Human Capital Trends 2016
Out of sync?
This year’s 10 global trends

This fourth annual survey of more than 7,000 HR and business leaders globally ranks 10 key trends and companies’ readiness to respond to them. The report also includes both country and industry analyses.

Organizational design: The rise of teams
Hierarchical organizational models aren’t just being turned upside down—they’re being deconstructed from the inside out. Businesses are reinventing themselves to operate as networks of teams to keep pace with the challenges of a fluid, unpredictable world.

Leadership awakened: Generations, teams, science
Leaders of all ages, genders, and cultures are now poised to take the reins at organizations around the world. How ready will these future business leaders be to take charge in an increasingly complex global marketplace?

Shape culture: Drive strategy
The impact of culture on business is hard to overstate: 82 percent of respondents to the 2016 Global Human Capital Trends survey believe that culture is a potential competitive advantage. Today, new tools can help leaders measure and manage culture towards alignment with business goals.

Engagement: Always on
Employee engagement and retention today means understanding an empowered workforce’s desire for flexibility, creativity, and purpose. Under the evolving social contract between employer and employee, workers become “volunteers” to be reengaged and re-recruited each day.

Learning: Employees take charge
Corporate learning departments are changing from education providers to content curators and experience facilitators, developing innovative platforms that turn employee learning and development into a self-driven pursuit.

Design thinking: Crafting the employee experience
Design thinking takes aim at the heart of unnecessary workplace complexity by putting the employee experience first—helping to improve productivity by designing solutions that are at once compelling, enjoyable, and simple.

HR: Growing momentum toward a new mandate
Good news: This year’s Global Human Capital Trends survey shows an improvement in the HR organization’s skills, business alignment, and ability to innovate. But as companies change the way they are organized, they must embrace the changing role of HR as well.

People analytics: Gaining speed
The use of analytics in HR is growing, with organizations aggressively building people analytics teams, buying analytics offerings, and developing analytics solutions. HR now has the chance to demonstrate ROI on its analytics efforts, helping to make the case for further investment.

Digital HR: Revolution, not evolution
A new world for HR technology and design teams is on the horizon. Mobile and other technologies could allow HR leaders to revolutionize the employee experience through new digital platforms, apps, and ways of delivering HR services.

The gig economy: Distraction or disruption?
How can a business manage talent effectively when many, or even most, of its people are not actually its employees? Networks of people who work without any formal employment agreement—as well as the growing use of machines as talent—are reshaping the talent management equation.

Learn more: www.deloitte.com/hctrends | www.deloitte.com/hcdashboard | Follow @DeloitteTalent
Preface

Canadian companies and their global peers are in the midst of an unprecedented period of rapid, relentless change. Technology, demographics, innovation, and disruption are just some of the forces that are creating profound talent challenges for today’s companies. Yet these same forces are creating exciting opportunities to rethink the way companies work and transform the relationship between organizations, their workforce, and their customers—if only business and HR leaders could recognize this potential.

Our latest report on Canadian human capital trends finds Canadian executives and HR leaders focused on the usual issues: engagement, culture, and leadership development. It also finds these leaders curiously out of sync with the needs of their workforce and the business. Action is required—and quickly—to resolve these perennial talent challenges, realign HR efforts with the business, and move companies forward.

Where to start? By redesigning the organization itself and embracing a flatter, more fluid, more nimble and far more digital way of working.

I hope this report sparks serious discussion about how your organization is dealing with its talent challenges. Human capital issues are business issues, and solving these challenges will help your business thrive in the years to come. If you’d like to talk about our research or your company’s talent challenges, please contact me or one of my Deloitte colleagues listed at the end of this report.

Sincerely,

Heather Stockton
Practice Leader, Human Capital Consulting
Deloitte Canada
Four powerful forces are driving unstoppable change that’s impacting how HR is led and the programs it designs. These forces—demographic upheavals, the rise of digital technology, rapid innovation in business models, and socially driven evolution of the relationship between employers and employees—are creating talent challenges and solutions radically different from any faced by previous generations of leaders. After three years of working hard to drive employee engagement and retention, improve leadership, and build meaningful cultures, the executives surveyed in Deloitte’s 2016 Global Human Capital Trends report now believe the design of the organization itself must change, and companies must embrace a new way of working.

Many companies are looking at a shift away from the traditional structures—top-down, siloed, and insular—that have dominated for so long. To succeed in today’s fast-changing marketplace, companies need to be ready to react rapidly to disruption. A “new organization” is needed—built around highly empowered teams, driven by networks of internal and external talent, and led by a new breed of globally minded leaders. The change needs to happen fast: 92% of global respondents say organizational design is a critical priority, and it tops the list of this year’s global trends.

However, Canadian companies appear to be mainly focused on engagement and culture—more than ever, in fact. Ninety-one percent of Canadian respondents say engagement is important this year, with culture second at 90%—up from 76% last year.1 Organizational design ranks fourth among Canadians’ top human capital trends this year.

Our conclusion? Canadian executives and HR leaders are out of sync with the needs of their business. They need to look beyond culture and engagement and rapidly address how operating models and supporting designs are impacting the company’s ability to compete and respond. As the way we work changes, the way we design our organizations must also change, but our results suggest that Canadian companies don’t fully realize this yet.

Global companies are recognizing that an organization’s design can play a crucial role in adapting to modern business challenges and responding to continual disruption. It’s time for Canadian companies to realize this too. Those that evolve the design of their organizations will find their efforts to move the needle on culture, engagement, talent and leadership bolstered.

1In the 2015 edition of this report, 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.”

2The 2015 edition of this survey combined “Culture” and “Engagement” into a single trend.
The design of our organizations and the other human capital trends listed in Fig. 1 are business issues—not “just HR issues” with “HR solutions.” The entire business must embrace the need for change and take action now if it’s to successfully attract and retain talented people, and respond quickly to strategic opportunities. Companies need to rethink their talent models and how work gets done. They need to adopt a more fluid, flexible design that better reflects the customer and responds to the market. And they need to leverage a full suite of digital tools and talent experiences to sharpen their competitive edge.

In Out of sync: Canadian Human Capital Trends 2016, we look at this year’s survey results and explore what may be driving these trends. Taking action on these findings can significantly improve business performance overall. It can reinvigorate the organizational culture and increase business agility. It can nurture a spirit of innovation and make companies irresistible to the talent they want. The sooner this is tackled, the better. Moving now and moving fast can help organizations stay relevant and ahead of the curve.

“Good organization does not by itself produce good performance. But a poor organization structure makes good performance impossible, no matter how good the individual managers may be.”

Peter Drucker, *The New Realities*
Innovation, competitiveness and productivity: Canada’s call to action

Technological innovations are growing at an exponential rate. According to Deloitte’s 2015 Human Capital Trends report all Canadian businesses—regardless of industry or size—are vulnerable to innovative disruptions. The reason? Underinvestment in innovation, technology and productivity. A recent World Economic Forum report ranks Canada:

- 26th in terms of company spending on research and development
- 23rd on organizations’ capacity to innovate
- 18th on overall technological readiness
- 29th on technology absorption.

Additionally, current challenges facing the Canadian workforce—and the demographics of the workforce itself—enhance the need to innovate and relinquish traditional models of work. For example, offering flexible work options such as telecommuting or non-traditional work weeks could significantly reduce long commute times and absenteeism.

Moreover, these programs can provide a competitive edge for attracting and retaining the right talent in a market where talent supply and demand are in disequilibrium and employee turnover is set to rise. A recent Information and Communications Technology Council report found that the estimated 182,000 workers needed in the digital market by 2019 cannot be met by current levels of graduates and workers with the relevant skillset. At the same time, the 2016 Deloitte Millennial Survey discovered that 61% of Canadian millennials (individuals born after 1982) plan to leave their organization in the next five years.

These marketplace challenges are rapidly growing and changing, requiring companies to be agile—and react quickly—to ensure they, and the country, don’t fall behind. Companies can, and should, double their efforts to foster innovation and improve investments in Research and Development and new technology and equipment. And at the same time take a hard look at redesigning the way work gets done to better meet the needs of their workforce, their customers and the never-ending pressures of the modern business environment.

1Deloitte, Age of Disruption: Are Canadian Firms Prepared?
3Information and Communications Technology Council. Digital Talent: Road to 2020 and Beyond, 2015.
The top 4 Canadian trends
Employee engagement is top of mind for Canadian companies: 91% of Canadian respondents say it’s the most important human capital issue on the agenda. Engagement powers a company’s success, and it can also help leaders anticipate future workplace issues, gain insight into their customers, and gauge employees’ support for change. An engaged workforce is more innovative, more productive, and collaborates more effectively, all of which help drive superior business results. A disengaged workforce, on the other hand, can drag down performance and hinder efforts to drive change, as employees grow distracted looking for their next job. When it comes to tackling engagement, Canadian respondents feel they’re struggling: 58% say their organization isn’t ready to deal with engagement issues.

- 54% of Canadian respondents feel their organization is able to provide programs reflecting the needs of a multigenerational workforce.
- 82% say their company doesn’t clearly define what diversity and inclusion means to it.
- 43% feel the organization lacks support for new family models.
The contingent workforce: Networks of people who make a living working without any formal employment agreement as well as the increased use of machines as talent. The rise of these new labour models requires a new approach to talent management and engagement.

Our survey suggests several reasons why engagement may be a tough nut to crack. For one thing, only 54% of Canadian respondents feel their organization is able to provide programs reflecting the needs of a multigenerational workforce—and not one respondent would rate any existing programs as “excellent.” As well, 82% say their company doesn’t clearly define what diversity and inclusion means to it, while 43% feel the organization lacks support for new family models. Canadian companies have yet to catch up with the realities of their workforce, and it’s causing employees to grow disengaged.

One of the obstacles to successful engagement lies in the fact that a rising number of companies are accessing talent that works without a formal employment agreement—an on-demand workforce brought in for a year, a month, or even just a project. Others are turning to crowdsourcing—consulting via online collaborative communities—as a means to solve vexing business problems. The result? Companies find themselves trying to engage a workforce that includes employees and non-employees alike. It’s a challenge that will only grow, as the use of contingent workers is expected to rise over the next three to five years. Despite this, only 62% of Canadian respondents see the contingent workforce as an important issue—and only 41% feel ready to deal with it.

Yet a deeper issue may be driving Canadian organizations’ engagement challenges. Throughout this year’s survey results, leaders and employees consistently demonstrate different views on the importance of human capital trends and the organization’s ability to tackle them. For example, while 54% of executive respondents believe their organization is equipped to deal with engagement issues, only 36% of non-executive respondents agree. As we’ll see in this report, leaders’ rosier perspective often contrasts with employees’ greater skepticism. This disconnect suggests that employees feel their leadership doesn’t understand their issues and needs—or isn’t interested in addressing them. More troubling, is that the views of executives and HR leaders may indicate that they are simply out of sync with the needs of the business, focused on lesser issues, and unable to see the changes that are required. It’s a disconnect that can make it difficult for organizations to hold onto talent, especially the future leaders they so desperately need.

54% of EXECUTIVE respondents believe their organization is equipped to deal with engagement issues

36% of NON-EXECUTIVE respondents agree

Canadian firms aren’t alone in this struggle. Only 20% of survey respondents across North America feel they have an “excellent” ability to manage contingent, outsourced, contract or part-time sources of labour. Respondents also admit that their understanding of future skill requirements, and their ability to redesign work to better capitalize on contingent workers, is “weak.” This suggests there is a broader need to redesign talent models to incorporate this new type of worker.

*Deloitte, Canadian Human Capital Trends 2015 survey*
Trend 2

Culture: Do we expect too much?

An organization’s culture plays a vital role in shaping and driving behaviour, innovation, and customer service. But are companies placing too much faith in culture’s power? Eighty-two percent of Canadian respondents feel culture can be a potential competitive advantage. Culture is a powerful asset for any organization, but even the greatest culture can’t solve engagement challenges or create a new cadre of strong leaders.

As with engagement, the results show significant gaps in how leaders and employees view key business issues:

- 63% of Canadian EXECUTIVES say they’re ready to address their organization’s culture-related challenges, yet only 34% of Canadian MID-LEVEL respondents feel their organizations do a poor job of aligning personal goals with corporate purpose, compared to 31% of MID-LEVEL respondents who feel their organization’s understanding of the workplace culture is weak;
- 47% of NON-EXECUTIVES agree 12% of C-SUITE respondents, and 15% of C-SUITE respondents agree.
Why are these perception gaps so large and widespread? A company’s culture may be clearer to the C-suite because it reflects their values and aspirations—thus, they’re already aligned. When a culture is designed from the top down, executives may not communicate their culture vision as clearly, as effectively or as often as they need to. As well, millennials typically value a sense of purpose in their work; yet many organizations fail to include such purpose—the impact the business wants to make and, therefore, how things will get done—in their definition of culture.

Fostering an inspiring culture in the modern, empowered, multigenerational workforce is a major challenge to overcome for any organization. The good news is that culture can be managed and improved—and closing any perception gaps is an ideal place to start. To this end, the C-suite and HR leaders must put their heads together to develop a strategy to communicate their vision to a diverse workforce—as well as a program to regularly check in with employees to ensure the culture’s taking hold and has clear purpose. However, it is equally important that leaders not exaggerate the role culture plays in addressing their organization’s human capital issues. Culture is part of the solution, to be sure. But it’s no magic bullet.

43% of Canadian MID-LEVEL respondents (senior manager and manager level)—and 67% of OTHER EMPLOYEES—rate their organization’s capacity to effectively drive the desired culture as “weak”

Only 15% of C-SUITE respondents agree
Leadership remains a major concern for companies worldwide. In Canada, 90% of respondents believe strengthening, reengineering and improving leadership is a high priority. Traditional leadership models can’t produce leaders fast enough to keep up with the demands of business and the pace of change.

While leadership remains a perennial issue and a key priority, Canadian respondents say their organization’s ability to develop leaders is declining. Last year, 44% of respondents felt their company was prepared to tackle the leadership challenges they faced. This year, it’s just 40%. At a time when the need for new leaders—and new kinds of leaders—has never been more acute, identifying leadership potential and developing leaders is more difficult than ever. Many efforts to build a new generation of leaders, including experiments with “flavour of the year” leadership programs, have been unsuccessful, often because they are short-term, quick-fix approaches that don’t reflect the needs of leaders in an open, global economy.

While 50% of C-suite respondents feel leadership programs deliver “adequate” or “excellent” global skills and experiences, only 30% of mid-level respondents—and 22% of employees—agree. Of C-suite respondents, 59% say their organizations provide “adequate” or “excellent” experiential, role-based leadership programs; only 40% of mid-level respondents and 22% of employees agree.
However, there is broad agreement—77% of respondents at all levels—that the organization’s capacity to deliver focused leadership programs for millennials is “weak.” These results suggest that the effort invested in developing leaders isn’t yielding the desired outcome yet. Our view is that adopting a more scientific approach to leadership development, measuring potential, matching roles and strengths, and redesigning work itself can play a powerful part in solving the leadership challenge. A great way to start would be for organizations to:

**Build leadership programs based on a foundation of evidence, data and analytics.**
Insights from data can help 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.

**Move away from the traditional, hierarchical structures that concentrate leadership in the hands of relatively few.**
Moving to a flatter, more dynamic and flexible team-based structure not only better reflects the realities of getting work done today—it creates far more opportunities for new leaders to develop and gain the experience they and their teams require.

**Adopt a bespoke model of leadership development.**
Each company is unique, and its approach to identifying and nurturing leaders needs to be similarly unique. The C-suite and HR must invest the time to develop a leadership program that meets their organization’s needs over the next three to five years and is driven by the long-term strategic objectives of the business. Programs should focus on the “hard skills” of leadership to ensure new leaders are equipped to make tough decisions and deliver tough messages when required.

**Play to a leader’s strengths.**
Investing in matching a leader’s strengths to the role, and building teams that compensate for development areas, creates a powerful formula for engagement and impact.
Trend 4

Designing our organizations: An overlooked opportunity?

Around the world, organizations are rethinking the way they’re designed, and many are moving towards flexible, adaptable networks of teams and resources. They’re doing so because the external business environment demands it. The pace and tumult of globally competitive markets requires constant experimentation and risk-taking in how work is organized. In response, companies are decentralizing authority, and eliminating bureaucracy to achieve more flexibility in how they adapt to an uncertain future. They are focusing on simplicity, aligning the design of their organization to specific customer outcomes. They’re aggressively cutting costs, exploiting automation, delayering, and pivoting towards product-, customer- or mission-centric structures.

There is a growing awareness that effort expended on perfecting formal reporting hierarchies is better redirected towards establishing dynamic networks of empowered teams that communicate and coordinate activities in unique, powerful—and digital—ways. By viewing the organization as a dynamic, ever-evolving system, rather than a collection of disparate or static capabilities, companies can create the flexibility needed to meet rising customer and stakeholder expectations.
Designing our organizations: An overlooked opportunity?

Many Canadian companies are taking their first steps along the organizational design path. They’re trying to figure out how to organize themselves to optimize their use of people’s talents and skills, and leverage the informal connections across functional silos. When it comes to actually changing the work and how work is done, however, Canadian firms have fallen behind their global counterparts. Today’s reality is one that requires organizations to redesign themselves continuously, in contrast to the historic approach of only doing so after major events such as a merger or a significant shift in strategy. In our work with Canadian clients, we’re finding that design interventions are needed annually, not every three to five years, when costs need to be cut and delayering is required; this is simply the result of the pace of change facing firms in every sector of the Canadian market, from banking to transportation and beyond.

Canadian respondents are expressing less confidence in their company’s ability to address organizational design than their global peers. Only 48% of Canadian respondents feel their organization is capable of addressing the challenges of structure, compared to 57% of respondents globally. As a new status quo emerges, demanding constant renewal for companies in hyper-competitive sectors, overcoming this reticence around restructuring will be essential if businesses are to build the foundations needed to make other talent programs successful.

Canadian companies’ slow progress in this area may also be partly explained by the ongoing disconnect between companies’ leaders and employees regarding reorganization. For example, 70% of Canadian C-suite respondents believe they successfully assign appropriate decision rights across their organization, compared to 49% of mid-level respondents. Moreover, executives are more confident than non-executives in their ability to form successful project- or program-based functional teams. If companies are going to position themselves for success, they must listen to the perspectives of those who are working in those less optimal structures; after all, human agency is what ultimately delivers a good organization design.

Seventy-nine percent of Canadian respondents overall say their organizations aren’t ready to embrace digital HR. And only 9% feel they have a “very good” understanding of the best-in-class in digital HR.

Digital technologies have forever changed how we live and work, and they’re also changing how organizations do business and connect and interact with employees. The digital employee experience integrates social, mobile, analytics and cloud technologies to make work easier, more productive, more engaging, and more rewarding. It improves workforce and business agility, and enables companies to respond to issues with more flexibility and speed than before.

However, the pace at which most Canadian companies are changing is slow. Organizations are still moving performance management and other basic processes into the cloud—while employees, far ahead of them, crave a mobile, app-based, fully integrated experience. Employees expect companies to deliver the convenience, flexibility and ease of use they’ve come to expect from their favourite online retailer. They also expect to be treated not as employees, but as customers; unfortunately, 94% of respondents think their organizations aren’t very good at creating systems or processes that treat employees as customers.

Companies lack a readiness to tackle digital HR and learning—and [have failed to] embrace a digital way of working overall. There is a great opportunity for HR leadership to take the lead and show the C-suite how digitization is a business transformation, not “just” an HR one. Investing in digital tools and technologies benefits the entire organization and enables leadership and business partners to get closer to the workforce.
Act now to get in sync

Canadian companies need to take action—now—to address the human capital issues they face. Improving engagement, strengthening culture, fostering leadership, and capitalizing on new ways of working means companies need to evolve the design of their organizations. To better reflect today’s workforce and respond to today’s business challenges, there is a need to continue to flatten, transforming from rigid hierarchies to flexible networks of teams enabled by digital technology and processes. This transformation can be driven by leaders at all levels, and supported and coordinated by centres of excellence providing specialized expertise.

Transformation on this scale requires Canadian business and HR leaders to join forces, embrace organizational complexity and become great at managing transformational change. They will need to become highly adept at balancing the old and the new, and more responsive in addressing emerging needs and trends among their customers and their employees. It will be challenging, but it will be worth it. Companies that move rapidly—that try new structures, learn from their successes and failures, and try again—will find themselves well-equipped to meet the demands of their workforce and customers. They will make meaningful progress on engagement, culture, leadership and a host of other vital areas.

Traditional matrix and functional structures will still have their place, and will continue to serve organizations well for some time. The difference is that now they will be augmented by automation, digital tools, and a new, more fluid structure that is better suited to meeting today’s challenges—and tomorrow’s.

How can Canadian organizations kick-start their drive forward? And how can Canada’s executives and HR leaders get back in sync with the needs of their business?
Here are a few ideas to spark conversation—and action:

**EMBRACE THE DIGITAL EXPERIENCE.**
Soon, half of your workforce will be made up of millennials. Digital is their language, and the more quickly you embrace digital ways of working and managing talent, the more effectively you will be able to connect with and engage this cohort.

**MAKE DESIGNING THE ORGANIZATION A PRIORITY.**
Existing organizational design is compounding the challenges faced around engagement, culture, and leadership and hindering efforts to “move the needle” on important business issues. It’s time to reset priorities and put organizational design at the top of the agenda.

**CLOSE THE GAPS.**
Our report suggests executives and employees are often far apart on how to optimize the organization’s human capital. Identify the perception gaps—and close those gaps by having open, transparent conversations. Modernizing and simplifying HR programs can also help.

**RETHINK HOW YOU ENGAGE THE ON-DEMAND WORKFORCE.**
Your contingent workforce is only going to grow. Does the way you manage talent, plan work and communicate with employees reflect this fact? If not, it’s time to change.

**SIMPLIFY.**
Companies should simplify their structures in the areas of cost, decision-making speed and the flow of information, to name a few. They need to increase outside sensing mechanisms to understand disruptors and balance the need to respond and act internally.

**USE WHAT WORKS.**
Organizations need to gain an understanding of the informal structures and organic team collaboration that already takes place, because these are clues as to how work actually gets done. They should then leverage the best of what they discover—and the best of the formal structures already in place—and change those aspects that hold their people back.

**LEARN FROM DISRUPTORS.**
A host of nimble, innovative start-ups have emerged in recent years, keen to seize talent, market share and disrupt traditional business models. These disruptors often exploit highly dynamic structures and ways of working ideally suited to the modern business environment. By learning how these innovative new players approach structure and workflows—not to mention culture, engagement and other top human capital issues—Canadian companies can take away ideas to apply to their own efforts.

**GET THE RIGHT MINDSET.**
Canadian companies should establish and nurture a mindset that encourages experimentation and risk-taking. They need to become much more comfortable with innovation, rapid iteration, learning from failures, and near-constant change.
About this report

This report, focusing specifically on human capital trends in Canada, was designed to complement the Deloitte report Global Human Capital Trends 2016: The new organization – Different by Design, which is based on a comprehensive global survey of more than 7,000 business leaders and HR executives in 130 countries. This report examines specifically the Canadian results, based on 196 Canadian respondents.

For more information, visit deloitte.ca/hctrends