

Resetting horizons
Global Human Capital Trends 2013
Life Sciences and Healthcare Industry



Resetting horizons: Global Human Capital Trends 2013

Looking beyond continued uncertainty, the world's leading organizations are raising their sights, and pivoting from the great recession to the new horizons of 2020 with a focus on talent, globalization, growth, and innovation. This report introduces 13 global trends that are driving critical business and human capital decisions. The report provides information on these trends across global markets through results of a survey of over 1,300 business and HR professionals from 59 countries. To read the full report, please visit www.deloitte.com/hctrends2013



Exploration

Leadership.next: Debunking the superhero myth

Yesterday's leadership theories are not keeping pace with the velocity of today's disruptive marketplace. Organizations are seeking a new model for the age of agility.

www.deloitte.com/leadershipnext



How boards are changing the HR game

To seize new opportunities for sustainable growth and manage heightened risks, boards of directors at high-performing organizations are pulling CHROs much deeper into business strategy—and far earlier in the process.

www.deloitte.com/boardschangingHR



Leading talent from the BRIC

In an era of pervasive globalization, organizations are building multi-directional talent networks that are not only geared toward existing markets, but can also power new emerging markets.

www.deloitte.com/leadingfromtheBRIC



A global diversity dividend

In the midst of ongoing global expansion and a worldwide shortage of critical talent, companies are stepping up efforts – at very different speeds and levels of investment – to recruit and retain a workforce diverse in both demographics and ideas.

www.deloitte.com/diversitydividend



Workplaces of the future: Creating an elastic workplace

Workplace flexibility has become table stakes for attracting and retaining employees. Now companies must align their flexibility strategy with their core strategy to realize the benefits.

www.deloitte.com/workplacesofthefuture



The open talent economy

Jump ahead to the year 2020. Half the people you rely on don't actually work for you and that's a good thing—if you're ready.

www.deloitte.com/opentalent



Execution

Organization acceleration

Faced with tougher, more numerous challenges, today's organizations are demanding more from their change initiatives by pursuing strategies that are customized, precise, and sustainable.

www.deloitte.com/orgaccelerationtrend



The war to develop talent

The talent management pendulum is swinging from recruitment to development.

www.deloitte.com/development



Transforming HR to meet new business priorities

HR transformation efforts are continuing to shift their focus to business priorities, concentrating on areas such as talent, emerging markets, and the HR organization.

www.deloitte.com/transformingHR



Branding the workplace: Innovating the talent brand

Social media has erased whatever lines used to exist between the corporate brand and the talent brand. They're two sides of the same coin.

www.deloitte.com/talentbrand



The aging workforce: Finding the silver lining in the talent gap

Organizations can capitalize on shifting retirement patterns to help narrow their talent gap.

www.deloitte.com/agingworkforce



The performance management puzzle

Some say traditional ways of managing employee performance are irrelevant in today's fast-changing work environment. Others argue that these methods drive accountability and differentiated compensation. Both are right.

www.deloitte.com/performancepuzzle



Human capital analytics: Thinking like an economist

Increasingly, many HR leaders have to answer questions that have an economic issue at their core—the allocation of a scarce resource called talent.

www.deloitte.com/HCEconomist



We are excited to share a summary of the key market trends and priorities that are impacting leaders everywhere. This report is specifically tailored for Life Sciences and Healthcare leaders and is intended to reflect the Human Capital trends that you are currently facing today, such as Mergers & Acquisitions, Expiring Patents, Focus on Emerging Markets and Healthcare Reform.

This global report is based on the results of a survey of more than 1,300 business leaders. Specifically, 91 Life Sciences and Healthcare executives responded with the following breakdown of organizational size:

- <1,000 employees: 35 responses
- 1,001 – 10,000 employees: 34 responses
- 10,001 – 50,000 employees: 14 responses
- >50,000 employees: 4 responses

Given the breadth of respondents, the information in this report is applicable to organizations across all sectors within the industry, and should serve as an introduction to the key trends that are driving critical business and human capital decisions across the industry. For additional information on the trends affecting the Life Sciences and Healthcare industry as well as the full scope of cross-industry trends, you can access the full report: www.deloitte.com/hctrends2013

We hope that you will find the information useful to derive insights for your employees, customers, patients and global stakeholders alike.

A handwritten signature in black ink, appearing to read 'M. DiMarzio'.

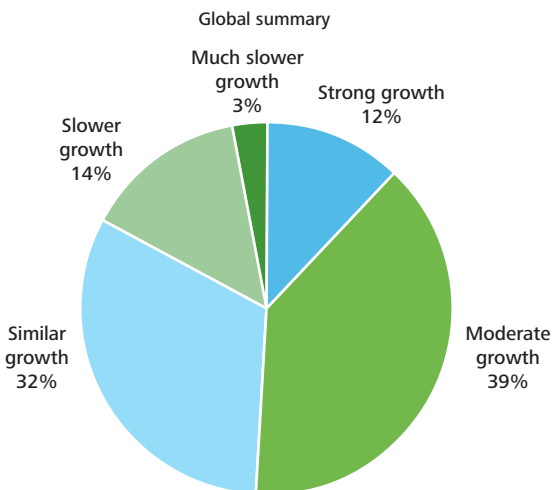
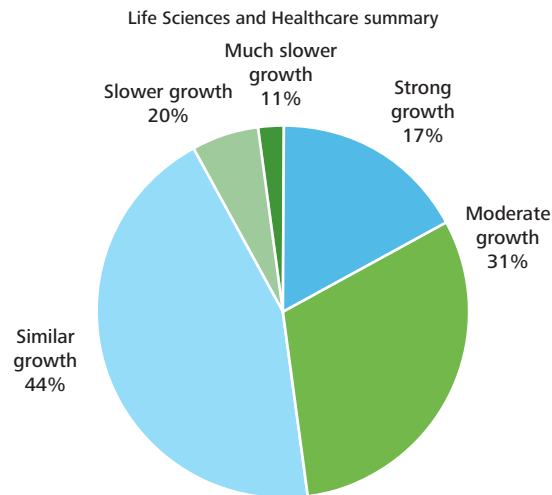
Marty DiMarzio

Global Human Capital LSHC Leader, US Human Capital LS Sector Leader

What is the Life Sciences and Healthcare business outlook in 2013?

In light of key trends such as Mergers & Acquisitions, Expiring Patents, Focus on Emerging Markets and Healthcare, Life Sciences and Health Care (LSHC) executives surveyed, 48% believe that their company will achieve moderate (31%) or strong (17%) growth compared to 2012. The percentage of those who believe their company will see slower growth in 2013 (8%) is notably lower than the cross-industry global executives surveyed, of which 17% anticipate their companies to experience slower or much slower growth than the previous year.

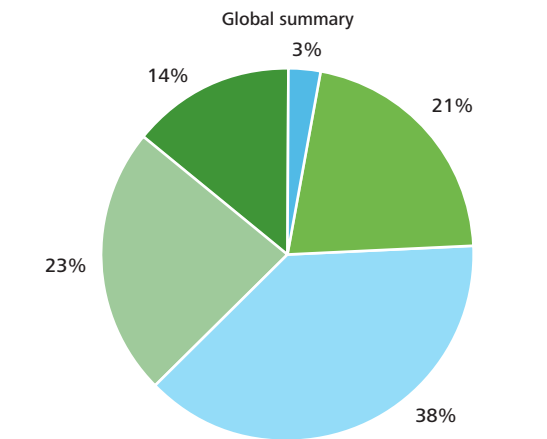
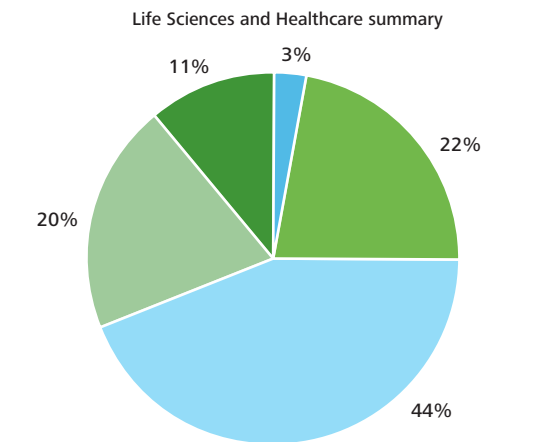
Life Sciences and Healthcare and global outlook for 2013 compared to 2012



Capabilities of organization's HR and talent programs

When surveyed on the capabilities of their organization's HR and Talent programs, nearly 44% of LSHC executives rate the strength of HR and talent programs as "adequate," very few believe their HR programs are truly exceptional. In fact a mere 3% in both the global average and LSHC industry rated their talent programs as "world class" across the board. This reflects a renewed desire to strengthen corporate talent development. In fact, 20% of LSHC executives believe their HR and talent programs require "significant" improvements; 11% say their programs require "radical" improvements. These findings suggest a clear area of focus for LSHC organizations moving forward to achieve "world class" programs.

Capabilities of organization's HR and Talent programs



- We are world class in HR and Talent programs
- We are world class in some areas of HR and Talent programs while we need to improve in several key areas
- We have adequate HR and Talent programs for our industry but we need to improve
- We are getting by in HR and Talent programs but significant improvements are needed
- We are underperforming in HR and Talent programs and radical improvements are needed

Top three pressing HR and talent concerns

When Life Sciences and Healthcare executives were asked to name the top three most pressing talent and HR concerns facing them today, the answers indicate the need to:

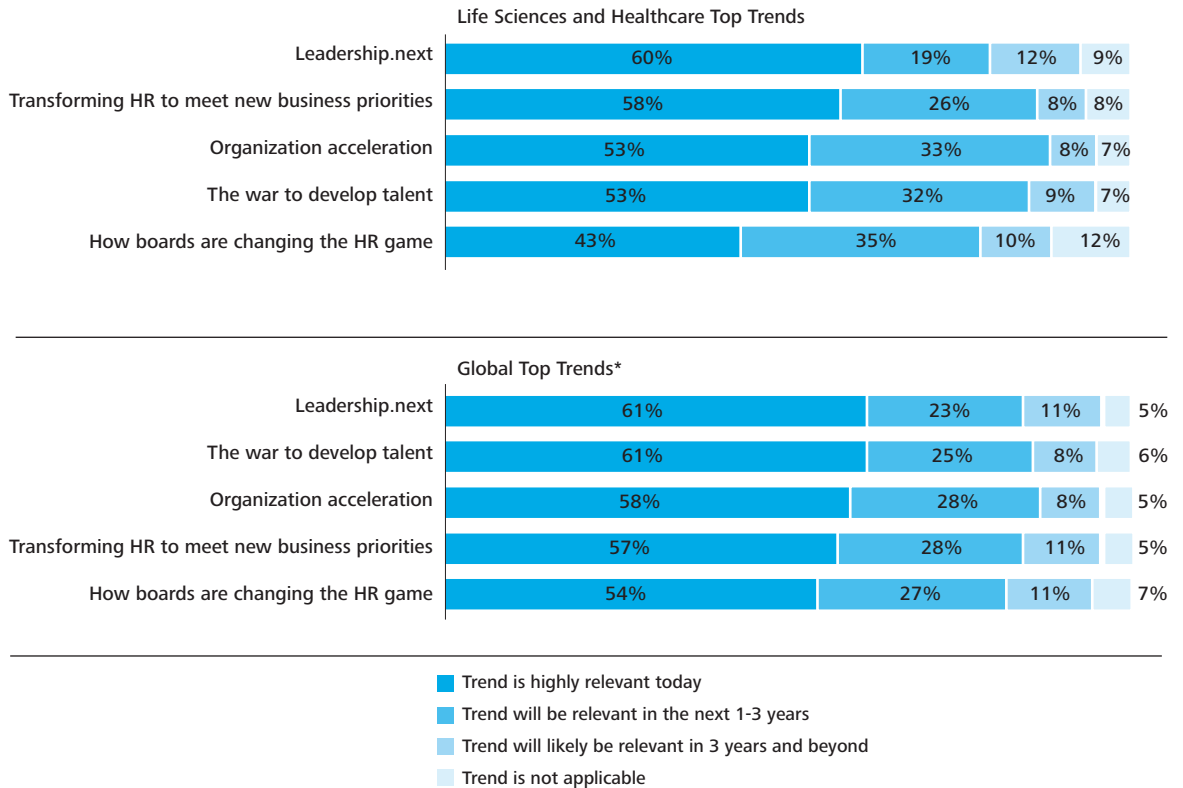
1. Develop new leaders and plan for leadership succession.
This suggests that the global demand for new leaders is outpacing the supply, and why respondents placed Leadership Next at the top of the list as today's most relevant trend.
2. Corporate leaders report they are also highly-focused on connecting HR to critical business priorities, evidenced by LSHC executives naming this as the second most pressing concern.
3. "Sustaining employee engagement/morale" was ranked third by LSHC executives. This echoes the fact that The War to Develop Talent was also cited by respondents as a top human capital trend in all regions. Clearly, executives are eager to improve employee engagement.

What are the top leading, rising and emerging trends in Life Sciences and Healthcare?

The Life Sciences and Health Care landscape has shifted dramatically in recent years. After a period of strong growth and favorable market trends, the industry is now facing new challenges such as rising healthcare expenditures, increased patient awareness and influence over treatment options, heightened compliance and safety requirements, and declining Research & Development productivity coupled with expiring patents.

To better understand the human capital trends in the LSHC industry, we have used a comprehensive survey to compare the surveyed responses of 91 LSHC respondents to the other 1,300 business leaders and HR executives across industry. The top five global leading trends are depicted below:

Life Sciences and Healthcare and Global Top Trends from the Global Human Capital



*Global Top Trends includes both public and private sector organizations

Below is an explanation of the top LSHC trends, the macroeconomic industry trends influencing companies, and how the trends relate to the cross-industry top trends.



1. Leadership Next:

Yesterday's leadership theories are not keeping pace with the velocity of

today's disruptive marketplace. Organizations are seeking a new model for the age of agility.

Cross-industry respondents have ranked "Leadership Next" as the most highly relevant trend. Moreover, respondents chose "Developing leaders and succession planning" to be the number one pressing HR or Talent concern. In fact, recent surveys show that the number one factor to trigger job search among surveyed Life Sciences employees is lack of trust in leadership – 33% in LSHC versus 17% across all sectors.

LSHC companies are growing through mergers, acquisitions, and divestitures to gain financial synergies as well as diversify into new products or consumer groups. With the amount of restructuring (e.g., increase in M&A activity in the past 3-5 years), re-strategizing, and the abundance of short-term cost cutting initiatives within the industry, employees are looking to their leaders more than ever to drive strategic, long-term, and sustainable business objectives as well as guidance in the immediate future. Significant change, such as M&A activity can drive employee unrest and concern about their part in the future state organization. Leaders will need to set the culture of what this new organization will look like and keep employees committed to the organizational brand throughout the change.

LSHC companies will need to be engaged in critical M&A activity in order to drive revenue and offset the impact of expiring patents, declining R&D productivity, and rising operational costs. Sales in the \$290 billion medical device industry are projected to rise 5% annually from 2010 to 2015.¹ Device makers will likely rely on innovative new products and acquisitions to drive growth and counter pricing and reimbursement issues.

To be effective in these efforts, companies in both LSHC and across industries need leaders who—individually and collectively—can operate across different environments

and adapt to the unexpected. As a result, there will be a need for a pool of leaders with diverse skills, personalities, experiences, and capabilities. They also underscore the importance of flexibility and adaptability.



2. Transforming HR to Meet New Business

Priorities:

HR transformation efforts are continuing to shift their focus to business priorities, concentrating on areas such as talent, emerging markets, and the HR organization.

In the past, HR transformation focused primarily on making existing HR functions more efficient and effective. Today, HR capabilities must not only support the business, but enable business strategy. To fulfill its new role in accelerating business growth, organizations are using HR transformation to design HR and talent systems that can work across geographic boundaries, creating a framework that is flexible enough to support different business models.

LSHC companies ranked this trend as second in overall relevance (58% highly relevant), compared to the cross-industry fourth place ranking (57% ranked highly relevant today). This trend is particularly relevant for LSHC companies, as emerging markets and innovation are two of the most impactful macroeconomic trends in the industry.

The demand for Life Science products is increasing in emerging markets as their populations' age, the prevalence of chronic disease rises, and the middle class with disposable income grows. Answering the call is eased by the sales potential in an untapped market and favorable government policies in some locations. However, a safe and profitable entry into emerging markets is full of risks, including significant pricing issues, inadequate distribution networks, threats to IP protections, and problems with supply chain quality, cost, safety and security. Life Sciences companies must identify the risks associated with the rewards of entering emerging markets before embarking on the journey. Furthermore, to take advantage of emerging markets, talent leaders of LSHC companies must establish a global mobility program that can move talent efficiently and collaborate virtually.

Additionally, new business priorities and structures are changing the way that HR interacts with the broader organization. Given the increase in outsourcing, HR will need to transform ways of working both from a strategic and transactional standpoint. Shared service centers and other tangential organizational structures will need to be considered. This will impact the transactional ways in which HR works with the organization, such as through benefits and payroll considerations. The increased use of contractors will also need to be considered as a key talent segment that results in different HR perspectives and tactics. Moreover, there has been a trend of large corporations implementing single instance HR systems to enable true global reporting, which supports the business needs and drives compliance.



3. Organization Acceleration:

Faced with tougher, more numerous challenges,

today's organizations are demanding more from their change initiatives by pursuing strategies that are customized, precise, and sustainable.

Organization Acceleration is a framework for strategic change that incorporates change initiatives that move rapidly and efficiently through organizations; deliver sustainable results and measurable impact; and are driven by the leadership of the organization, starting with the C-Suite. This framework also drives targeted solutions for segments of stakeholders. Specifically, organizations require a global strategy but necessitate a local perspective to facilitate targeted implementation.

Trends in the LSHC marketplace, such as the rising pressures of healthcare spending, healthcare reform, increased patient awareness, and generic drugs have pushed LSHC companies to find ways to execute business strategies more rapidly throughout the organization. In order to execute such strategies more rapidly, these organizations must be staffed with the right talent from a global perspective and develop organizational, locally-specific change plans in order to succeed in the new environment.

Impending decisions on healthcare reform and upcoming elections will further impact \$52B direct loss in revenue due to healthcare reform law in the next 10 years (Deloitte estimate).² Increases in government funding and broader insurance coverage will expand the LSHC organizations, while focus on pay-per-performance causes LSHC organizations to re-evaluate their current incentive structure.

Moreover, an increase in the number of branded drugs going off patent creates a dearth of generic and generically priced products to the market. The increased demand for innovation to discover new drugs further drives the talent gap in LSHC organizations.



4. War to Develop Talent:

The talent management pendulum is swinging from recruitment to development.

The “war” of talent is shifting from recruiting employees with hot skill sets to developing high-in-demand capabilities within an internal pipeline. This trend is driven by a struggle to fill talent gaps, escalating turnover costs, and a demand for development opportunities and meaningful work by young employees. In fact, employees in the LSHC sector value the opportunity to change fields or learn a new role higher than employees in other sectors.

This “War to Develop Talent” was ranked in both of the LSHC and cross-industry top trends, however, only 53% of LSHC companies believed this was highly relevant today (compared to 61% of cross-industry respondents). Companies, especially in the LSHC industry, must tackle the global talent shortage and changing skillsets from several fronts: planning workforce development, designing open talent networks, creating new career models, and learning transformation.

Attrition can be reduced by providing employees with meaningful work or communicating the overall impact of their work. In a recent survey, LSHC employees cited a higher chance of leaving their job due to lack of challenge in the job compared to all sectors (30% to 21%).¹ To bring turnover of critical workforce segments to a halt, companies should invest in critical workforce segments vital to executing corporate strategy through meaningful assignments and incentives.

Retention strategies should focus especially on certain employee segments are at a high risk of turnover. LSHC employees most restless in their current positions are those who have worked in their current jobs for over five years. This workforce segment is more marketable as they hold the most subject matter knowledge that will cause the largest impact and disruption on business operations if they leave. LSHC companies need to focus on this workforce segment in order to mitigate any potential disruption caused by this group's departure.

LSHC employees have similar incentives to staying with their current employers as employees in other sectors – from more flexible work arrangements to increased compensation. One large difference is that LSHC employees are much more incentivized by non-financial benefits (such as health, pension, and discretionary perks) – about 30% in LSHC versus 17% across all sectors. This statistic provides insight into the LSHC respondents' ranking of the "War to Develop Talent" trend as fourth (only 53% feel this is highly relevant today).



5. How Boards are Changing the HR Game:

To seize new opportunities for sustainable growth and

manage heightened risks, boards of directors at high-performing organizations are pulling CHROs much deeper into business strategy – and far earlier in the process.

To seize new opportunities for sustainable growth and manage heightened risks, boards of directors at high-performing organizations are pulling CHROs much deeper into business strategy – and far earlier in the process. This is driven by rising expectations of the board (specifically talent management and leadership development), increasing responsibility for managing regulatory and compliance risk, and achieving sustainable growth. Both LSHC companies and cross-industry respondents believe that this trend is highly relevant today (ranked fifth in the overall top trends, at 43% and 54% highly relevant respectively).

Incorporating talent into the business strategy at the Board of Director's level is especially important in LSHC companies. As federal regulators view the LSHC sector with an increasingly stern eye, CHROs are working with the boards to ensure that their companies have minimized talent-related risk by executing the appropriate infrastructure and programs.

Around the world, we are seeing an increase in regulatory activity in areas that affect the LSHC sector and its workforce. Increased quality/approval measures, increased regulations and fines (e.g., consent decree, Sunshine Act) and cost containment pressures are LSHC companies to do more with less— fueling the need for employee engagement and efficacy across the enterprise in the US and abroad.

Companies are also teaming up with strategic partners to leverage targeted biologic and therapeutic compounds with existing extensive manufacturing and marketing prowess to bring innovative products to market. By working with external partners, companies can spread the risk while continue to grow.

Endnotes

¹ Talent 2020: Surveying the talent paradox from the employee perspective. The view from the Life Sciences sector (Deloitte).

² Deloitte Merck Client Analysis and People Performance (CAPP) Report (June 2012).

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