Deloitte.

Human Capital Trends 2013
Leading indicators

U.S. edition

Preface

Crucial Conversations

This year's human capital trends should be viewed as leading indicators of emerging threats and strategic opportunities. Leaders who take the time to understand how these trends might affect their organizations can put themselves in a position to win. Those who make their decisions in isolation, without the benefit of engaged conversations with other leaders, may expose their organizations to out-sized risks.

Human Capital Trends for 2013 builds on those of previous years, revealing business expectations for talent and performance that have risen to dizzying levels. Not only are organizations having to do more with less, they're doing so in the face of dramatic shifts in technology, globalization, demographics, and regulation.

Looking ahead, the pressure for performance will likely increase as business decisions become more complex and challenging. Even small decisions have the potential to cascade with unintended consequences throughout an organization. That's why business executives should actively engage with one another around the trends captured in this report.

Many leading organizations are already having these crucial conversations. They recognize that now is the time to get ahead of the trends by making more informed decisions. The seven Human Capital Trends for 2013 provide a solid checklist for getting started.

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Welcome to Deloitte's annual report examining significant trends in human capital. Each year we begin with a range of potential topics, then work with clients, vendor teams, academics, analysts, and Deloitte practitioners to refine and sharpen the list. We select the trends that may have the most potential business impact over the next 18 to 24 months. This year's theme, Crucial Conversations, explores seven critical human capital trends that leaders should be talking about today.

Contents

1 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.

Today, many HR leaders are dealing with more complex, challenging questions than the ones their predecessors faced. Instead of focusing on traditional "personnel" issues, these new questions address core business issues: Where should we build a plant? Which M&A target will add the skills we need? Where should we locate a new R&D center? Why is our turnover rate in China so high?

Answering questions like these require new data and new thinking. Today's HR leader has to think like an economist—someone who studies and directs the allocation of finite resources. In the global economy, talent is one of those scarce resources.

Embracing that mindset is half the challenge. The other half is harnessing the applicable information. Companies are accustomed to following their own internal "leading indicators," but the economist-minded HR leader has to look outward as well. Macroeconomic indicators like GDP (gross domestic product), employment shifts, or public infrastructure spending are critical in pointing the way to sound business decisions. By calibrating the finite talent investments their organizations are able to make, these leaders aim to make their workforces more responsive to the current and future needs of their organizations.

Ultimately, HR decisions are like many other business decisions: They involve both cause and effect—and supply and demand. As HR leaders focus on solving more complex business issues, they increase their alignment with the other business leaders in their organization.

What's driving this trend?

Because of globalization, connectivity and other trends, business is more complex, moves faster, and is more competitive than before. Senior leaders don't only have tougher decisions to make—they also have new kinds of decisions to make. And they need new kinds of facts to base them on. The data, skills, and methodology of the classical economist can help an HR leader answer that call.

Globalization. Increased mobility and social media have erased boundaries, creating a global talent pool. Today, HR is recruiting and managing people around the world.

Competition. Thinking like an economist about human capital questions doesn't just influence the competition for talent; it influences competition at virtually every level. Talent is a bigger driver of enterprise performance and profitability than ever before.

The connected workforce. Many businesses operate on a global basis, which expands and accelerates competition at every level. In this digital age, companies and their competitors can view their workforces—and the entire global talent pool—in real time.

More complex business issues. Large organizations often face major strategic turning points, such as entering new markets, siting new facilities, locating sales offices, or making M&A moves. Now, the talent and workforce implications of these decisions have come to the forefront. For example, the value of talent may represent a significant part of an acquisition price; some M&A transactions actually center on the need to acquire talent. Choosing where to locate a facility may depend upon workforce demographics and visa availability. Across the board, business is asking HR to help solve top-level strategic problems.

Practical implications

When an organization stakes its future on the value it can create by managing people, a quantitative-analytical approach is vital to seizing opportunities, reducing risks, and fine-tuning decisions to enhance efficiency. Thinking like an economist can help refine talent decisions from recruiting and retention through training, rewards design, and team composition. More importantly, the economist view can help extend the value of HR to the whole organization, by driving decisions in strategic areas such as M&A, new market entry, and innovation.

New market entry. When an organization breaks new ground, economic data can help HR leaders contribute to strategic decisions, such as what services to provide in a new market or whether to manufacture there. No one wants to commit to a plant and then find out the market doesn't have the talent to operate it. Are people with the right skills and competencies available? Does the country provide visas to import start-up talent if needed? Where should plants or sales offices be located? What is the cost of labor? Is it cheaper to import raw materials or components, or to source them locally? An economist view can also bring critical regional facts—such as the high inflation rates characteristic of some (Brazil, Russia, India and China) economies—into the conversation early enough to make a difference.

M&A. It's increasingly common for the workforce value of a target organization to be the chief reason for its acquisition. Economic data can help HR leaders find companies with people who offer hard-to-find skill sets. Which countries promote start-ups? Which countries have large populations of people with scarce skills, like biotech and cloud computing? How long will these resources

Figure 1: Ten examples of external data types an economist-minded HR leader can use to drive better business strategy.

	Economic Indicator	How to use it?
Market Data	GDP Per Capita	Understanding standard of life measures and anticipating future growth can help HR stay ahead of the curve when the business is ready to penetrate new markets or expand in established ones.
	Confidence	Monitoring confidence can indicate consumer and industrial outlook, allowing HR to anticipate potential changes in the economy.
	Public Infrastructure & Private Investment Spending	Spending per capita and spending as a percentage of GDP are means of normalizing spending to compare the current positions and policies of different markets.
External Data	Company Value & Output	Monitoring the trending and current worth of your company can help keep a pulse of the overall health of the organization and anticipate future changes.
	Market Performance	External performance can be used to conduct competitive analysis and establish comparative benchmarks.
Talent Data	Job Creation	Monitoring job creation can help HR anticipate labor market changes that could impact the demand for different skills, organizational retention, and competition for key types of talent.
	College Hiring	Understanding college hiring levels can help HR anticipate the types of degrees and specializations in demand and the amount of competition for different types of university talent.
	Education / Skills	Understanding the education and skills available in different labor markets can help HR make informed decisions for acquiring and managing talent.
	International Mobility	Monitoring the inflow / outflow of talent to different markets can help HR anticipate skill shortage and surpluses in different geographies and develop strategic mobility programs to enable a global workforce.
	Unemployment	Monitoring different types of unemployment can help HR understand and anticipate a portion of the "supply" side of labor and can serve as a valuable input to the development of compensation and retention programs.

Source: Deloitte

remain scarce? What countries are importing specialized talent the fastest? What companies are gaining market share in innovative industries like biotech based on their recent market performance? Thinking like an economist helps you find the talent value that can form the centerpiece of a deal.

Innovation. An economist mindset can help HR leaders find new ways to generate value from talent resources. Which countries have growing economies? What countries have a high concentration of engineers, mathematicians, and other critical professions? What countries provide tax credits? Do the countries or locations have the right infrastructure to support R&D? What colleges are producing high-demand engineers and scientists?

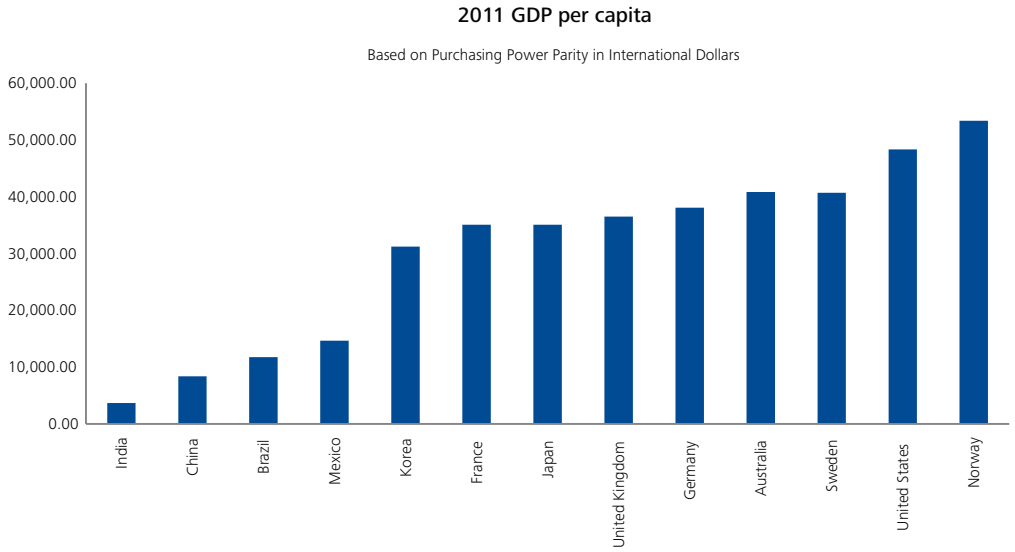
Lessons from the front lines

People in leadership roles, in HR and everywhere else, have much of their time locked up by operational concerns. Thinking like an economist requires stepping back and taking the time to think about strategy. If talent is more important in addressing business issues, and talent is finite, how can it be allocated to generate more value for the business? Most companies find having the right people and skills in the right place at the right time is an ongoing challenge.

This is not an invitation to dive headfirst into the limitless pool of big data. Rather, it's a call to do what economists do: maintain a 360-degree view of the key indicators, near and far, that matter to the business—and apply that knowledge to make smarter decisions.

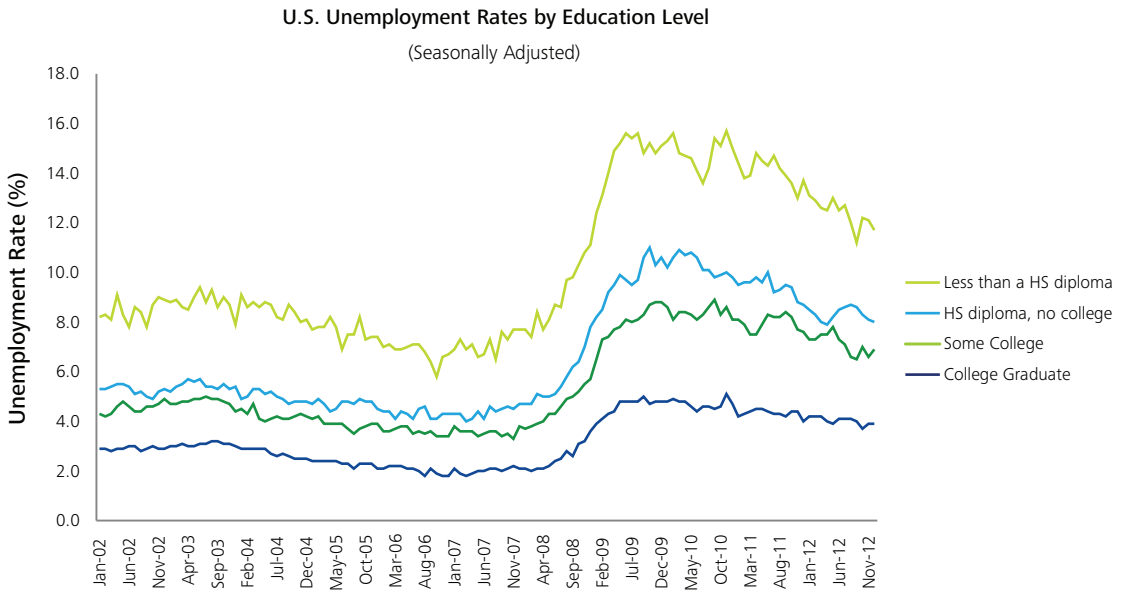
HR leaders should start looking at micro- and macro-economic data in order to make more effective fact-based business decisions. Figure 1 shows ten common indicators that economists often follow—and business leaders often ignore. These publicly available data sources provide a starting point for economic thinking that can be applied to business decisions. These should complement, not replace, the internally generated indicators that most companies use to direct talent and strategy decisions.

Figure 2: One example of macro data that can help direct business strategy. GDP influences spending in a market—and also compensation expectations among workers based there.



Source: International Money Fund World Economic Outlook Database, October 2012

Figure 3: The talent paradox in numbers. Mass unemployment exists alongside shortages in critical skill areas in part because unemployment declines as education rises. Meanwhile public infrastructure spending often drives employment for less educated people.



Source: Bureau of Labor Statistics

Build a broad dashboard. More data volume and fancier analytics are not the goal. But they're both means to an end: making better decisions based on new insights. A growing number of leaders utilize dashboards that deliver relevant data and analytics on a real-time basis, allowing them to closely monitor shifts that can affect business decisions. A well-designed dashboard presents a view that is broad enough to encompass the macro- and micro-views needed for decision-making, but focused enough to avoid overload and distraction.

Speak a new language. Economist thinking can be positively infectious. Be a carrier. Make leading indicators and analytical projections the *lingua franca* of HR leadership meetings, and share insights outside the HR realm with the top leaders, who drive overall organizational strategy. When hard numbers can explain or predict what's important to the business, leaders listen.

A new lens for a new reality

Economics is the study of how people allocate finite resources. It may seem counterintuitive to reflect that globalization has made talent a more scarce resource—until you remember that the competition for that talent has become global as well. Anyone you may want to add to the team, anywhere in the world, may have other suitors from anywhere else in the world.

Thinking about talent like an economist is not a dehumanizing process. It doesn't mean reducing people to numbers. Rather, numbers can help leaders understand how to address the challenge of having the right people with the appropriate skills and competencies at the right place at the right time.

And when HR leaders put economic data and analytics to work for them, they find they have more strategic value to offer to the organizations that rely on them to turn human potential into measurable business value.

2 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.

Managing talent used to involve at least a few certainties. You knew what roles you needed to fill and where you could find the talent to fill them. When people worked for you, they came to your building in the morning and left at the end of the day. You could see and interact with them. And they could see you.

Today things are different. Changes on a global scale have upended these familiar patterns, and talent and employers now seek each other out, on more equal terms, from anywhere in the world. The evolving workforce is a mixture of full-time employees, contractors, and freelancers, and—increasingly—people with no formal ties to your enterprise at all. People move more freely than ever from role to role and across organizational and geographic boundaries. Global markets and products, driven by rapid innovation and post-digital disruption, seem to demand new talent models that can be rapidly configured and reconfigured. Businesses expect agility, scale, and the right skills to be available faster than ever—in real time.

Welcome to the open talent economy—a collaborative, transparent, technology-driven, rapid-cycle way of doing business. What the open source model did for software, the open talent economy is doing for work.

What could this all mean for business and HR leaders? It could mean challenging core assumptions about how people enter the workforce, how they work together, and how to develop their potential. It can also mean devising new operational frameworks that allow organizations to embrace those changes instead of falling behind.

While traditionally, companies have focused on the talent and workforce within their organizations and on their balance sheets, increasingly companies are expanding their talent networks to include "partnership talent" (employees who are parts of joint ventures), "borrowed talent" (employees who are part of contractors or outsourcing relationships), "freelance talent" (independent, individual contractors), and "open source talent" (people who don't

CLOSED ⟷ OPEN

Balance sheet talent	Partnership talent	Borrowed talent	Freelance talent	Open source talent
Full -time, statutory employees of your organization. You bear all the carrying costs of these employees	Employees that are part of a partnership or joint venture that are on a related balance sheet	Employees who are part of your value chain or ecosystem but who reside on someone else's balance sheet such as contractors who work in support roles	Independent workers you hire for specific but temporary projects	People who provide services for you for free either independently or part of a community – for example those who answer questions about your products on the web in an open source help function

work for you at all, but are part of your value chain and services). This trend will ultimately rewrite what the term "workforce" actually means.

What's driving this trend?

The tectonic shifts driving today's open talent economy are present around the world and in almost every industry and sector. They are fundamentally changing the structure of talent and work.

Globalization. The emergence of a global talent market across an increasing number of fields and disciplines is opening the world to new ways of acquiring, developing, and managing talent and work. The open diffusion of ideas, practices, and technologies—and above all, people—lets different parts of the world influence and depend upon one another in new ways. While global time zones can present challenges when colleagues want to collaborate simultaneously, the availability of voice and video over IP (VoIP) make it possible to see, hear, and share documents in real time from your notebook, or your smartphone.

Technology. Technology is the foundation of the open talent economy. When people can learn, share, and work anywhere in the world, our traditional talent assumptions can open for review. The growth in computing speed, storage, and power is making global, real-time collaboration possible in almost every discipline. One example is the growth of smart machines driven by advanced algorithms. Or, the remarkable elasticity of resources like free webmail and cloud storage. Moore's Law holds that computer power doubles every two years. A lot of growth lies ahead.

Mobility. Technical and social mobility can decouple talent from physical geography and defined markets. Today's critical workforces are freer to work where they want, making career moves more seamless—and potentially more frequent. For their part, organizations tend to expect people to be productive while on the move, which requires new skills in balancing priorities more than ever before. Easier access to development resources is making vertical moves easier too, for both people and organizations.

Social business. The open talent economy is above all a human movement, where people can connect, share information, and spread community. It is the greatest open-source app, shifting power from the traditional organization to dynamic networks. Organizations now must use social media not only to innovate their talent brands, but also to connect and deploy people who relate to the organization in widely different ways.

Education. In the past 20 years there has been an explosion in the growth of the education sector at most levels around the world, especially in emerging markets. The rapid growth of pools of talented manufacturing, services and knowledge workers around the world continues to reshape global talent networks. We are witnessing a new wave of innovation, driven in part by MOOCs (massive open online courses): Leading universities are making high-quality courses, taught by world-leading professors, available to tens of thousands of students around the world.

Analytics. Rather than looking only at historical data to make decisions, employers can now use data analytics for both predictive and prescriptive purposes. Those who can effectively mine large pools of employee and business data for hidden insights and apply them in a meaningful way, will have a competitive advantage in the open talent economy.

Practical implications

Traditionally, organizations built workplaces around the physical requirements of getting jobs done—access to people, machines, materials, and customers. Team spirit was a welcome side effect. Now that work itself is increasingly free to happen almost anywhere, culture, passion, meaning, and collaboration are becoming the specific value drivers.

- **Open everything.** Open-source networks, and hybrids that combine traditional companies and open-source approaches, are redefining the boundaries of organizations. In addition to well-known open-source efforts like the Linux operating system and the Firefox browser, there are websites like Innocentive that allow companies and organizations to post problems and offer financial rewards for solving them. This "crowdsourcing" model extends research beyond corporate boundaries and resources. By reaching out to the broader community, crowdsourcers can address one of four basic needs: getting work done in a distributed way, securing funds, tapping knowledge, or soliciting feedback. As Sun Microsystems co-founder Bill Joy has famously remarked, "There are always more smart people outside your company than within it."

- **A focus on projects.** A growing number of companies are adopting project-based work models that reflect trends in industries as diverse as media, music, and advertising on the one hand and construction and large scale infrastructure projects on the other. As industries and companies evolve toward these models, new networks and relationships can emerge among companies and workers.
- **Rethinking the labor supply chain.** What if your workforce isn't even completely at work? One customer service operation uses the free time of stay-at-home parents. Individually, they can log in and log out as their other needs permit. Collectively, they can form an always-on workforce that's as large or as small as the company needs at any moment.
- **Customers as talent.** A major electronics manufacturer has turned its own customers into a virtual workforce. That's because people who look for help with products tend to turn first to user-driven message boards for advice. These boards have accumulated enough wisdom, and made it accessible enough, to all but replace on-staff customer service employees in a call center.

Lessons from the front line

The trend toward an open talent economy is a big deal—and HR has a distinct opportunity to lead this (r)evolution. Here are some lessons from pioneers in this emerging arena.

Redefine workforce planning and acquisition. Workforce planning has been focused on the talent and leaders who work for you. In the open talent economy, with an expanded set of talent pools available and the opportunity to build and orchestrate talent networks, HR leaders need to reinvent workforce planning, and talent sourcing, to consider the broad range of talent from those that work directly for you to those that are part of your business and talent network. This will involve new approaches and analyses working closely with business and finance leaders to decide which talent resources to hold close and which to manage through contracts and relationships.

Build leaders who understand talent ecosystems. Given the pace of change in business and talent markets, it remains a challenge to develop leaders who can excel at today's execution problems and tomorrow's emerging challenges. This is often true when it comes to leaders and their experience with the changing talent landscape. Many leaders are accustomed to talent "within the walls" of the company. Next-generation leaders will need to think like network and ecosystem designers when it comes to business and talent models.

Rethink development and rewards. In an open economy where people can chase the dollars they want (or the Euros, or yen, or yuan) anywhere in the world, money alone is just the opening bid. Because people increasingly view themselves as the "CEOs of their own careers," they place more value on things like collaborative flexibility than they place on fancy office buildings—or in some cases, even pay. In designing and managing talent networks, development, careers, and compensation and rewards will need to be rewired to work for talent in different parts of your talent ecosystems.

Design sticky networks. Retention may involve more than holding onto the employees who work directly for you. It's increasingly critical to build talent networks that attract different categories of talent partners and specialists. The corporate and employer brands will need to appeal to and attract business partners (e.g., outsourcers, contractors, and freelancers) and those with ideas and insights you need for specific projects and R&D. This can involve combinations of talent operating models, branding, and technology.

A playing field with no boundaries

The open talent economy breaks down many of the paradigms that used to draw bright lines around traditional employment and workforce planning: "Managing" full-time employees. The physical workplace. Nine-to-five. In many cases, talent is ahead of organizations in embracing this evolution.

In this new economy, access to talent is more important than ownership of talent. Some sources of open talent can be free—think of Wikipedia or Linux. Others, like Innocentive, involve accessing the crowd and paying for their ideas.

The pressure is on for businesses to reconsider what it means to "hire" people, to reinvent the workplace, and to bring new thinking to the process of professional development. HR leaders have the opportunity to lead this charge, while ensuring that the systems, processes, culture, and leadership teams are in place that can handle all these new ways of working.

An organization that embraces the reality of the open talent economy will opt to take advantage of new opportunities across the entire global talent market. Which is to say, the only talent market there is.

3 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.

In a knowledge-based economy, skilled talent may be what most differentiates great companies from the rest of the pack. Skilled talent can help drive innovation and customer value, creates growth opportunities, and mitigates a growing river of risk. Organizations that do an extraordinary job managing their talent agendas have an opportunity to set themselves apart—in both the talent arena and in the broader marketplace.

Capitalizing on this opportunity requires creating distinctive talent capabilities, of course. But the next step—one that many companies overlook—is to actively promote and brand those capabilities.

In the past, it may have been possible for organizations to do this outside the influence of their external corporate brands. But those days are likely gone. In today's hyper-connected world, your corporate brand and your talent brand are two sides of the same coin.

As organizations begin to rely on talent that resides outside their four walls, alignment of the talent brand and corporate brand are expected to become even more important. Creating strong bonds that help retain critical talent—and attract the future talent you'll need—requires building leading talent practices and communicating them effectively and consistently. Get it right and the potential of brand convergence can work in your favor. Get it wrong and you may create more risk and confusion than you'll know what to do with.

What's driving this trend?

The worldwide economy is beginning to regain momentum. Innovation and market share growth are expected to fuel profitability and increased valuations. To capitalize on this momentum, companies are looking for new and more effective ways to retain and attract top talent. That includes tapping a broader open talent economy that extends beyond the traditional workforce to include freelancers, contractors, and other third-party suppliers of skilled talent.

At the same time, many top organizations now realize talent expects to control more of how, where, and when they work. By including mobility opportunities in their talent value proposition, many companies are able to connect to and derive value from a talent base that is increasingly global.

Regardless of the source and location of talent, however, organizations are benefitting from innovation in talent branding in three ways.

Costs in the cross-hairs. Companies with the hottest talent brands enjoy the ability to pick and choose from a large pool of qualified people for their open positions. They also reduce the need for expensive search firms, which can reduce costs related to both acquisition and turnover. When the talent brand reinforces the corporate brand and vice versa, organizations may enjoy a virtuous cycle that further sets them apart from the rest of the field.

Google has used this two-sided brand approach. Not only does the company use its corporate homepage as a recruiting vehicle, but that page is the *primary* source for announcing new positions. There potential candidates can easily learn about Google's strategy regarding work, opportunity, rewards, benefits, people, and organization—all delivered in the context of the broader corporate brand.

Increasing shareholder expectations for innovation and value creation. A bit harder to quantify, but nonetheless integral to a company's business model, is the innovation value skilled talent produces. If the best people aren't innovating for you, they're probably innovating for one of your competitors. So why not give them the time to innovate? Intuit encourages employees to spend 10% of their time pursuing other projects they're passionate about. And they are serious about it. Last year the company awarded its top innovator with $1 million in cash and stock for developing a new product.[1]

The shallow pool of critical talent. A third emerging area of business impact is the growing importance of the open talent economy in attracting hard-to-find talent, including contractors, alumni, subject matter experts, customers, and even suppliers. When these nontraditional workers affiliate with your organization, they can supplement value creation and can enhance your overall brand. Procter and Gamble's use of crowdsourcing for product development—the lifeblood of its brand—is an example of this phenomenon. Launched in 2001, the company's **Connect + Develop** program continues to provide innovation breakthroughs (including Tide PODS and the recently introduced Febreze® Stick & Refresh).

Practical implications for HR

Many leaders in talent understand they should be stewards of their talent brands, just as they are stewards of their external brands. Doing that effectively requires careful communications and building a culture in which workers understand and embrace the organization's talent practices. Simply marketing those practices to new recruits is insufficient—and may actually backfire.

More important, talent should consistently experience the value of the intended practices. With the growing impact of social media and rating sites, the talent experience in your organization is the talent brand. Almost any person who comes into contact with your organization can influence your brand perception—from employees and contractors to unsuccessful applicants, unhappy customers, and more. You are responsible for ensuring that the real-world experience of working with your organization matches the competitive brand proposition you intend to convey.

Effective businesses have long been focused on delivering the very best possible customer value proposition—aligning market research on customer needs with all the business processes necessary to satisfy those needs at a competitive price. It's time to bring those same disciplines to building the talent side of your company's brand.

The value proposition. The talent brand is an outcome. The talent value proposition—the framing of the actual experiences of people who work for you—is the means to that end. Getting it right requires asking some tough questions. What does your talent value proposition say about your organization? How does it address the needs of different talent segments? What behaviors drive these segments to stay or go? **What role will organization leaders play in building your talent brand?** Do your hiring managers and recruiting professionals understand your talent value proposition? Are they communicating it effectively to candidates?

Social media. Social media has changed the branding game, eliminating many of the boundaries, in some instances, between workers and customers, internal communications and external marketing. Organizations that want to effectively manage their talent brands have to take charge of their social media presence. If you don't do it, a disgruntled employee or competitor may. In practical terms, every person who works for your organization is a potential talent-brand ambassador. What message will they be carrying into the marketplace?

Engagement. There's a growing body of research that shows a driver for engaging with people is to provide meaningful work experiences that leverage their strengths. How is your organization identifying which work experiences matter most and determining how best to deliver them? Which of your talent development efforts are underperforming? Which should receive even more investment? Remember, the actual experiences of your employees and your extended talent pool define your talent brand—for better or for worse.

Open talent economy. Challenge your current thinking about the employment contract and embrace the freelance economy. How can you exploit an open talent economy and use your brand to attract the people you need—as resources, customers, advocates, and affiliates? Your brand is cultivated through all the relationships on your value chain.

Lessons from the front lines

With the global economy on the rebound and the competition for critical talent growing more intense, talent branding is emerging as a critical discipline for organizations of all sizes and shapes. But it's not a discipline that materializes overnight. Companies that want to elevate their talent brands should build a strong foundation, which takes time.

While every HR organization should approach talent-branding with its own unique set of challenges, below are four action steps an organization should consider if it's serious about building its talent brand.

Engage in a crucial conversation with your Chief Marketing Officer today. What do your key talent segments perceive about your brand? What is the nature of their experience? What do they value? How quickly can you apply your organization's customer marketing and research skills to the talent marketplace? If you aren't using sophisticated workforce analytics yet, you're already lagging.

Adjust workforce practices so critical talent get to contribute, develop, and grow every day. Study after study identifies personal development as one of the top needs across all generations, so it's an easy target for early action. Indeed, researchers writing in the *Harvard Business Review* found that employers who invest more in training and development outperform the market by up to 35 percent. Even during the downturn in 2001, the authors recorded a 4.6 percent increase in stock value among companies with strong talent development budgets.2 Many leading firms are expanding the concept of "development" to extend outside the classroom, incorporating on-the-job learning and access to just-in-time knowledge sharing.

Communicate, communicate, communicate—and listen. Having a great set of talent practices is only half the battle. Targeted talent should know and appreciate the advantage your company offers. That requires effective communication and careful listening. How is your organization engaging via social media? What can you do to make sure that engagement is as productive as possible for your talent brand? Are current talent resources engaged in helping to "sell" others on your value? Monitoring social media and career sites is essential to capture what people are saying about your organization and engage with them to clarify, correct, or accept responsibility.

Extend your talent brand to those who reside outside your organization. The open talent economy has the potential to provide a broad supply of specialized talent, including individuals who shun the traditional employment contract. Apply the same research and implementation practices to these talent segments that you apply to other parts of your company's value chain. For example, consider offering continuing professional education to contractors to help them build credentials. It can enhance the skills they use to support your company and, at the same time, deepen the affiliation they feel with you (instead of your competitors). Also, educate recruiting partners such as search firms, job boards, and university faculty so they understand your talent brand and can communicate it effectively.

Flipping the coin

Organizations with a distinctive talent value proposition owe it to themselves—and their shareholders—to turn that proposition into a distinctive talent brand. By using the same practices and principles that companies use for external marketing—authenticity, listening, transparency, and engagement—it's possible to not only capture the loyalty of your talent, but also to extend that benefit to the growing world of external players.

The workforce of tomorrow is already here—and it doesn't much look like the workforce of yesterday. From customers and suppliers to contractors, freelancers, distributors, partners, and more, talent has become an expansive term with widespread implications for organizations striving to meet their business goals. A well-managed talent brand—in concert with a well-managed corporate brand—can be an indispensable tool in delivering the goods. They are, after all, two sides of the same coin.

Endnotes

[i] Fortune 100 Best Companies to Work For, *Fortune*, http://money.cnn.com/magazines/fortune/best-companies/2013/snapshots/22.html

[ii] Bassi, Laurie and Daniel McMurrer, "How's Your Return on People?" Harvard Business Review, March, 2004.

4 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.

The workplace flexibility movement began years ago when many organizations launched talent initiatives to accommodate working mothers. Over time, flexibility options mushroomed: from compressed workweeks to job sharing, telecommuting to adjustable schedules, career lattices to career reentry. From its birth as an employee entitlement, workplace flexibility has grown to become a requirement for organizations that want to make the most of its people's productivity. Consider these statistics:

- Women without children would rather have more free time than make more money (68 percent)—even more than those with children (62 percent).[i]
- About 40 percent of professional men work more than 50 hours per week. Of these, 80 percent would like to work fewer hours.[ii]
- One of every five employees cares for elderly parents, a number that could increase to almost half of the workforce over the next several years.[iii]
- By 2025, Gen Y employees, now in their 20s, will grow to represent 75 percent of the workforce. For this emerging generation, work-life fit is valued more than compensation growth or skill development.[iv]

Workplace flexibility is vital for many employees and a welcome option for others. It can be just as beneficial to organizations—but only if they execute it well. That means seeing it from a business strategy perspective. Technology made today's brand of flexibility possible, but companies can't view workplace flexibility as a technology issue; it's a management challenge.

Of course, implementing an effective flexibility strategy is not easy. Demanding clients and customers want to be served at their convenience. Peak loads—and undesirable shifts—must be covered. Managers accustomed to face-to-face supervision worry that homebound employees will fritter away work time. Remote team members fear they will miss a midnight email. And sometimes, employees who remain in the office believe they're taking on heavier workloads while others take "flex time"—and they'll resent it, whether or not it's true. Management should be prepared to nurture and grow an effective flexible work environment over time—it can't be left to chance.

Leading organizations understand the need for workplace flexibility, but every organization should think through and define how flexibility will work in its particular case. One size does not fit all. It's advisable to define broad parameters that establish clear boundaries and give people flexibility within those boundaries, allowing employees to embrace arrangements that work for them.

It's also vital to be certain the needed capabilities are in place. Are managers prepared to direct remote teams, or does leadership need new muscles? Some telework programs have foundered under the weight of poor approaches that created more managerial problems than they solved. Is the organization's technology up to the task? What is the relationship between the value employees derive from flexibility and the value it brings to the business? Finally, when does face-to-face interaction remain indispensable?

What's driving this trend?

We're in the midst of sweeping demographic changes that affect companies' abilities to recruit and retain skilled employees. Leaders who are able to balance their people's needs with their business needs can be a step ahead of the competition in the race for talent. Finding this balance is what leading companies do. Technology plays a role as well. As mobile computing speed and connectivity keeps growing, connecting is an anytime, anywhere proposition.

Talent competition and changing expectations. High unemployment rates have not created the talent surplus some predicted. Instead, many executives are experiencing talent shortages in critical functions. When vying for top talent, workplace flexibility can be a deciding factor: One in three workers report that being able to flexibly integrate work and life is the most important factor in choosing a job.[v]

Digital natives. We're all digital natives by now. Mobile technologies and online collaboration tools are transforming how business gets done—and no generation is more comfortable in this virtual work world than Gen Y. As baby boomers retire, recruiting and retaining talent from this generation is becoming increasingly important.

Workplace disruption. No longer are employees bound together by place—in the open talent economy, they can work together from anywhere on the globe. As more teams work across time zones, the traditional 9-to-5 workday could become obsolete.

Practical implications

Often, what's good for employees can also be good for companies. For example, companies have learned that many employees are more productive and satisfied when they have a say in where, when, and how work gets done. The average home-based employee is willing to put in 19 more hours of work each week. To capture this advantage, managers must learn how to harness the benefits of flexibility so it leads not only to convenience, but also to increased employee productivity and engagement.

Generations aligned. Many company payrolls span three generations—Baby Boomers, Generation X, and Generation Y—each with different leadership, communication, working, and learning styles. What they do have in common is a desire for more workplace flexibility. Nearly all millennials (92 percent) say that flexibility is a top priority. Almost half (45 percent) of working parents are very concerned about having more time to spend with their families—and that number increases to 72 percent for those who are simultaneously balancing parenting and care giving responsibilities. Boomers say that the freedom to choose when and where they work motivates them to give discretionary effort.[vi]

Some flexibility is better than none. Workplace flexibility can take many forms, and it's up to leaders to select a menu of options that fit the needs of the business and its people. A 2012 study showed that U.S. employers are providing their employees with more options to choose the times and places in which they work, but fewer offer alternatives to full-time work.[vii]

The flip side of flexibility. With increased responsibility for choosing where and when they work, some employees may find that they miss some of the boundaries that a 9-to-5 office job can provide. Many workers feel pressured —often by their peers—to be available anytime and anywhere. Employees need to learn how to connect and disconnect, which is a new skill for many.

New managers for new workplaces. As workplace flexibility and virtual teams become the norm for getting things done, managers, team leaders, and executives will need to improve their skills and broaden their expectations. Office- and company-based work may cease to be the norm.

Lessons from the front line

Few, if any, organizations have fully cracked the code on workplace flexibility. What's clear is that even incremental steps toward a more flexible work culture can make a big difference in attracting and retaining more productive talent. But how do leaders know when enough is enough? Here are a few guiding principles:

Recognize the business case. Workplace flexibility can add value beyond employee recruiting and retention. For example, consider how flexible scheduling and/or telecommuting can allow the company to operate in inclement weather, reduce office space, or hire talent who live in other geographic areas.

Assess and segment the requirements. Survey employees to learn which types of flexibility would be most valuable to them and carefully think through all the potential organizational implications before executing any new strategies. An evaluation often uncovers opportunities for small changes that can make a big impact on employee satisfaction without disrupting the organization.

Support transparency. Create a safe environment for employees to come forward with their unique situations that could be solved with increased flexibility. While learning about employees' requirements for work-life fit, leaders often uncover other situations that need attention before they become a crisis.

Develop and support effective managers. When it comes to improving the performance of remote teams, effective managers are able to identify each individual's role and assignment, and clearly link their contribution to business goals. They take a prescriptive approach in defining the team's deliverables and coordination required, especially as the virtual team learns to work together.

Develop self-directed teams. Informal strategies are often more effective than formal policies in managing day-to-day work life flexibility. Set clear expectations about what work must be done and by when—then allow teams to negotiate on how they can most effectively meet their collective work goals and personal needs.

Build the infrastructure. Don't assume the organization's technology can support virtual workers. Test the infrastructure with a rigorous pilot project designed to uncover potential problems that could frustrate employees and undermine credibility.

Relinquish control. Some managers may be more invested in traditional management styles, while younger workers often expect more freedom in getting the job done on their own terms. Some leading companies are piloting changes in benefit programs, including eliminating paid time off; employees can choose to work as much or as little time as they want—as long as the job gets done.

Bend without breaking

Workplace flexibility has vast potential to increase engagement and productivity. Emerging social and mobile technologies now enable organizations to meet the needs of their people and their businesses simultaneously. But these benefits don't appear with the flipping of a switch. Companies must identify and address the challenges that come along with the opportunities. Even if today's environment makes flexibility a must-have, it still needs to be part of an overall business strategy that gives customers and business partners flexibility too.

With careful planning and customized strategies, leading organizations are leveraging workforce flexibility to fortify their talent brands, execute strategy, and gain competitive advantage.

Endnotes

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5 Finding the silver lining in the talent gap

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

The traditional view of retirement is changing—and it's changing fast. As mature workers realize they either can't afford to retire—or aren't quite ready to make the big move, many are continuing to work past the standard retirement age. Still others are semi-retiring by shifting to part-time roles or consulting, especially in areas where the gap between supply and demand for talent is increasing. In fact, a recent Deloitte study found that 48 percent of baby boomers expect to keep working past age 65, and 13 percent believe they will work into their 70s.[i] For organizations, this shift is both a blessing and a challenge.

On the plus side, changes in retirement patterns can help avoid or defer the baby-boomer brain drain that has been looming for so long. Organizations now have a fresh opportunity to address the talent gap created by a shortage of critical skills in the marketplace, as well as the experience gap created by multiple waves of downsizing over the past decade. On the minus side, shifts in retirement have the potential to increase payroll and benefits costs, and may even disrupt the talent pipeline.

While the idea of "retiring retirement" has been a point of discussion for many years, organizations are finally starting to capitalize on the opportunity as thousands of baby boomers become eligible for retirement every day.

What's driving this trend?

Four emerging patterns in the broader marketplace account for the shift in how mature workers are thinking about retirement—and how organizations are responding.

Lower than expected wealth. Many workers on the verge of retirement are not yet wealthy enough to fulfill their retirement dreams. Some simply haven't saved enough. Others have watched their retirement savings stagnate or decline in the face of a struggling global economy.

Better than expected health. Advances in healthcare and nutrition have kept today's mature workers healthier and more active than ever. Many still have a lot of value to contribute—and the vigor to do it. They are also living longer, which means they may feel less urgency to start enjoying retirement as soon as possible. Many feel the need to build a bigger nest egg so they don't outlive their savings.

Shifts in government policy. New laws and regulations are having a large but varied effect on this trend. Changes in healthcare policy will presumably make it easier for mature workers to leave or to accept part-time or contractor positions that don't include full benefits. On the other hand, proposed increases in the qualifying age for programs such as Medicare and Social Security could lead workers to stick around longer. This uncertainty alone could prompt some workers to defer retirement in order to avoid making an irreversible decision they might regret after government policies are finally settled.

Continued demand for key skills. Organizations are struggling to find and retain the critical skills required to achieve their strategic objectives. For example, 67 percent of U.S. manufacturers report a shortage of available and qualified workers and 56 percent anticipate that the shortage will continue to grow over the next three to five years—despite frequent reports of high unemployment in the industry.[ii] In many cases, the jobs that are hardest to fill have the biggest impact on performance and require the most experience. This talent gap creates new opportunities for workers near retirement age to extend their careers.

Practical implications

Forward-looking employers are treating this shifting view of retirement as both a challenge and an opportunity. The opportunity? To retain talent and knowledge that creates value for the organization—and that might otherwise have been lost. The challenge? How to take advantage of the opportunity without creating skill mismatches or building a "grey ceiling"[iii] that limits advancement opportunities for younger talent and makes it hard for them to acquire the experience and skills they need to succeed in their careers.

One approach for addressing this opportunity is to apply principles of workforce flexibility and career customization, targeting workers as they near retirement age. For years, organizations have been using these tools to accommodate employees looking for alternatives to a traditional career path, primarily those in the early or middle stages of their careers. Meanwhile, most mature workers were sticking to traditional career paths and marching steadily toward the dream of a textbook retirement.

Now, the tables have turned. Organizations are starting to use these innovative methods and principles to help mature workers design alternatives to standard retirement, while clearing a path for younger workers to progress and benefit from mature workers' valuable experience.

Lessons from the front lines

Rethinking retirement presents a complex set of unfamiliar challenges and requires a multi-faceted approach. Universities and health system providers are leading the way. They have deployed flexible work schedules, phased retirement structures, and wellness programs to attract and retain mature workers. They also provide a myriad of learning experiences to improve and extend the knowledge of mature workers. Here are some of the focus areas that are gaining traction:

Design new roles and career pathways. Keeping mature workers in their existing jobs is not sufficient. By creating new roles and career pathways, organizations can fill experience gaps and provide mature workers with fresh challenges that keep them engaged and contributing. In particular, a greater focus on coaching and mentoring can help an organization transfer and retain critical knowledge, while providing young people with valuable wisdom and insights that can accelerate their careers.

Redesign incentives. Existing incentives are often aligned to drive mature workers out the door—even in cases where both the worker and the organization might prefer for the person to keep working. For example, many mature workers continue to be covered by traditional pension plans that provide greater lifetime benefits for employees who leave before normal retirement age. These plans essentially punish employees for deciding to work longer.

Employers should consider winding down early retirement incentives in favor of building a multi-dimensional retirement model that fits today's new reality. Simply offering mature workers scaled back hours and pay is not enough. Other factors to think about include everything from salaries and rewards to medical benefits and pensions. For example, consider offering phased retirement packages that include reduced work hours and mentoring requirements in conjunction with pre-retirement pension payments to help offset the salary hit. The U.S. federal government has adopted this practice, and enacted legislation in July 2012 to allow employees who are eligible for retirement the option of switching to part-time work. These employees would draw a partial salary and a partial annuity, both prorated according to the time worked. The law envisions that phased retirees would spend a fifth of their working time mentoring younger employees.

Offer fair choices. Employers can use the methods and principles of workforce flexibility and career customization to create career options from which mature employees can choose. Ideally, workers will self-select options that make the most sense, both for themselves and the organization. This requires up-front analysis and careful design of offerings that are fair and equitable. It also demands ongoing monitoring to confirm that the desired balance is being achieved. If some options are over-subscribed, it's a sign the framework was not properly validated and needs to be adjusted.

Focus on continued development. Even as mature workers near the end of their careers, it is important for organizations to continue to provide development opportunities and training. Many of the companies that have established a positive reputation for employing mature workers have implemented targeted learning programs, including on-line training, job shadowing, and temporary assignments in other departments to help enhance and diversify skills.

Don't overlook blue collar workers. Concepts such as workforce flexibility and career customization can be more challenging to apply to labor-intensive jobs that require a direct physical presence at a factory or work site. But that doesn't mean the concepts aren't relevant. Thanks to increased mechanization and automation, many of today's blue collar jobs are not as physically demanding as they used to be. Many also require highly specialized knowledge that a business may want to retain.

The retirement clock is ticking

Organizations today are facing a firestorm of talent and HR challenges. From managing payroll leakage and leadership risks to navigating through the open talent economy, nothing is easy. That's why the shift in retirement patterns is such a big opportunity. Because it involves known quantities—experienced workers—finding ways to capitalize on deferred or part-time retirement is a low-risk strategy that can preserve invaluable options for employers and employees alike.

For better or worse, the time for action is now. Boomers are engaged as never before in planning and rethinking their own futures. Organizations should move quickly—and with care and thoughtfulness—to craft effective responses to the opportunity.

Endnotes

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6 Debunking the Superman 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.

Many companies have spent decades trying to identify and clone the mythical perfect leader. But it turns out there is no such thing. Businesses today face a virtually unprecedented variety of challenges, from harvesting profits in mature economies with flat or declining growth, to establishing toeholds in emerging countries, to creating the next wave of disruptive innovation, to working through the complexity of changing regulations—and everything in between. Each of these unique challenges requires a unique kind of leader. One size does not fit all.

What's driving this trend?

Jagged markets. It wasn't long ago that mature markets were the ones that really mattered. And while those key markets might have been on different continents and separated by thousands of miles, from a business perspective they were more alike than different. Not anymore. Today, companies should find ways to operate successfully in markets that are worlds apart in every way—socially, technologically, and economically. This requires a new type of leadership.

Perpetual uncertainty. Companies used to operate in a relatively stable and predictable business environment where the future looked a lot like the past. But in an increasingly complex and fast-paced business world, businesses know that the future is unknown— and unknowable—and design their leadership strategies accordingly.

Instant obsolescence. Today, disruptive innovation is the rule, not the exception. Virtually any company could be weeks or months away from facing potential breakthroughs and new competition that could make its entire business obsolete. Leadership styles that worked well in the past simply aren't good enough to cope with this dynamic environment.

Practical implications

Organizations have arrived at a turning point in the evolutionary arc of leadership, where yesterday's theories struggle to keep pace with the velocity of today's disruptive marketplace. Although many companies continue to pursue a singular vision of the ideal leadership style, the humbling truth is that tomorrow's leaders should be able to thrive across multiple complex environments including: hyper-growth in emerging economies; value-harvesting or turnaround in mature markets and product segments; entrepreneurial innovation in start-up categories; and enterprise re-engineering for end-to-end value chain optimization.

These are just a few of the business contexts that form the playing field for the 21st century—a jagged landscape that forces companies to launch multi-prong strategic plans in order to gain competitive advantage across a diverse array of contrasting market spaces.

Different situations require different kinds of leadership. For example, capitalizing on hyper-growth in emerging markets requires leaders who embrace chaos and have a high tolerance for risk and failure. In fact, some businesses are pursuing a deliberate strategy of fast failure to rocket up the learning curve and accelerate their success. Leaders in this kind of environment must be willing to shun conventional thinking about which markets are worth targeting. They also should be obsessively committed to operational efficiency and execution to squeeze profits from even the smallest opportunities, and should be able to adjust their strategies and goals on-the-fly in response to lessons learned and rapidly changing market conditions.

By contrast, a turnaround in a mature market requires leaders who are practical and realistic, yet also inquisitive and adventurous. They should be able to make deliberate choices that help the company extract the most value from existing assets; yet they must also be able to drive disruptive innovations that can take a business in entirely new directions. Curiosity and a willingness to learn are key, so is the passion to engage employees and bring them along on the journey.

These examples illustrate the need for a pool of leaders with diverse skills, personalities, experiences, and capabilities. They also underscore the importance of flexibility and adaptability. To be effective, companies need leaders who—individually and collectively—can operate across different environments and adapt to the unexpected.

Lessons from the front lines

Companies around the world are actively looking for ways to develop new types of leaders. For example, Unilever has a major initiative to develop 500 global leaders through intensive leadership development programs designed to position them for expanded roles. According to CEO Paul Polman, "Unilever's Leadership Development Programme prepares our future leaders for an increasingly volatile and uncertain world where the only true differentiation is the quality of leadership."[i]

Here are some specific strategies that may help companies unlock the answer to tomorrow's leadership puzzle.

Get rid of the cookie cutter. Instead of trying to clone an army of identical superleaders, embrace the idea of leadership diversity. According to the Chief People Officer at Southwest Airlines, Jeff Lamb, one of the things that makes the airline a great place for leaders is the "freedom to be yourself." Strive to create a pool of leaders who have different skills, styles, and experiences—and then work hard to assign people to leadership positions that fit their unique capabilities. Proctor & Gamble, for example, analyzes each individual leader's capabilities and targeted leadership role, and then maps out a unique path for reaching the destination.[ii]

Focus on resilience and adaptability. To thrive in an unpredictable environment, select and cultivate leaders who—both individually and collectively—can readily adapt to a future that is constantly in motion. Support them with leadership training, tools, and coaching that can help them get up to speed as quickly and effectively as possible. Also, be willing to change leaders if necessary. Proctor & Gamble purposely moves leaders across regions and countries to give them "discontinuous" experiences that accelerate their growth and help them learn to operate in a multi-dimensional business environment.[iii]

Be disruptive. Today, many effective companies push the envelope on innovation. They create change ahead of the curve, even if it threatens to make their existing products and business models obsolete. This "creative destruction" requires a special kind of leadership. For example, many of Amazon's biggest innovations initially appeared to be money-losing distractions. However, as CEO Jeff Bezos explains, Amazon is "willing to be misunderstood for long periods of time."[iv] Creating your own disruptions enables you to shape the future of your industry in a way that plays to your company's strengths. It's risky, but not as risky letting your competitors make the rules.

Don't shy away from conflict. Traditionally, when leaders clash, one side wins, the other side loses, and everyone learns that open conflict is something best avoided—which ends up stifling creativity and innovation. Companies today must create a leadership environment where individuals can be creatively abrasive, standing up for what they believe in and openly challenging each other when necessary—without pouting or shutting down if they lose.

New leadership strategies for a new, more complex world

Effective leadership strategies should be grounded in leading practices and psychological research; but, just as important, they should also capture the attention and imagination of leaders at all levels of the organization—at all stages of their careers. It is essential to strike the right dynamic balance between what's possible today and what we strive for in the future. In particular, organizations need leadership strategies that are: logical and spiritual; emotive and creative; foundational and aspirational; operational and conceptual. By toeing this line with finesse and firm intent, companies can establish a sustainable approach to leadership development that propels them to their next chapter of success.

Endnotes

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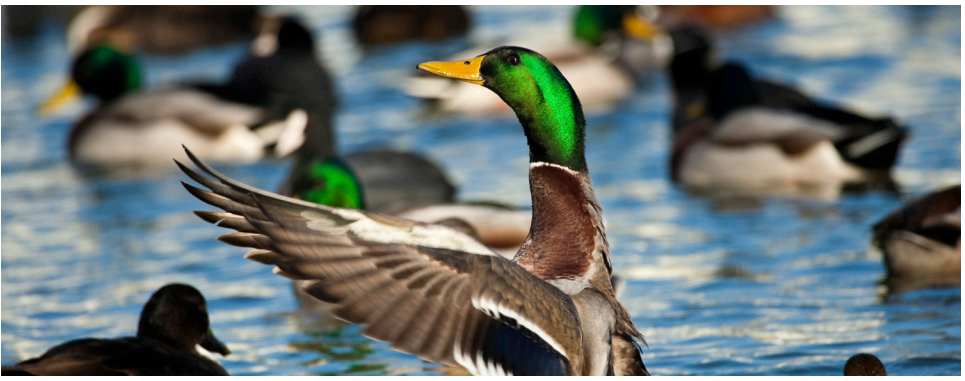
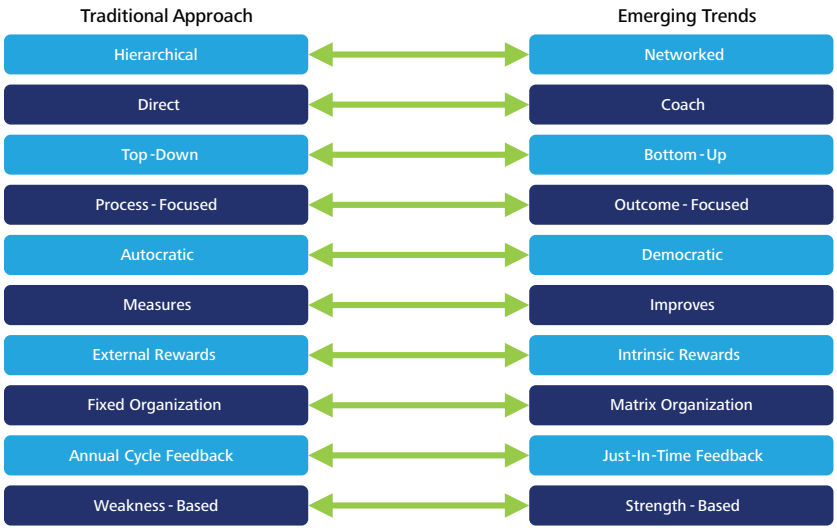
7 The performance management puzzle



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.

Many companies continue to rely on traditional performance management processes because they provide a consistent way to evaluate employees and apportion rewards. Year after year, managers follow a well-worn routine: Fill out goal forms, track progress, fill out more forms, conduct a formal annual assessment, and then fill out more forms. But when it comes to motivating and engaging people, these conventional processes seem increasingly obsolete.

Figure 1: Performance Manangement in the New World of Work



Source: Deloitte. Emerging trends in performance management are a better fit for the new world of work, which is increasingly characterized by self-forming teams responding to rapidly changing business challenges.

According to a recent World at Work study[i], 58 percent of HR leaders gave their performance management process a "C" grade or worse. Few other processes in an organization are allowed to perform so poorly, and performance management should not be allowed to any longer.

The challenge is that while the way work gets done has changed dramatically over the last few decades, performance management processes at many organizations have remained essentially the same. In this new world of work, team relationships often influence an individual's performance more than a supervisor. For team members, on-the-spot improvements based on immediate feedback from their peers can have a big impact on performance. Plus, as individual and organizational goals are increasingly tied to project cycles that last a few months or weeks, the fiscal year can become less relevant. Add in the matrix organization—with individuals migrating from one cross-functional team to another, each with a different leader—and performance management can turn into chaos.

What has not changed is what leaders and employees want from performance management: A broad view of the organization's human resources and a fair and valid assessment process, respectively. To achieve these somewhat paradoxical goals in today's fast-paced workforce, some leading organizations are ushering in a new era of workplace democracy. To offset top-down annual performance evaluations—which can often be based on aged feedback or vulnerable to the recency effect, the behavioral principle that the most recent is the most likely to be recalled—some organizations are looking to social tools to access in-the-moment feedback from peers, customers, and other stakeholders to promptly

improve performance. These pioneers could point the way for other organizations as Gen Y's digital natives expand to dominate the workforce over the next ten years.

While no single answer has emerged that spans the conflicting needs of the organization and its individuals, the search for innovation in performance management is accelerating.

What's driving this trend?

Performance pressures. Competitive intensity continues to build in the global market economy. And, as organizations globalize and access new talent at lower costs, the employees in more politically stable nations will be relied upon to keep their organizations competitive and deliver higher precision performance. Research from the 2011 Shift Index, published by Deloitte's Center for the Edge, revealed the "topple rate"—the speed at which companies lose their leadership position—continues to rise. This suggests that even market winners can't let their guard down. They must commit to a relentless pursuit to improve their performance.

Organization structures. Employees are no longer bound together by place—they can work together from anywhere on the globe. In this new environment, teams are often formed, dissolved, and reformed, based on constantly changing business needs. In many organizations, the classic employee/supervisor relationship has all but disappeared as organization structures flatten. For example, one software company has dispensed with the manager's role altogether, removing many barriers between employee teams and customers. Performance evaluations are driven by anonymous peer reviews across the company. Simultaneously, a committee holds meetings to ask employees to comment on the contributions of their peers based on four criteria: technical ability, productivity/output, group contribution, and product contribution. The committee reconciles the rankings to produce a final ranking of employees across the company.

Technology improvements. Emerging technologies—social, mobile, cloud, analytics, gaming—are changing the way people work and interact. Managers who used to engage with employees while walking the halls are being replaced by far-flung teams that communicate via text, chat, or Skype. In addition, new collaboration tools combined with deep analytics now enable organizations to collect and sift through massive amounts of disparate information to uncover who's doing what—and how well they're doing it. For example, one restaurant chain is using point-of-sale technology to display personalized leaderboards showing individuals' real-time performance in generating revenue and tips against peers system-wide. Employees learn from the front-runners, raising the bar for everyone. High-ranking workers get their choice of shifts as a performance incentive, allowing managers to focus on coaching employees, rather than scheduling shifts.

Generational expectations. As baby boomers retire, Gen Y employees represent a growing constituency of digital natives. Social, gaming, and mobile technologies from the consumer digital world have upped their expectations for work tools that allow for real-time, remote collaboration and feedback. Leading organizations are adapting old-school processes and tools to more effectively compete for this new generation of talent.

Practical implications

Bridging the gap between traditional performance management systems and the evolving world of next-generation applications is a tricky business; despite their enthusiasm for new-and-different, employees first want fair-and-balanced. Managing this coexistence requires careful attention to a number of areas.

Desired outcomes. In today's fast paced, matrixed work environment, managers need to make crystal clear what good looks like in terms of expected behaviors and performance. Creating tight alignment between the work of the individual and the organization's objectives promotes greater context, commitment, and pride in accomplishment. Clarity of outcomes acts as the foundation for increased employee and team self-management, as well as the basis for peer and manager feedback.

Peer networks. In a collaborative culture, where employees turn to one another for advice and support, peer feedback gathered through collaborative tools can provide valuable insights to supplement more objective measures. One online retailer strengthens its supportive culture by flashing photos of random co-workers from other departments on employees' computer screens when they log in. Each employee ranks the photo based on how familiar they are with this colleague. Managers use these

ratings to assess the strength of inter-department relations and identify functional silos that could inhibit collaboration.

Manager capability. Leaders who motivate and guide team members by influence, rather than rank, need a different set of tools, training, and processes than leaders who manage individuals with a more hierarchical mindset. Bersin by Deloitte research indicates that the greatest challenge to effective performance management is managers' inability to coach effectively—a critical skill in a flattened work environment.

Data access. Organizations can now quickly gather, analyze, and distribute massive amounts of data. Customer feedback, peer reviews, social media comments, operational data—to name just a few sources—can provide multi-layered views into the performance of individuals and teams. Administrators of a major city's public hospitals recently announced that they plan to use patient evaluations and complaints to assess their doctors' performance and salary. While changes to Medicare reimbursements may have triggered this new approach to performance management, their experience may provide useful insights into the challenges and opportunities facing other organizations.

Lessons from the front line

Leading organizations are looking for answers to the performance management puzzle. In this changing landscape, it's smart to learn from the experiences of others before diving in. Meanwhile, prepare leaders by sharing new trends in performance management and potentially experimenting with new approaches that can hold potential for your organization.

Don't force it. Social performance management tools are more likely to be adopted by individuals who work within a collaborative culture that cultivates inclusive leadership styles. Engage fast-moving parts of the business in rapid experimentation—where a participative management style is already embedded. These organizations provide a logical place to test new performance management approaches.

Guard against popularity contests. Political posturing can hinder productive innovation. No employee wants his or her performance evaluation to hang in the balance of personal grudges in social media. And no one wants their contributions to be overlooked because they are not as socially savvy as others. The crowd's opinions should not detract from the manager's role as a valuable conduit, channeling and interpreting how feedback should influence performance.

Start with recognition. While some organizations are exploring ways to gather constructive feedback from peers and managers, early adopters have stayed on steadier ground by providing social tools that encourage peers to recognize each other's performance in a positive way. Strength-based feedback—from managers and peers—is gaining traction as widely accepted, positive influence on individual performance.

The missing pieces

With social collaboration tools gradually entering the mainstream, it is reasonable to expect that social recognition and feedback tools could follow to become valuable performance management tools. But for now, many organizations are on the sidelines waiting to see how—and if—others effectively incorporate new types of tools like social peer feedback into rating, progression, and compensation decisions. For now, leaders are focusing on exploring innovative solutions—technology-based and beyond—that enhance their people's performance in the moment.

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Closing

The time is now.
In the heat of daily operations, making time for crucial conversations can be challenging. It's hard enough to find time to talk about strategic issues inside your own department, and harder still to engage with business counterparts who may be spread all around the world. But it's important that you find the time—now.

Though there's no one way to move forward, early conversations often include the CFO, where the opportunity exists to begin "thinking like an economist." That analytical perspective is important for approaching other trends, all of which may require the discipline of rigorous thinking.

Engagement among other leaders is no less important. Get out into the field and see firsthand the workforce challenges your business is facing, especially in the area of recruiting and retention. Connect with frontline talent who are struggling to find to create a sustainable work-life fit. Talk to retirees, as well as those on the cusp of retirement. Hear what they're looking for and why. CMOs should be deeply involved as well. They can help especially in encouraging that an organization's corporate brand and talent brand are aligned. And, of course, conversations involving the CEO set the tone at the top. Don't settle for anything less than a detailed understanding of what's needed in the leadership pipeline.

In the final analysis, different organizations will have different views on where to begin their crucial conversations. Invest time wisely by focusing on the areas that support strategic business priorities. And above all, don't delay. Make the effort now to engage in these crucial conversations—and start by becoming a committed listener. That's likely the shortest path to creating more value.

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