



# Rewriting the rules for the digital age

2017 Deloitte Global Human Capital Trends





COVER AND CHAPTER ILLUSTRATIONS BY LUCIE RICE





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## PREFACE

**W**ELCOME to Deloitte's fifth annual *Global Human Capital Trends* report and survey. This year's report takes stock of the challenges ahead for business and HR leaders in a dramatically changing digital, economic, demographic, and social landscape. In an age of disruption, business and HR leaders are being pressed to rewrite the rules for how they organize, recruit, develop, manage, and engage the 21st-century workforce.

This workforce is changing. It's more digital, more global, diverse, automation-savvy, and social media-proficient. At the same time, business expectations, needs, and demands are evolving faster than ever before. While some view this as a challenge, we see it as an opportunity. An opportunity to reimagine HR, talent, and organizational practices. An opportunity to create platforms, processes, and tools that will continue to evolve and sustain their value over time. An opportunity to take the lead in what will likely be among the most significant changes to the workforce that we have seen.

Hence, our call for new rules for HR in the digital age.

The 2017 report began last summer with us reaching out to hundreds of organizations, academics, and practitioners around the world. This year, it includes a survey of more than 10,000 HR and business leaders across 140 countries. The report reveals how leaders are turning to new organizational models that highlight the networked nature of today's world of work; innovation-based HR platforms; learning and career programs driven by social and cognitive technologies; and employee experience strategies that put the workforce at the center. The report closes with a discussion of the future of work amid the changes being driven by advances in automation and an expanded definition of the workforce.

We are pleased to present this year's *Global Human Capital Trends* report and survey and look forward to your comments. 2017 is positioned to be a year of change as we all manage new levels of transformation and disruption. The only question now is: Are you ready?



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# This year's 10 trends

The 2017 Deloitte Global Human Capital Trends report, drawing on a survey of more than 10,000 HR and business leaders globally, takes stock of the challenges ahead for business and HR leaders in a dramatically changing digital, economic, demographic, and social landscape.



## THE ORGANIZATION OF THE FUTURE: ARRIVING NOW

As digital transforms the business landscape, the successful organizations of the future will likely be those that can move faster, adapt more quickly, learn more rapidly, and embrace dynamic career demands.



## CAREERS AND LEARNING: REAL TIME, ALL THE TIME

The half-life of skills is rapidly falling, placing huge demands on learning in the digital age. The good news is that an explosion of high-quality content and digital delivery models offers employees ready access to continuous learning.



## TALENT ACQUISITION: ENTER THE COGNITIVE RECRUITER

Recruiting is becoming a digital experience as candidates come to expect convenience and mobile contact. Savvy recruiters now have access to new technologies to forge connections with candidates and strengthen the employment brand.



## THE EMPLOYEE EXPERIENCE: CULTURE, ENGAGEMENT, AND BEYOND

Rather than focusing narrowly on engagement and culture, many leading organizations aim to improve the employee experience as a whole, supported by a multitude of pulse feedback tools, wellness and fitness apps, and employee self-service technologies.



## PERFORMANCE MANAGEMENT: PLAY A WINNING HAND

Across industries and geographies, many companies are redesigning performance management from top to bottom, from goal-setting and evaluation to incentives and rewards—and seeing the business benefits.



## LEADERSHIP DISRUPTED: PUSHING THE BOUNDARIES

Today, many organizations need a completely different kind of leader: a “digital leader” who can build teams, keep people connected and engaged, and drive a culture of innovation, risk tolerance, and continuous improvement.



## DIGITAL HR: PLATFORMS, PEOPLE, AND WORK

HR is being pushed to take on a larger role in helping organizations to “be digital,” not just “do digital.” The process starts with digital transformation in HR, as HR leaders explore new technologies, platforms, and ways of working.



## PEOPLE ANALYTICS: RECALCULATING THE ROUTE

Analytics is no longer about finding interesting information and flagging it for managers. Now, data are being used to understand every part of a business operation, and analytical tools are being embedded into day-to-day decision making.



## DIVERSITY AND INCLUSION: THE REALITY GAP

Diversity and inclusion at the workplace are now CEO-level issues, but they continue to be frustrating and challenging for many companies. Why the gap?



## THE FUTURE OF WORK: THE AUGMENTED WORKFORCE

Paradigm-shifting forces such as cognitive technologies and the open talent economy are reshaping the future workforce, driving many organizations to reconsider how they design jobs, organize work, and plan for future growth.

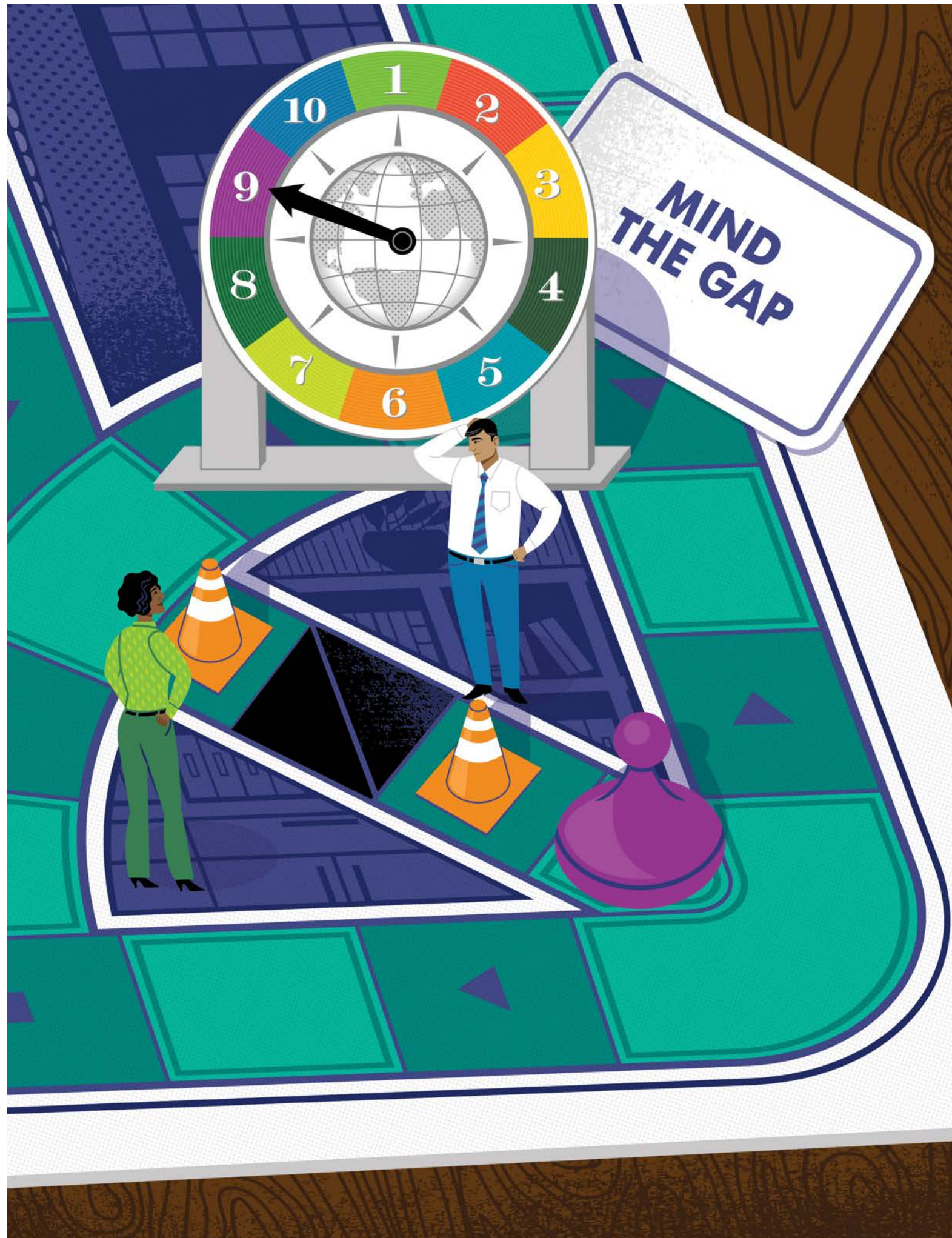
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# Diversity and inclusion

## The reality gap

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Diversity and inclusion has become a CEO-level issue around the world. The digital organization of today, which operates as a network of teams, thrives on empowerment, open dialogue, and inclusive working styles. Leading organizations now see diversity and inclusion as a comprehensive strategy woven into every aspect of the talent life cycle to enhance employee engagement, improve brand, and drive performance. The era of diversity as a “check the box” initiative owned by HR is over. CEOs must take ownership and drive accountability among leaders at all levels to close the gap between what is said and actual impact.

- In this year’s survey, the proportion of executives who cited inclusion as a top priority has risen by 32 percent compared with our 2014 survey.
  - Over two-thirds (69 percent) of executives rate diversity and inclusion an important issue (up from 59 percent in 2014).
  - Thirty-eight percent of executives report that the primary sponsor of the company’s diversity and inclusion efforts is the CEO.
- .....

**I**n today’s political, economic, and global business environment, diversity has become increasingly important. The number of executives who cited inclusion as a top priority has risen 32 percent from the Human Capital Trends 2014 survey, and in the last three years, the percentage of companies that rate themselves excellent at gender diversity went up by 72 percent. Based on this year’s survey, 48 percent of companies consider themselves adequate at focusing on global cultural diversity, and 69 percent of companies consider themselves adequate or excellent at supporting a variety of family models in the workforce.

This year, the issue is broader than the standard business case and requires a more comprehensive

view: Diversity and inclusion now impacts brand, corporate purpose, and performance. Not only is the public increasingly aware of the issue (witness the scrutiny of gender and racial diversity in the technology industry),<sup>1</sup> but employees are also expressing stronger views on diversity and inclusion. Millennials, for example, see inclusion as a mandatory part of corporate culture, defining how the company listens to them at work.<sup>2</sup> Shareholders, customers, and suppliers are all taking a closer look at this issue.

As awareness around diversity and inclusion grows, diversity and inclusion have become more important for talent acquisition and a company’s employment brand. Many organizations operate in an en-

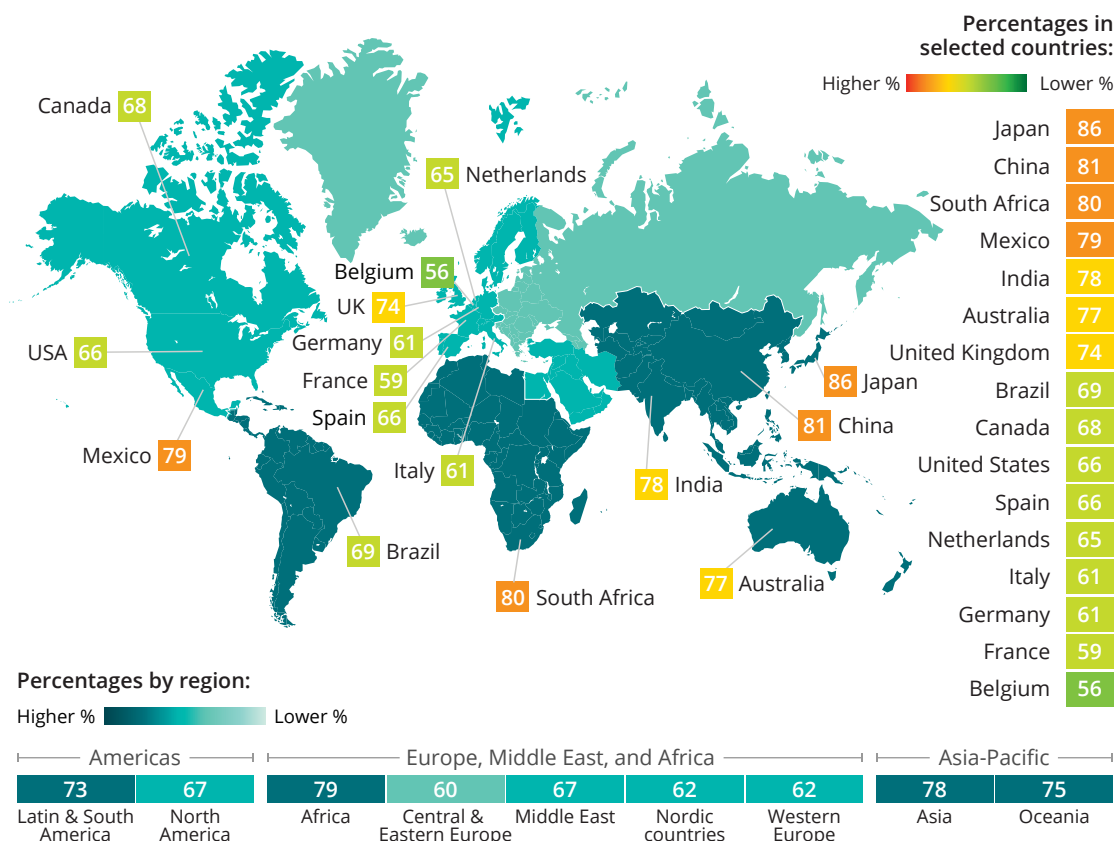
vironment of high transparency, which employees demand. For younger workers, inclusion is not just about assembling diverse teams but also about connecting team members so that everyone is heard and respected.<sup>3</sup> Companies should align their approach with the expectations of Millennials and others, or they will likely lose talent.

If one considers the fact that organizations now [operate as networks](#),<sup>4</sup> it becomes even clearer that diversity and inclusion can reinforce organizational performance. New research by Deloitte and other academic institutions demonstrates that diverse and inclusive teams are more innovative, engaged, and creative in their work.<sup>5</sup> Our research comparing high-performing teams against lower-performing teams supports the view that people must feel included in order to speak up and fully contribute.<sup>6</sup>

Despite this increased emphasis and scrutiny, however, we believe businesses face a reality gap: Results appear to be too slow. CEOs who have abdicated responsibility for this issue to the CHRO or chief diversity officer must now take ownership and hold business leaders accountable at all levels. People today are slowly becoming aware of both unconscious and explicit bias, and some organizations are starting to take action to expose the issue and make institutional changes to deal with it.<sup>7</sup>

The most popular solution today is training. But while such interventions are helpful, it appears that making people aware is not enough. Organizations should consider making structural changes, implementing transparent, data-driven solutions, and immersing executives in the world of bias to give them a visceral understanding of how bias impacts

**Figure 1. Diversity and inclusion: Percentage of respondents rating this trend “important” or “very important”**





decision making, talent decisions, and business outcomes.

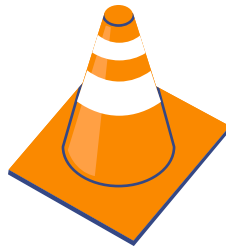
We highlight this trend because this issue has become increasingly important. Employees and stakeholders are starting to voice concerns, but solutions built around training and education are not working well enough. A set of “new rules” is being written that will demand a new focus on experiential learning, process change, data-driven tools, transparency, and accountability.

### WHAT IS DRIVING THE RISE IN CONCERN?

Why has diversity and inclusion become so important? A series of business and cultural changes has come together to spotlight the importance of this issue.

First, the global political environment has heightened employee sensitivity to diversity and inclusion. Immigration challenges, nationalism, and fear of terrorism appear with greater frequency in the press. Organizations report that employees are personally concerned about what they read and hear, and they want their employers to offer perspective.<sup>8</sup> The business issue of diversity and inclusion now touches issues of employee engagement, fairness, human rights, and even social justice.

Second, the need for diversity and inclusion is now an important component at work. Many large organizations now define themselves as global entities, making religious, gender, generational, and other types of diversity a business reality. Programs to raise awareness of unconscious bias are increasingly popular.



Third, a growing body of research indicates that diverse and inclusive teams outperform their peers.<sup>9</sup> Companies with inclusive talent practices in hiring, promotion, development, leadership, and team management generate up to 30 percent higher revenue per employee and greater profitability than their competitors.<sup>10</sup> Without a strong culture of inclusion and flexibility, the team-centric model comprising diverse individuals may not perform well.

Fourth, the topic of equality and gender pay equity has received mounting public attention. Canadian Prime Minister Justin Trudeau made headlines in 2015 by appointing a gender-equal cabinet.<sup>11</sup> There

is a new emphasis on transparency of executive pay.<sup>12</sup> Companies such as Facebook, Salesforce, and others are publicly highlighting gender equality—and setting a strong example. As an example, after Salesforce performed a comprehensive analysis of 17,000 employees and identified a gender pay gap, the company spent roughly \$3 million to even out the disparity.<sup>13</sup>

Fifth, as career trajectories change, issues of age and life transition are becoming more important. Anecdotal evidence suggests that millions of Baby Boomers are delaying retirement, while many Millennials are approaching the age when both spouses often work, and they expect and demand equal treatment. And the prospect of longer careers means a wider generational span in the workforce. Efforts to address such issues are gaining ground. One retailer, for example, developed a program called Snowbird to help older workers transfer to warmer climates to stay with the company. Michelin lets senior white-collar workers stretch out their careers to reduce stress later in life. The US National Institutes of

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Health offers emergency elder care, allowing employees to modify their work patterns when parents become ill.<sup>14</sup>

### MANY COMPANIES ARE STILL NOT SEIZING OPPORTUNITIES

Despite the overall increase in focus on and investment in diversity and inclusion, many businesses may be in denial about the reality in their own companies. Our research into HR practices found that, while an overwhelming majority of organizations (71 percent) aspire to have an “inclusive” culture in the future, their actual maturity levels are very low.<sup>15</sup> Only 12 percent have reached level 4, the most mature level in our model.<sup>16</sup>

In some countries, the problems are even more pressing. In Japan, surveys show that 53 percent of women between the ages of 24 and 44 would like to work but are unable to obtain jobs.<sup>17</sup>

### COMPANIES MUST UNDERSTAND THE COMPLEXITY OF THEIR WORKFORCE

This year’s *Global Human Capital Trends* research shows that 78 percent of respondents now believe diversity and inclusion is a competitive advantage (39 percent say it is a “significant” competitive advantage). Yet, despite this increased level of interest, only 6 percent of companies actually tie compensation to diversity outcomes. Why?

The answer is simple: Solving diversity challenges is dauntingly difficult. Our research and company interviews show that organizations are now considering moving beyond training to focus on measurement, transparency, and personal accountability. Also trending upward is a focus on eliminating measurable bias from talent processes, including hiring, promotion, performance management, leadership development, succession, and compensation.

For instance, organizations are experimenting with eliminating names on resumes because candidates with ethnic-sounding names may experience lower hiring rates. Australia has been a leader in this area; the state of Victoria is experimenting with removing

all personal details from job applications.<sup>18</sup> Some companies look at patterns of job offers and compare managers against their peers for signs of gender, racial, or age discrimination.

We are not saying that training is not important; it plays a vital role in education and awareness of the issue. But this year and moving forward, we see an additional emphasis on removing bias from systems and processes. This is what it means to embed diversity into an organization’s culture, rather than mounting a merely programmatic effort. By measuring each of its talent processes, removing factors that lead to bias, giving managers a language to discuss bias, and holding them accountable, organizations can move toward true inclusiveness.<sup>19</sup>



One area of change over the past year is the increased focus on bias in recruiting and the use of new tools to help companies reduce bias. This year, 20 percent of our survey respondents believe their organizations provide excellent training against unconscious bias, and 68 percent measure and monitor diversity and inclusion in recruiting. New tools from vendors such as HireVue, SuccessFactors, and Entelo can directly monitor manager hiring practices, including job descriptions and interview scoring patterns, to identify racial and cultural bias.

Organizations are also paying more attention to diversity in succession and leadership. Today, 71 percent of survey respondents believe their organizations are adequate or excellent at identifying and promoting diverse leaders throughout the organization. Investment in this area is increasing, but more work remains to be done. The people organizations desire are out there; if an organization does not have diverse leaders, it raises the question of why.



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## THE ROLE OF LEADERSHIP

We believe issues around diversity and inclusion are challenges that all leaders should address. We identify commitment, courage, cognizance of bias, curiosity, cultural intelligence, and collaboration as the six traits of an inclusive leader.<sup>20</sup> We encourage companies to include these capabilities in their leadership assessment and leadership development procedures.

For diversity and inclusion to become embedded in the organization, leaders should pursue changes in processes and systems. Organizations should transparently measure diversity, and managers should be held accountable for outcomes as well as their own behavior. Organizations would also benefit from expanding the definition of diversity beyond demographic and social identities. Research shows that one of the biggest sources of bias at companies is a lack of diversity of thought. Leaders and managers can benefit by listening to people who think differently, because they often bring some of the team's most innovative ideas.

## Lessons from the front lines

Recognizing the many business impacts of unconscious bias, BMO Financial Group, a top North American bank, has pioneered a new approach to diversity and inclusion. It has implemented an initia-

tive aimed at raising awareness and disrupting bias during the recruitment and performance processes, in an effort to enable more objective talent decisions and better diversity outcomes. The company had launched previous efforts to raise awareness of bias, but it wanted to deepen its commitment by actively addressing practices such as recruiting.

The initiative involved four key activities. It began with a review that mapped the major steps in the recruitment and promotion processes, especially areas of high managerial discretion. The review also identified the specific procedures and systems that could influence the impact of bias. For instance, if interviewing decisions were made at the end of the day, when managers were tired and rushed, the potential for similarity attraction bias could be amplified because biases are magnified with tiredness.

Second, the initiative redesigned new tips and practices to nudge managers toward meritocratic decisions to eliminate areas where bias could be present, while taking care to make the new practices both practical and relevant to the business.

The new practices were communicated to managers, and teams were encouraged to discuss ways to reduce bias in recruitment and performance reviews. Finally, the effort developed multiple measures of success and ways to track progress for later review. One key measure of success was the impact on employees' perceptions of inclusion and their voice at work. Both of these measures saw an unprecedented year-over-year increase, with a 2 percentage point increase on perceptions of inclusion, and a 2 percentage point increase on employees' perception of their voice at work.

Training focused not only on identifying potential areas for bias but also on teaching managers to lead conversations to co-develop solutions with staff. Managers learned about different types of biases and where they could show up. Training materials and tools included e-learning modules, an online hub, and one-page handouts concisely conveying key points. The training and support materials are having a positive impact, generating high levels of adoption for the new processes and practices, with 83.5 percent of people managers and one-third of all employees voluntarily completing the e-learning



module within the first months of launching the initiative. The organization has also seen a measurable impact on hiring rates of diverse candidates, which has increased over 3 percent in the past year.<sup>21</sup>

Lloyd's Banking Group, a leading UK-based bank, is another example of a company that takes an innovative approach to diversity and inclusion, embarking on a multifaceted effort to embed diversity and inclusion within its culture. The group recognized that putting inclusive behaviors at the core of its operations and making gender equality a priority benefited not only the women they employ but also the organization as a whole and the clients, customers, and communities they serve. Leaders set a clear, transparent target: By 2020, 40 percent of senior roles were to be occupied by women.<sup>22</sup> Recruiting programs were changed to align with this goal, including a requirement that the shortlist for every senior role must include a qualified female candidate—or a convincing explanation for the absence.

This commitment to diversity is delivering results. In 2015, 31 percent of external hires into senior management were women, compared with 17 percent in 2014.<sup>23</sup> The proportion of women promoted into senior roles increased from 26 percent to 33 percent,<sup>24</sup> earning the group recognition among the *Times*' top 50 employers for women.<sup>25</sup>

To push diversity and inclusion deeper into the company's culture, all line managers received specialized training in 2015. To assist with these and other initiatives, a member of the group executive committee acts as both executive sponsor for diversity and inclusion, and executive sponsor for gender.<sup>26</sup>

P&G has also become a leader in this area by incorporating a commitment to diversity and inclusion deeply within its culture. Over the past seven years, the company has spent \$2 billion annually to support its supplier diversity program, building a broad and diverse supplier base that includes over 1,500 women- and minority-owned suppliers.<sup>27</sup>

The company also focuses on advancing women leaders through a comprehensive leadership development strategy featuring strong mentorship and sponsorship as well as site- and region-specific programs. As a result of these efforts, between 2008

and 2013, women's representation among P&G managers grew from 40 to 44 percent, including 28 percent at and above the VP level.<sup>28</sup>

Beyond gender diversity, the company has taken a leadership position in supporting employees with disabilities. A reverse mentoring program enables senior staff to understand the daily challenges some of their colleagues face—and how to create an inclusive workplace where all have the ability to contribute. Funding for accommodations is now allocated to a central budget to ensure that all P&G facilities worldwide have the resources needed to accommodate all workers.<sup>29</sup>

To increase accountability at all levels, P&G instituted a new compensation system that reinforces its commitment to diversity and inclusion. Ten percent of executive compensation is linked to diversity goals, which are evaluated as part of performance reviews.<sup>30</sup> Criteria include being an executive sponsor of an employee resource group, being a cross-cultural mentor, and recruitment and promotions in the executive's area of responsibility. Additionally, the stock option awards for the company's top officers are linked to diversity results.<sup>31</sup>

For these and other initiatives, in 2015, DiversityInc ranked P&G second among the top 10 companies for people with disabilities, seventh among its top 50 companies for diversity overall, and eighth for global diversity.<sup>32</sup> DiversityInc credited P&G for highly valuing each employee's unique contributions and for the representation of women, African-Americans, Latinos, and Asian-Americans among management at rates higher than the US average.

## Start here

- **Ensure that top leadership understands the importance of diversity:** Share research on the value of inclusion to build consensus at the organization's highest levels. Then hold top leaders accountable through metrics and transparent reports on diversity in promotion, hiring, and compensation.
- **Use technology and data to identify problems and measure progress:** Analytics can now help in identifying patterns of gender and

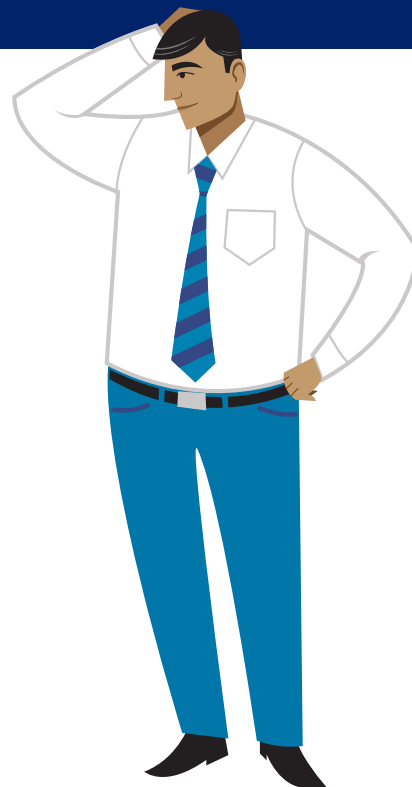
racial bias, disparities in compensation and rewards, and bias in hiring and promotion. Tools to anonymize resumes and help training managers remove bias should become part of the diversity effort.

- **Move beyond HR:** Consider diversity and inclusion as part of the corporate infrastructure, just like compliance, IT, and security; it must be practiced by everyone and owned by all line leaders. Diversity and inclusion is a business responsibility, not an HR responsibility.

- **Consider global differences:** Geographic diversity is increasingly important as more organizations become global. The specific challenges for diversity and inclusion will likely vary widely from region to region, and employees' interests and concerns in different regions will likely differ as well.

## FAST FORWARD

Old models of diversity and inclusion are undergoing change, and this trend is expected to accelerate. As employee demands shift and diversity receives greater attention globally, the private sector's responsibilities will continue to grow. As the large Baby Boomer population ages, the need to broaden the focus on diversity and inclusion to account for the elderly in the workplace will increase. In inclusive organizations, the way people operate will shift, and the everyday language of the business will change.





**Figure 2. Diversity and inclusion: Old rules vs. new rules**

Old rules	New rules
Diversity is considered a reporting goal driven by compliance and brand priorities	Diversity and inclusion is a CEO-level priority and considered important throughout all levels of management
Work-life balance is considered a challenge for employees to manage, with some support from the organization	Work-life balance, family, and individual wellness are all considered part of the total employee experience
Companies measure diversity through the demographic profile of designated groups defined by attributes such as gender, race, nationality, or age	Companies measure inclusion, diversity, and lack of bias in all recruitment, promotion, pay, and other talent practices
Diversity is defined by gender, race, and demographic differences	Diversity is defined in a broader context, including concepts of “diversity of thought,” also addressing people with autism and other cognitive differences
Leaders are promoted on “merit” and experience	“Merit” is unpacked to identify built-in biases; leaders are promoted on their ability to lead inclusively
Diversity and inclusion is a program of education, training, and discussion	Diversity and inclusion goes beyond education to focus on debiasing business processes and holding leaders accountable for inclusive behavior
Companies regularly report progress on diversity measures	Companies hold managers accountable for creating an inclusive culture, using metrics to compare them against each other

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