

Global Human Capital Trends 2015

Leading in the new world of work

Deloitte
University
Press



This year's 10 trends are focused on four broad areas

LEADING



Leadership: Why a perennial issue?

Companies are struggling to develop leaders at all levels and are investing in new and accelerated leadership models.



Learning and development: Into the spotlight

Companies are actively exploring new approaches to learning and development as they confront increasing skills gaps.

ENGAGING



Culture and engagement: The naked organization

Organizations are recognizing the need to focus on culture and dramatically improve employee engagement as they face a looming crisis in engagement and retention.



Workforce on demand: Are you ready?

Companies are taking a more sophisticated approach to managing all aspects of the workforce, including the hourly, contingent, and contract workforce.



Performance management: The secret ingredient

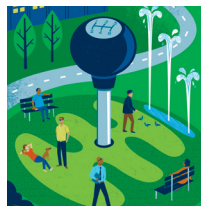
Organizations are replacing traditional performance management with innovative performance solutions.

REINVENTING



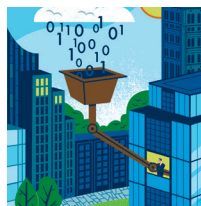
Reinventing HR: An extreme makeover

HR is undergoing an extreme makeover to deliver greater business impact and drive HR and business innovation.



HR and people analytics: Stuck in neutral

Too few organizations are actively implementing talent analytics capabilities to address complex business and talent needs.



People data everywhere: Bringing the outside in

HR and talent organizations are expanding their HR data strategies by harnessing and integrating third-party data about their people from social media platforms.

REIMAGINING



Simplification of work: The coming revolution

Organizations are simplifying work environments and practices in response to information overload and increasing organization and system complexity, and information overload.



Machines as talent: Collaboration, not competition

The increasing power of computers and software to automate and replace knowledge workers is challenging organizations to rethink the design of work and the skills their employees need to succeed.

Introduction: Leading in the new world of work

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

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

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

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

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

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

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

tional culture, simplify the work environment, and redesign work to help people adapt.

For HR and talent teams,

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

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

Our global research

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

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

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

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

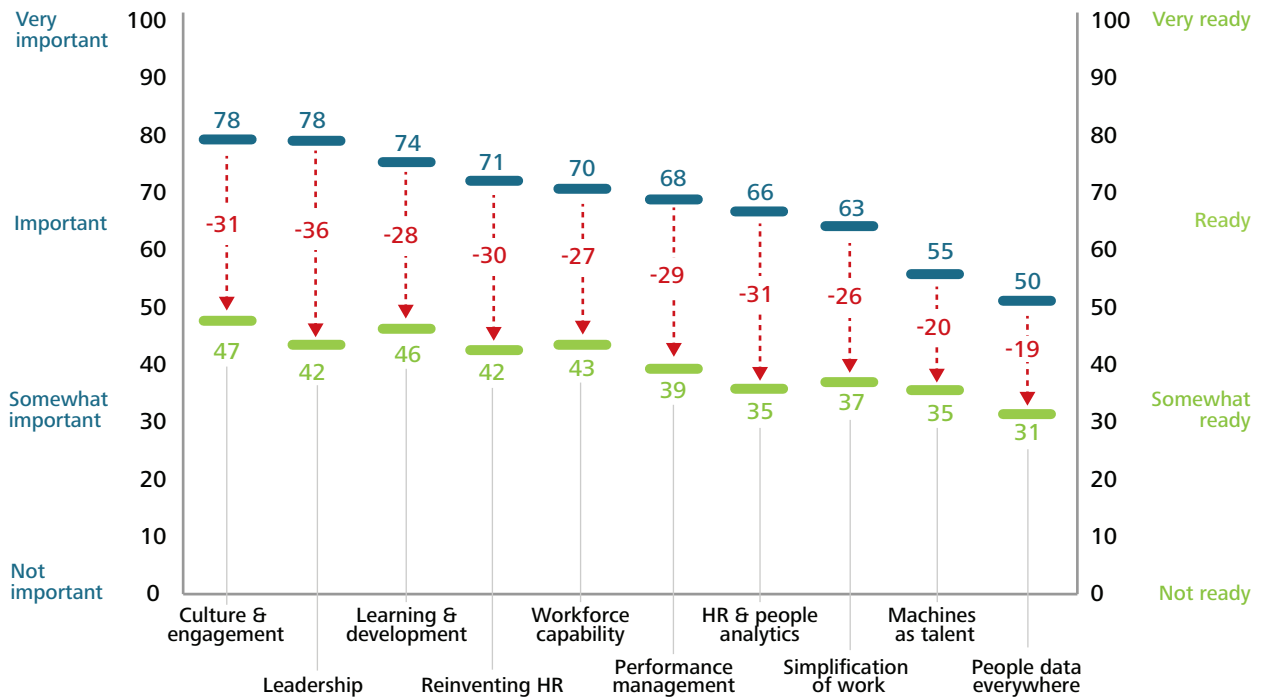
Leading in the new world of work: The 10 trends

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

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

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

Figure 2. Talent trends: Global importance vs. readiness



Graphic: Deloitte University Press | DUPress.com

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

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

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

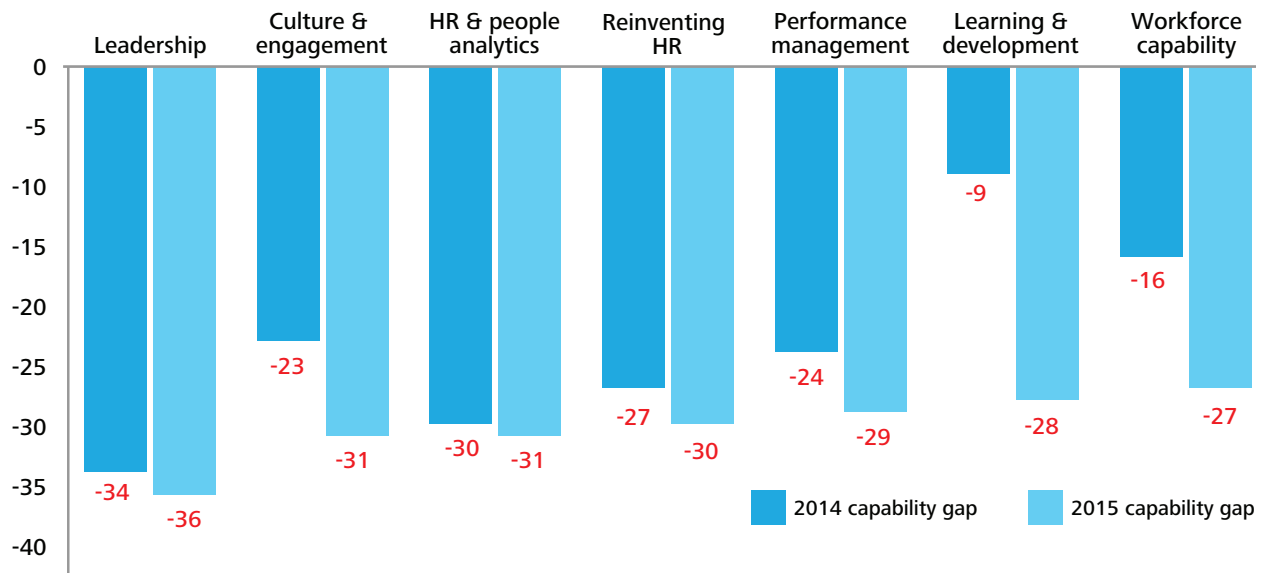
2. **Leadership: Why a perennial issue?**

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

3. **Learning and development: Into the spotlight.**

This year's third most important challenge⁶ was the need to transform and accelerate corporate learning, up from No. 8 in 2014. The percentage of companies rating learning and development as very important tripled since last year. But even as the importance of this issue rose, the readiness to address it went down. Only 40 percent of respondents rated their organizations as "ready" or "very ready" in learning and development in 2015, compared to 75 percent in 2014.

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



Graphic: Deloitte University Press | DUPress.com

4. Reinventing HR: An extreme makeover.

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

5. Workforce on demand: Are you ready?

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

6. Performance management: The secret ingredient.

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

7. HR and people analytics: Stuck in neutral.

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

8. Simplification of work: The coming revolution.

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

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

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

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

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

Figure 4. Importance of challenges in different regions

Trends	AMERICAS			EUROPE, MIDDLE EAST, & AFRICA					ASIA PACIFIC		
	Global	North America	Latin & South America	Africa	Central & Eastern Europe	Middle East	Nordic Countries	Western Europe	Southeast Asia	Asia	Oceania
Culture & engagement	78	76	84	83	76	75	74	76	79	72	78
Leadership	78	80	82	84	75	75	73	74	82	73	77
Learning & development	74	73	79	81	70	78	71	69	77	72	66
Reinventing HR	71	67	78	77	71	76	71	66	75	66	72
Workforce capability	70	72	72	78	67	74	64	67	81	66	71
Performance management	68	64	74	78	68	69	62	62	74	63	68
HR & people analytics	66	66	70	72	60	67	65	60	71	64	66
Simplification of work	63	59	66	69	65	61	64	60	66	62	60
Machines as talent	55	46	63	62	57	57	50	49	61	55	43
People data everywhere	50	45	54	55	47	49	45	46	55	52	45

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

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

Graphic: Deloitte University Press | DUPress.com

Six key findings

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

“Softer” areas such as culture and engagement, leadership, and development have become urgent priorities.

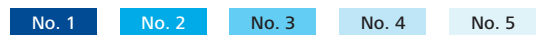
As the economy grows and skills become more specialized, the competition for talent has increased. This has driven culture and

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

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

Figure 5. Importance of challenges in different industries

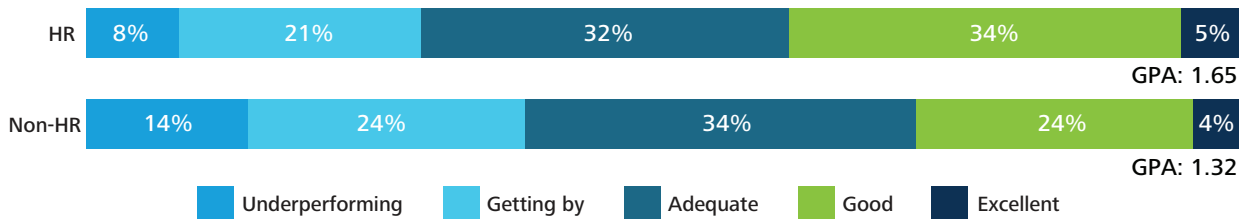
Trends	Global	Consumer business	Energy & resources	Financial services	Life sciences & health care	Manufacturing	Professional services	Public sector	Technology, media, & telecommunications
Culture & engagement	78	81	76	81	79	75	78	75	77
Leadership	78	80	79	81	78	77	77	78	77
Learning & development	74	74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



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

Graphic: Deloitte University Press | DUPress.com

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



Graphic: Deloitte University Press | DUPress.com

strategy to measure, manage, and improve employee engagement.

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

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

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

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

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

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

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

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

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

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

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

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

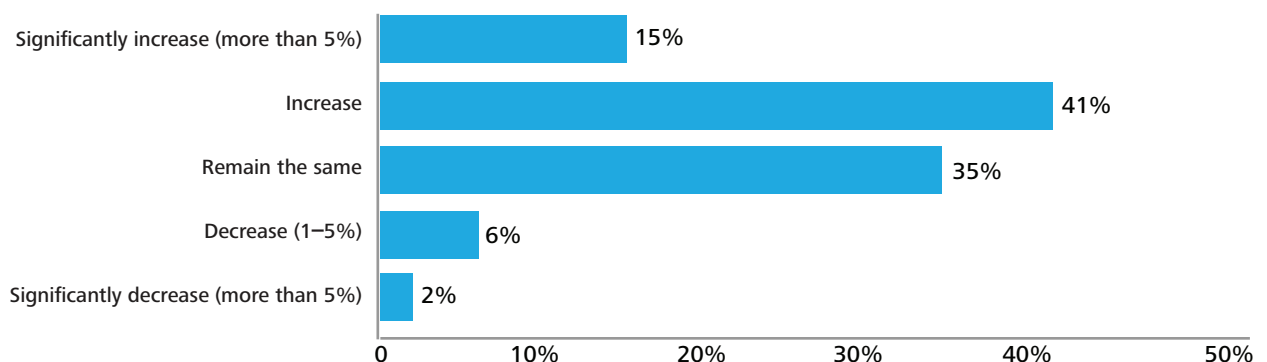
Why is this money not resulting in improved outcomes? The widening capability gaps in areas such as learning and development, engagement and culture, and leadership, coupled with Deloitte’s client experience with HR technology, suggests that the heavy increased spending on technology has not been accompanied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

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

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

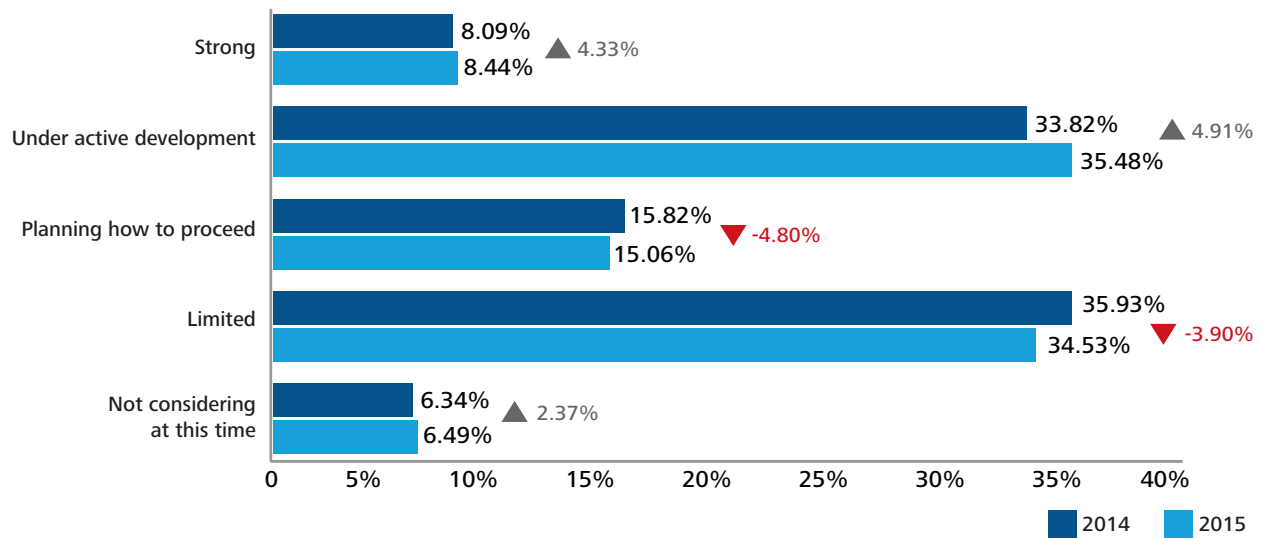
Analytics is on the agenda of almost every HR team we surveyed, with three in four respondents rating it as “important” or “very important.” But despite this interest, our research shows only a small improvement in analytics capabilities. Thirty-five percent of this year’s respondents reported that HR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

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



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

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



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

Graphic: Deloitte University Press | DUPress.com

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

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

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

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

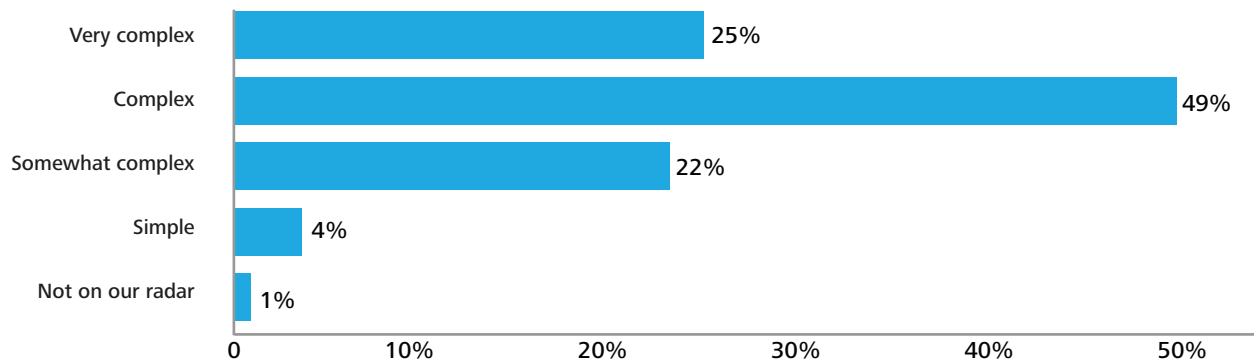
Last year, many executives were surprised to see the “overwhelmed employee” emerge

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

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

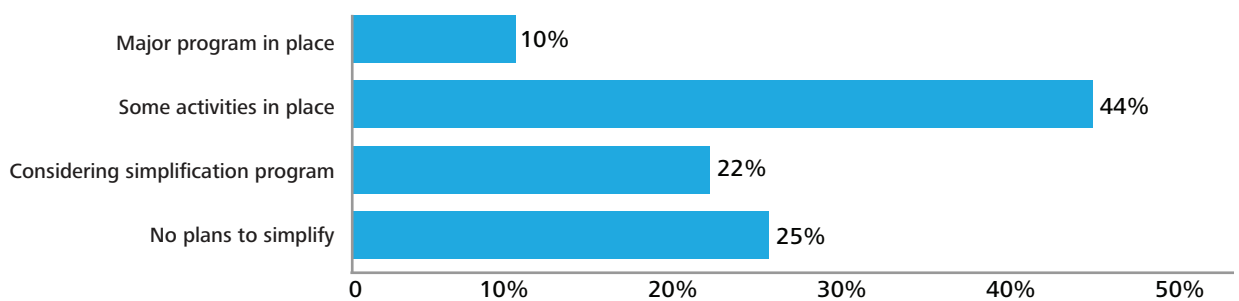
We believe that this is just the beginning of a major movement to apply innovative approaches and techniques like “design thinking” to simplify and rationalize the workplace of the 21st century.

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



Graphic: Deloitte University Press | DUPress.com

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



Graphic: Deloitte University Press | DUPress.com

A new playbook for new times

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

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

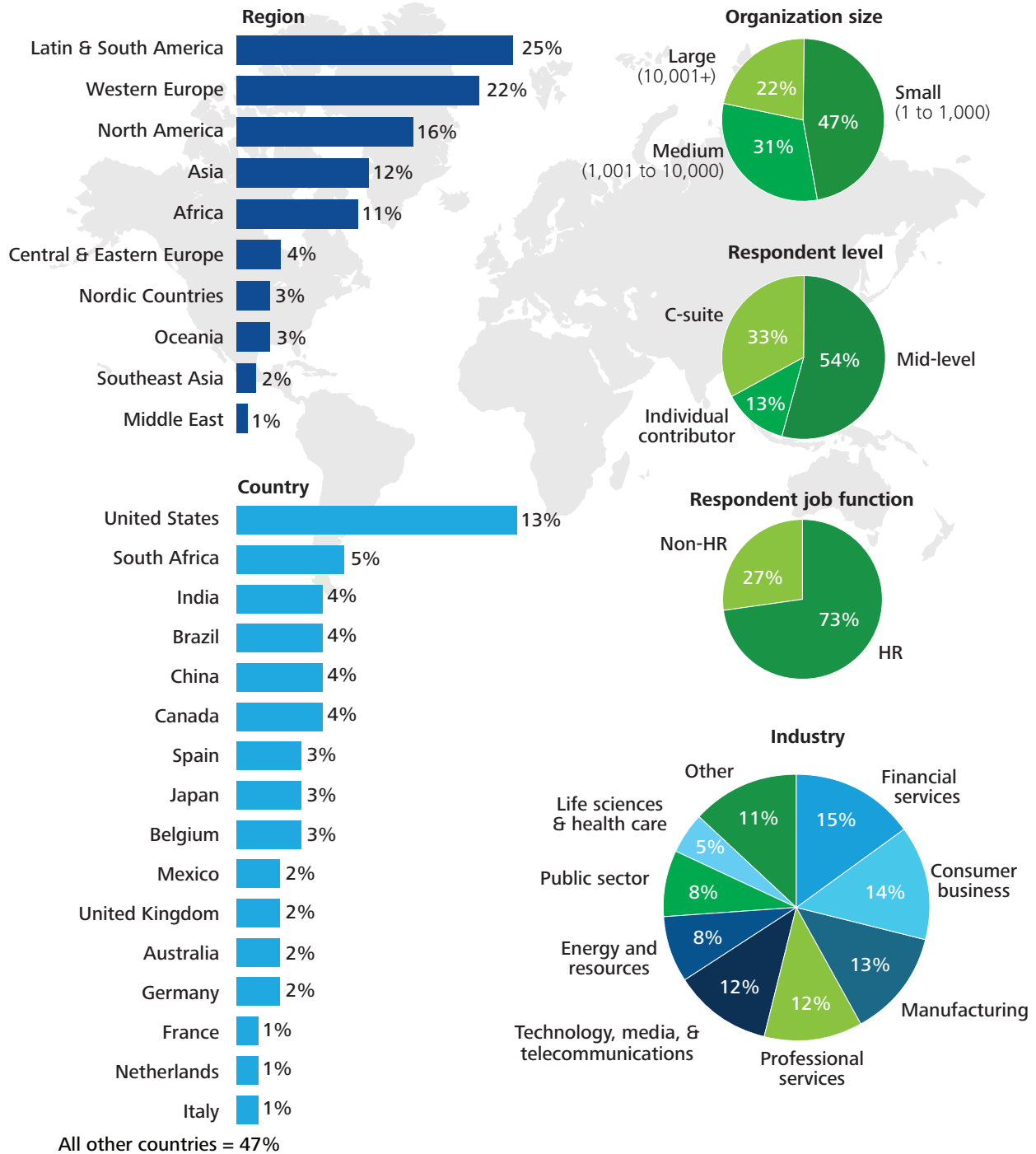
Our goal in this research is to give business and HR leaders fresh insights and perspectives to shape thinking about priorities for 2015. In a growing, changing economy, business challenges abound. Yet few can be addressed successfully without new approaches to solving the people challenges that accompany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

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

Appendix: Survey demographics

Figure 11. Survey demographics

Our survey includes data from 3,333 respondents.



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

Graphic: Deloitte University Press | DUPress.com

Endnotes

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

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

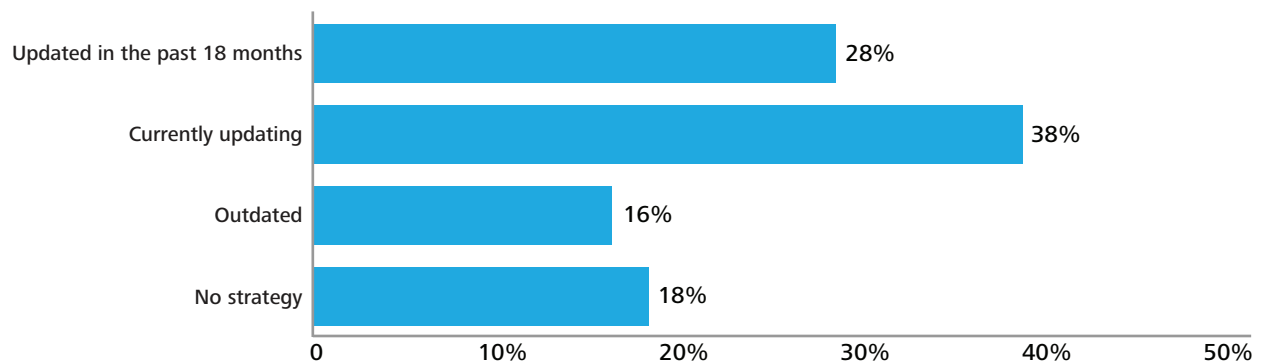
TODAY’S organizations live in the Glassdoor era. Every corporate decision is immediately publicly exposed and debated. Once-private issues are now posted online for every employee—and every potential employee—to read. An organization’s culture—which can be loosely defined as “the way things work around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

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

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

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

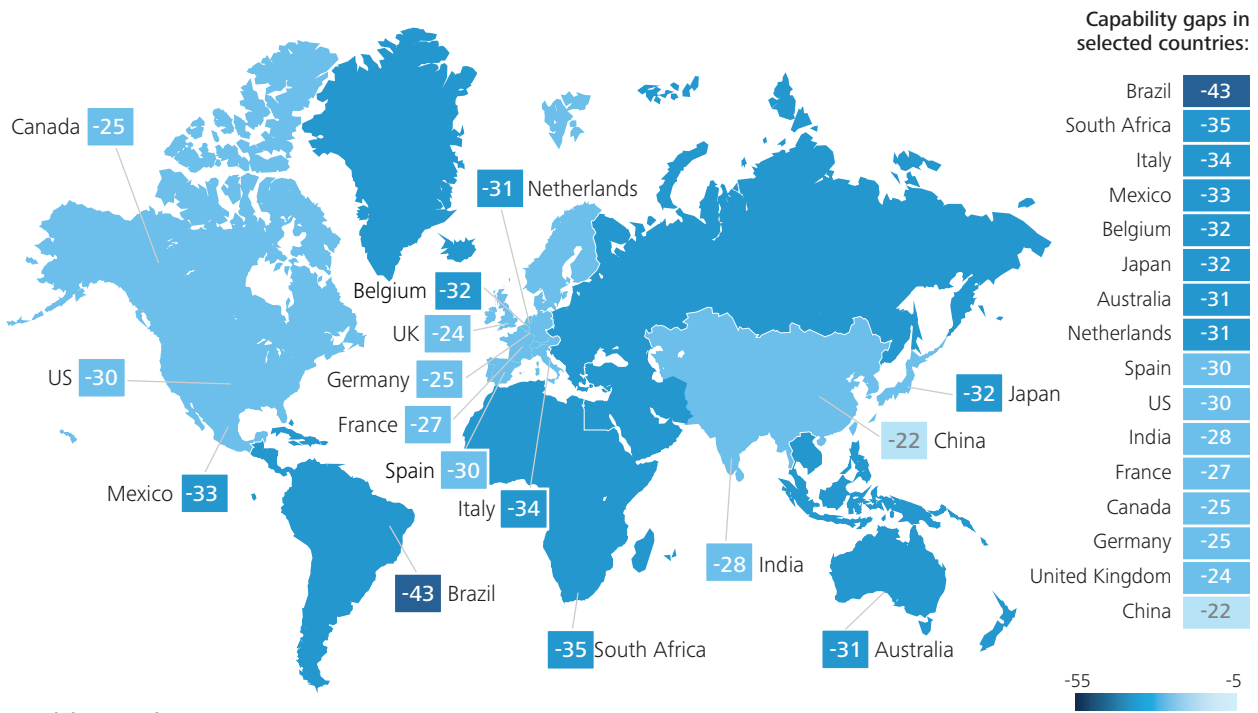
Figure 1. Status of retention and engagement strategy



Note: Only HR respondents were asked this question.

Graphic: Deloitte University Press | DUPress.com

Figure 2. Culture and engagement: Capability gap by region



Capability gaps by region:

Americas		Europe, Middle East, and Africa					Asia-Pacific		
-29	-36	-25	-29	-31	-37	-34	-27	-32	-37
North America	Latin & South America	Nordic countries	Western Europe	Central & Eastern Europe	Middle East	Africa	Asia	Oceania	Southeast Asia

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

Graphic: Deloitte University Press | DUPress.com

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

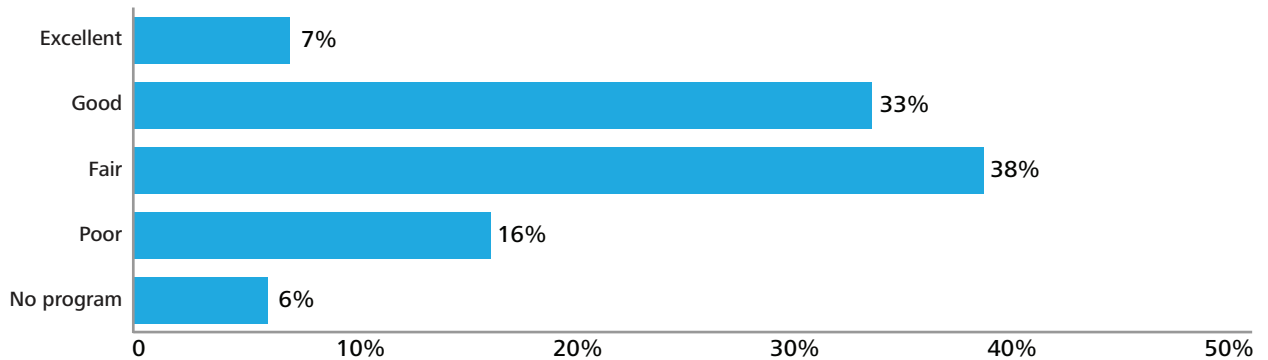
Research shows that in most companies, engagement is low. According to the Gallup polling firm, only 13 percent of the global workforce is “highly engaged.”² Upwards of half the workforce would not recommend their employer to their peers.³

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

their organizations are excellent at effectively driving the desired culture.

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

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

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

Graphic: Deloitte University Press | DUPress.com

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

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

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

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

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

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

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

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

Lessons from the front lines

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

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

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

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

To jump-start the transformation, HR introduced a series of leadership and development

programs to support employees in being willing and able to live the new values. There was an initial focus on informing, engaging, and empowering senior leaders and culture carriers to

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

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

understand and measure the conditions for successful transformation.

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

Where companies can start

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

BOTTOM LINE

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

Endnotes

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

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

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

Redesigned performance management processes may or may not include year-end ratings, but across the board, they tend to focus less on evaluation and more on agile goal setting, regular feedback, coaching, and development. They shift the focus away from forced-distribution rankings and much more toward helping managers coach people to succeed. By changing this one HR “ingredient,” it is possible to affect many others.

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

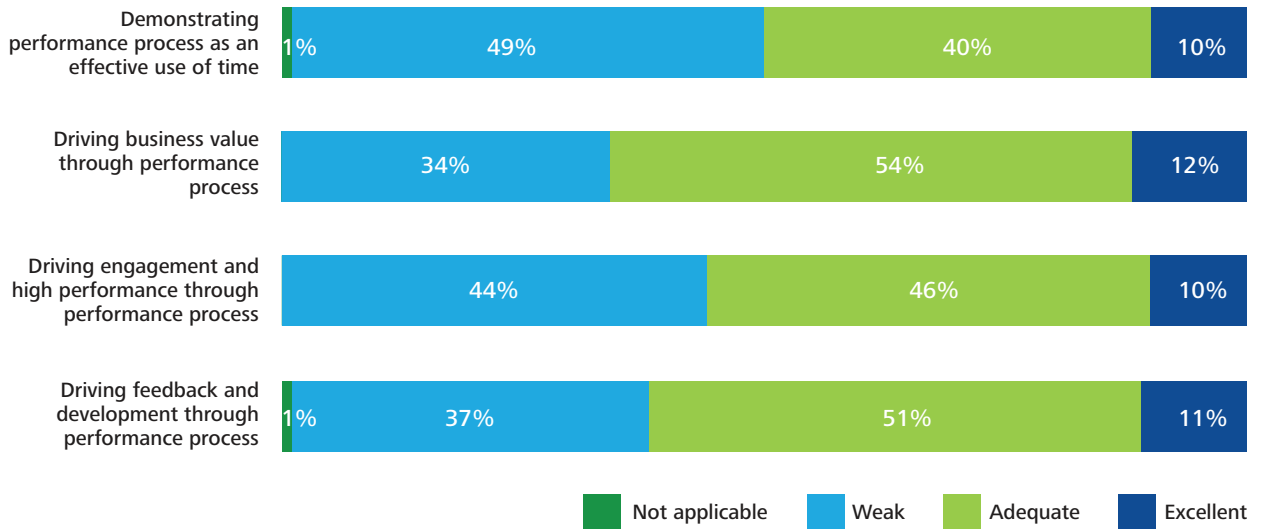
Our research indicates that the transformation of the aging performance management process is long overdue. Last year, only 8 percent of the HR respondents in our survey believed that their performance management process drove business value.¹ This year, the importance of performance management rose significantly, with 75 percent of respon-

dents rating it an “important” or “very important” issue, up from 68 percent last year.

So far, however, the rising importance of revamping performance

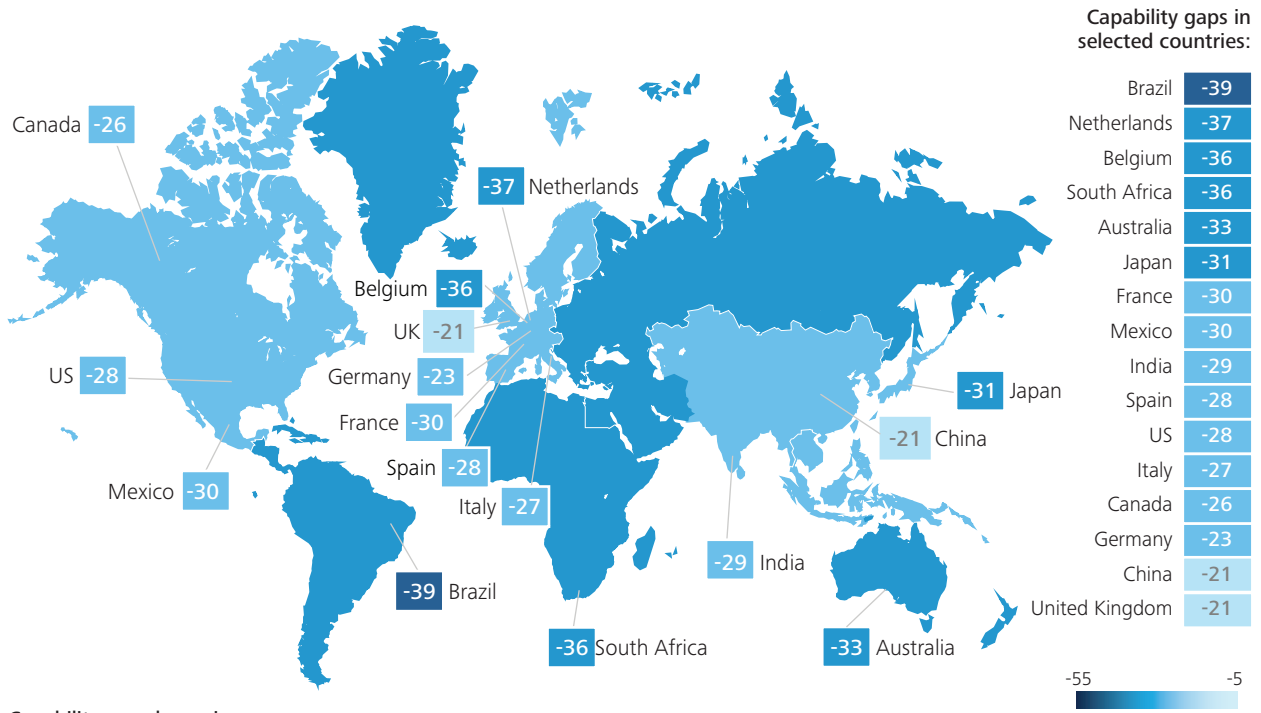
management is just beginning to translate into a positive view of the process. Just 10 percent of survey respondents believe that performance management is a good use of time (slightly more than the 6 percent from last year), and just over half (56 percent) believe that it positively affects employee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

Figure 1. Respondents' evaluation of their performance management processes



Graphic: Deloitte University Press | DUPress.com

Figure 2. Performance management: Capability gap by region

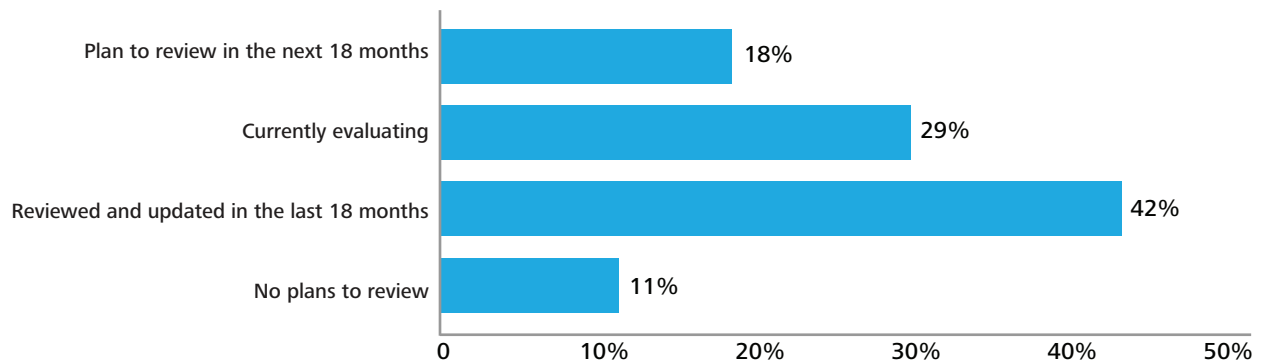


Capability gaps by region:



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

Graphic: Deloitte University Press | DUPress.com

Figure 3. Respondents' plans for updating performance management systems

Graphic: Deloitte University Press | DUPress.com

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

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

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

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

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

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

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

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

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

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

Feedback and team management are also integral to performance management redesign. New models focus on team-centric goal-setting and tools to help teams improve collaboration and performance. Bottom-up feedback from employees, often gathered through the engagement process, helps managers see their own weaknesses and improve their own performance. This, in turn, makes the performance management process more developmental for both leaders and their teams.

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

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

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

Lessons from the front lines

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

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

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



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

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

Where companies can start

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

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

- **Separate performance from compensation:** Take a step back and think about the entire structure before moving ahead with process reform. Disconnect performance management conversations from compensation conversations. Discussions about compensation often block an employee's ability to hear and adopt the feedback that can lead to improved performance.⁸
- **Build a new performance management culture:** Encourage ongoing feedback, enable effective coaching through training, and use change management and communications teams to shift the performance management culture from an emphasis on top-down evaluation to continuous development.
- **Empower local managers:** Give managers the authority to recognize and reward employee performance throughout the year. Invest in leadership development that helps managers learn how to coach and develop their teams.
- **Ditch the curve:** Tying employees to a normalized curve can inhibit performance. Relax the curve and let local management decide where to spend incremental dollars.

BOTTOM LINE

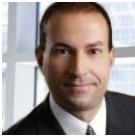
Done poorly, performance management can not only waste valuable time, but also have a negative effect on engagement and retention. Done well, it can be one of the most inspiring and developmental events in an employee's career, as well as drive performance improvements and organization-wide results.

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

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Acknowledgements

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

Special thanks

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

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

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

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

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

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

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