

In this issue...



Welcome to *On the board's agenda*, a new publication that focuses on topical issues of importance to directors. Each issue will examine a single topic in detail, and will include the perspectives of a Deloitte professional with deep expertise in the subject matter as well as the views of an experienced external director.

Organizational talent

Managing talent in the new world of work

Technology, globalization and demographic shifts are rapidly and significantly changing the nature of work – and the requirements of the workforce itself. To compete in this “new world of work,” boards need to ensure that the organization develops new approaches to managing talent that more closely integrate its human resource strategies with its workplace and business strategies.

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Just as digital technologies are disrupting long-standing business models and transforming industries virtually overnight, they are beginning to have an equally big impact on the workplace. Information technology and robotics have already started replacing people in many jobs, and some studies suggest they may replace 80

percent of current jobs over the next two decades, which would be the greatest transformation of the labor market since the industrial revolution¹. In addition, new jobs are fast emerging – already, some of today's most in-demand jobs are ones that were virtually unknown just five years ago, such as cyber security specialists, chief innovation officers, data scientists, big data architects, social media managers, and cloud service specialists.

Technology is also transforming the way people work. Mobile technologies have freed many employees from the need to come into the physical workplace to perform their jobs, in many instances creating a win for both workers and their employers. Workers appreciate the flexibility of working when and where they want, in many cases avoiding the necessity of commuting. Organizations benefit from a more engaged and productive workforce and, with fewer people coming into the workplace, they are also able to reduce their real estate footprints.

Globalization has led to a variety of different service delivery models. Many organizations have growing global footprints –

¹ “Anticipating a Luddite Revival,” by Stuart W. Elliott, *Issues in Science and Technology*, Volume XXX Issue 3, Spring 2014.

and increasingly multinational workforces – as they both near and offshore their operations to take advantage of increasingly skilled and affordable talent in emerging markets.

In many jurisdictions, demographic shifts are creating the most diverse workforce in history, whether measured by gender, ethnicity, age, or other characteristics. Currently, four generations are active in today's workforce – with a fifth soon to enter it – and each has its own expectations and priorities, and organizations need to manage all of them coherently and cohesively.

In this complex and volatile work environment, as part of their oversight boards should be aware of these key challenges facing the organization.

Leadership development and succession

Succession was once viewed as an occasional event to be managed when a person – especially a CEO – retired or otherwise moved out of a role. In today's work environment, where executive tenures are becoming shorter, organizations cannot afford to have their business plans and longer-term strategic aspirations disrupted by someone unexpectedly vacating a position. Many boards, therefore, now view leadership development as both an ongoing process and one that extends below the c-suite into middle management.

Just as technology, globalization and demographics are dramatically changing the nature of the workforce, they are also rapidly changing the mix of skills and other attributes needed to lead that workforce. To succeed today, leaders need to lead differently than their counterparts did in the past, just as the leaders of tomorrow will likely be different than those of today.

For these reasons, succession planning for CEOs and their leadership teams cannot be postponed until they are ready to leave; instead, many boards expect CEOs to begin working with the board to plan their succession the day they step into their roles. Leaders need to develop successors whose skills fit the new world; they need increased agility, greater collaboration, and a higher focus on developing talent capabilities. Some boards expect their leaders to not only help identify, develop and mentor in-house candidates to succeed them, but to also continuously monitor the outside competition so they also know the best external candidates.

In order to carry out their responsibility for managing CEO succession, boards that have not yet done so should also adjust their scope to ensure that they have a line of sight to middle

management and that they regularly assess the strength of the organization's leadership bench and the candidates in its leadership pipeline as well as the leading outside candidates.

such as performance management and other core HR activities and make them self-serve, allowing HR to shift its focus from administering personnel to providing insights to management. Using data analytics, HR functions could broaden their understanding of the business strategy to better prepare leaders, better understand where the organization will find the workforce of the future, and more clearly identify the risks to that workforce, in particular retention risk. Developing a mobile and social strategy for the HR function would also enable it to work differently and more efficiently – for example, leveraging social media to help build the organization's brand both internally and externally.

Management needs to maintain an outside-in perspective of what might disrupt the

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management and that they regularly assess the strength of the organization's leadership bench and the candidates in its leadership pipeline as well as the leading outside candidates.

HR transformation

In most organizations, the human resource function will need a makeover if it is to contribute effectively to managing the organization's future talent needs. Many HR functions remain rooted in activities of the past – doing the same things in the same way that they have done for decades.

Despite technology's transformation of much of the workplace, it is slow to impact the HR functions of many organizations. Technology would automate many traditional HR activities,

business, its medium to long-term strategy, and its workforce. HR functions should play a leading role in helping CEOs and management understand how to solve business problems through innovative talent strategies including how jobs are being designed, the type of jobs the organization will need in the future, and where those jobs will be located and performed.

Boards should maintain an open dialog between them and management around talent and workplace issues and see that the human resource function is playing an appropriately strategic role to ensure that the organization has the right people to achieve its objectives today, and that it will be able to attract and retain workers with the expertise required in the future as the organization evolves.



Heather Stockton
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"With the rate of technological advancement and the disruption that it is creating, together with hyper competition in the marketplace and a rapidly changing workforce, the role of human resources has never been more important. Boards, therefore, need to monitor the organization's human resource strategy, including HR's shift from being an administrator to a business advisor. This is a great opportunity for CHROs and HR but, at the same time, a challenge because it will require transforming HR away from its traditional focus to a much different, more strategic role in the future." – **Heather Stockton**

Heather Stockton is the leader of Deloitte Canada's Human Capital practice and is Deloitte's Global Leader, Human Capital, for the financial services industry. She has 20 years experience advising organizations on business and talent transformation, and the changing role of the board relative to talent and leadership practices in business.

A director's perspective



In this section, Paul Cantor shares his views on the board's role around

organizational talent. Mr. Cantor has 30 years experience as a director. He is the past Chair of the Board of the Global Risk Institute in Financial Services, Revera Inc., York University, and the Public Sector Pension Investment Board and he was a member of the ICD Blue Ribbon Commission on the Governance of Executive Compensation. The opinions expressed here are those of Mr. Cantor, which include some innovative ideas and viewpoints.

What oversight responsibility do boards have around human resources?

In smaller companies, I believe the board has three primary oversight responsibilities.

First, it is the board's responsibility to hire and, if necessary, fire the CEO. Corporate law provides that the board shall "manage or supervise the management" of the company. If the board doesn't hire a CEO for them to supervise, then the board has to manage the company itself. There is no other body in the organization in a position to do that job.

Second, the board needs to take the responsibility for putting together an emergency succession plan for the CEO. If something unexpected happens and the CEO is suddenly no longer able to continue in the role, the board will need to act quickly. There may not be time to enter into a debate about what should be done, so there needs to be an advance understanding of what will happen. The board needs to know who will step into the CEO's role, at least in the short-term, until the longer-term succession can be organized or the CEO is able to return to the job.

Third, the board must provide oversight of the executive compensation system. In the absence of fraud, the interests of management and the board are aligned in acting in the best interest

of the organization in all areas, except executive compensation where management has an inherent conflict of interest between what's best for management, in terms of its pay package, and what might be in the overall best interests of the organization.

With larger organizations, there will be additional matters that the board should do, such as longer-term succession planning and setting out a Human Resources Appetite Statement.

What do you mean by a Human Resources Appetite Statement?

I believe that decisions should be made at the level in the organization where the greatest expertise resides, and the greatest human resources expertise resides with management. Some of the current stasis in HR management may have been created when boards were over-intensive in their HR oversight – requiring reporting that adds layers of bureaucracy that impedes the flexibility to make changes.

That said, however, the board should be satisfied that the appropriate human resources policies are in place. We've made great headway with the concept of a Risk Appetite Statement, through which the board sets out a framework to guide the organization's risk management activities. A Human Resources Appetite Statement might be a similarly appropriate way for the board to set out its expectations around the way the organization manages human resources. HR policy decisions relate to one of three major issues: the quality of work, the quality of life, and the quality of compensation. An HR Appetite Statement would set out the board's expectations in each of these areas and HR policies and procedures could be derived from that comprehensive base.

Technology is having a big impact on the workforce. What should boards be doing in this area?

I think that the Second Machine Age is upon us. Two hundred years ago, it took decades after the industrial revolution for its impact to be felt on the workforce, and similarly it has taken time for the technology revolution to work its way into the workforce. That is happening now in all business sectors – from doing legal research to assembling cars, jobs are being displaced by machines. Boards should be aware of and understand these trends, but figuring out how to respond to them is not an oversight responsibility of the board. It's an insight issue.

What do you mean by insight versus oversight?

Boards of directors have a finite amount of time and so they need to decide where to allocate it. I define "oversight" to refer to corporate actions that the board has decided that it must specifically approve. It also includes decisions that legislators, regulators and supervisory bodies have defined as being the board's responsibility. These include, hiring and firing the CEO, approving the financial statements, and approving the organization's policies. In short, "oversight" refers to directives the board provides to management when the board says: "This is what you must do."

"Insight" is different. Insight covers areas where individual directors may have knowledge and expertise, but they are areas where the board has delegated to management. Insights aren't directives, but are instead advice that directors may offer to management. Usually, insight isn't something provided by the board as a whole, it is provided by individual directors who draw on their own experience and expertise to offer suggestions to assist management. Insight sounds like: "This is what you could do," or even "This is what you should do."

You've said that, while the push to add people to boards with expertise in different areas isn't always necessary, boards do need compensation expertise.

Because of the conflict of interest around executive compensation, many jurisdictions require that only independent directors sit on the compensation committees of public entities. These committees also need to have members who have compensation literacy, if not compensation expertise because the committee can't rely on management's expertise in this area; it needs to retain its own outside compensation advisors. To be able to work effectively with those advisors and clearly understand what they are recommending, the committee needs to have a sufficient level of compensation literacy that allows it to mold the recommendations of its outside advisors into a plan that reflects the board's own HR Appetite Statement.

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