Talent 2020: Surveying the talent paradox from the employee perspective
The view from the Life Sciences sector

Deloitte Consulting's September 2012 *Talent 2020: Surveying the talent paradox from the employee perspective* report is based on a survey conducted by Forbes Insights of 560 employees across three global regions and five industries, comprising 17 sectors. Life Sciences respondents made up 7% of the participants. This sector is noteworthy for the relatively high level of dissatisfaction among surveyed employees, particularly among longer-term employees (more than five years at the company). The results from the survey tell a compelling story about the important role the talent agenda plays in helping the Life Sciences sector transition through its current economic and marketplace challenges.

Industry Landscape

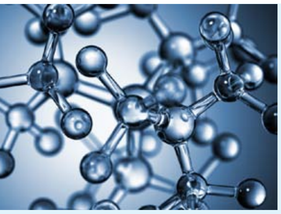
The Life Sciences landscape has shifted dramatically in recent years. After a strong period of growth and market trends that have favored the sector, the Life Sciences industry is facing new challenges.

1. Rising healthcare expenditures call into question the sustainability of the current U.S. healthcare system
2. Increased patient awareness and influence over treatment options has reignited consumerism
3. The regulatory environment has created heightened compliance and safety requirements. For example, the implementation of Healthcare Reform and requirements to demonstrate product comparative effectiveness are increasing hurdles to bring a new drug to market
4. Expansion into emerging markets to grow pipeline and customer base, while managing safety and compliance requirements is an ongoing issue
5. Life Sciences companies are focusing on mergers and acquisitions (M&A) and restructuring activities to drive revenue and offset the impact of expiring patents, declining research and development (R&D) productivity, and rising operational costs

Despite these challenges, growth opportunities remain for organizations able to tap into the potential of their business for innovation and expansion of their product portfolio, technological advancement, and globalization. These opportunities also underscore the critical need for Life Sciences organizations to differentiate themselves by focusing on their impending talent needs to drive growth in a challenging business environment.

Any growth that Life Sciences companies want to achieve is unlikely to occur without the sector moving quickly to respond to the changing landscape. Life Sciences companies need increased focus on innovation, technological advancement, globalization, and alliance/acquisition to succeed. None of this can be achieved without skilled, engaged talent and a plan for the following key talent areas:

- Leadership Development: Build leaders' ability to develop and communicate the long-term strategy, instill trust in the workforce, and align strategic initiatives to organizational talent programming
- Attrition Reduction: Reduce turnover of those workforce segments that are critical to executing corporate strategy through meaningful assignments and incentives. It will be critical for companies to have the ability and infrastructure in place to identify the profile of their critical workforces (e.g., with big data in R&D responding to market requirements and more scientist/medical doctor roles being outsourced).
- Career Development Planning: Invest in critical talent and enhance employee engagement by offering career development, assigning challenging work, and aligning skill sets to the corporate strategy.



A Deeper Look at Life Sciences Sector Trends

Healthcare Spending: Spending in the U.S. is on a trajectory that is unsustainable. With a U.S. debt level of over $16 trillion,[1] mandatory spending and entitlements to fund healthcare programs such as Social Security, Medicare and Medicaid are growing to over 60% of annual government expenditures.[2] Healthcare spending is $2.7 trillion annually and growing,[3] and yet in 2009 alone, the Institute of Medicine identified $750 billion of waste in the sector.[4]

Consumerism: Employers are continuing to fuel the trend towards consumerism as they try to offset their own healthcare costs by offering comprehensive wellness programs that effectively manage chronic conditions and work to improve employee health. The result for the Life Sciences industry has been a change in targeted audiences, where these organizations must now educate patients more comprehensively than they had before.

Legislation and Regulatory Activity: The U.S. is refocusing the healthcare conversation around value in an attempt to reduce skyrocketing costs. The Patient Protection and Affordable Care Act of 2010 aimed to increase access to healthcare while bending the cost curve. However, the result for Life Sciences organizations has been somewhat disruptive as business models have had to shift from driving volume to demonstrating outcomes.[5] Similarly, the Health Information Technology for Economic and Clinical Health (HITECH) Act of 2009 promoted the adoption and meaningful use of health information technology to drive improved outcomes. And these two pieces of legislation represent only a small portion of the potential that lies ahead in **healthcare reform**. The expected impacts of the U.S. healthcare legislation extend globally, including transparency requirements, tariff and non-tariff requirements, and the implementation of more stringent quality requirements that will drive even more immediate change for the sector.

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

Emerging Markets: The demand for Life Science products is increasing in emerging markets, such as China, India, and Brazil, 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 intellectual property 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.

Acquisition Activity: The U.S. drug market, which is approximately $400 billion, is forecasted to grow 6% annually through 2016. To get there, Life Sciences companies will likely need to make several acquisitions 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. Device makers will likely rely on innovative new products and acquisitions to drive growth and counter pricing and reimbursement issues.

The Talent Discussion

Compared to other sectors, the Life Sciences sector is noteworthy for the relatively high level of dissatisfaction among surveyed employees, particularly among longer-term employees (more than five years at the company). There are a number of reasons that may contribute to this key finding:

- Employees desire meaningful and innovative work that is aligned to their skills and interests
- Ineffective communication of long term strategic vision within organizations
- Lack of trust in leadership due to high turnover at the top level

We explore these findings and provide insights and supporting rationale below.

Employees value meaningful work over other retention initiatives. Life Sciences survey respondents who report their company uses their skills effectively are more likely to plan to stick with their current employer (73% of this group plan to stay versus 60% of those who definitely feel their skills are not well used). We have seen less of a focus on resource strategizing, placing the right people in the right role, because many Life Sciences companies are spending the majority of their time and energy on cost-cutting initiatives and being reactionary towards macroeconomic trends (e.g., companies are facing post-merger pressure to cut costs, facing loss of patent exclusivity).

Only 56% of surveyed employees in Life Sciences say they are satisfied at work overall versus 70% for all sectors.

Life Sciences companies also get low marks from their employees on overall human resources (HR)/ talent programs, with no Life Sciences respondents ranking their company as excellent and 58% rating these programs as fair or poor. Problem areas include providing career mobility and international assignments (60% of Life Sciences respondents ranked fair or poor compared to 45% across all sectors), maintaining high office morale (70% for Life Sciences versus 57% overall), managing and delivering training programs (63% for Life Sciences versus 46% overall), and managing a globally diverse workforce (45% for Life Sciences versus 34% overall). This last area is of critical importance as companies begin to focus more on emerging markets. As Life Sciences companies look to countries in emerging markets to recognize profits, they will need to have the proper HR/talent and career development programs to ensure retention, innovation, and safety/compliance.

Only 56% of surveyed employees in Life Sciences say they are satisfied at work overall versus 70% for all sectors. Surveyed Life Sciences employees planning to switch companies cite a lack of career progress (37%) and a lack of challenge in their jobs (27%) as the two top factors influencing their career decisions. The majority of Life Sciences companies do not have mature career development programs that empower employees to be a part of managing their own careers, an area of focus that should be prioritized in the coming years in order to decrease turnover of critical talent.

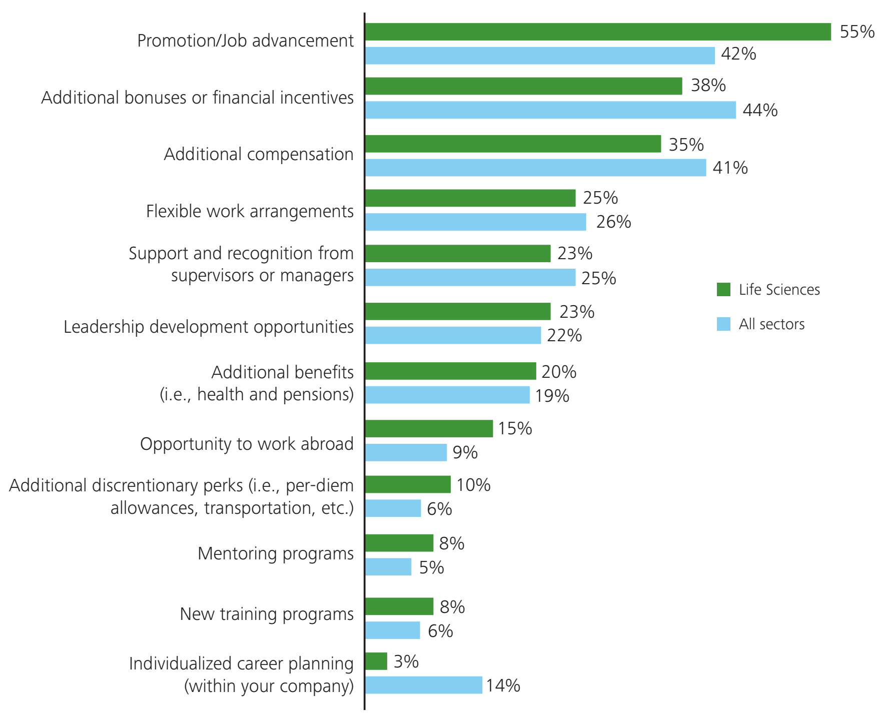
Furthermore, surveyed employees in the Life Sciences sector care about innovation and utilizing new technologies: 40% report that an employer's commitment to supporting innovation is very important to them. Due to increasing healthcare expenditures, Life Sciences companies have had to shift their mindset away from being truly innovative to focusing on reducing costs and bringing profitable products to market quickly to remain competitive, as all companies are facing major patent cliffs.

Focus on "turnover red zones." The intentions to leave are concentrated among employees at certain points in their careers, creating employee segments at high risk of departure. Retention strategies should focus especially on critical talent that belongs to these groups.

The factors most likely to trigger a job search among surveyed Life Sciences employees include lack of trust in leadership (33% for Life Sciences versus 17% across all sectors), lack of challenge in the job (30% versus 21% overall), excessive workload (25% versus 20% overall), and lack of job security (25% versus 20% overall). The most effective incentives for keeping employees at their current employers are similar for Life Sciences as for other sectors: promotion, additional compensation, and additional bonuses (Figure 1). Surveyed Life Sciences workers, however, were significantly more likely to cite promotion (55% for Life Sciences versus 42% overall), yet a bit less likely to mention bonuses (38% versus 44% overall) or additional compensation (35% versus 41% overall). Life Sciences companies can use this information and update their talent programs to help ensure retention of these critical workforce segments.

Leadership matters: Employees are far more committed when they trust their leadership, receive clear communications about corporate strategy and believe their leaders are capable of executing that strategy. Employee retention should be driven by business leaders, not simply left to HR. With the amount of re-strategizing, and restructuring (e.g., increase in M&A activity in the past 3-5 years) 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. At the same time, there is increasing ambiguity with respect to the long-term outlook for the industry and an increase in risk aversion of leaders as regulations continue to restrict companies. This makes it difficult for leaders to develop long-term strategies and communicate long-term vision to employees, thus perpetuating the lack of trust in leadership.

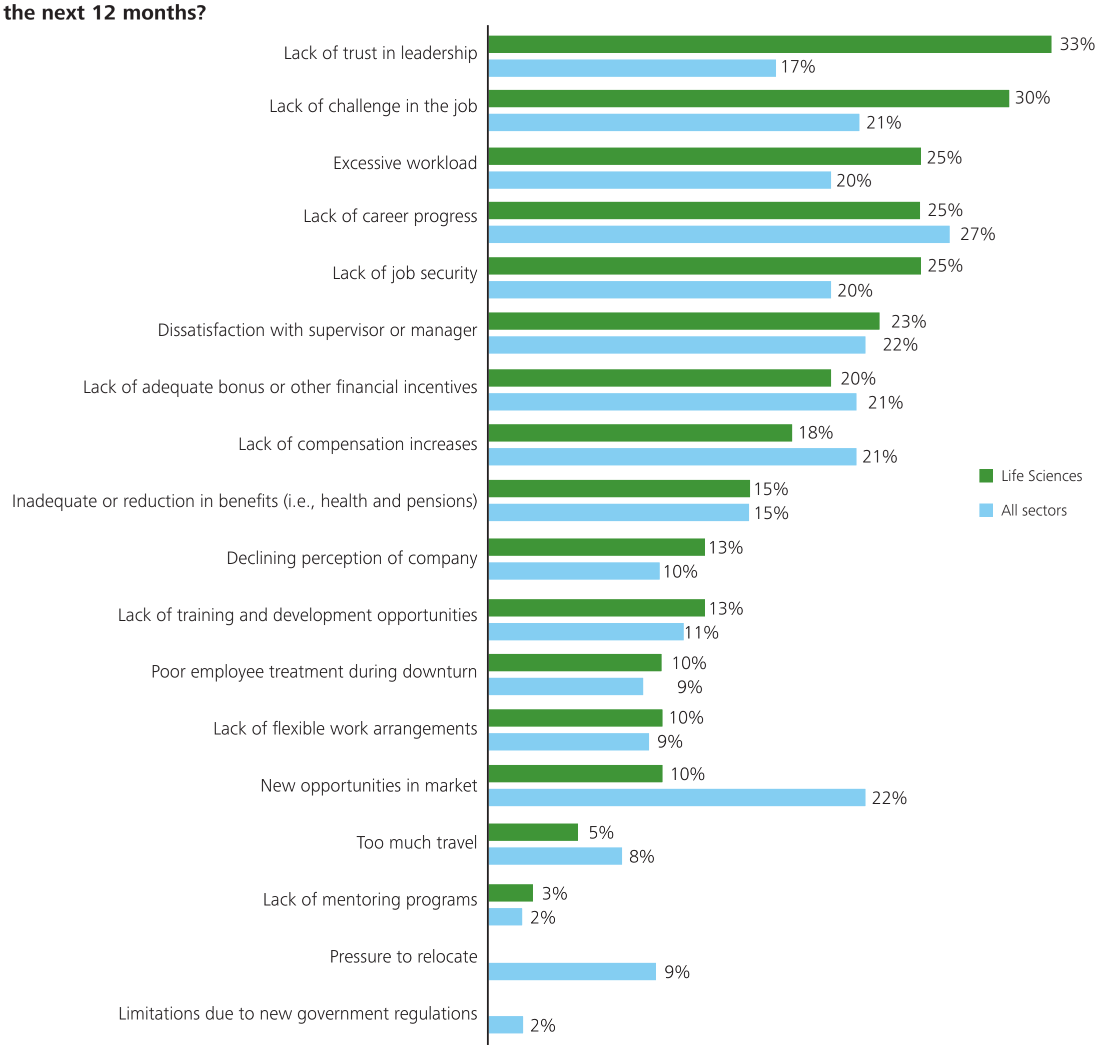
Figure 1. What incentives would be most effective in keeping you with your current employer?



Note: Survey participants were asked to pick their top three choices

For all sectors, 62% of surveyed employees who plan to stay report high levels of trust in their corporate leadership versus 27% of surveyed employees who plan to leave. Furthermore, 27% of those who plan to leave in the next year cite lack of trust in leadership as a key factor. The Life Sciences sector scores a bit low in the trust factor: 43% of Life Sciences survey respondents express trust in leadership versus 55% for all sectors. With changes in structure, the leadership of many Life Sciences companies has changed drastically over the years. The changes in leadership result in disruption to business as employees have to re-establish and renegotiate relationships with their leaders. Moreover, lack of trust in leadership is the single most-cited factor likely to trigger a job search for surveyed Life Sciences workers (Figure 2).

Figure 2. What are the three most significant factors that would cause you to look for new employment over the next 12 months?



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Conclusion

The Life Sciences sector as a whole faces a high level of uncertainty and increasing federal regulation, which translates to specific talent implications that leaders need to focus on. On a more positive note, Life Sciences companies will be poised to reap the benefits of opportunities, like those that exist in emerging markets, if they are able to manage their workforces and focus efforts on effective talent and retention programs.

In order for Life Sciences organizations to effectively address the coming market challenges, retain critical workforces, and expand globally, there are three clear takeaways:

1. **Focus on comprehensive talent planning:** Talent planning is essential to succeed in today's stringently regulated landscape that is more focused on headcount/cost reduction than enhancing critical workforce segment capability and skill alignment.
2. **Identify, incentivize, and retain critical talent:** Career development and leadership impact play a significant role in attracting and retaining critical workforce segments that differentiate companies and drive the success of organizations.
3. **Communicate the vision:** Leaders cannot underestimate the returns on communication. Life Science companies that communicate effectively and transparently are more likely to engender trust, strengthen employee job satisfaction, and retain top workers.

Survey demographics

Seven percent of the overall survey respondents, 40 in total, were from the Life Sciences sector. The Life Sciences respondents represented all global regions, with 30% located in Europe, the Middle East, and Africa, 38% in the Americas, and 32% in Asia Pacific (Figure 3). All of the Life Sciences survey respondents were employed by companies with annual revenues of more than $500 million, and 47% work for companies with more than $10 billion in revenue (Figure 4). Surveyed employees in the sector include a relatively high proportion of women (38% for Life Sciences versus 29% for all sectors).

Figure 3. Geographic distribution (Life Sciences)

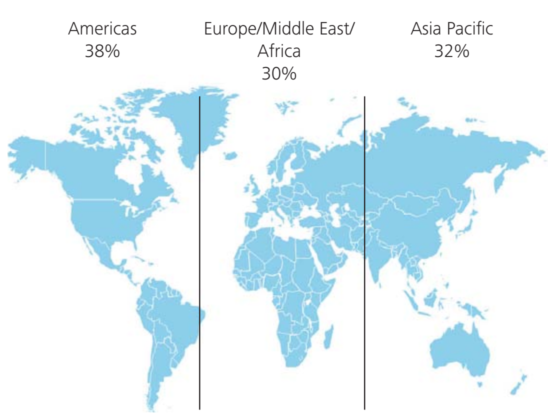
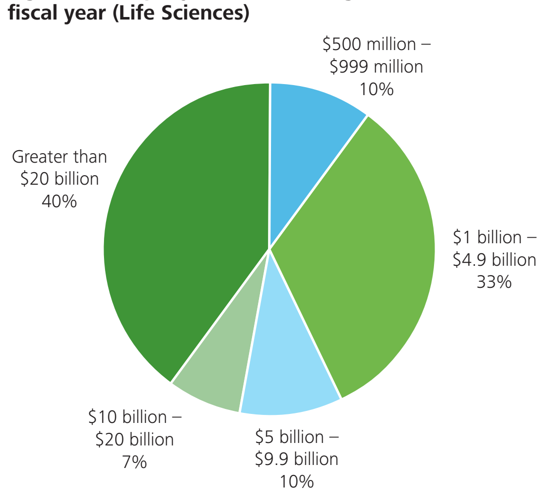


Figure 4. Company revenues during the most recent fiscal year (Life Sciences)



Endnotes

[1] Treasury Direct Debt Clock, The Debt to the Penny and Who Holds it (May 30, 2013). Retrieved from www.treasurydirect.gov.

[2] Historical Budget Data—February 2013 Baseline Projections, Congressional Budget Office.

[3] National Health Spending In 2011: Overall Growth Remains Low, But Some Payers And Services Show Signs Of Acceleration, Micah Hartman, Anne B. Martin, Joseph Benson, Aaron Catlin, and the National Health Expenditure Accounts Team, Health Affairs.

[4] Best Care at Lower Cost The Path to Continuously Learning Health Care in America, Institute of Medicine, September 6, 2012.

[5] Risk-Sharing Arrangements That Link Payment For Drugs To Health Outcomes Are Proving Hard To Implement, Peter J. Neumann, James D. Chambers, Françoise Simon, and Lisa M. Meckley, Health Affairs, April 31, 2012.

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About the survey

The *Talent 2020* longitudinal survey series follows the *Managing Talent in a Turbulent Economy* survey series launched during the recession. The report examines shifting talent strategies and priorities of global and large national companies. This report features results from a September 2012 survey that polled 560 employees at large corporations in the Americas, Asia Pacific, and Europe, the Middle East, and Africa.

For more information see **www.Deloitte.com/us/talent.**