools and open anonymous feedback systems can allow employees to rate managers, executives, and just about everything else at work on a near-real-time basis. The thoughtful use of such tools can create a true “listening environment” for employees while giving leaders critical insight into what's working and what's not working in the company.⁴

The movement toward this “always on,” feedback-based approach to engagement is growing rapidly, disrupting traditional models of measuring and managing employee engagement. A number of companies are adapting to more complex employee demands by listening more closely, trying new approaches, and actively addressing operational problems:⁵

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- A food retailer that operates coffee and food services around the world began soliciting anonymous employee feedback. Through this feedback, the company found that the drive-through window was chronically understaffed, forcing teams to run back and forth between different types of customers, which reduced quality while adding stress and extra work. A store manager implemented a dedicated drive-through role, dramatically improving engagement and productivity; the rest of the company followed suit.
- One software executive pulses his sales team every week and asks a simple question: “How happy are you at work this week, and what can we do to make things better?” Employees offer suggestions about things that he could be doing better, and he claims that he can actually predict the following week's sales based on the feedback he gets the Friday before.

- An electric utility that suffered from a major outage looked at employee feedback and engagement data and discovered that the outage could have been predicted (and prevented) by more carefully monitoring employee feedback. Now, the company uses a real-time text analysis tool to monitor open feedback from line workers around the region.

As these examples show, just as companies like Yelp, Glassdoor, and TripAdvisor offer feedback everywhere in the outside world, companies are also starting to offer open feedback systems internally. Yet not all companies are taking part in this transformation. Surprisingly, nearly one in five executives we surveyed (18 percent) reported that their companies do not formally measure employee engagement at all. Another 54 percent report

then, is not simply to have an engagement index but rather the far broader and more significant challenge of building an “irresistible” organization.⁶

Almost everything that happens at work has a direct impact on employees’ commitment to their work: how they are coached and evaluated; the work environment and the tools with which they work; their opportunities to grow and develop; and, of course, their relationships with managers and peers. Traditional definitions of engagement, therefore, need to be **expanded** to include five key elements that drive engagement: meaningful work, hands-on management, a positive work environment, opportunities for growth, and trust in organizational leadership.

Finally, topics such as “mission,” “values,” and “contribution to society” are driving engagement more than ever. Indeed, employees value “culture” and “career growth” at almost twice the rate at which they value “compensation and benefits” when selecting an employer.⁷ That is why culture and work environment have become the new drivers of employment brand and employee passion. The new model for “listening” must be coupled with a focus on “vision” and “values” in leadership as well. Engagement with

a mission has a magnetism no matter how troubled an organization as a whole may be.

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they are not fully ready to adopt an always-on approach. And only 8 percent of the executives we surveyed state that they measure employee engagement on a monthly or more frequent basis.

Nor is merely measuring engagement the whole answer. Engagement, retention, and employee productivity are complex and multi-faceted problems. Employees today are overwhelmed with too much work, managers are under pressure to build the right work environment, HR is trying to build programs for well-being and work-life balance, and the business itself is trying to focus more heavily on customers. The task around engagement,

Lessons from the front lines

Quicken Loans, one of the United States’ largest providers of home loans with revenues of more than \$2.8 billion, operates in one of the most traditional businesses in financial services. Yet through a special combination of leadership focus, employee programs, and an innovative work environment, the company has been recognized as one of *Fortune’s* 100 best companies to work for in 2014,

2013, and 2012.⁸ How does Quicken Loans accomplish this?

Quicken Loans looks at employee engagement as core to its strategy of providing excellent customer service. Its CEO, Bill Emerson, is responsible for identifying engagement problems, creating solutions, and working with his HR leadership to maintain the highest levels of engagement in the industry.

One of Quicken Loans' tools is a beautifully written color book called *The Quicken Loans ISMs*.⁹ ISMs are simple, easy-to-read principles and examples, which the book illustrates with pop art, that inform every business decision at the company. Examples include, "Every client, every time, no exception, no excuses"; "Obsess with finding a better way"; "Yes before no"; and "Ignore the noise."¹⁰ These principles, coupled with stories and examples, help employees feel empowered to do the right thing for customers.

The company is located in Detroit, yet its office feels like a high-tech startup. Open offices, bright colors, and lots of flexible work spaces help employees feel empowered, collaborative, and rewarded. The space is carefully designed to feel like an outside street, with minimal noise but lots of fun. Melissa Price, Quicken Loans' HR leader—as well as the CEO of dPOP!, the design company that created the office space—focuses heavily on feedback and openness. "We want [workers'] feedback, and then we immediately do something about it. And that just encourages and promotes more feedback and inclusion."¹¹

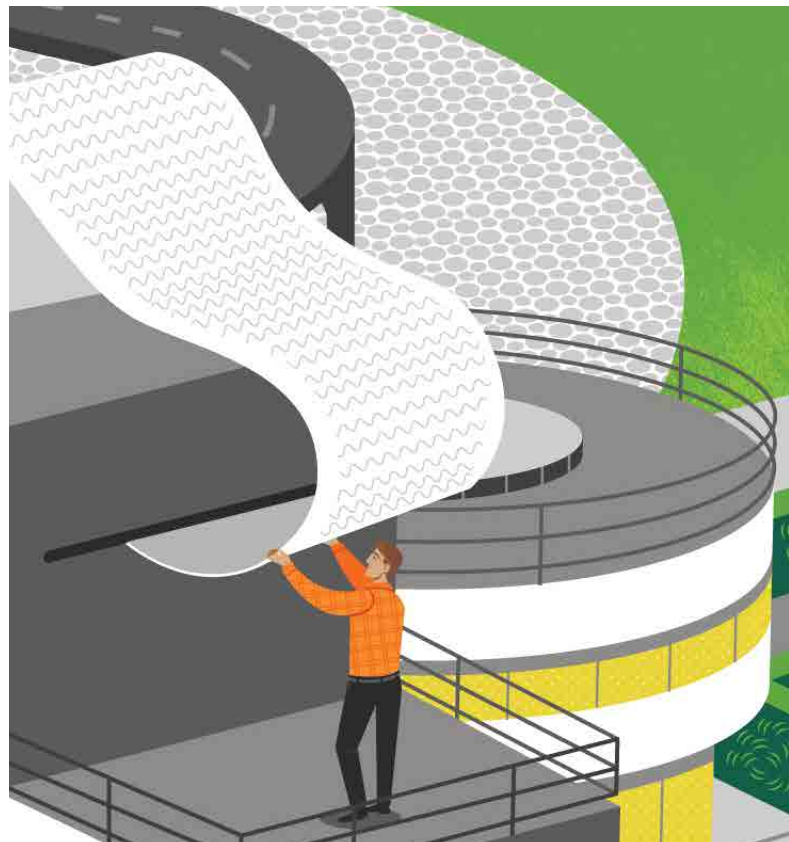
The company also offers child care, exercise classes, snack food, and other amenities not typically provided by many businesses. Team members receive personal notes from executives for anniversaries, birthdays, and holidays—and the company gives away game tickets, cash, and free trips when employees go the extra mile for customers. CEO Emerson even gives employees his personal phone number.¹²

The example of Quicken Loans clearly shows that you don't have to be a fast-growing

technology company located in Silicon Valley to create an amazing, highly engaged place to work.

Where companies can start

- **Redefine engagement:** Engagement is not simply about turning an organization into a great place to work. It also means reaching down to the team and individual levels to foster highly engaged teams of employees doing work they love to do.
- **Create a sense of passion, purpose, and mission:** Free food and ping-pong tables are fun perks, but companies that succeed in having highly engaged employees focus intently on driving meaning, purpose, and [passion](#) among workers.
- **Focus on all three levels:** Engagement must be created, measured, and monitored at the organization, team, and individual levels.



- **Link compensation to engagement:** Managers must embrace engaging their teams as one of their primary responsibilities. Tying team leaders' compensation to their team members' engagement sends a powerful signal and drives a sense of accountability about engagement efforts.
- **Consider “stay” interviews:** Many companies conduct “exit” interviews to find out why employees are leaving. It is far better to also use “stay” interviews to learn what it would take for an employee to stay at a company.
- **Final check: Is your engagement effort “always on”?** Perhaps the biggest challenge for HR in leading engagement programs is shifting from a transactional, once-a-year mind-set, to an “always on,” continuous listening approach to monitoring engagement.

BOTTOM LINE

Engagement is an issue not merely for HR but for the entire executive team. Leading companies work proactively on engagement: They continuously ask themselves why their employees would commit to working at the organization for any length of time and what they can do to make their organization more attractive. Surveys may be important in determining levels of engagement, but engagement fundamentally comes back to the question of exerting a continuous attraction for workers in the open talent economy.

Engagement is not reactive but proactive. Efforts to build engagement should be “always on” through extensive data use and analysis by business leaders. HR, too, must be proactive in engagement efforts. Leading companies have made this their goal and are reaping the benefits; all organizations that want a passionate workforce should follow suit.

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Learning

Employees take charge

The pressure on organizations to improve learning and development continues to intensify. Advances in technology, shifts in demographics, and the constant competitive necessity to upgrade workforce skills are disrupting corporate learning. These forces are pushing companies to develop new ways to put employees in charge of the learning experience and foster a culture of learning throughout the organization. This year, the big change is a shift beyond internal programs aimed at developing people to innovative platforms that enable people to develop themselves.

- More than eight in ten executives (84 percent) in this year's survey view learning as an important (40 percent) or very important (44 percent) issue.
- Employees at all levels expect dynamic, self-directed, continuous learning opportunities from their employers.
- Despite the strong shift toward employee-centric learning, many learning and development organizations are still struggling with internally focused and outdated platforms and static learning approaches.

LEARNING continues to be important to HR and business executives worldwide as they strive to adapt to the disruptive change that is sweeping through corporate learning and development organizations. (See figure 1 for our survey respondents' ratings of learning's importance across global regions and selected countries.) Several factors are driving the demand for change that has accelerated to warp speed over the past year.

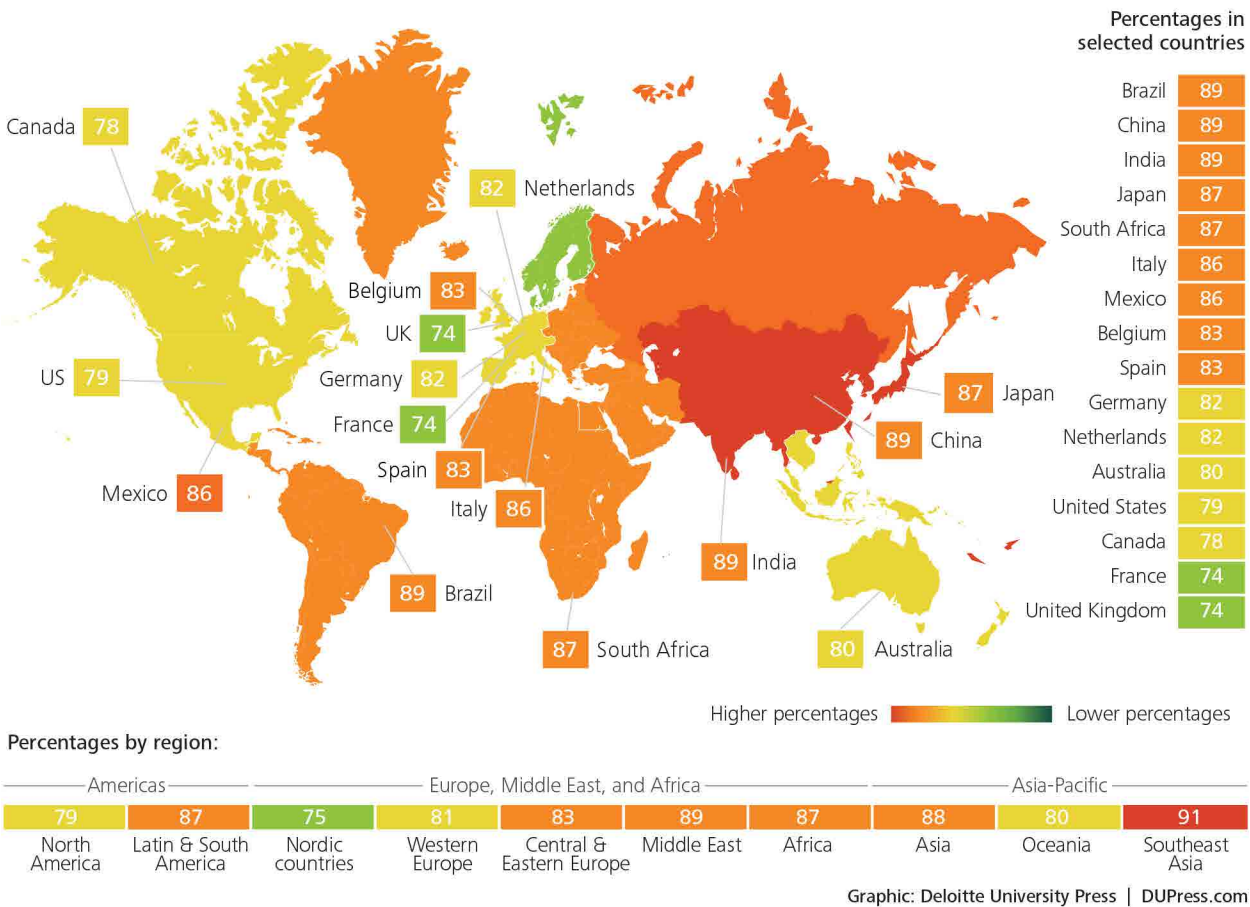
First, nearly every CEO and CHRO reports that their companies are not developing skills fast enough or leaders deeply enough.¹ In today's highly competitive global economy and intensely competitive talent market, the C-suite clearly understands that companies that do not constantly upgrade skills and rapidly build leaders will not be able to execute their business plans. In today's business environment, learning is an essential tool for engaging

employees, attracting and retaining top talent, and developing long-term leadership for the company.

Second, the ubiquity of always-connected mobile devices makes learning potentially available everywhere and accessible to everyone at any time. Employees can now take a course on nearly any subject online, search for an expert video or podcast to learn a quickly needed skill, and even earn a college degree in a new topic like data science without leaving their desk—or a couch or coffee shop. This new world of consumer-centric learning puts employees, not L&D departments, in charge.

Third, employees at all levels now recognize that “the learning curve is the earning curve,”² and they are demanding access to dynamic learning opportunities that fit their individual needs and schedules.³ Millennials and other young employees have grown up

Figure 1. Learning: Percentage of respondents rating this trend “important” or “very important”



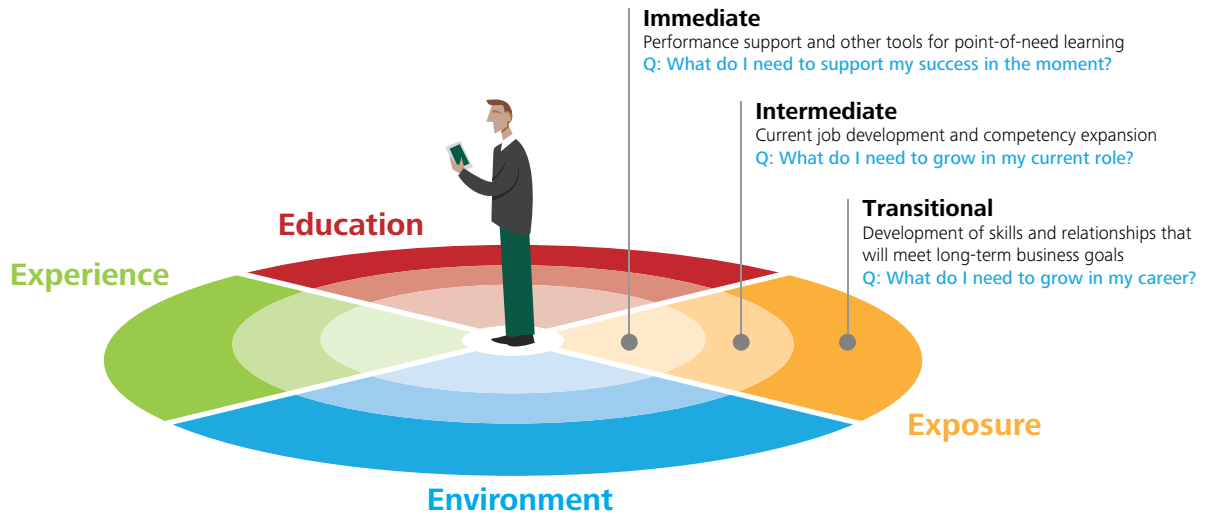
in this self-directed learning environment. They expect it as part of their working lives and careers—and they will move elsewhere if employers fail to provide it. Already, 30 percent of executives in our survey see learning as the primary driver of employee development.

While many organizations are struggling to adapt to these challenges, high-performing companies are seizing the opportunity to promote a new culture of learning, upending traditional models and transforming how employees learn. These organizations are adopting new mind-sets, fundamentally rethinking what “learning” and “development” mean in the context of their business. They place the employee at the center of a new architecture and new vision that treats learning as a continuous process, not an episodic event, and as a company-wide responsibility, not one confined to HR (figure 2).⁴

Supporting this new vision, learning and development organizations at these innovative companies are adopting new and expanded learning architectures.⁵ They see their role as not simply to push out content they have developed, but to enable employees to access content from a wide range of internal and external sources to create individual learning programs. To facilitate the effort to help employees “learn how to learn,” L&D teams are building internal knowledge-sharing programs, developing easy-to-use portals and video sharing systems, and promoting collaborative experiences at work that help people constantly learn and share knowledge.

These efforts seek to leverage the profound shifts taking place in the learning industry. Traditional learning management system companies are rapidly evolving in their ability to deliver modern, compelling experiences

Figure 2. A continuous learning model



Source: David Mallon and Dani Johnson, *The learning architecture: Defining development and enabling continuous learning*, Bersin by Deloitte, 2014, <http://bersinone.bersin.com/resources/research/?docid=17435>.

Graphic: Deloitte University Press | DUPress.com

for learners. Now, a new breed of disruptive, platforms is starting to arrive. New money and ideas are pouring into this sector. CB Insights, which tracks venture investments, estimates that more than \$3 billion was invested in new learning and educational start-ups in the first six months of 2015. Almost \$1 billion of this went into tools, content, and companies that focus on the corporate market.⁶

Much of this investment is directed at tools to harness video, new mobile learning apps, and an explosion of content marketplaces. Today, any employee can browse through content from Coursera, Udemy, Udacity, or a dozen other providers and instantly access a lecture, course, or workshop on a needed skill. Such platforms offer learning opportunities at little or no cost and even allow employees to interact online with experts in the field—learning exactly what they need, when they need it, at a time that fits their schedules.

This kind of technologically enabled, on-demand learning experience rarely exists within a corporation, and it is a world away

from the traditional learning programs still used by most L&D organizations. In particular, many companies are still struggling to ride the wave and integrate external platforms as part of their employee learning. In our survey, respondents cited a wide range of external learning opportunities that could impact internal development, including external certificates (32 percent), MOOCs (18 percent), and external, self-directed learning powered by social media (14 percent). Still, despite this robust array of choices, 61 percent of executives report challenges in moving their organizations toward external self-directed learning.

The goal is no longer to craft a learning program but to move beyond programs to curate the learning experience. Corporate training departments must become “learning experience architects” (to use a term from *design thinking*), building a compelling and dynamic experience for employees and helping employees learn how to learn.

Figure 3 describes some characteristics of this new mind-set and the ways in which

it could reshape the role of L&D organizations that embrace it. Of these shifts, the most fundamental for HR to make is to think of learning from the perspective of a user's daily experiences and career aspirations, rather than as a series of processes and programs that the learning function wants to roll out. The chief learning officer has the opportunity to lead the charge to make L&D professionals more like product managers working for customers who have unfulfilled needs, rather than simply designers of courses that employees are required to complete.

The transformation of learning is a powerful story, and most organizations are still in the first or second act of this multi-act drama. But

the trend is clear: The learning organization must help learners figure out how to obtain the learning they need for themselves, from both inside and outside the company. If your organization has not yet embarked on this journey, the time to start is now.

Lessons from the front lines

MasterCard has been on a journey, transforming itself from a traditional payments processing company into a technology company that provides the infrastructure that connects consumers, banks, and businesses.⁷ With its underlying business model evolving to address new opportunities and competitive threats,

Figure 3. Learning, today and tomorrow

Today	Tomorrow
Learning is a series of corporate programs built around L&D-designed content and L&D-approved experts.	Learning is an "environment" and an "experience," leveraging experts, content, and materials sourced and recommended by external communities as well as by other employees and internal experts (not just L&D).
The learning environment is managed by a corporate learning management system —essentially a large catalog filled with courses.	The learning environment feels like a consumer website that provides videos, courses, content, and access to experts—as well as recommendation engines that help people find precisely what they need.
L&D, business, and compliance experts push out training , identifying required courses to be completed by employees based on roles.	Employees pull learning , navigating and accessing opportunities from inside and outside of the company.
The focus is on internal training sanctioned by the company.	External training is available from any digital content source.
Learning professionals are generalists who do everything from design to development, logistics, and measurement.	Learning professionals are specialists who are excellent at the component they own.
Training follows a lecture-based model guided by an expert.	Training is experiential , relying on simulations, case studies, and flipped classrooms.
Employees learn specific skills through expert-guided instruction.	Employees learn how to learn through facilitation and coaching.
Organizations create detailed, exhaustive, skills-based competencies that drive the learning agenda.	Organizations create high-level frameworks that outline broad capabilities.
The learning organization plays a lead role in what a person learns and focuses on delivering work experiences, interactions with others, and formal training in the traditional 70-20-10 ratio.	The learning organization plays a supporting role in what a person learns, expanding the 10 to include "inside" and "outside" learning; shifting the 20 to include internal and external networks; and redefining the 70 to include corporate, community, and social experiences.

the company is seeking to build capabilities to stay agile and keep new products and services flowing. And with an increasingly diverse workforce—now more than 40 percent Gen Y—it is becoming harder to engage employees with traditional learning approaches.

Janice Burns, chief learning officer and head of Global Talent Development and Organizational Effectiveness, challenged her team to reinvent their approach to learning by constructing responsive, agile, and personal solutions that would meet the organization's evolving demands along with employees'. To do that, she first had to lead a mind-set shift within her own organization—away from periodic programs owned

The transformation of learning is a powerful story, and most organizations are still in the first or second act of this multi-act drama.

by learning professionals to self-directed solutions owned by individual employees. No longer would her learning team focus on telling people what to learn but instead show them what they can learn, providing access to resources, tools, and connections to enable individuals to do their jobs and build their careers better.

Key to refocusing her team on the individual was segmenting audiences and getting to know their needs, which she did by aligning Global Talent Development (GTD) leaders with specific business units to work with operational leaders. She also empowered her team to experiment with new learning tools and technologies, encouraging them to work lean, fail fast, and



Employees need to be viewed as customers to be satisfied, rather than as students to be pressured into traditional learning classrooms.

scale up successes. Trying something that did not work became acceptable—in some ways a sign of tangible progress toward a culture of innovation.

As they explored new learning formats, the GTD team's attention shifted from traditional courses and programs pushed to employees solely via the learning management system (less important in any high-performing learning organization), to more employee-driven solutions such as mobile performance support, massive open online courses (MOOCs), on-demand micro-learning, and online communities.

One new learning platform taking off with MasterCard's Operations & Technology (O&T) group, for example, is Degreed. The system, which enables self-serve career development, empowers individuals and subject matter specialists to curate their own learning "playlists," mixing and matching internal and external learning content from a variety of sources and formats. Articles, videos, MOOCs, podcasts, and webinars can all be woven together into a personalized learning experience to help employees develop the skills they want to focus on.

The initial feedback from the roll-out to the company's O&T function is promising. Stories highlight that managers and professionals now feel equipped with tools to drive their own development. "I am willing to invest more into the tool because it will follow me no matter where my career takes me," said one systems analyst. Similar feedback will continue to emerge as MasterCard deploys the platform

more broadly across the rest of the enterprise.

MasterCard is in the early stages of its journey toward a culture of entrepreneurship and empowerment. However, having the GTD organization act as a living example of this new culture through its own experimental approach has already enabled

it to become a meaningful catalyst for change within MasterCard.

Where companies can start

- **Recognize that employee-learners are in the driver's seat:** Learning organizations should think deeply about how the user experiences a company's learning offerings. Employees need to be viewed as customers to be satisfied, rather than as students to be pressured into traditional learning classrooms.
- **Become comfortable with the shift from push to pull:** Switching from a content-centric "push" approach to a learner-centric "pull" approach requires a cultural shift within learning organizations. Giving up full control over learning content, schedules, and platforms may not be easy, but learning organizations that embrace this shift can deliver more effective learning throughout the organization.
- **Use design thinking:** Learning organizations should think less about developing content and more about the month-by-month, day-by-day, and hour-by-hour experience of the learner.
- **Use technology to drive employee-centric learning:** Mobile, social, and web-based platforms that can deliver on-demand learning content are "must-have" capabilities. The best systems can easily integrate

any type of digital content and allow learners, as well as learning professionals and business managers, to add and suggest content. Companies should be cautious before investing in massive new systems, and they should monitor developments from innovative vendors to help build effective learning applications.

- **Realign and reengage:** HR and learning leaders must align the learning function with business needs and goals. For many learning teams, doing so can also be an opportunity to reengage with employees, as many learners have stopped looking to their corporate learning departments for training and are already immersed in the

enormous range of available digital learning and content.

- **Adopt a learning architecture that supports an expanded vision for development:** Rethink what “development” means in the context of the organization. If such a vision does not yet exist, adopt one and communicate it broadly.
- **Adopt a learning architecture that supports continuous learning:** Dedicate resources, set expectations, and align corporate culture with the goal of enabling employees to get the learning they need, when they need it, at every stage in their careers.

BOTTOM LINE

Shifting from an internally focused, corporate-centric learning universe to a learner-centric one upends many long-held beliefs in the HR community. Employees will likely find it easier to make this pivot than HR departments because this new world is already part of their mobile, social, and online lives. For their part, business, learning, and HR leaders must embrace a new mind-set that puts learners in the driver’s seat, redesigning programs to harness the power of technology and the amazingly diverse wealth of instantly available external content, and offering great user experiences to learners.

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5. Bersin by Deloitte defines a learning architecture as an organization’s unique map of agreed-upon learning needs, learning strategies, and delivery strategies for all of its talent. This provides both the L&D function and the business a clear view of what types of problems the organization will solve, how they will solve them, what tools they need, and which approaches the organization will take. It deliberately limits the organization’s options by deciding how and where the L&D function will focus its efforts—and it builds upon the organization’s culture and history of learning. (Source: Mallon and Johnson, *The learning architecture*.)
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Design thinking

Crafting the employee experience

Employees are overwhelmed with technology, applications, and a constant flood of information. Deloitte research shows that people collectively check their phones more than 8 billion times each day,¹ yet productivity is barely rising.² To relieve the [overwhelmed employee](#) and develop HR applications that can help manage complexity, HR must adopt design thinking, which puts the employee experience at the center.³ Design thinking moves HR's focus beyond building programs and processes to a new goal: designing a productive and meaningful employee experience through solutions that are compelling, enjoyable, and simple.

- Design thinking provides a means to focus on the employee's personal experience and to create processes centered upon the worker. The result: new solutions and tools that directly contribute to employee satisfaction, productivity, and enjoyment.
- HR departments should upgrade their skills to incorporate key design thinking concepts such as digital design, mobile app design, user experience design, and behavioral economics.
- Design thinking is important, and it works. In this year's survey, respondents at companies where HR delivers the highest levels of value are almost five times more likely to be using design thinking in their programs than their peers.⁴

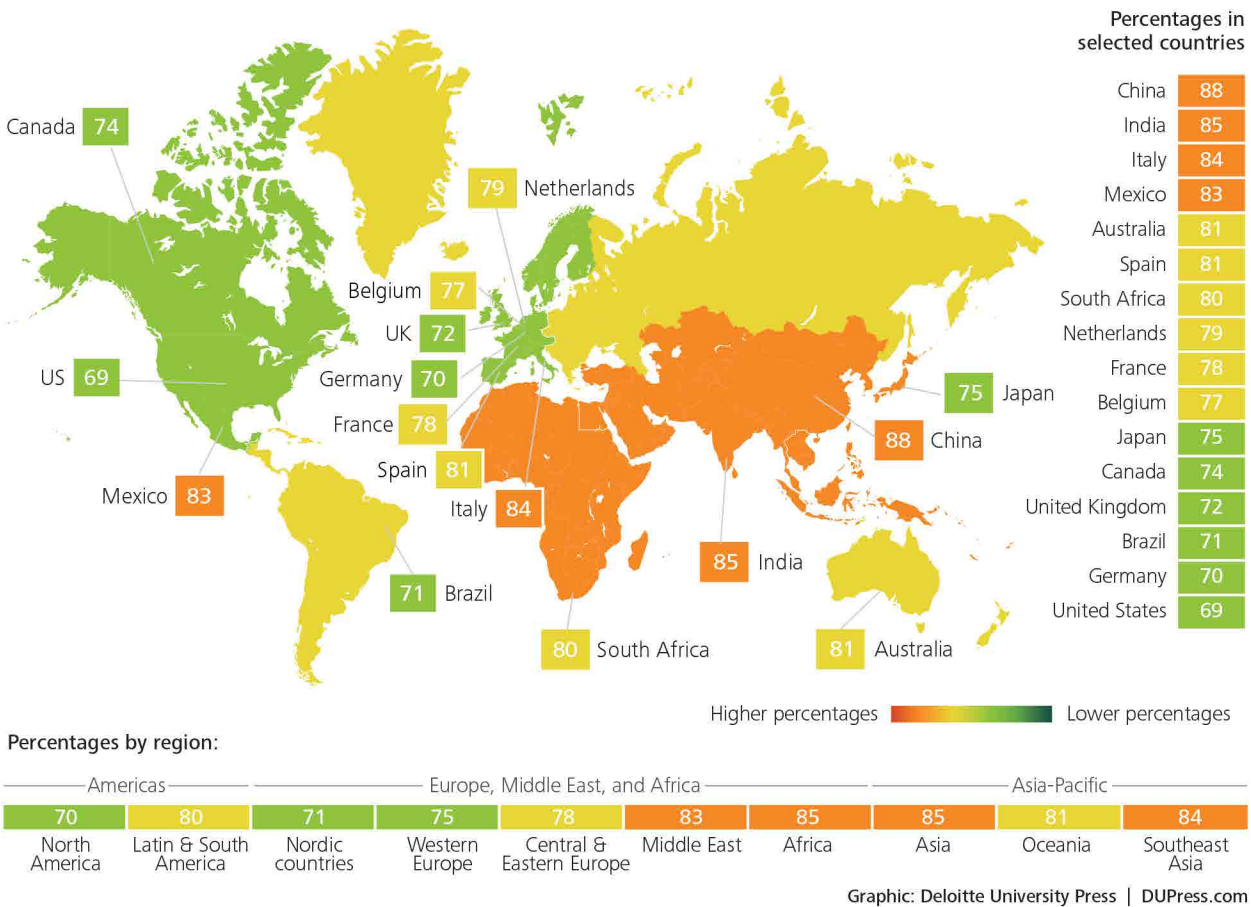
TRADITIONAL HR solutions are typically programs or processes to train people, assess performance, ensure compliance, or document a practice at work. Most were built around forms, process steps, formal training, or classroom events. While these strategies work to a degree, today's employees are already overwhelmed with a flood of email, messages, meetings, and other workplace distractions. Two-thirds of companies now believe [complexity is an obstacle](#) to business success and a barrier to growth in business productivity.⁵ Perhaps this is one reason why 79 percent of executives in this year's *Global Human Capital Trends* survey rated design thinking an important or very important issue. (See figure 1 for our survey respondents' ratings of design

thinking's importance across global regions and selected countries.)

Design thinking casts HR in a new role.⁶ It transforms HR from a "process developer" to an "experience architect." It empowers HR to reimagine every aspect of work: the physical environment; how people meet and interact; how managers spend their time; and how companies select, train, engage, and evaluate people. One CHRO calls herself the "chief employee experience officer," which effectively summarizes this powerful new mandate.

Simply described, design thinking means focusing on the person and the experience, not the process. At its core, working as a designer involves studying people at work, and developing "personas" and "profiles" to understand

Figure 1. Design thinking: Percentage of respondents rating this trend “important” or “very important”



employee demographics, work environment, and challenges. It relies on generating ideas quickly and testing prototypes that generate further ideas, digital tools, and solutions.⁷

Applying design thinking to the work experience compels HR to ask, “What does a great employee experience look like from end to end? How can we facilitate collaboration and learning in everything we do? How can we take advantage of location-aware mobile devices to make people more productive? How can we give employees a few easy-to-understand choices so they can make decisions faster?”

Many companies are relying upon design thinking. GE, for example, has made simplification a core new business strategy.⁸ It is introducing design thinking, a simplified model for performance management, new mobile apps for goal management and collaboration, and a new set of principles for work. The company now uses agile methodologies throughout

product development and is teaching managers how to help teams “do less” and “focus more.”

One fundamental idea in design thinking is the use of behavioral economics. Many HR practices can be replaced with “intelligent choices,” using the principles of behavioral economics to encourage better decisions.⁹ Should a company, for example, give people 10 options for 401(k) plans? Or rather select three that offer the best performance? Such “choice architecture” can make work far easier and more enjoyable for employees—and increase employee participation in the program.

Design thinking—or lack of it—can make a huge difference in how companies are perceived. Take recruiting. The Talent Board found that more than half the candidates who find the job-application experience difficult develop a negative impression of the company’s products and services.¹⁰ Companies such as Zappos and others design the candidate

experience to attract high-performing people and make it easy to find the right job and apply quickly.¹¹

Other companies are using design thinking to improve learning dramatically. Deckers Brands,¹² Nestlé,¹³ and Qualcomm¹⁴ have used design thinking to develop highly intuitive, experiential learning programs. Experiential learning programs begin with the individual and the context of an employee's work rather than a model in which the presenter is the focus. They offer learning programs that are much more stimulating and engaging and lead to higher skills retention. In addition, they do not depend on a learning management system but can leverage new learning technologies to promote continuous learning.

The data from our survey this year suggest that the more importance an organization places on design thinking and the more ready it is to embrace it, the faster the organization grows. Companies growing by 10 percent or more per year are more than twice as likely to report they are ready to incorporate design thinking, compared to their counterparts that are experiencing stagnant levels of growth.

Exciting new digital tools that employ design thinking are also making routine HR tasks more efficient and easy, while improving the employee experience. Australia and New Zealand Banking Group developed an easy-to-use mobile app that allows employees to manage their time and attendance, benefits, and vacation schedule, while also enabling them to collaborate with colleagues.¹⁵ DuPont completely redesigned its online HR portal around the end user's experience, dramatically reducing the time employees spend on traditional HR management processes.¹⁶ Beyond recruiting, learning, and other HR processes, design thinking has been used to improve performance management and coaching at companies such as Adobe,¹⁷ and Autodesk,¹⁸ and New York Life.

Organizations are also starting to use employee personas to understand the unique needs of distinct employee segments. At one

Australian government agency, eight personas were considered as the agency was designing a new HR portal. The organization found that 27,000 of its 45,000 employees were remote field workers who do not use company-sponsored technology and function independently. Through focus groups and a survey, the agency uncovered surprising and

Design thinking—or lack of it—can make a huge difference in how companies are perceived.

practical insights around communication, collaboration and knowledge management, and self-service administration across all personas. For example, the biggest frustration for these remote employees was the inability to access their work schedules, submit absence requests, or order uniforms using their personal technology. These insights guided the systems design. Today, the employee persona profiles are a standard component of the agency's orientation program.¹⁹

With more companies embracing design thinking, we see it connecting many of the trends we highlight this year, including:

- **Organizational design**, which can incorporate design thinking when restructuring roles or the organization itself
- **Engagement**, which research shows can be driven by using design thinking to make work easier, more efficient, more fulfilling, and more rewarding
- **Learning**, in which new, self-directed learning experiences can be shaped by design thinking's central principle of putting the user experience ahead of the process

- **Analytics**, in which data analysis and design thinking can be linked to recommend better solutions directly to the employee
- **HR skills**, which must be upgraded to incorporate an understanding of digital design, mobile application design, behavioral economics, machine learning, and user experience design
- **Digital HR**, where design thinking is critical in developing new digital tools that can make work easier and better

Just as successful companies continually ask how to improve customer experiences and how those experiences compare to their competitors, HR can approach employee experiences with the same rigor. While design thinking may involve significant changes to workplaces, systems, processes, and other business elements, its focus is on *people*.

As a recent *Harvard Business Review* article by Jon Kolko noted, “People need their interactions with technologies and other complex systems to be simple, intuitive, and pleasurable.” Because “design is empathetic,” the article continues, “it implicitly drives a more thoughtful, human approach to business”—one that makes the workplace more attractive to both current and prospective employees.²⁰

Successful design thinking integrates an understanding of human behavior. What motivates people? How do they see themselves? What do they value? How do they express those values in typical office behavior? In seeking to answer these questions, HR

teams do not have to start from scratch—often, they can look inside the organization for ideas and inspiration.

Lessons from the front lines

Telstra is Australia’s leading telecommunications and information services company, offering a full range of communications services and competing in all telecommunications markets. As with all telecommunications companies, Telstra hires thousands of employees each year.²¹ New employees have to learn

a dizzying number of systems, products, pricing plans, and ways of doing their job, so turnover and engagement are always issues. To address this strategic challenge, Telstra used design thinking to develop a new “90-Day” onboarding experience for all employees as well as an individualized executive induction program.

The process included:

- **Focusing questions:** “Discovery interviews” with leaders to frame the challenge and set objectives for the program
- **Ethnographic research:** Interviews and focus group sessions with employees, HR, and managers to explore challenges and needs across the first 90 days’ experience
- **Synthesis:** Comparing insights from the ethnographic research with HR demographic and turnover data to identify key transition points and work task areas that could be dramatically improved to “delight” employees

The data from our survey this year suggest that the more importance an organization places on design thinking and the more ready it is to embrace it, the faster the organization grows.

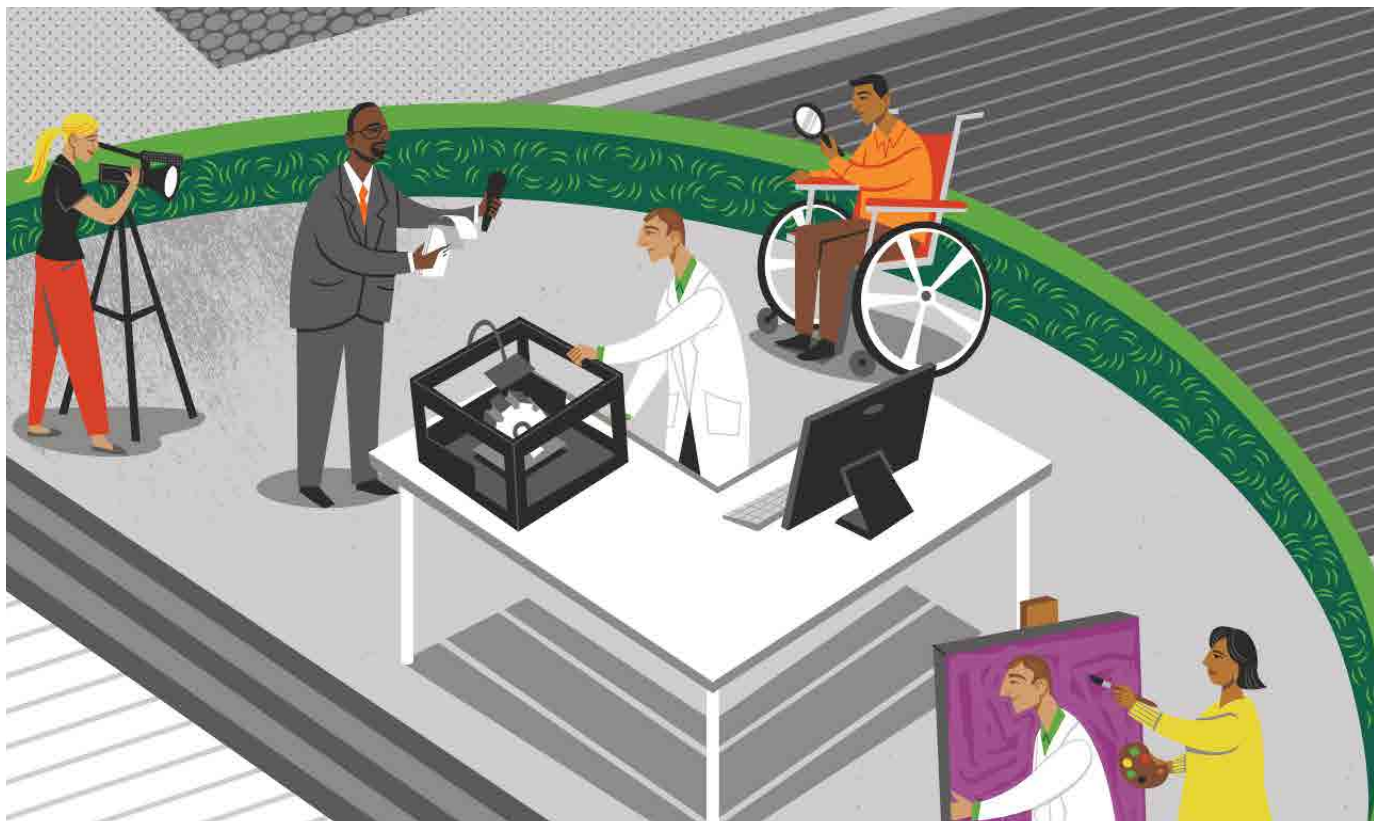
- **Prototyping:** Developing low-fidelity tools and solutions that were tested and refined multiple times to allow for “fast failure” and the integration of lessons learned
- **Visualisation:** Using persona-based blueprints that describe the onboarding journey in an engaging way, allowing leaders and others to emulate the project team’s journey and increase engagement in the design.
- **Join:** Make the experience personal, but also easy and clear on how to quickly become part of the organization
- **Learn:** Provide time and space to allow for key learning to happen as quickly as possible
- **Contribute:** Provide guidance, support, and coaching to foster productivity
- **Grow:** Provide acknowledgement and celebrate achievements to motivate continuous growth in a new role

Through this design thinking process, Telstra gained important insights into key pain points, needs, and challenges of the current onboarding process during the first 90 days. The research proved that employees who succeeded in the first 90-day period were far more productive over the entire course of their employment than those who struggled.

Using insights from this research, Telstra designed the onboarding approach around four elements:

The result: Productivity rose, employees became more committed and engaged, and new hires became more quickly integrated into the organization.

Now a huge fan of design thinking, Telstra has applied the process to improve leadership development, the HR services experience, change management programs, and other employee development programs.²²



Where companies can start

- **School HR in design thinking:** HR should move away from “process design” to “human-centered design.” This means studying what employees do, visiting their workplaces, and observing their behavior. Based on these insights, solutions and programs can be designed that improve productivity, boost engagement, and increase employee satisfaction while also providing training or other HR services.
- **Learn from design thinking in customer service:** Many companies use design thinking in developing their customer service programs. To gain understanding, HR should visit great retail stores, restaurants, or universities. By examining satisfying experiences outside of work, HR can use these examples in HR design.
- **Prototype, pilot, test, and learn:** New programs should be prototyped and then piloted with a small group. By understanding what this group loves and what it dislikes, HR can improve the end-to-end employee experience.

BOTTOM LINE

With its focus on people, HR leaders have an opportunity to be designers, creating a more engaging and effective HR solution. Applied correctly, design thinking is a rigorous, disciplined method of problem-solving. It represents an opportunity for HR to reshape how it works with the organization and to redesign its own procedures, using technology to ensure positive employee interactions.

Done well, design thinking promotes a virtuous cycle, generating higher levels of employee satisfaction, greater engagement, and higher productivity for the company. In their new role as designers, talent leaders should ask: How can HR take the lead in crafting and shaping the employee experience? How can HR design overall experiences that engage employees at all stages, from candidates through alumni? Equally important, how can HR help build and reinforce design capabilities throughout the organization?

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HR

Growing momentum toward a new mandate

HR is under increasing pressure from business leaders to drive innovative talent solutions, improve alignment with business imperatives, and turn data into actionable insights. Is HR up to the task? Good news: This year's survey and other research show an improvement in the HR organization's skills, business alignment, and ability to innovate. While HR organizations have significant work to do, HR leaders are adapting more quickly now to changing business demands and stronger skills requirements.

- HR's role is expanding beyond its traditional focus on talent management, process, and transactions. HR is becoming an innovative consultant with a broader responsibility to design, simplify, and improve the entire employee and candidate experience.
- This year, HR teams are more focused on innovation, analytics, and the rapid adoption of cloud and mobile technologies to make the work experience better.
- Respondents' rated readiness in the area of HR skills has increased 14 percent since 2014,¹ and the percentage of respondents who rate their HR teams "good or excellent" has risen 6.2 percent. Companies with leading HR practices are now celebrating them publicly, raising the bar for organizations of all sizes.

OVER the last several years, a cottage industry of business writers has made headlines by sharply criticizing HR. Some believe the HR function should be split in two.² Others advocate doing away with it altogether.³ The typical complaint is that HR is too bureaucratic, too administrative, and not innovative enough; HR professionals are not well-aligned with the business and lack the analytical skills to make data-driven decisions.

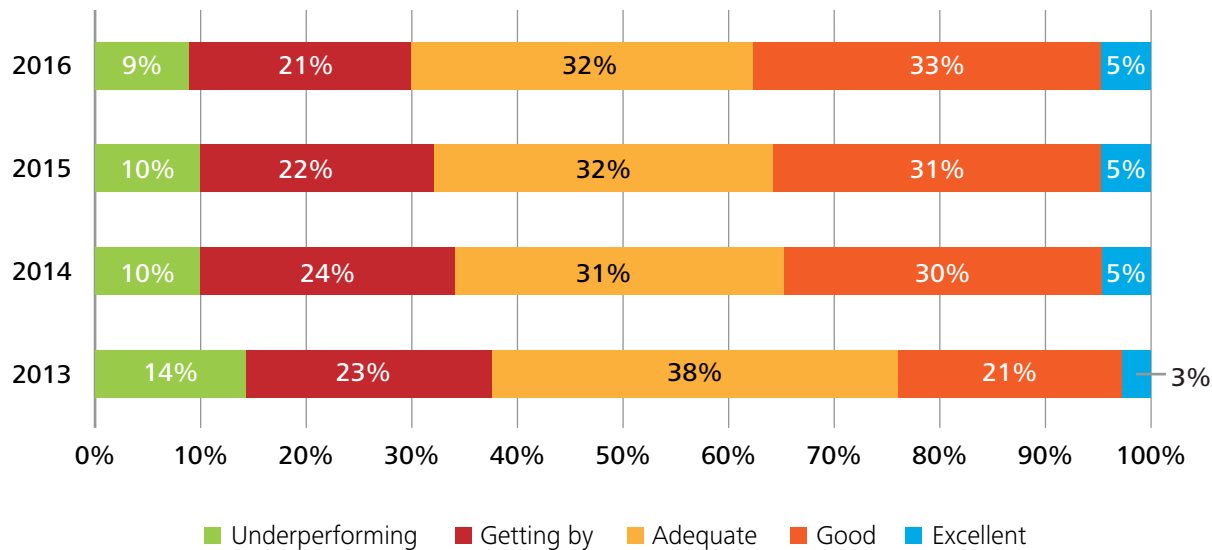
Last year, Deloitte was part of that chorus. Our 2015 *Global Human Capital Trends* report concluded that HR needed an "extreme makeover." We noted that HR skills were weak, companies were not spending enough on developing HR professionals, and HR itself was too focused on service delivery and not enough on building consulting skills.

While some of these complaints remain valid, this year we take a contrary view. In fact, we believe HR is turning the corner.

Our research shows that the percentage of respondents rating HR's performance "good" to "excellent" has been trending upward over the past few years (figure 1). There has been significant progress in the areas of employee engagement, culture, analytics, and the adoption of cloud-based HR technology. While HR teams still face daunting challenges—particularly in leveraging design thinking, digital HR, behavioral economics, and real-time feedback—a new generation of inspired HR leaders is entering the profession, and the progress is real.

HR teams are on the move. Organizations' readiness to deal with employee engagement and culture rose by 13 percent this year; their

Figure 1. HR’s rated performance has steadily improved over the past few years



Graphic: Deloitte University Press | DUPress.com

readiness in analytics jumped by 11 percent, and their readiness to address leadership development went up by 14 percent (see figure 2).⁴ Thanks to this progress, the percentage of executives who believe HR is “underperforming” or just “getting by” has fallen 11 percent over the last two years.

Three factors contribute to our positive conclusion this year:

- **HR is innovating—and improving:** In 2015, 56 percent of surveyed companies believed their HR teams were innovative; in

2016, this rose to 60 percent. Companies in consumer products, financial services, professional services, and life sciences scored even higher.

- **HR is embedding itself and aligning with the business:** In 2015, 58 percent of companies rated themselves positively in this area, and in 2016, this number increased to 64 percent.
- **HR is beginning to reskill:** In 2015, 66 percent of companies were focused in this area; in 2016, this increased to 68 percent, with the percentage of organizations rating themselves “excellent” jumping from 11 percent to 15 percent—a 36 percent increase.

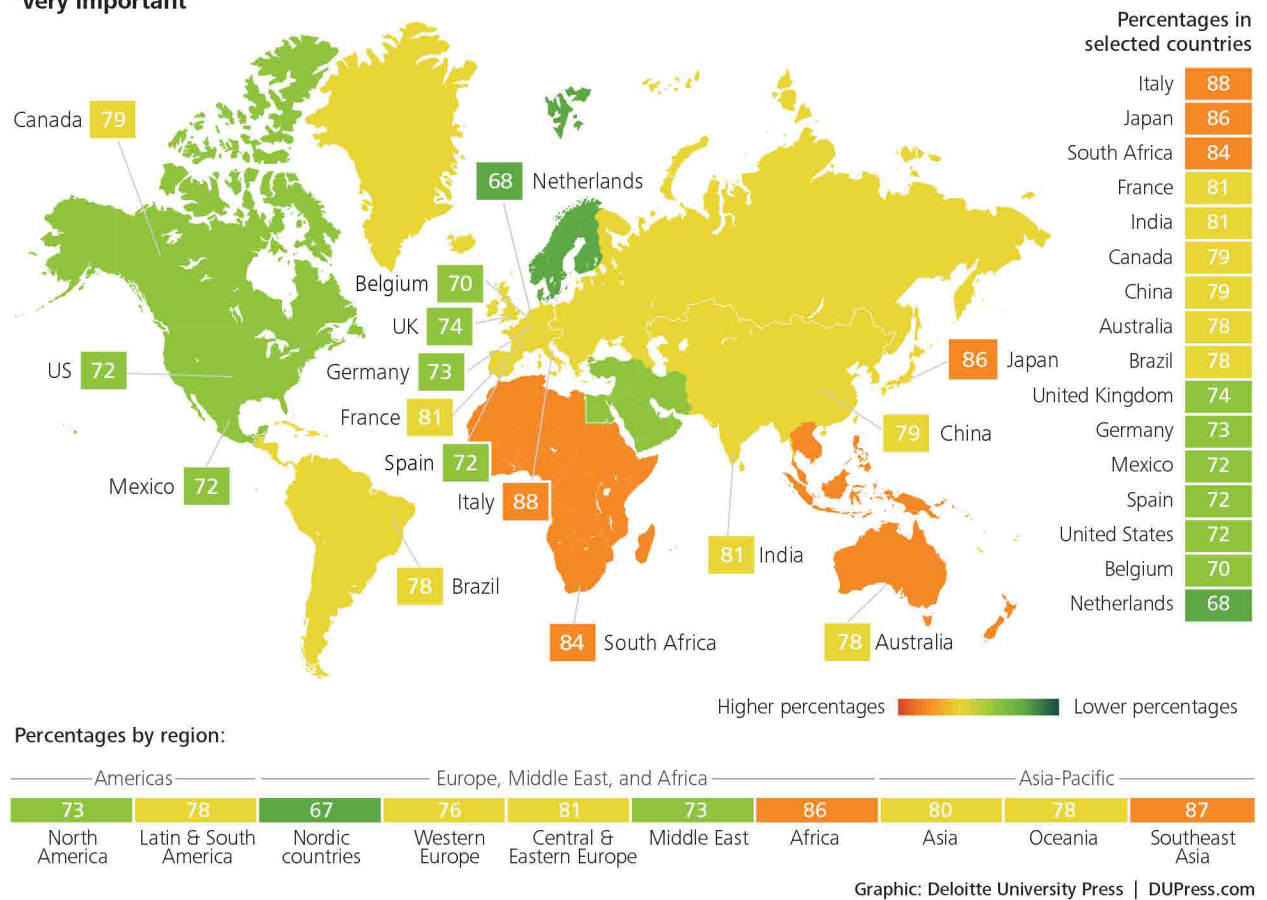
This progress, admittedly, is not consistent; our survey found differences in the rated importance of HR skills across the globe. Companies in Southeast Asia and Africa have a greater need to change HR skills, while countries such as Japan and Italy have not progressed as far in modernizing their HR functions. (See figure 3 for our survey respondents’ ratings of the importance of the changing skills of the HR organization across global regions and selected countries.)

Figure 2. Increase in HR organizations’ readiness to address specific issues

Company capabilities in talent practices	Percent change in readiness index from 2015 to 2016
Leadership development	14%
Employee engagement and culture	13%
Analytics	11%
Learning	7%

Note: See endnotes 1 and 4 in this chapter for an explanation of the readiness index.

Figure 3. Changing skills of the HR organization: Percentage of respondents rating this trend “important” or “very important”



While companies may be tempted to look at this progress and take their feet off the accelerator, this is no time to slow down. Only 17 percent of HR teams report they have a very good understanding of their company’s products and profit models; a mere 14 percent believe they are highly skilled at addressing global HR and talent issues; and only 8 percent have a very good understanding of cybersecurity issues.

This year, therefore, HR organizations should build on their momentum by tackling the remaining challenges.⁵ As companies change *the way they are organized*, HR must adapt its operating model as well.

Today, high-impact HR organizations⁶ are moving away from a “service provider” mentality to becoming valued talent, design, and employee-experience consultants. They are now deeply embedded in the business through senior business-partner leadership roles. At the same time, traditional HR generalist roles are

being moved to highly efficient HR operations centers that are enabled by powerful mobile HR apps.

In this new model, HR professionals must be more business-oriented specialists, possessing critical new skills in the following areas:

- **Organizational networks:** Analyzing, building, and developing network capabilities and expertise
- **Team-building and team leaders:** Cultivating team leaders who can coach and develop people, not just give direction
- **Employee engagement and culture:** Measuring and improving the workplace culture, and understanding culture models
- **Design thinking:** Becoming “experience architects”

- **Analytics and statistics:** Becoming evidence-based leaders who embrace behavioral economics and testing
- **Digital:** Moving beyond mobile and cloud applications by building true digital HR platforms and apps
- **Employment experience and brand:** Crafting and communicating the company's value proposition

Today, high-impact HR organizations are moving away from a “service provider” mentality to becoming valued talent, design, and employee-experience consultants.

As HR makes this major shift from compliance and service provider to steward and champion of the total employee experience, some companies are beginning to think about HR in new ways.

Companies like Airbnb⁷ and Deckers Brands⁸ are creating roles such as “chief culture officer” and “chief employee experience officer” to reflect HR's new mandate. Following the establishment of offshored shared services in 2010, one energy company introduced a head of process center of excellence (CoE) to drive simplification, and later introduced a new head of HR analytics to drive better insights alongside investments in learning systems and training.⁹

Companies such as Philips and Nestlé are changing their learning and development functions to focus on “learning experience design.” This shift encompasses not just delivering learning programs, but creating innovative new learning environments.¹⁰

Commonwealth Bank of Australia¹¹ and Telstra¹² are focusing on “user-centric design” and design thinking to build new apps and new experiences for employees based on the new disciplines of digital HR. And many companies are switching to new “business-embedded” HR roles, responsible for being the “VPs of HR” for their organizations.

Part of this transformation includes HR teams implementing talent management for themselves. These development and leadership efforts include:

- Job rotation programs, including moving HR people into the business and businesspeople into HR. Companies like Halliburton¹³ and Google¹⁴ now hire businesspeople for HR roles and give them aggressive rotational assignments so they can learn the HR domain and gain experience advising business leaders at all levels.
- Developing internal certification programs, research groups, and developmental assignments to find high-potential leaders within HR and offer them breadth and global experience. UnitedHealth Group¹⁵ and Halliburton¹⁶ have adopted similar programs to speed up the development of HR leaders.
- Attracting younger, Millennial HR professionals who intuitively understand the life, needs, and expectations of the new generation of workers.

One CHRO tells HR leaders to “spend their time where the company makes money.” Another believes that “half of our HR professionals will have MBAs within the next five years.” These stories reveal a quantum shift in the redefinition and reinvention of HR.¹⁷

As a profession and as a function, HR is turning the corner and is now accelerating in the right direction. Despite this progress, the speed of business change continues to increase, and in 2016, HR organizations must adapt faster than ever.

Lessons from the front lines

EDF Energy is one of the United Kingdom's largest energy companies, employing more than 14,000 people. The company serves 5 million residential and business customers and produces 20 percent of the United Kingdom's electricity.¹⁸

In an effort to optimize training, learning, and development, EDF Energy is introducing a sustainable framework for developing its current and future workforce by building a series of business line academies (BLAs) that provide professional education, personal development, and career development for employees in all the company's major functional areas (HR, IT, finance, and other service functions). The first such academy was the HR BLA, which launched in May 2014.

EDF Energy's HR BLA is supported by senior business sponsors from across the business and managed by a dedicated learning and development team. The company used a systematic approach to build a curriculum, assessments, and career models for the 500-plus HR professionals—including health, safety, and environment staff—employed throughout the company. While the curriculum is based on the competency model developed by the Chartered Institute of Personnel and Development,¹⁹ which describes the skills and capabilities needed for a wide range of HR roles, the content is specifically adapted to the needs of EDF Energy. The BLA includes an online learning platform, digital tools, competency self-assessments, career maps, and formal training programs (for example, course schedules, webinars, reading materials, and videos). The company assigns senior learning and development specialists to help subject matter experts develop custom programs to make sure all training investments are relevant to local business priorities throughout EDF Energy.

Now 18 months old, EDF Energy's HR BLA has already saved EDF Energy significant money in ad-hoc training and education costs. It is an example of a new breed of HR professional programs starting to emerge that focus on keeping HR professionals up to date, giving them ongoing career guidance, encouraging them to collaborate, and making the HR function fully aligned and skilled in its support of business operations.²⁰



Where companies can start

- **Understand HR's changing mandate, mission, and role:** Some elements of the mandate are new; others are consistent with past work. Understand the differences and act on them.
- **Rethink the HR structure:** Are enough specialists and business partners embedded in the business? Are HR centers evolving from service centers to real-time operations centers that are efficient and operationally excellent? Is there a clear view on which skills the HR organization will need in the future?
- **Upgrade technology:** More than 40 percent of all companies are embarking on a replacement of core HR technology with modern cloud systems. Is the organization far enough down that path and pushing mobile and app-enabled HR fast enough? Continue to leverage technology as a way to upgrade skills and move away from traditional HR transactional work.
- **Reimagine HR capability development:** Companies should consider tailored development programs specifically designed to help HR professionals understand new roles and grow their capabilities to meet heightened business expectations. Rotational programs in both directions—from HR to the business and from the business into HR—are a critical part of this effort.

BOTTOM LINE

HR is turning the corner. Highly regarded HR teams are now actively building expertise in design thinking, new organizational structure and teams, and business-integrated HR. This is not a time for complacency, however, but for continuing to look in the mirror and ask hard questions. Is HR an exciting place to work? Is turnover declining relative to other functions in the business?

HR organizations and their leaders should invest further to build new capabilities. Without HR pushing itself to develop the skills it needs, it will not happen. HR's future lies in its ability to evolve to improve culture and engagement, build a new generation of leaders, and leverage technology to implement digital HR and design thinking. Only in this way can HR enhance the employee experience and build the talent leaders the organization needs.

Endnotes

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People analytics

Gaining speed

The people analytics revolution is gaining speed. While HR organizations have been talking about building analytics teams for several years, in 2016 we see a major leap forward in capabilities. Businesses have recognized they need data to figure out what makes people join, perform well in, and stay with an organization; who will likely be successful; who will make the best leaders; and what is required to deliver the highest-quality customer service and innovation. All of this can be directly informed by people analytics. Companies are hiring people analytics staff, cleaning up their data, and developing models that help transform their businesses.

- This year, the percentage of companies that believe they are fully capable of developing predictive models doubled, from 4 percent in 2015 to 8 percent in 2016. In 2015, only 24 percent of companies felt ready or somewhat ready for analytics; this year, that number jumped by one-third, to 32 percent.
- People analytics today brings together HR and business data from different parts of the business and is now addressing a wide range of challenges: analyzing flight risk, selecting high-performing job applicants, identifying characteristics of high-performing sales and service teams, predicting compliance risks, analyzing engagement and culture, and identifying high-value career paths and leadership candidates.
- Analytics technology is now available off the shelf, embedded in most ERP and talent management systems, engagement tools, text and semantic analysis tools, and recruitment and learning platforms.

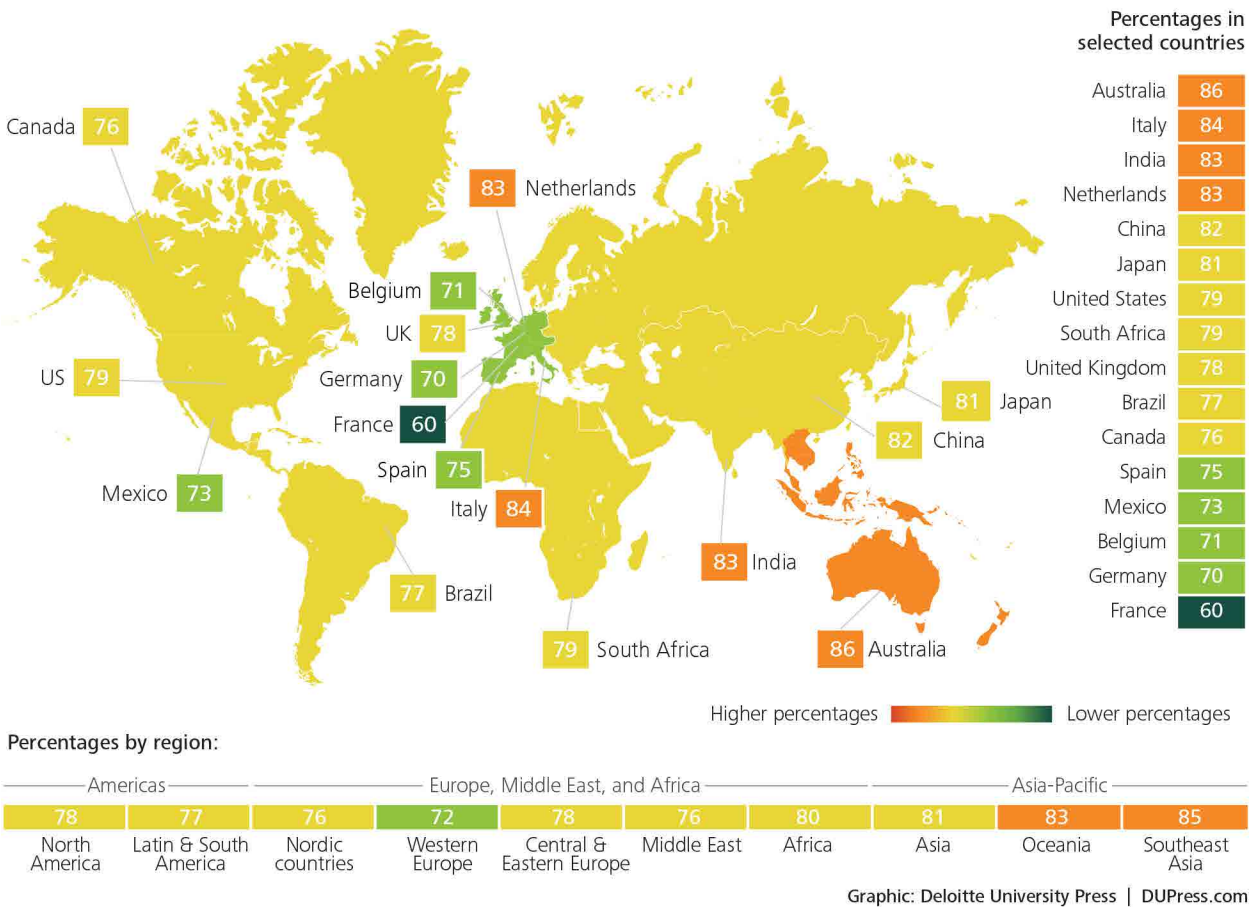
AFTER several years of discussing the need for analytics within the HR function, last year's *Global Human Capital Trends* report concluded that the drive for analytics was “[stuck in neutral](#).”¹ Companies were investing heavily in HR systems replacement projects and talking about analytics, but few were actually making progress in this vital new business function.

This year, the situation has changed for the better. Driven by competitive pressures and the greater availability of more integrated systems, organizations are aggressively building people analytics teams, buying analytics offerings, and developing analytics solutions. Fully 77 percent

of all organizations believe people analytics is important. (See figure 1 for our survey respondents' ratings of people analytics' importance across global regions and selected countries.) And more than half (52 percent) of the organizations now rate themselves as excellent and 38 percent as adequate at conducting multi-year workforce planning.

The name of this trend—“people analytics”—reflects the use of people-related data to improve and inform all types of management, business, and HR decisions throughout the company. The focus areas vary based on industry and specific business issues.

Figure 1. People analytics: Percentage of respondents rating this trend “important” or “very important”



What are companies doing? Examples of positive momentum can be found in a number of different areas:

Sales performance and recruiting

- Insurance companies have analyzed the profiles of top salespeople and now know that screening candidates for grade point average or academic pedigree is no longer considered a strong indicator of future sales performance.
- A high-tech company developed an analytics model that accurately predicts job candidates who are likely to become “toxic employees” (those who lie, cheat, or commit crimes) and dramatically reduced this population among its hires by scrutinizing special parts of the interview process.

Productivity

- Software companies, retail banks, and manufacturers are looking at the characteristics of top salespeople, realizing that their personal networks, how they work internally, and the time they spend with customers predict results much more accurately than the amount of sales training or experience.
- IT and HR departments are now looking at email metadata to understand why some people are more productive than others, then reducing the number of internal meetings to improve output.
- A large cosmetics manufacturer set up a “sales productivity center of excellence” in HR to study hiring patterns, training, compensation, and other people practices in the sales force to optimize productivity using HR and people-related data.

- A UK retailer found that by linking retail sales data to the recruitment of store managers, analytics improved profitability dramatically both at the store level and for the organization as a whole. In short, the data showed precisely how better leaders, higher offer acceptance rates, and reduced time to hire drove store profitability.
- Automobile companies are studying the patterns of unplanned absences to predict when people are likely to take a day off, pre-scheduling extra staff to make up for known periods of absence.
- The Ministry of Energy of the Government of Mexico is using a predictive workforce planning and analytics model to identify current and future talent and skills gaps in critical oil and gas occupations over a 10-year horizon.² The model leverages a number of adjustable macroeconomic variables such as oil price and exchange rates that correlate strongly to the demand and supply of skilled labor. Based on an understanding of these gaps in critical skills, the ministry is able to work proactively with multiple stakeholders to address them. Building off from this initiative, the ministry has expanded the use of workforce planning and analytics to cover other sectors it is responsible for, such as renewable energy and sustainability.

Retention

- A pharmaceutical company and a software company are now collecting data from LinkedIn and other social networks to predict the “high-flight-risk” candidates among their high-potential employees.

- Companies like Deloitte Canada are experimenting with smart badges, using them to gather data suggesting that offices with larger shared work rooms, more light, and more inter-company collaboration have higher retention and productivity.³
- MasterCard is developing predictive models directed at improving the employee experience through a range of data sources. The company is analyzing patterns in people data that will allow decision makers to assume accountability for issues such as retention of high-potential employees and predicting attrition.⁴

Driven by competitive pressures and the greater availability of more integrated systems, organizations are aggressively building people analytics teams.

Compliance and risk

- Banks are studying patterns of fraud and noncompliance, and can now predict behaviors that will likely result in unethical behavior.
- A UK financial services company uses analytics to evaluate individual employees, spotting potential “rogue traders” and other compliance breaches as a part of proactive risk management.
- A large electric utility that recently had an accident analyzed employee feedback and engagement data and realized it could have predicted some of the problems before they occurred, and is now monitoring these data more regularly.

Culture

- A team of organizational development experts and data scientists from eBay measures the strength and adoption of its cultural values through a combination of internal and external data metrics. To compare eBay employees' views with external perspectives, the team also conducts thematic analysis and natural-language-based analysis on news articles and Glassdoor to get a view of the external market perspective of eBay's culture.⁵

Each of these examples (and there are hundreds more) reveals the opportunity to take people data (some from HR, some from outside HR, and some external to the company) to make better management decisions.

Google, Twitter, and most other tech firms have people analytics teams.⁶

Today's people analytics teams often call themselves the "employee listening" department. They

bring together data from a range of sources, including core HR systems, employee engagement data, survey data, external data (from LinkedIn, Glassdoor, and other systems), and text data from employee comments. Then they analyze these data to understand company culture, find opportunities to improve retention or performance, or diagnose management weaknesses or other operational problems.

What is driving the upsurge in people analytics adoption?

First, companies are now rapidly adopting more integrated cloud-based HR systems, giving them an opportunity to look at their HR data in an integrated way for the first time. Nearly 40 percent of all global firms are either replacing or plan to replace their core HR systems over the next two years.⁷

Second, people with analytics backgrounds are coming into HR.⁸ Companies are now bringing industrial and organizational psychologists, statisticians, and analysts from other domains into HR; they are attracted to analytics because it is an exciting, new, and still-fluid area. Data science careers are now hot professions for college graduates and more people are coming to this profession than ever before.

Third, the vendor market is exploding. Nearly every ERP vendor and talent management provider now offers off-the-shelf analytics tools, and many include embedded models. Some are starting to offer analytics services that provide repeatable solutions across clients. In addition, organizational data are more useful than before: This year, 42 percent of survey

respondents said the data supporting HR analytics were "good" or "very good"; only 17 percent still rated their data as "poor."

Fourth, there is now a small army of people science experts, many of whom were pio-

neers at some of the early adopters, available to consult with large companies. They are sharing ideas and bringing expertise to companies new to the domain.

Finally, CEOs are reading about this topic in the business press, so they are pressing their CHROs to build this capability. For instance, a CHRO of one of the largest health care insurance providers is investing in a three-year, multi-million-dollar program just to clean up employee data, so the company can take a lead in analytics within four to five years.

While there has been much progress, there is much room for improvement. In this year's survey, 62 percent of organizations rate themselves as "weak" in using big data in recruiting. Some 55 percent of organizations similarly

We expect the trend toward analytics-driven HR to continue gathering strength over the coming year.

report being weak at using HR data to predict workforce performance and improvement.

We expect the trend toward analytics-driven HR to continue gathering strength over the coming year. As this happens, analytics will penetrate deeper within HR, extending beyond talent acquisition to learning and development and operations. In fact, the *Global Human Capital Trends* survey data show us that HR is now more convinced of people analytics' importance than the business, with 82 percent of HR respondents viewing it as important or very important, compared to only 69 percent of business people viewing it as important or very important. HR has the opportunity to show the value and ROI that investment in analytics can bring, which will result in a willingness to invest further and spur acceleration in analytics capabilities.

Unsurprisingly, all this leads back to greater investment in HR, generating a virtuous cycle where higher ROI justifies greater analytics investment. The success of analytics comes down to measuring the value of people to an organization—and analytics is key to unlocking that value.

However, providing great data and insights is only part of the solution. The real value is in turning these insights into change that delivers

business value. The hardest part of people analytics is implementing the changes recommended by the models, which call for people analytics to be accompanied by sound change management practices. One large company recently discovered it was underpaying its high performers and overpaying its mid-level performers. It took several years to teach managers (and the organization itself) that it makes business sense to offer a large raise for high performance and a middling raise for fair performance. The key is to invest simultaneously in analytical skills and in interpretative and transformational skills to ensure that the insights deliver value to the business.

Lessons from the front lines

In September 2015, GE brought together all the digital and analytics capabilities across the company into one organization, GE Digital. At the same time, the organization put forward the goal to be a top 10 software company by 2020.⁹

Developing an integrated talent management strategy was critical in making the move from a center of excellence to a full-fledged business with ambitious goals in a competitive talent market. One of GE Digital's initial focus



areas was strategic talent planning linked to learning and recruiting; the unit gathered fresh data in a rigorous process. This was combined with other GE people data to assemble a data set of more than 6,000,000 data points to use in a variety of talent decisions.

GE Digital has been able to complete robust talent planning by leveraging detailed information on what success looks like in terms of skill level, number, and location and by using predictive modeling to identify gaps. The organization's strategies include recruiting as well as targeted training (when recruitment will not be able to meet needs), and these data have also informed acquisition strategies to help acquire specialized talent.

The success of analytics comes down to measuring the value of people to an organization—and analytics is key to unlocking that value.

GE Digital has also developed a strong link between talent planning and learning. It uses data analysis and predictive models to support organizational design to inform hiring practices, to identify reskilling needs, and to refashion leadership development programs—all areas of future focus for the GE Digital team.

The most critical success factors have been business involvement and employee transparency. The business has been instrumental in defining key capabilities and identifying learning requirements. Employees now understand the critical skills required for success in the organization and have been given tools to identify gaps and strengths as well as to develop needed skills, all of which have been positively received.¹⁰

Where companies can start

- **Stay focused on business priorities:** Avoid the problem of spending a great deal of time on a problem only to find later that it is not on the CEO's agenda. Start with problems the CEO or senior business leaders care about, such as sales productivity, product quality, risk, growth, or customer retention. Spend time where the company makes money, and people analytics projects will rapidly pay for themselves.
- **Build a single people analytics team:** To embark on this effort, companies must recruit the right talent and/or integrate disparate analytics efforts—that is, employee engagement, recruitment analytics, learning analytics, compensation analytics, and workforce planning. This is a key ingredient of successful analytics projects.
- **Build a team that can consult:** Remember that building a model alone will not solve a business problem. The analytics team should include people who also serve as a business partner or consultant, so they can engage directly with the business and help apply the findings to real interventions or management changes.
- **Leverage analytics skills outside HR:** Enlist the support of IT, marketing analytics, and other analytics teams in the company. Many of them are ready to join in this exciting effort.
- **Join an external, industry-specific people analytics working group:** There are now dozens of places HR professionals can meet with other companies to learn and explore this area.
- **Explore new technologies:** There are many tools in the market to explore. Teams should learn about new analytics vendors to find the right tapestry of technologies.

- **Invest in cleaning data:** Do not let data management be your biggest barrier. The highest value in analytics comes after the company is running an integrated, valid, and reliable database. This effort may take time and involve IT, but it pays off.
- **Focus on security, privacy, and anonymity:** Many leading organizations define security policies as part of their people analytics governance early in the process.

HR departments are well-served to understand the complex issues surrounding data security, privacy, and identity protection.

BOTTOM LINE

Companies are no longer “stuck in neutral” in their deployment of people analytics. As analytics moves into the corporate mainstream, organizations that are still in the early stages of adopting technology and building teams with data skills risk being left behind.

In the not-too-distant future, it will become impossible to make any HR decisions without analytics. Indeed, analytics capabilities will be a fundamental requirement for the effective HR business partner.

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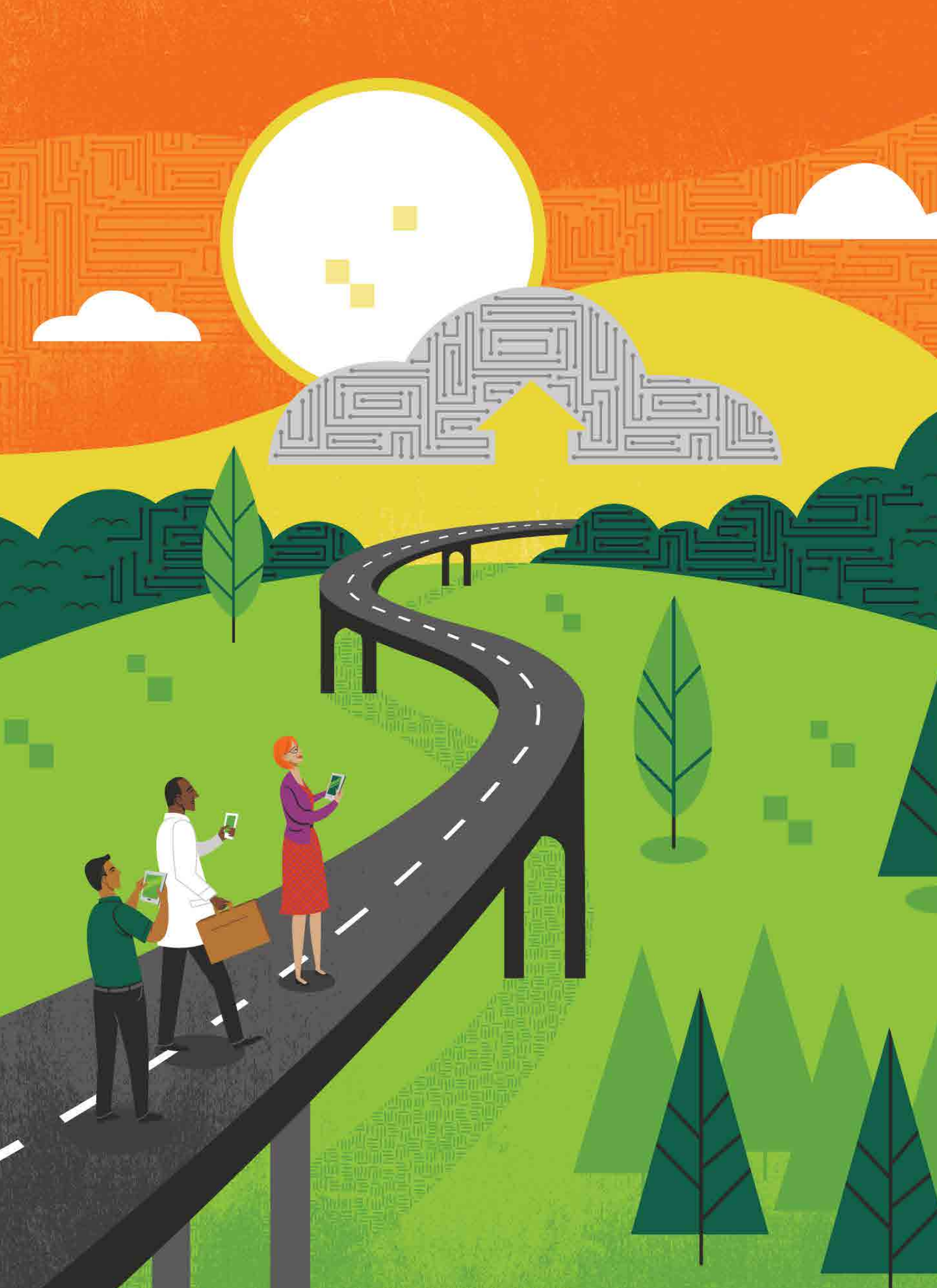


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Digital HR

Revolution, not evolution

The all-digital world is changing how we live, how we work, and how business is organized and conducted. For HR and business leaders, this digital transformation poses two fundamental challenges. First, HR can help business leaders and employees shift to a digital mind-set, a digital way of managing, organizing, and leading change. Second, HR has the opportunity to revolutionize the entire employee experience by transforming HR processes, systems, and the HR organization via new digital platforms, apps, and ways of delivering HR services. Our discussion of this trend focuses on the second part of the digital HR challenge: how to reimagine HR and the employee experience in a digital world.

- Today there are more than 7 billion mobile devices in the world,¹ and more than 40 percent of all Internet traffic is driven by these devices.² Yet HR teams remain far behind in deploying mobile solutions. Fewer than 20 percent of companies deploy their HR and employee productivity solutions on mobile apps today.³
- Designing mobile apps and considering the end-to-end user experience are new disciplines for HR, combining design thinking with apps, video, social, and mobile technologies.
- Digital HR, which brings together social, mobile, analytics, and cloud (SMAC) technologies, represents a new platform for improving the employee and candidate experience. While vendors are now delivering solutions, companies should build their own integrated digital HR strategies and programs.

THE era of true digital disruption has finally hit HR, transforming the way HR delivers solutions to employees. With the founding of Workday in 2005, the acquisition of SuccessFactors by SAP in 2011, and the purchase of Taleo by Oracle in 2012, HR remains at the forefront of the move to digital and the cloud in the workplace. The barriers between work and personal life are dissolving through the use of mobile devices. Mobile has become *the* channel of preference for workers, giving organizations an opportunity to drive adoption of mobile HR technologies to an extent rarely seen with traditional HR platforms.

Imagine integrated apps that can manage time and attendance automatically; pinpoint every appointment and meeting location; deliver on-demand video learning to participants in a new project; send messages to a team when someone is running late for a meeting; monitor stress levels and recommend when it is time to take a break; and even review 401(k) plans and offer intelligent recommendations. This is the new vision for digital HR—integrating SMAC technologies to redefine the employee experience and make work easier, real-time, more productive, and more rewarding—while, we hope, improving work-life balance.

As discussed in the [design thinking chapter](#), HR teams are now rethinking the way people work and adding digital tools to make these solutions better. The impact of design thinking may be most profoundly experienced with digital “appification.” Rather than building an onboarding system, a learning system, a performance management system, and a collaboration and coaching system, design thinking brings these solutions together in seamless apps that improve employee experiences across the board.

When these functions are moved to apps in a thoughtful way, HR can receive 10 times as many responses from employees compared to traditional systems.⁴ Employee productivity can improve. Data quality can rise. Unsurprisingly, leading companies across all industries are embracing this trend.

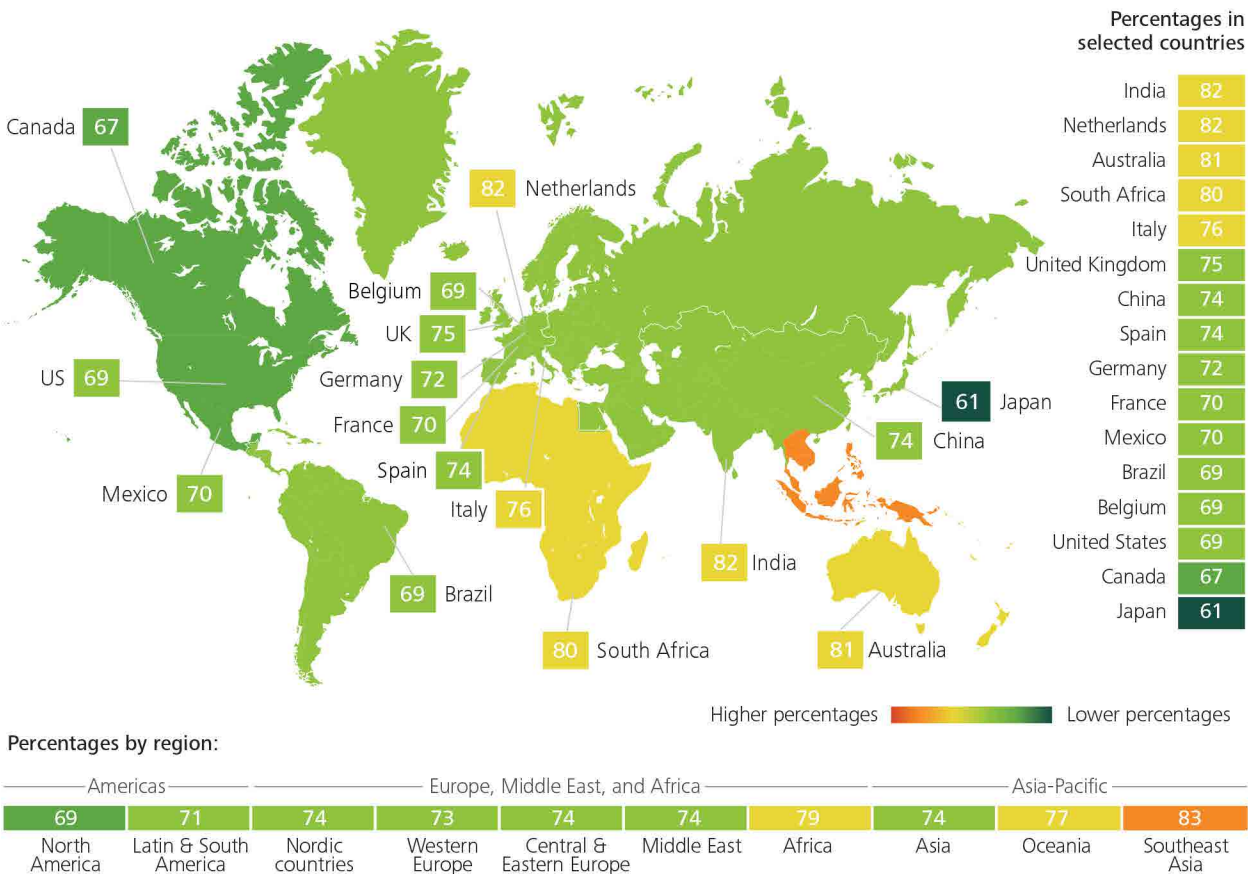
DuPont, for instance, embarked on a major project to replace, simplify, and combine all of

its HR and learning systems into one integrated portal.⁵ Rather than offering a traditional “self-service” application, the company developed a streamlined interface that has improved productivity.

Telstra, one of Australia’s largest telecommunications companies, is using an app to transform its first-year employee experience. By using design thinking, studying the behavior and frustrations of first-year employees, and creating personas, Telstra developed an integrated onboarding program that dramatically improved employee engagement and retention.⁶

Despite impressive results at these and other companies, too many HR departments have yet to embrace this transformation. Today, only 7 percent of companies use mobile technology for coaching, 10 percent for performance management, 8 percent for time scheduling, 13 percent for recruiting and

Figure 1. Digital HR: Percentage of respondents rating this trend “important” or “very important”



Graphic: Deloitte University Press | DUPress.com

candidate management, and 21 percent for leave requests.⁷ The power of digital transformation is only beginning to emerge.

This new world of digital HR is arriving fast, but, according to this year's survey, only 38 percent of companies are even thinking about it and only 9 percent are fully ready. Nearly three-quarters of companies, or 72 percent, believe this is an important priority and 32 percent define it as very important, so it will be a major area of opportunity for HR in 2016. (See figure 1 for our survey respondents' ratings of digital HR's importance across global regions and selected countries.)

Digital HR, however, is more than just building apps. It encompasses developing a new mobile platform with a wide range of apps built with cloud and analytics technology behind the scenes. This platform can be used for hundreds of apps: from time and attendance to employee wellness, to recruitment, collaboration, goal-setting, and more. The design is integrated, the user experience is location-aware, and integrated data are used to inform and make recommendations to users throughout the day.

Consider the difference between current HR service delivery models and digital HR, illustrated in figure 2, to understand how

radical and profound the digital HR transformation will be.

This approach represents a completely new way of thinking about HR solutions. While the replacement of legacy systems into the cloud is a major part of the transition, so is the adoption of design thinking, integrated mobile app design, and real-time HR operations. The principles of behavioral economics, the use of analytics, and constant iteration on design also underpin these efforts. To succeed in this new paradigm, HR teams will likely have to partner with IT, adopt design thinking, use integrated analytics, and analyze vendor solutions carefully. It represents a new world for HR technology and design teams, one that will open up new career opportunities and transform the impact HR has on the business.

Lessons from the front lines

Reliance Jio, the 4G telecommunications and digital services company headquartered in Mumbai and owned by Reliance Industries, began its employee launch of digital telecom services in early 2016.⁸ The company's vision is to provide video-quality digital mobile Internet service to 1.2 billion customers across all 29 states and 7 union territories within India.

Figure 2. Differences between current HR service delivery models and digital HR

Current HR delivery	Digital HR
Transactions and processes	Integrated HR platform (policy, process, systems, operations)
Systems with web browser access	Mobile-first apps
Paper-based forms moved to web forms	Digital design
Process-based design	Human-centered, experience-driven design
SLAs (service level agreements)	Real-time (once and done)
HR (and shared) service centers	Operations centers
Periodic reports	Real-time interactive dashboards
Analytics add-ons	Integrated analytics platform and dashboards

For several years, the company's focus was on building out the network infrastructure; in late 2014, the focus turned to starting up the business operations and recruiting and onboarding employees across the country. As one of the largest start-ups in the world, Jio's leadership crafted a strategy suited to the business's growth, scale, and the current state of HR tech-

staff to complete HR tasks and reporting by leveraging real-time apps and secure, cloud-based services using mobile devices.

Second, all HR processes, policies, and technologies (including SAP and a series of cloud apps such as Salesforce.com) were integrated into an HR platform to support the apps, reporting, and HR operations.

Third, with the goal of end-to-end digitization and real-time HR, the company is challenging itself to eliminate its shared services organization. Core activities were automated and streamlined to be conducted, reviewed, and approved in hours (in some cases, minutes) and not days. The HR platform is being run by an HR operations center tasked with

clearing all inquiries and exceptions on the day they are received while working with HR centers of excellence and HR IT to continuously improve the platform.

Further, the HR platform and HR operations center have been designed and built using an agile approach that included multiple releases of both the systems and operations center. This agile approach has enabled the HR process, policy, HR IT, and business teams to learn and build capabilities in the new digital HR environment.

The digital enterprise and digital HR are a revolutionary leap forward, not an incremental step.

nology by designing a mobile-first, cloud-first, digital-powered approach to Jio's HR strategy and launch.

The business goals for Jio are to build a national 4G network across 18,000 cities and towns in India to serve hundreds of millions of customers; deploy the largest start-up 4G net-

work in the world; hire and manage a workforce of 50,000; and orchestrate a national network of hundreds of thousands of retailers and distributors.

From the start, the HR strategy was based on an employee value proposition to support candidates, employees, and business managers with an experience that would be easy to use, quick, and safe. The HR program was digital-first; it allowed recruiters, candidates, employees, business managers, and HR



Where companies can start

- **Challenge HR to start with a digital-first HR strategy.** The digital enterprise and digital HR are a revolutionary leap forward, not an incremental step. The combination of mobile and cloud solutions and the pervasive access to smartphones as powerful as laptops and desktop computers of just a couple of years ago, are redefining how HR processes are designed, delivered, accessed, and operated. The shift to a mobile and platform way of thinking is at the forefront of this challenge.

- **Embrace design thinking.** Social, mobile, analytics, and cloud tools are only useful if employees adopt them. HR must begin with employee needs and the user experience. Incorporating design thinking throughout the process will help companies maximize the impact of new digital technologies.
- **Leverage an agile approach integrating HR, technology, employees, and business leaders in the process.** HR has the opportunity to use agile development—rapid development by integrated teams delivering prototypes and solutions in successive releases and waves—as a new way of operating in HR and supporting similar programs across the company. Unlike the traditional waterfall development process, agile development requires HR specialists, system and app developers, designers, employees, and business leaders to work together as a team.
- **Share digital strategies and experiences across the company:** HR has the opportunity to learn from early digital adopters in the company, generally customer marketing and operations. A community of practice can share digital experiences and implementation learning across the company. HR can learn from the digital savvy across the company and, in turn, help develop the enterprise's digital mind-set and capabilities.
- **Imagine HR and the employee experience in real time:** One of the biggest changes in moving to a digital HR strategy is the focus on real-time access, decision-making, and results. This involves a significant step beyond many recent HR efforts, which have focused on shared services and HR service centers and SLAs (service level agreements). Digital HR is also a call to automate many areas of HR. With every employee having a smartphone, HR teams can automate, streamline, and adopt more real-time and digital-first operations rather than process forms and transactions.
- **Integrate analytics and reporting as part of the digital platform, not an add-on:** Most HR teams today have dedicated teams that collect information from process and transaction systems for basic HR reports and analysis. Instead, HR management information should be an automated part of the HR digital platform. It should provide managers with real-time information and leaders with real-time analysis, decreasing the time spent on reports and increasing the time HR and business leaders spend on analyzing data and solving problems. Analytics and reports can be configured and integrated into a business intelligence layer of the HR platform, linking apps directly to leadership reports and analysis.

BOTTOM LINE

HR's digital transformation begins with a change of mind-set within the HR organization, prioritizing connectivity, real-time operations, platforms, automation, and mobile-first. For many organizations, both in HR and across the enterprise, this is a revolutionary opportunity. The digital HR journey focusing on the employee and HR experience is one part of the larger digital HR challenge: to answer the question, "How can HR play a role in developing the overall digital enterprise strategy, organization, and culture?"

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The gig economy

Distraction or disruption?

From the increasing use of contingent freelance workers to the growing role of robotics and smart machines, the corporate workforce is changing—radically and rapidly. These changes are no longer simply a distraction; they are now actively disrupting labor markets and the economy.

- Almost half of the executives surveyed (42 percent) expect to increase or significantly increase the use of contingent workers in the next three to five years; 43 percent anticipate greater deployment of robotics and cognitive technologies. Three out of four executives (76 percent) surveyed expect automation will require new skills in the workforce in the next one to three years.
- The concept of “contingent workforce management” is being reshaped by the “gig economy”—networks of people who make a living working without any formal employment agreement—as well as by the increased use of machines as talent.
- New regulations that mandate pay for overtime, increase the minimum wage, and tighten rules for part-time status are becoming more important than ever, with a growing public policy debate over how to regulate and measure new labor models.¹

THREE years ago, Deloitte introduced the concept of the [open talent economy](#), predicting that new labor models—on and off the balance sheet—would become increasingly important sources of talent.² Today, they are.

Granted, respondents to this year’s survey rated workforce management the least important of the trends we explored. (See figure 1 for our survey respondents’ ratings of workforce management’s importance across global regions and selected countries.) Nonetheless, rapid changes in the nature of the workforce, through new labor markets and models and through automation, present important challenges for business and HR leaders.

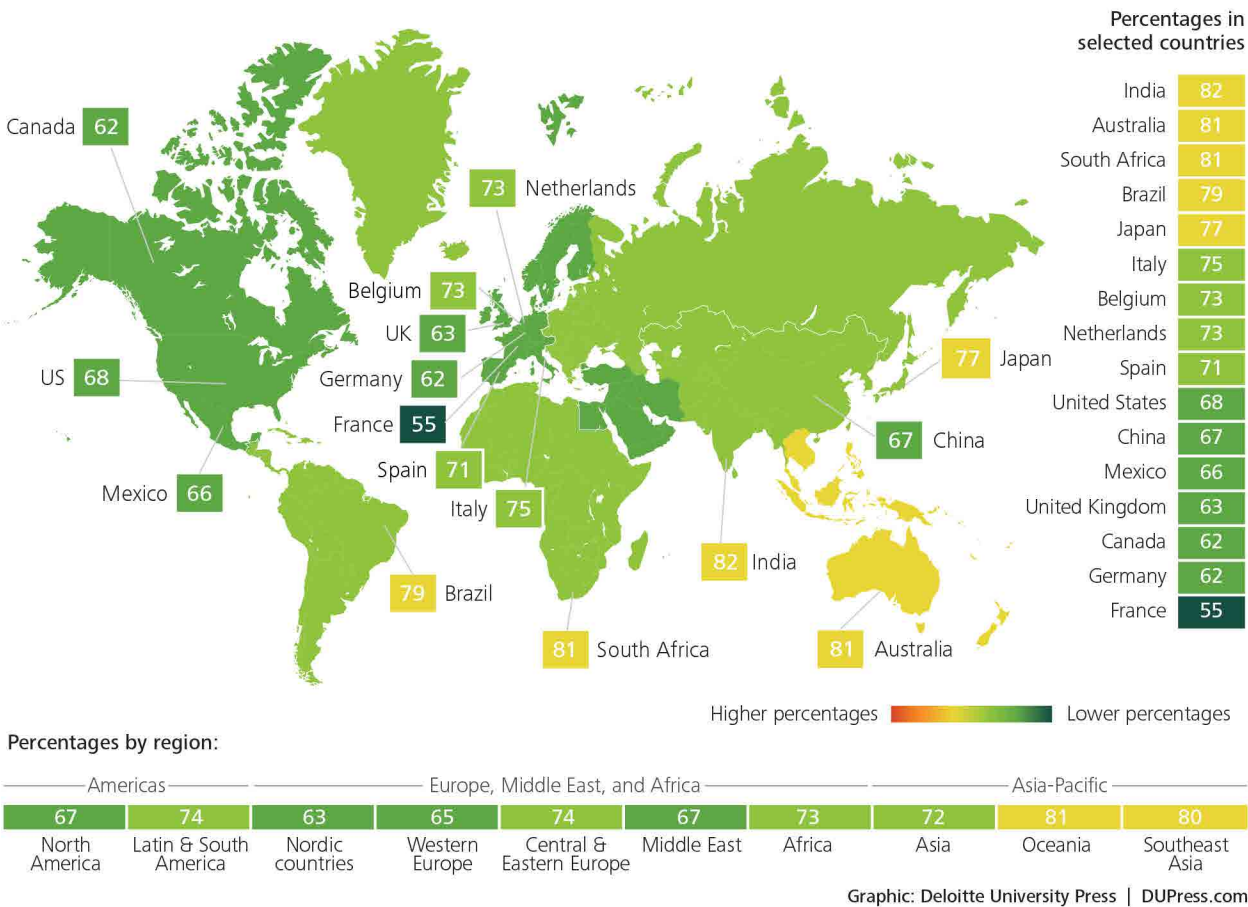
Today, more than one in three US workers are freelancers—a figure expected to grow to 40 percent by 2020.³ This year’s survey confirms that the contingent workforce has gone global. Fully 51 percent of executives in our

global survey plan to increase or significantly increase the use of contingent workers in the next three to five years, while only 16 percent expect a decrease.

Companies such as Airbnb and Uber embody this trend, but they are not the only organizations profiting from the “gig economy.” Companies in all sectors—from transportation to business services—are tapping into freelance workers as a regular, manageable part of their workforces. Cost structure is one factor driving this trend, with some companies opting to pay purchase orders instead of salaries. The availability of talent is another factor; data scientists, for example, may not be willing to move to a company’s remote headquarters but could be engaged remotely and temporarily.

In addition to broader economic and social changes driven by the gig economy, new labor models are expanding beyond contingent

Figure 1. Workforce management: Percentage of respondents rating this trend “important” or “very important”



workers to include the rapidly growing integration of robotics and cognitive technologies into the workforce. These automated “employees” represent a new form of talent that HR must be prepared to engage and manage.

Within the next three years, 42 percent of executives surveyed expect to increase the use of robotics and cognitive technologies. But, contrary to some news headlines, most organizations do not expect workers to be replaced by machines. In fact, 20 percent expect automation to *increase* hiring levels, while 38 percent see no impact.

At an even more basic level, companies are struggling to understand who (and what) their workforces are composed of and how to manage today’s incredibly diverse combination of worker types, including workers on and off the balance sheet as well as part-time, contingent, and virtual workers. Across all organizations, industries, and geographies, a new work and

social contract is emerging. Today’s HR organization needs to adapt to these changes in the 21st-century workforce.

These new additions to the workforce, after all, work side-by-side with those on the balance sheet. Many have been recruited through the procurement office rather than HR systems. But all affect the company’s reputation and brand. How can HR manage and motivate all these types of workers?

Many HR teams struggle to understand the forces shaping today’s workforce, particularly when translating these new realities into attractive and cost-effective workforce practices that comply with government regulations. According to this year’s survey, 71 percent of executives believe their companies are “somewhat” or “very” able to manage contingent workers. The top three challenges cited include legal or regulatory uncertainty (20 percent), a corporate culture unreceptive to part-time

and contingent staff (18 percent), and a lack of understanding among leadership (18 percent).

The move toward automation, robotics, and cognitive technology in the workforce also poses significant challenges. Three out of four executives in this year's survey believe automation will require new skills over the next several years. When asked about their organization's capabilities to redesign work done by computers to complement talent, only 13 percent of executives rated them "excellent"—34 percent (1 out of 3) described them as "weak."

Consider some of the challenges: One major telecom company measures its workforce as either 18,000 (payroll), 30,000 (including contractual workers), or 57,000 (including those who are building out its network)—a huge variance, depending on how the workforce is measured. Uber has three million drivers under contracts that offer the company tremendous flexibility. Are they part of its workforce? And who will decide that question—regulators or the business itself? Could benefits for these workers be allocated through micropayments, for instance?

These questions present a number of challenges. HR can modify policies and programs, but when even a figure as simple as the number of workers at an organization is open to so much interpretation, HR's task becomes highly complex.

In short, leading organizations are exploring how to make real the promise of the open talent economy. Fundamental questions confront business and HR leaders:

- Who, where, and what is the workforce?
- How can HR, procurement, and IT collaborate to plan and manage the 21st-century workforce?
- How can the best workers be attracted, acquired, and engaged for an optimal cost, no matter what type of work contract they have?
- How can companies leverage automation and smart technologies to improve productivity and create more meaningful and engaging work where employees "race with—not against—machines"?⁴

At an even more basic level, companies are struggling to understand who (and what) their workforces are composed of and how to manage today's incredibly diverse combination of worker types.

There is no simple formula to help companies figure out the optimal mix of talent, skills, and type of worker. Resolving this challenge remains a dream for the future, but that does not relieve organizations of the responsibility to understand and take control of this trend.

One approach is to address whether there are ways in which a blended workforce may be managed more consistently in the organization. Perhaps this push itself will help organizations begin to understand and measure their total workforce and labor costs, rather than simply abandoning the task as HR focuses only on the full-time workforce. And how many people with responsibilities for talent acquisition are proactively working with the CIO to ask if there are machines that can perform jobs?

Today's disparate time collection, labor procurement, scheduling systems, and contingent workforce management solutions do not provide the necessary insights. Disjointed and owned by separate business functions,



these systems are tough to align with the new programs needed for the new workforce. Many of today's applicant-tracking systems are in some ways merely automated filing cabinets. Without these insights, though, no one is truly managing the workforce.

Companies face a new and far more subtle competition for talent, especially as unemployment falls in some markets and voluntary turnover rises.⁵ Organizations will need new technologies, new ways of measuring costs, and even a new language of talent management for the 21st century.

Lessons from the front lines

The gig economy poses significant questions and opportunities for companies and their workforce talent strategies.

First, in a growing number of industries, technology-enabled talent markets—operating through platforms—are offering new sources

of competition. Consider Uber and Lyft for transportation-for-hire services, Topcoder for programming, Handy for household repair projects, Tongal for ads and videos, Hourlynerd for consulting projects, and many others. Companies need to assess how to compete with firms that use talent platforms as their primary means of organizing their workforce.

Second, and perhaps more important: How can companies utilize and leverage gig economy markets to complement their talent and workforce strategies?

One example is how companies are leveraging their creative teams and traditional agencies with new, on-demand models. Tongal advertises itself as “the world’s first studio on demand,” and provides online markets and contests to connect businesses with creative talent around the world to produce ads, videos, music videos, and other products.⁶ Tongal’s corporate clients include some of the largest companies in the world: Johnson and Johnson, Dannon, LEGO, Ford, and Lenovo.⁷

To integrate models like Tongal will likely require procurement, business, and HR managers to work together to access and coordinate new models—like on-demand talent markets and crowdsourced competitions—with more traditional in-house teams and outside advertising and creative agencies.

A second example comes from Thomson Reuters, the global information services company. With 55,000 employees and 17,000 technologists, the company launched a crowdsourcing model inside the company. The program posed technology challenges to the company’s engineers to solve problems in other Thomson Reuters divisions—breaking down internal silos and leveraging the insights of the company’s own internal network.⁸

Where companies can start

- **Take a new view of 21st-century talent:** Organizations must understand the open talent economy and their needs for different

types of workers and automation over the medium term (3 to 5 years) and longer term (5 to 10 years). The process starts with an expansive workforce plan that proactively incorporates on- and off-balance sheet talent, as well as combinations of robotics, thinking machines, and new labor/technology collaborations.

- **Designate a “white space” leadership team for workforce and automation planning:** Workforce planning for the new workforce is a “white space” exercise. Corporate technology, procurement, and business strategy teams should join HR to produce robust plans for different types of labor and technology combinations.
- **Focus on acquisition—both of people and machines:** Once companies have a sense of the specific outlines of their talent needs, they can focus on acquiring and engaging each segment of employees with the overall plan in mind. Sources of talent should include people that companies recruit and engage in different ways. Technologies

and machines can be used to complement employees on corporate payrolls.

- **Broaden and sharpen the focus on productivity:** Productivity, and its flip side, engagement, are being reimaged by new workforce and automation opportunities. These new workforce models and new combinations of talent and technology are critical for improving corporate productivity. New workforce planning approaches integrating multiple workforce segments, automation, and cognitive technologies will enhance productivity and product and service quality.
- **Develop new workforce and automation models that focus on engagement and the skills of your critical workforce:** Increasing employee engagement is one of today’s most important workforce challenges. Companies today must learn how to use new workforce segments and technologies to improve the quality, meaning, and value of the work of their employees.

BOTTOM LINE

The design of the 21st-century workforce will present new challenges to HR, technology, and business leaders that require deeper levels of collaboration to develop solutions. The open talent economy and the new workforce-machine age are coming into focus, redefining “talent” to include people and machines working in different places under different contracts.⁹

This is not simply a distraction; it’s the beginning of a 21st-century workforce transformation. Leading companies are tackling the questions that need to be answered to compete successfully for talent in this new environment. Who and what will the workforce be composed of? How will it be acquired? How can its productivity be measured? How can the organization optimize the new mix of workers from different sources? Given that many segments of a workforce have an impact on products and customers, what are the appropriate ways to engage all of those segments? And who will lead these efforts?

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