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Human Capital
Trends 2012
Leap ahead



Preface

It's fitting that 2012 is a leap year, since a number of converging market trends are driving HR organizations to make significant leaps in capabilities and performance. HR faces a critical, dual imperative in 2012 — a focus on enabling both their organization's overall growth agenda and on driving efficiency in the business of HR. This dual focus demands decisive action as the stakes are greater than ever.

Why the sense of urgency? Three reasons.

- Businesses are seeing light at the end of the economic tunnel, and CEOs are looking for every advantage they can find to drive growth. Talent is a key enabler of growth, of course, but it can also be a stumbling block if not managed properly. Especially in areas like salesforce effectiveness and building a leadership pipeline.
- Transformative technologies such as cloud, mobile, social, and advanced analytics are upending how work gets done, though many organizations are not yet ready to exploit their potential. HR should step in to help build the capabilities to use these tools effectively.
- Enterprise risk has moved firmly onto the C-suite agenda. Leaders have come to understand that people risks represent a significant area of potential exposure.

Businesses today are calling on HR to leap ahead and help to manage change in the face of complex challenges that touch so many parts of the enterprise. Understanding the 2012 Human Capital Trends — what they mean for both leading HR and for leading the business — is a great place to start.



Barbara Adachi
National Managing Director
Human Capital
Deloitte Consulting LLP
Co-Author



Dan Helfrich
Chief Marketing and
Strategy Officer, Principal
Human Capital
Deloitte Consulting LLP
Co-Author



Michael Gretczko
Principal
Human Capital
Deloitte Consulting LLP
Co-Author



Jeff Schwartz
Principal
Human Capital
Deloitte Consulting LLP
Co-Author

Welcome to Deloitte's annual report examining important trends in human capital. Each year we begin with a wide range of potential topics, then work with clients, vendor teams, academics, analysts, and Deloitte practitioners to refine the list. We select as trends those topics that have the most potential business impact over the next 18 to 24 months. This year's theme, Leap ahead, examines the broad impacts of eight trends that are reshaping both HR in the business — and the business of HR.

1 In 2012, growth is job #1



Growth is the top priority for many CEOs in 2012. To make it happen, HR is boosting its capabilities in three key areas.

Growth is at the top of the CEO agenda for many companies, with many organizations today focusing on three key strategies: emerging markets, mergers and acquisitions (M&A), and innovation. Although these strategies can offer significant growth opportunities, they each present a wide range of people-related challenges. CEOs expect Human Resources (HR) to play a much more active role in enabling these strategies.

What's driving this trend?

- **Emerging markets represent significant new opportunity.** Developing economies are growing much faster than mature economies and are becoming a primary source for revenue, profits, and talent. Understanding the capabilities, employability, and cultural implications of talent in these markets is critical to effectively prioritizing growth objectives and leveraging the opportunities they represent.
- **M&A is often the fastest way to expand a business.** But it's not just a numbers game. These days, more and more companies are using M&A to obtain specific capabilities and talent in order to gain a competitive edge. Sustaining that advantage through thoughtful talent and organization planning is important to realizing the expected strategic value of the acquired assets.
- **Innovation can drive growth, even in a sluggish economy.** A more holistic approach to innovation can enable companies to stimulate innovation broadly across their workforces and more effectively capture the resulting strategic advantages.

Practical implications

In many cases, HR is no longer simply supporting the CEO's growth agenda — it is actively informing and helping to shape that agenda.

Emerging markets. Developing economies have long been viewed as a source of cheap labor. Now, they are also being tapped for higher-value skills, such as research and development (R&D), knowledge processing, and advanced analytics. At the same time, their rapid economic growth presents new revenue opportunities by creating a new class of consumers with money to spend and an unquenched thirst for the latest goods and services.

To capitalize on these emerging opportunities, HR needs to help plan, create, and manage a truly global workforce — matching new sources of employable talent with global demand that is constantly shifting — and develop a strong pipeline of global leaders. HR also needs to identify and understand the labor and workforce challenges associated with entering new markets and then establish systems and capabilities that make the process fast, efficient, and repeatable.

Mergers and acquisitions. M&A can be one of the fastest ways to grow revenue and market share. It can also help a company expand its strategic capabilities. For example, a large technology company might acquire a smaller firm in order to fill a gap in its R&D pipeline or product portfolio. Similarly, a company looking to enter an emerging market might use an acquisition or joint venture to establish an immediate local presence.

Traditionally, HR's role in M&A has focused on issues related to compensation, benefits, payroll, and Human Resource Information Systems. While those issues are still important, they have now become table stakes. HR's new M&A mandate is to effectively leverage culture, leadership, and talent to increase the return on investment (ROI) on M&A transactions.

Creating the preferred culture is one of the keys to fully capturing the expected value of an M&A deal. Identifying, positioning, and retaining acquired talent are also important. Handling these challenges effectively is critical for strategic deals, where a lack of appreciation for cultural differences may drive out the very talent, leadership, and spirit of innovation that inspired the deal in the first place. Thoughtfully integrating and leveraging the acquired organization's culture and talent is often the difference between value creation and value erosion.

Innovation. Many companies define innovation too narrowly, placing all of their bets on a specific team of people and the products they develop. In contrast, today's innovation leaders are defining innovation broadly to include services, processes, business models, communication, and cost structure improvements across the enterprise. HR can help by aligning people-related factors, such as leadership, capabilities, processes, technology, and organizational structures, around innovation to foster a more innovative organization and culture.

Lessons from the front lines

Based on our experience, here are some specific steps HR can start taking right now to support the CEO growth agenda.

- **Manage talent with growth in mind.** Growth and innovation are heavily dependent on having the right talent in the right places at the right time. HR needs to understand the critical skills required to execute the CEO's growth agenda — now and in the future — and develop a plan for acquiring, developing, and retaining the necessary talent in light of forecasted supply and demand.

- **Help groom business leaders and managers who can drive growth and innovation globally.** Verify that performance and compensation systems are in place to encourage and reward innovative thinking and development of others. Design assignments and special projects to build the skills, experience, and training necessary to support the company's growth strategies. Identifying and developing the next generation of leaders across the global organization is essential in the wake of imminent retirements and multiple waves of downsizing that have many companies facing a hole in their leadership pipelines.
- **Be a "special teams" coach to executive leadership.** U.S. football teams have a specialized coach who focuses exclusively on critical plays such as kickoffs, punts, and field goals — events that often make the difference between winning and losing. HR leaders can play a similar role in business, preparing the executive team to achieve its goals in emerging markets, M&A, and innovation by counseling them in people-related areas, such as leadership, personal development, communications, and organizational influence.
- **Build and develop an HR team focused on informing and enabling growth.** Continually assess the structure and capabilities of the HR team to confirm it aligns with the company's growth strategies and that it has the necessary depth and breadth to execute effectively.

Teaming with the CEO to drive growth

CEOs are on the hook to deliver business growth, regardless of what the economy is doing. HR can help by actively supporting the company's primary growth strategies. In many cases, that means preparing the business to capitalize on revenue and talent in emerging markets; effectively integrating acquired organizations without losing or squelching key talent; and fostering a culture of innovation across the enterprise. Businesses with HR functions that excel in these three areas can better position themselves to deliver the kind of growth that investors and shareholders expect.

2 Operation globalization



Many companies are shifting to globally integrated operating models, where the home country is just one of many markets.

Many companies around the world are moving to new global operating models, driven by the rapid rise of emerging and developing economies — both as customers and as sources of talent — and by continuing pressure to reduce costs.

Historically, companies doing business outside of their home country have tended to rely on one of two operating models. First is a federated model (sometimes known as an international model) in which the rest of the world is subordinate to the company's home market. Second is an entrepreneurial model (sometimes known as multidomestic) in which multiple geographies are all treated as distinct and separate.

Looking beyond these two established models, many leading companies are increasingly shifting toward a third model, where major business operations (including both front- and back-office functions) are globally integrated, with the company's home market treated as just one of many global markets.

The move toward a globally integrated operating model is likely to be one of the most significant transformations a company will ever face. Much of it involves people-related issues, such as change, talent, and HR operations — and HR has important roles to play in this transformation. The question is how can HR leaders and their teams prepare to meet the challenge?

What's driving this trend?

- **Rise of global customer markets.** Different economies around the world are growing and recovering at different speeds. Mature markets in North America and Europe face flat or uneven demand, while emerging and developing markets — such as China, India, Latin America, Southeast Asia, and the Middle East — are widely recognized as the primary engines for future growth. In Brazil, economic growth continues on the strength of its export economy, but also rising domestic demand. An estimated 35 million people joined the middle class between 2003 and 2009, and 20 million more are expected to be included by 2014.ⁱ In China, the middle class is already larger than the entire population of the United States.ⁱⁱ
- **Rise of global talent markets.** Over the past decade, the talent pool has become increasingly global — and not just for commodity activities, such as offshore manufacturing, transactions, and call center operations. Many companies are now using offshore resources for high-value activities, such as R&D, knowledge processing, and advanced analytics. The United States used to lead the world in the number of 25- to 34-year-olds with college degrees. Now, it ranks 12th among 36 developed nations.ⁱⁱⁱ Also, China produces 10 times more natural sciences graduates than the United States.^{iv} While the quality of science and engineering graduates from emerging markets may not be as high as those from developed markets, the overall trend is clear.

- **Hyperconnectivity.** Technology is accelerating the rise of global customer and talent markets by making it easy for people to communicate and collaborate, whether they are in adjacent cubicles or halfway around the world. In a business environment where everything is connected to everything else, geographic distances and national boundaries are almost irrelevant.
- **Cost pressure.** The need to cut costs used to be the main reason for moving work to lower-cost locations and remains a key driver thanks to a tough economy that has prompted the most significant cost restructuring in decades. However, reducing costs is now just one of many important reasons for tapping the global talent pool.
- **Regulatory and capital requirements.** In the financial services sector, increased regulation (both nationally and globally) and higher capital and solvency requirements are forcing many companies to adjust their global footprints and change how they operate.

Practical implications

As many companies make the leap to global operating models, they are rethinking virtually every aspect of their operations, including how work gets done, who does it, where people are located, and how they should be organized. This metamorphosis is happening right before our eyes — and it is likely to continue, with or without HR's help.

The evolving vision for many is a flexible operating model where work can be shifted to whatever global location makes the most sense, based not only on the cost of labor, but also the area's future revenue potential and supply of skilled talent. Companies are looking for the right balance between customer and talent markets. Both are shifting.

Many leading HR organizations are playing a number of important roles in this transformation process. In particular, they are ratcheting up their capabilities and involvement in three areas.

Designing global operating models. As we move toward a future where home countries are less dominant, companies will need HR to help design operating models

that are truly global. This will require new organizational structures and governance models, including decision frameworks that specify who, how, and where decisions are made. It will also require new approaches to roles and responsibilities — and new business processes that can harness the full strength of a workforce that is increasingly boundaryless, collaborative, and virtual. This may involve rationalizing or consolidating some businesses and functions. The biggest challenges are anticipated to be balancing the trade-offs of global scope, scale, and control versus local market responsiveness, innovation, and autonomy. Risk management and regulatory compliance across national boundaries will also be significant challenges.

Managing global talent. In the future, it's likely that some work activities will continue to be centralized in low-cost labor markets in order to reduce costs and capitalize on economies of scale. However, other activities will increasingly be done in local markets in order to align with emerging sources of revenue and improve product localization and customer responsiveness. Companies will likely need direction and support from HR to develop global talent strategies that provide the new skills and talent in new places. They will also need HR to help create a pipeline of leadership that can be quickly redeployed to capitalize on global opportunities the moment they arise. Also, companies may face challenges in managing a more diverse and complex workforce with vast differences in nationality, culture, socioeconomic background, lifestyle, and education — in addition to traditional diversity factors, such as gender, race, ethnicity, and religion.

Leading change — everywhere. For many companies, the shift to a globally integrated operating model represents a fundamental change of virtually unprecedented scale, complexity, and importance. Leaders and employees tend to have a hard time coping with change of this magnitude. In fact, many companies in the past even struggled to implement relatively simple global operating models, such as offshore manufacturing and offshore administration, largely due to change management challenges. HR can help by serving as a leader and change agent, working with senior business executives to prepare for organizational resistance and to plan, organize, and execute a transition to new ways of making decisions and working.

Lessons from the front lines

A leading beverage company with both local and global brands wanted to increase its focus on global brands and boost growth in emerging markets by leveraging its expertise in areas such as supply chain, HR, and finance. To do that, the company moved from an entrepreneurial model (based on geography) to a federated model, with strong integration of key functions across the global enterprise.

A global financial services company had grown by setting up independent business units in various countries. Each unit was self-sufficient and had all of the resources and functions of a stand-alone company, including its own regulatory compliance group. In the wake of the financial crisis, the company adopted a federated model to better manage risk. Functions such as Risk Management, Compliance, HR, Finance, and Information Technology (IT) became global functions, while sales, marketing, and local compliance remained in country. Product development was both a local and global collaboration.

A computer company that manufactures and sells hardware, software, and services had created a footprint of individual country operations designed to serve local customers as effectively as possible. However, many ancillary functions, such as IT, finance, and HR were global. In order to maintain its growth trajectory, the company decided to focus more attention on its biggest and best customers, which were also becoming increasingly global. The company shifted to a globally integrated operating model so that its products, services, and geography would not get in the way of serving global customers.

Moving to a global operating model will likely require strong support from HR. Here are five actions that HR organizations can take right now to start getting ready.

- **Invest in HR leaders with the knowledge, skills, and motivation for global operations.** New operating models are anticipated to require new skill sets. Develop or hire HR leaders with the skills and competencies to be business driven and to lead and support business change.
- **Expand HR's services.** Rethink the services that HR provides and how those services are delivered. Develop new services and capabilities to support strategic business activities, such as M&A and new-market entry.
- **Align HR around a global operating model.** Redesign HR's organizational structure to align with and support business operations that are truly global. Develop new roles, responsibilities, and skill requirements for HR staff.
- **Ratchet up HR's change management capabilities.** Create a dedicated team with deep knowledge and experience in managing large-scale change. Key skills include leader and employee communication, executive coaching, transition planning, and overcoming organizational resistance.
- **Harness the power of advanced analytics.** Despite the proliferation of HR management and enterprise resource planning (ERP) systems and data, many companies still lack important insights about people-related business issues. Advanced analytics can help a company manage its global workforce more effectively and focus its efforts on business areas with the greatest need. For example, it can help predict talent supply and demand based on a wide range of factors, including leading indicators such as customer demand forecasts and new home construction. It can also help identify critical workforce segments based on current and future business requirements.

Turning the corner on globalization

Businesses have been “going global” for a long time. But until recently, globalization was managed as a separate activity, with mature markets on one side of the portfolio and emerging markets on the other. Many international companies continued to define themselves based largely on their success in established markets. They served emerging markets by creating local subsidiaries that were separate from their core business back home. And they treated global talent as a niche of cheap labor for commoditized activities, such as offshore manufacturing and transaction processing.

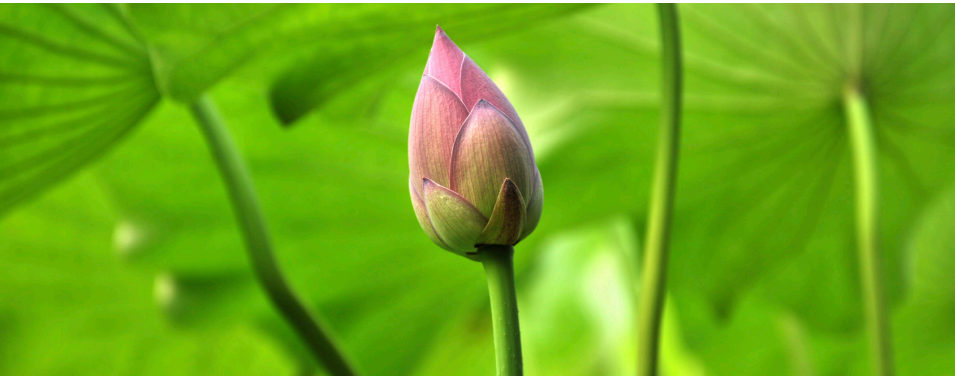
That’s all changing. In 2012, forecasts predict that more than half of the world’s imports will be purchased by emerging markets while mature markets will likely face uneven recoveries, flat growth, and declining talent pools. Meanwhile, emerging economies are widely recognized as the primary engine for future growth, profits, and talent. In response, many leading companies are creating truly global business and operating models that no longer treat the home market as the center of the universe. And they are increasingly looking to global talent pools for high value skills, not just cheap labor costs. This shift to new levels of globalization is likely to be one of the biggest changes that organizations will face this decade. For HR leaders, the shift to new global operating models is an opportunity that demands attention and focus — drawing on HR’s particular ability to lead and shape the agenda around change, talent, and global HR operations.

Endnotes

- ⁱ “Growing Middle Class Fuels Brazil’s Economy,” Domm, Patti, April 28, 2011, CNBC.com (February 1, 2012)
- ⁱⁱ “The Biggest Story of Our Time: The Rise of China’s Middle Class,” Wang, Helen H., December 21, 2011, Forbes
- ⁱⁱⁱ “Once a Leader, U.S. Lags in College Degrees,” Lewin, Tamar, July 23, 2010, *The New York Times* (February 1, 2012)
- ^{iv} OECD Development Centre, Working Paper No. 285, “THE EMERGING MIDDLE CLASS IN DEVELOPING COUNTRIES,” Kharas, Homi, January 2010

3

Fast-track to the top



Developing the next generation of leaders to drive future growth

The need for a stronger, deeper leadership pipeline is nearly universal. In a recent study by The Conference Board, CEOs in every industry rated leadership development as a top three priority.¹ Yet, during the economic crisis, many organizations discovered they didn't have the depth of leadership necessary to navigate today's challenging business conditions. Moreover, they lacked the data and insights to know which leadership candidates were truly worth developing and investing in — particularly when facing sharp budget cuts.

The task of identifying and developing high-potential leaders is nothing new. What's different now is that many organizations are getting much clearer about what "high potential" really means — based on science, not anecdotes — and then investing in an integrated set of data-driven activities to accelerate the development of their most promising leadership talent.

Being ranked in the highest performance category does not necessarily make someone a high potential employee. What really distinguishes these special leaders from the rest of the pack are their critical leadership attributes and the value they can provide to drive the company's growth.

High-potential leaders must be able to operate on a global scale and adapt quickly to change. They also need the depth and breadth of skills and experience to work across converging industries. For example, high potentials in the telecommunications world must be able to lead, manage, and innovate across multiple business areas — including computing, entertainment, and social media — as well as multiple geographic markets.

True high potentials are a precious asset that is critical to an organization's future growth and success. They are the best of the best — and should be nurtured accordingly. Cultivating the right mix of personal attributes, skills, and experience requires rapid evolution through a diverse range of leadership opportunities and career paths. Accelerated leadership development is about making this happen.

What's driving this trend?

Aggressive growth targets in global and converging markets. Rapid expansion into new markets demands leadership that can handle the unknown. With growth as a dominant business driver — and the increasing importance of differentiation — companies require leaders who can make change and innovation happen across converging industries and diverse cultures.

Severe leadership pipeline shortages. High-potential leaders are scarce — especially executive succession candidates. Many companies are finding it increasingly expensive and risky to source senior leaders externally, particularly for top jobs in global growth markets and critical product/service segments.

Increased scrutiny from boards and investors.

Boards, investors, and analysts are taking a closer look at leadership risks across the organization, not just at the CEO level. They are asking tough questions about the numbers and types of leaders necessary to meet growth commitments and navigate uncertainty. Also, they are demanding multiple options for critical positions — and aren't willing to wait 10 years for an organization to close the leadership gap.

Rising expectations and declining loyalty of top talent.

Companies want more from their leaders — and leaders want more from their companies. When next-generation leaders believe their companies are underinvesting in their development, they will look elsewhere for opportunities to grow — often with competitors. They are expected to do more with less yet are not being sufficiently challenged with the diverse set of experiences that can help them expand their personal brand and value proposition in the enterprise. As a result, they grow impatient, especially as opportunities start to open up elsewhere.

Demand for leadership ROI. Although the C-suite recognizes the importance of developing the next generation of leaders, it wants to see a tangible return on its development investments. Are the right investments being made? What are the returns? How do you measure current investments when they are building future capabilities? Beefing up the leadership pipeline can drive a company's growth agenda, reduce succession risk, and deliver tangible business results.

Practical implications for HR

Accelerating the development of next-generation leaders requires an integrated approach. Individual programs that are not coordinated send mixed messages and often work at cross-purposes — which can slow down development and increase retention risk. Top companies are taking several steps to accelerate leadership development.

Aligning leadership strategy with business strategy.

Leading HR organizations are establishing up-to-date, forward-looking leadership strategies and models (i.e., required capabilities and pipeline) that align with — and anticipate — their companies' business strategies. This is "true north" for development efforts and investments, and is specifically tied to the organization's growth agenda, including target growth markets and product segments.

Determining leadership potential using predictive, hard data.

Top companies are using processes and tools that are data driven and unbiased to identify leading indicators of talent with accelerated development potential and then engaging senior executives in the selection process so they get to know promising talent early in the development process. The goal is to identify next-generation candidates with the potential to quickly develop the required depth and breadth of capabilities.

Requiring dual ownership of development. Companies are providing candidates with guidance and simple templates but are requiring high potentials to chart their own path. Many leading companies are engaging the senior executive team to endorse each candidate's development plan and to make specific commitments to help top candidates develop faster. This collective ownership of development and engaging at the very top of the organization help make sure this talent gets the visibility and support required to develop at the pace that is required.

Balancing the "three Es". Creating an integrated development ecosystem that balances experience, exposure, and education. This goes beyond traditional 70-20-10ⁱ approaches by coordinating all three elements and actively creating development opportunities.

- **Experience.** Moving high potentials through stretch assignments (such as full-time opportunities, international positions, and special projects). Assignments can be planned in advance, made available through a competitive application process, or some combination of the two — as long as the career paths and ground rules are clearly understood. Movement can be accelerated by putting the right governance in place so senior executives can make the "tough calls" — clearing the path for next-generation leaders — even when it means moving mediocre performers out of roles to create space.
- **Exposure.** Next-generation leaders need clear sponsorship from the top. Coaching and mentoring are still important but aren't sufficient. This requires easy and frequent access to existing senior executives who will be advocates and help open doors to new opportunities across the enterprise. Strong sponsorship is especially important to establish and develop a diverse leadership pipeline.
- **Education.** Leading companies are creating learning programs that are experiential, blurring the lines between the classroom and the real world. Leader-led programs that use simulations and storytelling are powerful methods to prepare up-and-coming talent to operate at the next level. They also provide exposure to sponsors and accelerate the formation of personal networks within and across silos. Selective use of outside

experts can jump-start thinking, share leading practices, and offer fresh perspectives — provided there is a strong linkage between the experts’ content and the company’s leadership model and business strategy.

Avoiding mixed messages. Aligning talent programs (e.g., selection and assessment, development planning, performance and rewards, and succession management) so they accelerate leadership development, rather than hinder it. Poor alignment among development and talent programs can slow down leadership development. For example, a compensation program that rewards short-term thinking and cutthroat behavior is unlikely to produce leaders who can see ahead and inspire the teamwork necessary to drive growth.

Measuring what matters. Leading companies base their performance metrics on their leadership models and business strategies — not the other way around.

Lessons from the front lines

An integrated approach is only part of the solution for accelerating the development of next-generation leaders. Leading companies are also paying attention to several critical success factors:

Work to avoid a leadership backlash. Changing the way you select and groom next-generation leaders can send severe shock waves through the organization. To avoid a backlash, carefully manage reactions and resistance at every level of leadership, starting at the top. Strong support from the CEO and board, combined with careful messaging, is critical.

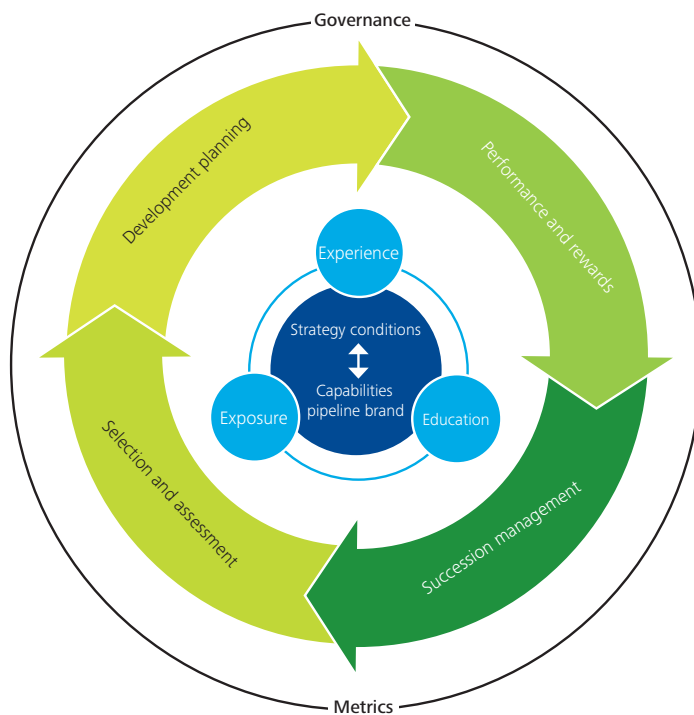
Align development activities with leadership strategy. Decide whether you will primarily develop next-generation leaders internally or hire them from the outside. This will have a major impact on your development strategies, programs, and investments. Note that there is more than one right answer — as long as “buy” is not an excuse for your company’s inability to “build” its own robust leadership pipeline. Leading companies optimize the build-buy mix.

Walk the talk. Some organizations try to brand themselves as “leadership meccas” without creating the underlying leadership framework, brand, and holistic development system to support their claims. This approach is especially likely to backfire with next-generation leaders who typically become frustrated by the disconnect between actions and words.

Committing to leadership development

Developing the next-generation of leaders requires a strong commitment from the organization. This includes putting the greater good above the interests of individual business areas — for example, moving promising leaders to other parts of the organization in order to broaden their base of experience. It also includes enlightened governance by a dedicated group of decision-makers who are willing to tackle tough decisions — such as choosing the right people and defining compelling career paths — and then backing those decisions up with adequate funding and action so they don’t get watered down.

Figure 1: Accelerated development model for next-generation leaders



What defines a good leader? In whom should companies invest?

“If only we had better leaders, we could _____.” That’s what we hear over and over from the companies with whom we work. Whether they fill in the blank with “expand into new markets” or “meet increasing regulatory demands” or “transform the company” — or some other pressing issue — they know that improved leadership is critical to meeting the challenge.

But what makes a good leader?

While leadership at times may seem to be more art than science, data from Kaisen Consulting Ltdⁱⁱⁱ reveal six key attributes that define good leadership. According to Kaisen’s experience, the most effective senior leaders know how to consistently do the following:

- Drive business competitiveness and innovation
- Build key relationships and win people over without using position
- Set and effectively communicate vision and direction for people
- Achieve results through the performance of others
- Develop their people for the longer term
- Inspire followership and model a true sense of collaboration

Although these leadership capabilities can be developed over time, the rate of development varies widely. In fact, the research suggests that people with the greatest potential possess four additional attributes that enable them to develop leadership capabilities faster than others.

- **Change potential.** Driving and responding to change; seeing opportunity in uncertainty
- **Intellectual potential.** Thinking quickly and flexibly
- **People potential.** Adapting to changing and complex interpersonal demands
- **Motivational potential.** Adapting personal drive and focus to perform well in new and changing contexts

In Kaisen’s view, current and future leaders who possess these four key attributes are the true high potentials and should be the focus of accelerated development efforts. Investing in these types of people can produce greater ROI for your organization.

Endnotes

ⁱ “Go Where There Be Dragons: Leadership Essentials for 2020 and Beyond,” The Conference Board, 2010.

ⁱⁱ Center for Creative Leadership.

ⁱⁱⁱ Kaisen Consulting Ltd, a team of business psychologists based in Bristol, United Kingdom, with data and insights from more than 15,000 leadership assessments.

4

People risk is risky business



In a world of black swans and growing uncertainty, HR's role in managing enterprise risk is expanding.

Black swans are low-probability events that have far-reaching impact. Such events used to be exceedingly rare, but in today's hyperconnected world, they are increasingly common and have enormous destructive potential. The euro crisis is a textbook example of how increased connectedness, interdependence, and scale can turn a local problem into a global threat. Other recent examples include the following:

- The 2008 financial crisis that began with subprime mortgages in the United States but eventually triggered a worldwide recession
- The Gulf of Mexico oil spill that sent shock waves through global energy markets
- The tsunami in Japan that disrupted global supply chains and caused countries around the world to reconsider their use of nuclear power
- The Arab spring uprisings that are continuing to reshape the world's political landscape
- Local flooding in Thailand that caused a worldwide shortage of hard drives

On the surface, none of these events would be considered a people-related risk. But as organizations dig deeper, it becomes clear that people are at the core of each major risk — if not as part of the problem, then as part of the solution. To help navigate this increasingly uncertain environment, many leading organizations are expanding the role that HR leaders play in managing risk across the enterprise.

HR's role in risk management used to focus on the tactical, administrative, legal, and regulatory risks that were directly under its domain — such as ERISA (Employee Retirement Income Security Act) compliance, workplace discrimination, and sexual harassment — and on making sure its own systems and processes passed the annual risk audit. Now, forward-thinking HR organizations are partnering with the core risk functions — e.g., Risk, Legal and Internal Audit — to better identify, prioritize, and monitor people-related risks, including black swan events that could threaten the entire business.

What's driving this trend?

Black swans are becoming less rare. In a hyperconnected world, small trigger events that in the past might have been locally isolated now have the potential for global impact. Also, the dizzying pace of change increases the number and frequency of trigger events, making it hard for organizations to stay on top of all the risks they are facing.

People risks are headline news. Whether it's a management team that cooks the books or a nationwide shortage of math and science talent, the tremendous impact that people-related risks can have on a company's bottom line, market value, and prospects for future growth is becoming better understood by business leaders.

The view of human capital risks is expanding. HR risk management used to revolve around regulatory compliance and the avoidance of lawsuits. Now, the focus is expanding to include the broad range of people-related risks that can undermine a company's performance

and prevent a business from executing its strategy. The growing significance of these risks has raised expectations about what HR can and should be doing to identify, prioritize, monitor, mitigate, and report on people-related business risks.

Regulation is increasing. Although regulatory compliance is no longer the sole focus of Risk Management, it remains an important catalyst for action. In many cases, new regulatory requirements provide the initial impetus for broader improvement efforts. Also, regulators today are making examples of companies that fail to comply. The growing complexity of HR regulations and associated financial penalties, as well as the reputational risk for noncompliance, are raising the stakes and increasing the degree of difficulty in managing these nonnegotiable risks.

Practical implications

As risk rises to the top of the corporate agenda, HR organizations are adjusting their own priorities accordingly.

Taking the lead on managing human capital risks.

Responsibility for managing risk ultimately resides with the business and functional leaders, managers, and employees across the organization — not with internal monitoring functions, such as the Risk Management department, Legal department, internal audit team, or even HR. But given the strategic importance of people-related risks, many leading organizations are looking to HR to help the business manage these risks as effectively as possible. This often requires a dedicated team or executive within HR to focus on human capital risks throughout the enterprise and to coordinate with other risk-focused functions.

Changing how HR works with the business. In order to identify people risks before they become problems, many leading HR organizations are engaging the business across the entire spectrum of risk-related activities, from strategy and planning to operations and compliance. They are getting directly involved in the strategic planning process and are collaborating with the business to mitigate risk and measure effectiveness. Chief human resources officers (CHROs) also are joining risk committees and establishing people-related risk as a recurring agenda item at executive management and board meetings.

Preparing for broad risk discussions. Many leading CHROs are preparing themselves to speak with authority about both strategic people risks and HR functional risks. In addition, HR organizations are starting to embed formal risk management and benchmarking into their organizations, processes, and strategies to provide a broader, more informed view of people-related risks. CHROs who aren't doing this may miss the opportunity to contribute with their C-suite peers on these important issues.

Collaborating with the Risk Management function.

Many leading HR organizations are treating internal risk audits as an opportunity for useful feedback and improvement — not as a check-the-box activity. They are proactively engaging with the risk management team early in the process, so auditors can understand the details of HR systems and processes and provide meaningful insights. They are also establishing a collaborative relationship supported by ongoing dialogue. HR teams and HR executives dedicated to risk issues often have dual-reporting lines to the functional leaders in both HR and risk management.

Creating a risk mind-set for day-to-day HR activities.

Leading organizations are making risk management an integral part of HR's operating processes. Too often in the past, the HR processes documented by risk management were not the ones that HR actually used, which exposed the organization to unnecessary risk and complicated the risk management process. Now, HR and risk management are starting to work together to create a single set of processes that are both practical and risk intelligent.

Making the most of existing data. HR has a wealth of data that can help a company manage risk more effectively. Many cutting-edge HR organizations are using advanced analytics to generate new insights about current risks — as well as predictions about the future — so they can stay ahead of risks, instead of chasing them down from behind. For example, employee turnover data are being used to raise a red flag about hidden risks, such as incompetent management, fraud, or sexual harassment, thereby enabling business and HR leaders to address problems before they spiral out of control.

Understanding the risk impact of HR changes. Every modification to a business has risk implications, and a significant change to the HR function is no exception. Although such a change might create important benefits for the organization as a whole, it can also create problems. Whether it's a new HR process, policy, system, program, or vendor, most leading organizations are recognizing that changes within the realm of HR can directly or indirectly affect the risk profile of the entire organization. When undertaking a large-scale improvement to HR service delivery, for example, the potential risk impacts need to be evaluated and documented and then incorporated into the overall risk management process.

Recognizing the importance of aligned incentive compensation programs. Changes to incentive compensation are especially significant from a risk perspective. Done right, they can reduce risk by creating stronger alignment between risks and rewards. Done wrong, they can reward and encourage riskier behavior. New regulations and increased scrutiny are raising awareness of this issue for company boards and compensation committees, who expect their HR leaders to understand and clearly articulate the link between incentive compensation and risk.

Helping to transform risk management. As risk exposure and complexities increase, enterprises are starting to make risk management a core competency by embedding risk management into the very fabric of the organization. To manage risk effectively, people need to know what to do, how to do it, and — most important — why they need to do it. This transformation requires close alignment between the risk management program and HR-related areas, such as the organization, leadership, performance management, and learning programs.

Lessons from the front lines

A senior audit director was preparing to audit HR for the third time when he realized his team did not truly understand the business and functional risks associated with HR. Although the team had performed “successful” HR audits in the past, he knew something wasn't right.

Previous audits had mirrored the company's decentralized structure of the company, with individual business units and corporate functions each deciding for themselves what the key risks were and assigning their own internal audit teams. This was a valid approach for business unit audits but created significant gaps and inefficiency for HR audits. Also, there was a significant learning curve as new people rotated into the HR audit team.

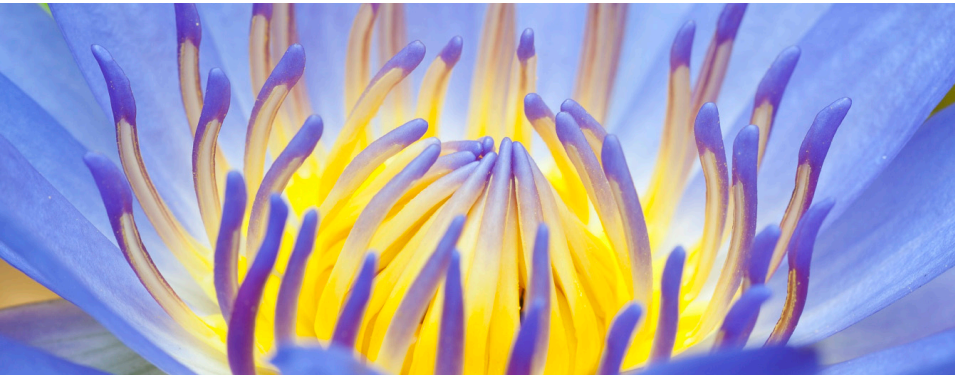
The company decided to make an investment, bringing together the Risk Monitoring function, the HR function, and outside specialists to define and develop an improved HR audit based on how the company was organized, the HR operating model, the responsibilities of the Risk Monitoring function, and the business risks that were most critical for the industry and company. Although the fix was conceptually simple, it represented a dramatic shift from the status quo. Given the complexities of HR operations and the deep technical knowledge required to evaluate HR risk — combined with the fact that HR risk transcends organizational silos — the company created a dedicated team responsible for auditing HR risk across the entire enterprise. In addition, HR appointed its own internal team to focus specifically on assessing, mitigating, monitoring, and reporting on HR risks. Initial results show the audits are going smoothly and providing company leaders with greater insight about potential HR risks, while minimizing gaps, redundancies, and friction between HR and internal auditors.

HR takes on risk

Given the heightened risks in today's business world — and increasing recognition of the critical role that people play in avoiding and managing risk — CHROs find themselves in the risk spotlight as never before. As usual, they are expected to stay on top of risks in traditional HR areas, such as HR operations and regulatory compliance. But now, HR leaders are also expected to be actively involved in addressing all business risks that relate to people. That's a big job. But it is also a big opportunity. And in a world where once-in-a-lifetime events now seem to be an almost monthly occurrence, it's an opportunity HR can't afford to miss.

5

Seeing around corners



Advanced tools are turning workforce data into powerful insights that help businesses navigate uncertainty.

Many leading companies are using workforce reporting and analytics to help make better, more informed decisions about their human capital. By capitalizing on the latest analytical tools and techniques, they are improving acquisition, retention, and rewards; reducing labor costs; improving productivity and employee effectiveness; and managing risk more effectively.

Workforce reporting and analytics traditionally used historical data to improve decision-making and business performance. And it still does. But now, advanced analytical tools and techniques, such as predictive modeling, are also making it possible for organizations to glimpse into the future and make informed predictions that they can then develop into targeted solutions.

For example, advanced analytics is helping leading organizations retain top talent and mitigate churn by identifying employees who are potential flight risks. This kind of analysis may include everything from past and current employee data and performance ratings to mentoring relationships, compensation levels, personal networking activity, and even daily commute time. Advanced analytics tools are also helping organizations beef up their leadership pipelines by looking deep into their workforces to anticipate which employees are most likely to reach the top.

What's driving this trend?

The need to look ahead. In today's fast-paced business environment, companies need predictive solutions that can help address critical business issues, such as retention, before they become problems.

Workforce complexity and cost pressure. As workforces become more global and complex, management challenges increase exponentially. Advanced analytics help HR and business leaders cut through the complexity to control labor costs and generate more value from the workforce.

Untapped data. Widespread deployment of ERP and other people-related systems is creating vast amounts of useful workforce data. Yet much of that data remains locked up in organizational silos. Workforce reporting and analytics can increase the return on a company's technology investments by helping to turn mountains of raw data into nuggets of valuable insight.

Cloud reduces barrier to entry. Cloud services can give HR more control over its own tools. HR can decide for itself what reporting and analytics capabilities it needs and can then gain quick access to those capabilities with a smaller capital investment and faster time to implement. Also, cloud applications are frequently updated to reflect the latest business practices, which makes it easier for HR to stay on the cutting edge.

Practical implications

Many organizations have been focusing the bulk of their reporting and analytical resources on core business activities — such as sales, marketing, and financial reporting — and will likely continue to do so. However, as people and talent gain recognition as a key differentiator, an organization needs deeper insights about its workforce in order to guide its strategy.

Workforce issues, such as managing and retaining talent and controlling labor costs, are some of the top challenges for organizations today. A company that understands its workforce needs better than its competitors do can compete more effectively in the labor market and can unlock more value from its workforce. Organizations that have invested in workforce analytics supported by the right processes and infrastructure — for example, integrating HR and talent systems; collecting comprehensive and consistent information across functions; and managing operational, management, and historical data — can uncover powerful insights.

Here are some examples of specific areas where workforce reporting and analytics are having a major impact:

- **Forward-looking workforce planning.** Using modeling to anticipate future talent supply and demand, both locally and globally. Identifying critical workforce segments based on current and future business needs. These improvements touch virtually all aspects of the organization, including finance and operations.
- **Managing talent acquisition.** Measuring recruiting effectiveness. Using automated resume screening to not only guess which candidates are most likely to be hired, but which ones are likely to rise in the organization over the long term.
- **Workforce performance.** Analyzing and managing top performers to confirm they are being used as effectively as possible. Understanding how performance evaluations and compensation link to retention. Designing an effective management structure.
- **Diversity effectiveness.** Identifying diversity issues before they become problems. Measuring the true effectiveness of diversity programs.

- **Talent potential and progression.** Assessing the real-world effectiveness of development programs by mapping them against actual career progression. Developing a healthy leadership pipeline by using advanced analytics to identify employees with strong leadership attributes deep within the organization, not just near the top of the organizational chart.
- **Proactive retention.** Talented people tend to leave for a combination of reasons, not just one. Many forward-thinking companies are retaining top talent by using multivariate predictive modeling to help identify key employees who may be flight risks and then applying the resulting insights to develop individualized retention strategies.

Lessons from the front lines

Many leading companies are starting to combine data and analytics from a variety of business functions — as well as outside sources — in order to sharpen their insights. This broader approach is likely to be the future of workforce analytics.

For example, one company is combining CRM (customer relationship management) data about customer buying behavior (what they buy, when they buy, share of wallet, etc.) with HR data in order to improve how its workforce is allocated. It is using the output of this analysis to rethink how it does business and improve efficiency. For example, instead of having everyone work a standard eight-to-five schedule, employees are assigned different times and work locations based on their individual skills and the unique requirements of the customers they are likely to be serving. The company is also analyzing whether operating its sales force from a geographical perspective is the most cost-efficient approach.

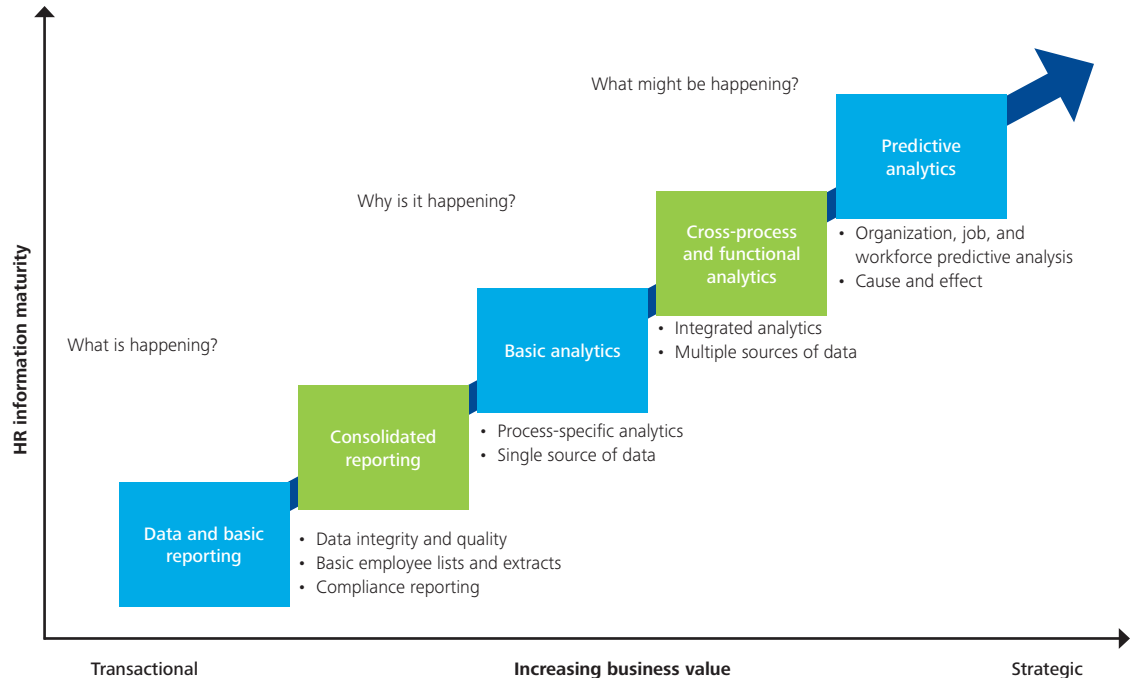
Another company is using external data — such as market forecasts and new housing starts — to anticipate the future availability of local talent.

In our experience, there are a number of important issues to consider when deploying workforce reporting and analytics:

- **Start small and build momentum.** Work in manageable chunks and use data to drive practical decisions. Effective efforts typically start with data integration and basic reporting and gradually work their way up to advanced analytics. Once the organization starts to see value, additional investment will likely be easier to secure.

- **Focus on capabilities, not just point solutions.** Point solutions for workforce reporting and analytics can help deliver significant value, but they aren't the end of the story. Broad solutions that go beyond technology tend to deliver better, more sustainable results over the long haul. Desirable capabilities include the skills to design the analytics, interpret the findings, and translate the findings to action.
- **Leverage existing technology investments.** Workforce reporting and analytics can be done using the systems and data you already have — but with better integration and controlled access. You don't need to buy new technology in order to get started.
- **Consider cloud to jump-start the effort.** A cloud vendor can host your reporting and analytics infrastructure and provide analytics support based on leading practices and industry knowledge. This reduces your costs, lead time, capital expenditures, and internal support requirements.
- **Use what you learn.** Reporting and analytics can quickly become shelfware if they point toward actions that you don't take.

Figure 2: The workforce reporting and analytics journey



Source: Deloitte

Seeing around corners

Workforce reporting and analytics solutions deliver valuable insights to enable smarter decision-making. They can provide powerful reports that give business and HR leaders the integrated view necessary to effectively manage a complex, global workforce. And thanks to advanced predictive modeling, they can provide a glimpse into the future so companies can see around corners and get ahead of potential workforce opportunities and risks.

6

#social #mobile @work



Social media and mobile devices are raising the bar on HR service delivery.

Change is happening. Again. As social media and mobile devices quickly become essential parts of our daily lives, they are starting to influence how HR services are delivered and the direction HR transformation efforts take. Beyond just being the next new thing, integrating social media and mobile devices with HR service delivery can provide a real opportunity to restore some of the personal touch that was lost in previous pushes for improved HR efficiency.

Traditionally, HR service delivery has been based on structured and specialized interactions between the services HR provides and its customers (e.g., employees, managers, recruits). Typical scenarios might involve an employee who updates benefit options through an online self-service system or who contacts an HR call center with specific questions about benefits.

Now, HR has an opportunity to use social media tools to create communities for sharing knowledge — and to support employees through direct, yet informal communication. Additionally, mobile devices can provide convenient, on-demand access to this knowledge and experience from almost anywhere in the world. Instead of contacting a call center, for example, an employee with benefits questions could use a smartphone to view and participate in a discussion thread where specialists and other community members share their own knowledge, opinions, and questions.

The introduction of social and mobile technologies is not only expanding HR's service delivery options, it is also increasing HR's value to the business. Although social and mobile technologies will not entirely replace traditional HR channels, social and mobile tools are easing the burden while providing customers with a richer experience that is more engaging — and often more convenient.

What's driving this trend?

Social media and mobile devices are effective tools that can help improve HR's service and responsiveness.

- **Breakthrough technologies.** Mobile devices and social media are revolutionizing the way people interact, making it easy to communicate and share knowledge without regard to time, geographic location, or organizational boundaries.
- **Business acceptance.** Mobile devices and social media have become standard business tools. According to a recent study, less than 15 percent of business executives still view social media in business as a fad.ⁱ
- **Rising expectations.** In their personal lives, many people have already come to expect the rich, engaging experiences that mobile devices and social media can deliver. Now, they are looking for the same thing from their interactions with current and potential employers. A recent article on Forbes.com featured a how to guide on using social media to land a job.ⁱⁱ

Practical implications

The gauntlet has been thrown down. If HR does not adapt, it may become obsolete. Fortunately, social media and mobile devices are sparking numerous opportunities for HR to remain relevant.

- **Social and mobile technologies can reinvigorate personalized HR service.** Over time, the relentless push for efficiency and economies of scale tended to make HR services less personal. Ironically, technology is helping to reverse this trend by enabling HR's customers to develop real relationships with real people in a virtual community. Customers can tap the community's collective expertise in a highly personal and interactive way, instead of being limited to scripted conversations with anonymous call center representatives.
- **HR service centers can evolve into communities.** Shared Services Centers can become Shared Services Communities where employees, managers, vendors and alumni help each other by sharing knowledge and finding innovative ways to improve services, processes and policies. Similarly, Centers of Expertise can become Communities of Expertise, where people are able to access broader knowledge and insights through collaboration inside and outside the enterprise.
- **HR portals are morphing into social platforms.** HR portals have traditionally been structured around static content and predefined transactions. Now, they are evolving into platforms for personalized content and employee engagement. Social media capabilities enable employees to interact with HR and other parts of the organization, as well as with external vendors, alumni, and colleges. Mobile devices help deliver on-demand service through easy-to-use apps that are available almost anywhere.
- **Traditional forms of HR service delivery are still needed.** In the same way that online and mobile banking haven't eliminated the need for bank branches, social media and mobile devices are not eliminating the need for traditional forms of HR service delivery (e.g., manager and employee interactions, phone calls and emails to a service center, recruiting via campus visits and job fairs, and desktop and classroom learning). In some cases, users have limited access to the required tools and connectivity; in other cases, they simply prefer the old way of doing things.

Lessons learned from the front lines

For most HR organizations, developing and implementing a strategy for mobile devices and social media is no longer a luxury; it should be considered a necessity. Here's how to do it.

- **Create a holistic strategy and value proposition with other business functions.** The rise of mobile devices and social media affects a wide range of functions beyond HR, including Marketing, Legal and Public Relations. CHROs should work closely with other business leaders to define the benefits and execute a coherent strategy. Decision-makers will likely be looking for a rigorous business case and solid ROI numbers; however, many of the benefits associated with mobile devices and social media are difficult to quantify. That doesn't necessarily mean they are less valuable; it just means they need to be evaluated from a strategic perspective.
- **Enable HR to drive social and mobile adoption.** Mobile devices and social media have far-reaching implications and require an HR function empowered with broad responsibilities that include direct influence over HR processes, technology, and service delivery. Without empowering HR, companies may miss the opportunity to embed these critical technologies into the fabric of their organization.
- **Consider the specific needs of each customer segment.** The new model and tools should be viewed as a complement to existing HR delivery channels, not a replacement. Some people may be unable or unwilling to use mobile devices and social media. Forcing everyone to switch could alienate or exclude key user segments.
- **Define success.** Identify the desired outcomes for the three main stakeholders: HR, employees, and the overall business. Different organizations will have different needs and expectations about investing in a strategy for mobile devices and social media: some will see it as simply a way to stay current; others may recognize it as a valuable opportunity to improve their operating models.
- **Develop and implement an integrated solution.** Given the excitement and urgency surrounding mobile devices and social media, it's tempting to dive right into point solutions. Cloud services add to the temptation by

allowing individual process owners to acquire their own solutions without going through IT. This is especially true for talent management activities, such as recruiting and performance management, which tend to have more funding and organizational clout and are actively being targeted by cloud vendors. Although individual solutions may work fine on their own, failing to integrate them into HR's overall service delivery model can lead to data problems and a bewildering array of user interfaces that undermine HR's value.

- **Manage social and mobile risks.** Social media platforms can easily become forums for spreading rumors and misinformation. Mobile devices can weaken security for sensitive information that is private or confidential. These kinds of risks are not deal breakers, but they should be actively identified and managed.
- **Play the role of facilitator and moderator.** Social media discussions tend to spring up organically; however, HR can add significant value by seeding the dialog and helping connect the dots. Also, while discussions tend to be self-policed, fact checking and moderating can help ensure they stay on track and don't propagate rumors and false information. The need for fact checking and moderating, which didn't exist before, has created an opportunity for HR to actively involve itself in social media.
- **Continue to grow and improve.** Social media and mobile devices can provide a platform for ongoing growth and improvement. HR's role as curator — seeding and nurturing communities and encouraging people to participate — is essential for the long-term sustainability of a social model for HR service delivery.

These examples and insights aren't just theories; they are based on real-world experiences. Deloitte is just one of many companies that are actively capitalizing on the effectiveness of social media and mobile devices to deliver and empower HR.ⁱⁱⁱ

On the social front, we have created an internal platform called "D Street" that allows our people to connect with each other and share ideas and information. It provides features similar to other social media platforms but is integrated with the knowledge repositories and collaboration tools that support our business. People can build relationships and improve their personal brand while accessing the systems and information they need to do their jobs. Community managers and other control mechanisms help maintain order and create a clear distinction between authoritative information and opinions — a distinction that is absolutely essential in a business like ours. D Street is also integrated with our email system, so people can stay involved and participate without having to make a special effort to check in.

On the mobile front, we have developed a wide range of tablet and smartphone apps to deliver everything from news alerts and timesheet management to on-the-go D Street access. Custom apps address the specialized needs of our highly mobile workforce, including a hoteling app that enables employees to reserve office space for times when they happen to be in town and a travel app for managing trip information with interactive maps for upcoming destinations.

The people have spoken

Mobile devices and social media are here to stay. In the years ahead, we expect to see more and more people using smart devices and social media to collaborate, communicate, and conduct their daily business. Organizations that adopt a wait-and-see approach could be forced to play catch-up as they find themselves outpaced and outmaneuvered by nimbler competitors. Right now, HR has an opportunity to lead from the front on this issue by harnessing the power of mobile devices and social media to transform how HR services are designed and delivered. It's time to get started.

Endnotes

ⁱ "Capgemini Survey Reveals the Rising Importance of Social Media to Customer Care," www.istockanalyst.com, July 25, 2011, (<http://www.istockanalyst.com/business/news/5311010/capgemini-survey-reveals-the-rising-importance-of-social-media-to-customer-care>).

ⁱⁱ "How to Use Social Media Sites to Land a Job," www.forbes.com, <http://www.forbes.com/pictures/edej45lidk/how-to-use-social-media-sites-to-land-a-job#content>.

7

Clouds in the forecast



Cloud services are changing the way business operates, and HR has a key role in helping organizations adapt.

Cloud computing is changing the way people and businesses work, upending conventional ideas about time-to-value, service levels, infrastructure needs, and more. With cloud, systems and data are typically located outside of an organization's four walls and accessed through the Internet. This has fundamental impacts on many parts of the business, transforming the nature of work and accelerating the pace of change across the enterprise.

In this emerging cloud services environment, HR has a responsibility to help the organization adjust its people and processes to operate more effectively. HR is uniquely positioned to do this — not just because HR is responsible for the overall talent agenda, but also because many HR organizations learned valuable lessons as early cloud adopters. Leading HR organizations are already using cloud technology to improve how HR services are delivered. And now, they are looking for opportunities to share their hard-earned experience and insights with the rest of the business.

What's driving this trend?

Cloud offers benefits that in many cases are too compelling to ignore. The technologies and processes associated with cloud are rapidly maturing and are now gaining acceptance as standard business practices. Recent forecasts for 2012 predict that 80 percent of new software applications will target the cloud and that spending on cloud services will exceed \$36 billion — which indicates a rate of growth four times faster than the IT industry average.¹ Key drivers for cloud adoption include the following:

- **Cost reduction.** Improve utilization and save money through consolidation of servers and data centers. Capitalize on economies of scale by sharing resources

across organizations. Reduce training costs thanks to improved ease of use and browser-based interfaces.

- **Reduced capital investments.** Replace capital expenses with operating expenses. Pay only for what you use.
- **Faster implementation.** Get up and running quickly by avoiding the need to acquire hardware or to develop and configure applications.
- **Agility.** Adjust to changing demand and market requirements. Scale up or down as needed. Take advantage of vendor best practices, which are drawn from multiple organizations and rolled out quickly.
- **Smarter decisions.** Take advantage of cutting-edge tools that support fact-based decision-making.

Practical implications

As more and more businesses adopt cloud services, leading HR organizations are taking the lead in addressing the many people and talent impacts of moving to cloud.

Some of these impacts are direct and immediate. For example, HR is helping IT organizations tackle the massive changes associated with cloud, which is redefining the value of the IT function and transforming the roles, objectives, and purpose of the IT workforce. This shift requires new responsibilities and skills, including an increased focus on supplier management, business requirements, and customer needs. It also requires organizational structures that align with a technology model in which systems, applications, and data are now located in the cloud and, in many cases, are operated and managed by a third party. The rise of cloud may lead to reduced staffing levels for in-house IT, especially for lower-value activities that are being commoditized by cloud.

But cloud's impact isn't just limited to the IT function. The move to cloud is also changing how entire businesses are organized by blurring geographic and physical boundaries. People can now operate as part of a cohesive unit while working from the field, from home, or from halfway around the world. It is also blurring the line between an organization and its service providers, enabling and requiring new kinds of business relationships.

At the same time, cloud services are accelerating the pace at which businesses operate. Organizations that used to wait months or years for IT to upgrade their systems are now seeing a constant stream of new features and improvements emerge from the cloud. Also, a cloud-based technology model puts daily IT decision-making in the hands of end users, giving business leaders and managers more autonomy and influence over the systems, processes, and data they use every day. This is a dramatic departure from the traditional top-down approach to IT decision-making.

To be effective in this new environment, organizations must make cloud services part of their DNA. Doing so requires new skills and behaviors, including practices for managing a highly distributed workforce that may include outside IT vendors. It also requires new learning and development techniques to help users adjust to a never-ending stream of technology changes and enhancements. Increased accountability is also important, since cloud technology gives business users more autonomy and control over which tools they use.

Lessons from the front lines

A large media company that operates in more than 100 countries chose a cloud-based ERP solution to replace hundreds of local HR applications and radically transform the way HR services are delivered. The cloud solution created common standards and business processes across the company's entire global footprint, which enabled HR to simplify its systems and improve performance while helping the business become more agile and flexible. Business leaders and managers now have access to the information they need to make smart workforce decisions. The cloud solution's advanced security capabilities allow security policies to be designed, administered, and enforced consistently all over the world. And its extensive self-service capabilities allow end users to access HR services 24/7 from a wide range of devices, including PCs, smartphones, and tablets.

This experience and others revealed a number of practical lessons that can help HR accelerate cloud adoption and ease the transition to cloud across the enterprise.

- **Mind the organization.** Many cloud initiatives start out as tool swaps, replacing traditional systems with cloud-based solutions. However, significant organizational changes are often necessary to align the workforce with the new strategic vision and delivery model.
- **Create a cloud culture.** In a cloud environment, organizations have an opportunity to make better decisions faster. This is driving a shift away from a methodical, consensus-driven culture toward an agile organization with clearly assigned decision-makers.
- **Attract, manage, and develop cloud-savvy talent.** The rapid rise of cloud services has sparked a talent war for employees with cloud-related skills. To fill the gap, leading organizations are retraining staff and developing better ways to attract, retain, and motivate workers with these valuable capabilities.

- **Develop cloud-savvy leaders.** In a cloud-enabled world, business and HR leaders are more directly involved in technology decisions. To make the right calls, they need to improve their understanding of cloud technology and the business value it can deliver.
- **Prepare for warp speed.** With cloud, new features and improvements are released on a timescale of days or weeks — not months or years — and are simultaneously available to multiple organizations. This rapid pace of innovation requires HR to strengthen its change management capabilities. It also requires on-demand learning and development techniques that can deliver training quickly and efficiently.

Taking the lead on cloud

Many HR organizations have already adopted cloud for a variety of services, and this trend is likely to continue. Leading HR organizations are going a step further by leveraging their experience and expanding their role in helping the rest of the enterprise manage and accelerate the transition to cloud. The IT function is facing the greatest short-term impact and requires the most immediate support from HR. But over the long term, cloud's greatest impact is likely to be at the enterprise level, where it is literally changing how businesses work. By taking a lead role on cloud, HR is easing the transition and helping organizations acquire and develop the cloud-savvy talent needed to capitalize on the full potential of cloud services.

Endnotes

ⁱ IDC Predictions 2012, "Competing for 2020," IDC, December 1, 2011.

8

Stay in front with an effective sales force



A multichannel environment is creating the need for a different kind of sales force.

The classic image of a sales rep is a one-man army drumming up business through a combination of personal charm, inside information, guile, chutzpah, and single-minded determination. But that's not how most sales battles are won these days.

Although a sales force still needs heroes, today's buyers demand more. Thanks to the Internet, they now have unprecedented access to product and pricing information and can make purchases at the touch of a button. Also, they increasingly rely on virtual relationships built through social media. In this technology-driven, multichannel environment, it's hard for traditional salespeople to define their full value.

Meanwhile, the global economy continues to sputter. Buyers are demanding more for their money, even as sales organizations face increasing pressure to reduce costs. Also, companies in frantic pursuit of growth are rapidly shifting their sales focus toward emerging markets, which are widely viewed as the primary engine for future revenue and profits.

These new challenges and complexities are giving rise to a new way of selling — and a new kind of sales force — a shift that has HR implications ranging from talent strategies and organization design to learning and development, compensation, governance, and change management.

What's driving this trend?

- **Economic pressure.** A deep recession and uneven recovery have made today's buyers more demanding than ever while putting pressure on sales organizations to work miracles.
- **New technologies.** Technologies, such as smartphones, tablets, social media, and the Internet, have fundamentally changed how buyers gather information and make decisions — and how salespeople sell. Buyers now have a world of information at their fingertips, making purchases through a variety of channels and using social media to build new kinds of relationships. Sales forces should learn to use these technologies to their advantage, instead of falling victim to them.
- **Risk sensitivity.** Today's headlines are filled with stories about individual employees who cost their companies billions and put entire businesses in jeopardy through fraud and excessive risk-taking. This development is driving increased regulatory scrutiny and putting a tighter leash on the sales force.
- **Globalization.** For established companies in mature economies, developing markets are widely seen as the primary source of future growth. Yet many sales organizations are struggling to manage the complexity of selling in a global marketplace and are still looking for the right balance between local responsiveness and global control and efficiency.

- **Analytics.** Advanced analytical tools can give salespeople deeper insights about their customers than ever before. Using analytics, sales organizations can drive much more nuanced segmentation and evaluate where to dedicate sales time and helping drive customers to the most appropriate sales channel. Some customers will be handled through face-to-face interaction, others will receive outbound calls, and others will be served primarily through the Internet. Analytics can also be used to anticipate which salespeople will likely be most productive.

Practical implications

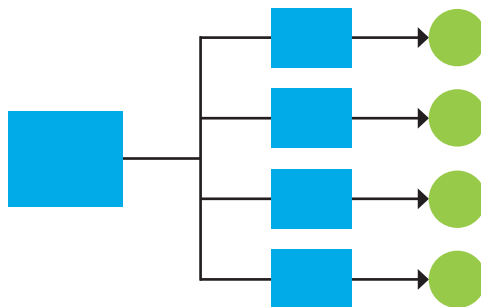
Some buyers are looking for the lowest possible prices and aren't willing to pay extra for personal service, although they still expect to be served. Others are willing to pay a premium but expect more from a sales rep than a little charm and firm handshake.

At the high end, salespeople have become the first line of defense against threats of commoditization. A new type of sales rep is emerging — one who doesn't just push products but has the business savvy to help customers improve their companies and create business value. These high-end roles are being developed alongside teams of more volume-based representatives who target buyers unwilling to pay a premium for value. In addition, cross-channel integration is creating an urgent need for sales reps who can be effective in an environment where buyers have many other sources of information.

The sales force is evolving toward an intelligent network, where team selling across multiple channels and customer segments is driven by advanced analytics and deep insights about customer preferences. Increased selling sophistication remains a priority, but its impact is enhanced by harnessing the entrepreneurship, insight, and networking capabilities of the team in the field.

Figure 3: One possible 2015 scenario: from a "well-oiled sales army" to an "intelligently networked sales organization"

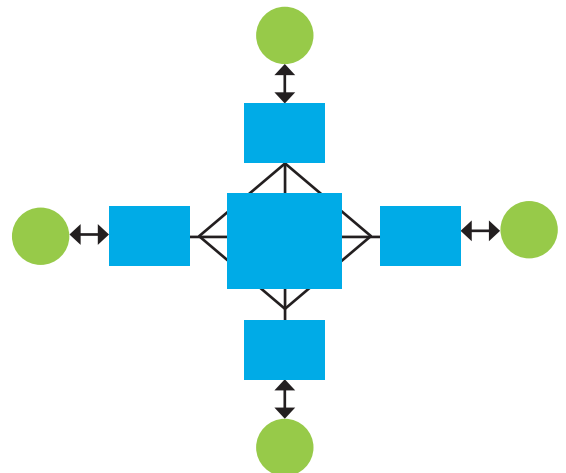
A well-oiled sales army sells smarter



- Smarter segmentation
- Upskilled salespeople
- Clear marching orders
- Aligned and personal support

Source: Deloitte

An "intelligently networked" sales organization sells differently than before



- Leverages insights from a new field and "connects/spreads" across the sales team
- Rethinks organizational design, incentive compensation, and data tools for leanness and to handle new challenges
- Keeps the "way to win" as simple as possible

Making the leap to the sales force of tomorrow requires strong support from HR. Although many core elements of sales force effectiveness have stood the test of time and remain a key focus — for example, improved customer segmentation, skill set development, and sales support — there are other areas where leading HR organizations are working in new ways with the sales force to improve performance.

- **Different talent for a different way of selling.** Many companies are choosing to hire a different breed of sales rep for high-value roles. People with business savvy, not just product pushers. Team players, not cowboys.
- **New skills and competencies.** To be effective in this more challenging environment, sales reps need to learn and develop new skills. How to work with others and sell as a team. How to operate in a multichannel environment. And how to leverage sales support and advanced analytics to drive revenue and create more value for customers.
- **New organizational structures that foster collaboration.** Many leading HR organizations are helping to develop new structures that foster team selling and cross-channel coordination. They are designing global organizations that balance the need for scale efficiencies and global coordination against the need for local innovation and responsiveness to local market requirements. And they are creating centers of excellence for sales support that help guide local sales teams — while sharing leading practices across regions.
- **Rewards and incentives that drive the desired behaviors.** New compensation models should balance short-term sales wins with longer-term relationship development. Incentives might include a short-term measure (e.g., commission) and a periodic longer-term measure (e.g., quarterly growth against targets) to determine total rewards. Noncash compensation can help foster desired behaviors, such as skill development and team selling.
- **Governance that balances control and flexibility.** Many leading companies are developing governance structures and internal controls that manage risk and rogue behavior without stifling innovation and initiative. Intelligent risk-taking is needed.
- **Stronger integration across channels and functions.** These days, more and more customers are buying goods and services without interacting with a sales rep. In this environment, many customer touchpoints — including customer service and technical support — are important to the sales process. All of these customer-facing activities are increasingly being integrated and coordinated.
- **Effective sales management.** Skilled sales managers coordinate the various aspects of the sales process and allocate resources to improve results. They also are the front line for measuring performance, monitoring risk, and determining coaching needs and appropriate development strategies to identify, grow, and retain talent in this more complex sales organization.
- **Overcoming resistance to change.** The new approach to selling is fundamentally different and requires new behaviors and new ways of thinking. Many salespeople may have trouble adapting to change of this magnitude — especially ones who have been successful selling in the traditional model. Effective adoption requires manipulation of both the “carrot” (compensation) and the “stick” (threat of replacement) to motivate the desired behaviors. The sales force is a unique group and will likely continue to need special handling.

Lessons from the front lines

A financial services organization was suffering from several years of negative growth in most of its business units. An assessment of its sales model and customer base revealed synergies between products across business units, as well as significant overlap in the types of customers each business unit serves. To improve cross-penetration, the company is adopting new value propositions based on customer segments and is using advanced analytics to identify cross-selling opportunities. Also, it is creating new training and short-term compensation programs to drive desired sales force behaviors and installing a dedicated office to support sales activities across the enterprise. To help the improvements stick, the company has stepped up its communication and change management efforts.

Creating the sales force of the future

In the past, many sales organizations preferred to handle their own improvement initiatives with little or no involvement from HR. But the current transformation in selling is happening faster than most business leaders predicted just a few years ago. It will ultimately touch nearly all aspects of the sales organization — from the type of talent that is acquired and developed to the way people are organized, governed, and rewarded. Achieving this future vision will require HR leaders who understand front-line sales issues, the customer experience, and the particular DNA of tomorrow's sales force.

Closing

Different organizations will have different views on which trends matter most for their HR and business agendas. Choose your path carefully. Attempting to “leap ahead” on all eight trends covered in this report could be a recipe for frustration. Look instead for the two or three trends that offer the greatest potential for leverage in light of your company's current position and strategic business priorities. Focus there for big improvements.

If your business is speeding ahead toward the postdigital world of cloud, social, mobile, and analytics, put those trends at the top of your HR agenda — and make sure they're aligned and integrated. If your CEO is signaling an urgent new commitment to growth, get moving to address the trends that support that priority.

Incremental improvements may still make sense, and can have big impacts. Continuing to upgrade capabilities in workforce analytics, for example, is always worthwhile. So is helping your business leaders become more risk intelligent.

Every HR organization and every business will require a specific combination of human capital investments to make the leap ahead and drive breakthrough performance. By focusing on the trends that matter most for your enterprise, you'll be doing exactly what your business leaders expect: creating more value.

Authors

Barbara Adachi
Principal, Deloitte Consulting LLP
badachi@deloitte.com

Daniel Helfrich
Principal, Deloitte Consulting LLP
dhelfrich@deloitte.com

Michael Gretczko
Principal, Deloitte Consulting LLP
mgretczko@deloitte.com

Marty DiMarzio
Principal, Deloitte Consulting LLP
mdimarzio@deloitte.com

Jeff Schwartz
Principal, Deloitte Consulting LLP
jeffschwartz@deloitte.com

In 2012 growth is job #1

Karen Bowman
Principal, Deloitte Consulting LLP
karbowman@deloitte.com

Kevin Knowles
Principal, Deloitte Consulting LLP
keknowles@deloitte.com

Alice Kwan
Principal, Deloitte Consulting LLP
akwan@deloitte.com

Matt Usdin
Principal, Deloitte Consulting LLP
musdin@deloitte.com

Fast-track to the top

Bill Pelster
Principal, Deloitte Consulting LLP
bpelster@deloitte.com

Marc Kaplan
Principal, Deloitte Consulting LLP
mkaplan@deloitte.com

Neil Neveras
Senior Manger, Deloitte Consulting LLP
nneveras@deloitte.com

Operation Globalization

Robin Lissak
Principal, Deloitte Consulting LLP
rlissak@deloitte.com

Jeff Schwartz
Principal, Deloitte Consulting LLP
jeffschwartz@deloitte.com

Dan Rudin
Principal, Deloitte Consulting LLP
drudin@deloitte.com

People Risk is Risky Business

Mike Fuchs
Principal, Deloitte Consulting LLP
micfuchs@deloitte.com

Karen Bowman
Principal, Deloitte Consulting LLP
karbowman@deloitte.com

Robin Lissak
Principal, Deloitte Consulting LLP
rlissak@deloitte.com

Authors

Seeing around corners

Rishi Agarwal
Principal, Deloitte Consulting LLP
rishiagarwal@deloitte.com

Russ Clarke
Director, Deloitte Consulting LLP
rclarke@deloitte.com

John Houston
Principal, Deloitte Consulting LLP
jhouston@deloitte.com

Carl Bennett
Director, Deloitte Consulting LLP
carbennett@deloitte.com

Stay in front with an effective sales force

Rob Dicks
Principal, Deloitte Consulting LLP
rdicks@deloitte.com

Ed Basanese
Principal, Deloitte Consulting LLP
ebasanese@deloitte.com

#social #mobile @ work

Walt Sokoll
Principal, Deloitte Consulting LLP
wsokoll@deloitte.com

Francine Lebel
Director, Deloitte Consulting LLP
flebel@deloitte.com

Paul Khanna
Principal, Deloitte Consulting LLP
pkhanna@deloitte.com

Joseph Press
Specialist Leader, Deloitte Consulting LLP
jopress@deloitte.com

Tuan Tran
Principal, Deloitte Consulting LLP
tmtran@deloitte.com

Derek Polzien
Senior Manager, Deloitte Consulting LLP
dpolzien@deloitte.com

Clouds in the forecast

Stephen Redwood
Principal, Deloitte Consulting LLP
sredwood@deloitte.com

Jeff Schwartz
Principal, Deloitte Consulting LLP
jeffschwartz@deloitte.com

Garth Andrus
Principal, Deloitte Consulting LLP
gandrus@deloitte.com

Contributors

A special thank you to the 2012 Human Capital Trends team and contributors:
Katherine Graziano, Kathleen O'Brien, Aviva Bortniker, and Gregory Vert.

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