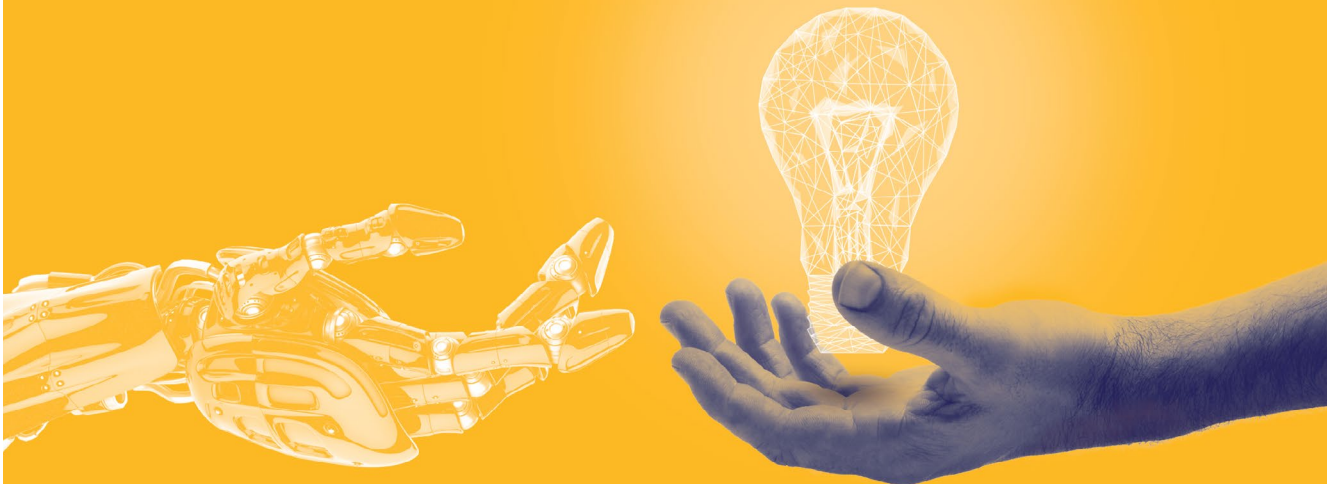


Research series

Directors' playbook: The future of work



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Foreword

Work is changing. The way it is done, the skills and tools we use and the places in which work happens are constantly evolving. Today's workplaces are almost unrecognisable from those mere decades ago, and the pace of change only seems to be accelerating.

Boards play a crucial role in navigating the changing nature of work, seeking to be alert to the challenges and opportunities it presents.

The Australian Institute of Company Directors (AICD) is committed to assisting boards to chart a course through the changing nature of work. Governance is critical in doing this. Work is changing for every company and governance must keep pace.

This document explores the trends that influence the changing nature of work through a governance lens. It examines how new ways of working will affect the governance of companies and distils the practical lessons that have the greatest importance to boards.

One of the most important changes for boards will concern how decisions that require emotional and ethical judgement are made in the context of organisations where an increasing number of decisions are made by artificial intelligence.

Angus Armour FAICD

Managing Director
and Chief Executive Officer
Australian Institute
of Company Directors

Kee Wong FAICD

Director, Australian Institute
of Company Directors
Chair, AICD Technology
Governance
and Innovation Panel

“The future of work should be on every board's agenda.”

In February of 2018, the AICD held the first meeting of its Technology Governance and Innovation Panel. This panel brings together directors and executives with relevant experience in Australia and globally to advise the AICD on its work in supporting directors to govern technology and innovation.




The Technology Governance and Innovation Panel is a practical demonstration of our commitment to helping Australian boards to grapple with the modern challenges presented by issues like the future of work. This document is the first project of the panel.

We are grateful for the assistance of Deloitte who have contributed to the development of this report and to the members of the Technology Governance and Innovation Panel for their guidance and input.

We trust that this report will be of use to boards as they prepare to face an exciting but challenging future of work.



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Introduction

Directors are operating in an environment characterised by constant change, uncertainty and increasing complexity.

One of the most significant changes concerns the future of work. Which tasks will still be required? Who will do them, and what skills will they need? What environments will they work in?

The impact of these changes on governance is profound. The way organisations are governed must adapt, and directors will need to take informed and considered steps to take advantage of the opportunities presented. Governance must be flexible in its response to the changing nature of work as well as providing oversight and strategic direction for new ways of working.

The playbook

This playbook aims to give directors an overview of some of the key trends and evidence on the future of work. Its goal is to help directors better understand the governance dimensions of this issue and provide practical insights to help take advantage of the opportunities these workforce trends present.

Of course, there are no simple answers.

The impact of the future of work varies across industries, geographies and business models. This guide is not intended to equip directors with solutions, but with a set of questions that will support more informed decision making.

To give structure to this complex topic, this playbook considers the future of work from three perspectives, each with its own chapter:

- **Work** – the nature and type of work being done;
- **Worker** – the workforce capabilities and composition required to carry out the work; and
- **Workplace** – the physical, digital, cultural and structural environments required to carry out the work.¹

Each chapter is divided into four components of work – looking at both the current trend and a possible view of the future. These issues are interrelated; for example, changes in work tasks will necessarily require new skills and a changing workforce. As such, there is some overlap between topics.

The impact of these changes for directors are examined through a six-point lens based on the key roles of the board:²

	Strategy	Boards establish strategies to guide, monitor and control the organisation's activities
	Resources	Boards oversee resource allocation required to achieve the strategy
	Performance	Boards monitor the organisation's performance against its strategies and targets
	Compliance	Boards ensure there are adequate processes in place to comply with legal and regulatory requirements
	Risk	Boards oversee a sound risk management framework that supports the company in negotiating uncertainties
	Accountability	Boards report progress and align the collective interests of stakeholders

Each section includes 'questions for directors' which aim to stimulate discussion and reflection by boards on how changes in the nature of work might affect their organisation, having regard to their own unique circumstances.

In some places, the distinction between the role of management and the board may be less clear than others. Some boards will inquire into these issues on a more granular level, whereas others may remain more strategic in their focus. This playbook provides additional background information and analysis to support boards to understand the operational issues that underpin changes in the future of work beyond its impact on governance.

¹ *It's (almost) all about me: Workplace 2030*. Deloitte, 2013, <https://www.deloitte.com/content/dam/Deloitte/au/Documents/human-capital/deloitte-au-hc-diversity-future-work-amp-2013.pdf>

² Based on the *Company Directors Course* run by AICD.



WORK

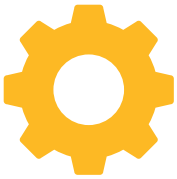
WORK

WORK

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1.0

1.0 WORK



The nature and type of work being done

Work is the fundamental building block of business. It is the 'what' and 'how' of business activity - where the business's value is created.

Work is changing. New technologies and shifting consumer behaviours are redefining what work tasks are required to create value.

Manual or physical tasks are still necessary in many industries, but these no longer require as much human input. Instead, employment is more concentrated in service-based tasks.

As a result, tasks and roles are less focused on technical and mechanical requirements. Work tasks increasingly require a combination of technical and soft skills to create value.

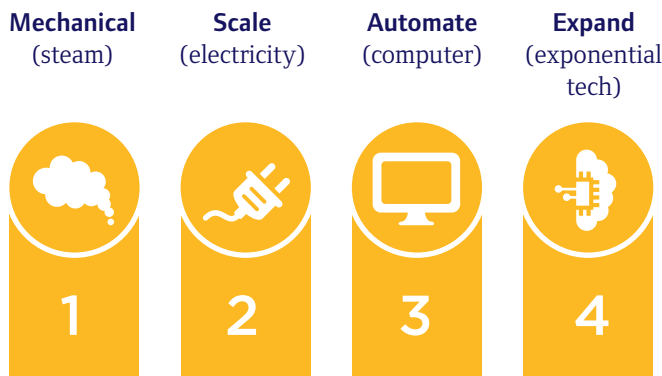
Evidence (or data) is becoming the basis of more tasks, particularly those that include elements of decision making or judgement. The exponential growth in the volume and breadth of data presents new opportunities, but also challenges.

This evidence is complemented by a growing recognition of the need to look beyond the balance sheet to longer-term value generation. Many businesses now look to align work tasks to an overarching 'purpose' and there is a growing demand for companies to operate in a socially and environmentally responsible way.

1.1 Work of hands vs work of minds

Industry 4.0, the fourth industrial revolution, is “blurring the lines between the physical, digital and biological spheres”.³ Human history has experienced significant technological change before, but the speed, scope and impact of the current transformation is unprecedented.⁴

Figure 1: The four industrial revolutions



Source: Deloitte Access Economics

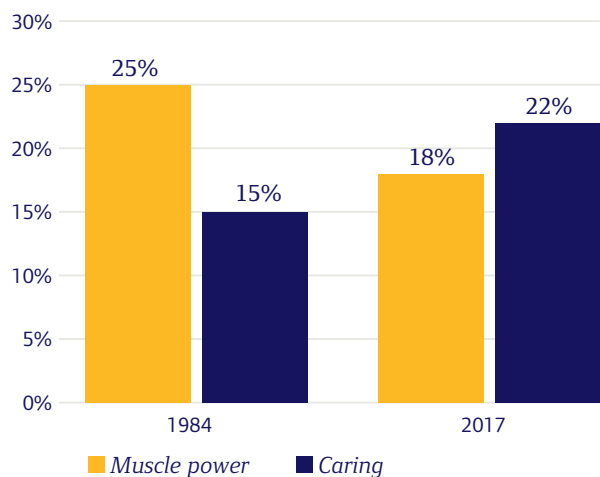
While significant economic value is still generated by manual labour, employment associated with many of these tasks is in decline.

Today, the mining industry employs just 2 per cent of the Australian workforce but is responsible for 9 per cent of value added, while the health and social assistance industry employs 10 per cent of the workforce and generates 7 per cent of value added.⁵

In the United Kingdom, employment in caring jobs (jobs focused on service provision such as in healthcare) has grown from 1 per cent of the workforce in 1871 to 12 per cent in 2015, while ‘muscle power’ jobs (jobs focused on manual tasks such as manufacturing) have fallen from 24 per cent to 8 per cent.

A similar shift can be observed in Australia (Figure 2). Today, service industries employ almost 80 per cent of the Australian workforce – approximately 9.8 million people.

Figure 2: Shift in Australian workforce composition, 1984 to 2017



Source: ABS 2017, 6291.0 – Labour Force, Australia, Detailed

Looking ahead

As technology replaces many manual labour tasks, reliance on human workers for these tasks will continue to decrease. Augmented by technology, workers will apply both their minds and their hands to higher functions and there will be a greater blurring of the two.

Computers and technology will become increasingly effective at tasks previously considered only appropriate for humans – the ‘work of the heart’. Developments in artificial intelligence (AI) will enable technology to assess, interpret and mimic human reasoning, making it better able to communicate in a personal way, exercise judgement and solve complex problems.

In this world, human workers will be managers and trainers, monitoring, assessing and approving the decisions made by computers. Successful companies will recognise that these technologies are most effective when they complement humans, not replace them.

³ World Economic Forum 2016, *The Fourth Industrial Revolution: what it means, how to respond*, accessed online July 2018 via <https://www.weforum.org/agenda/2016/01/the-fourth-industrial-revolution-what-it-means-and-how-to-respond/>

⁴ World Economic Forum 2016, *The Fourth Industrial Revolution: what it means, how to respond*, accessed online July 2018 via <https://www.weforum.org/agenda/2016/01/the-fourth-industrial-revolution-what-it-means-and-how-to-respond/>

⁵ ABS 2017, 8155.0 – Australian Industry, 2016-17, and, 6291.0 – Labour Force, Australia.

This change might also mean that the current trend of outsourcing labour to other parts of the world may reverse. With AI doing more of the heavy lifting, demand for cost-effective labour may fall. Instead, other considerations such as freight costs and proximity to other parts of the supply chain may drive decisions about where to locate workforces.

This trend toward work automation will be more pronounced in some industries than in others. For instance, automation is initially having a more significant effect on manufacturing than education, though this may change over time.

What does it mean for directors?



A key focus for boards should be overseeing design and implementation of a **strategy** that navigates a changing labour market effectively and which has the flexibility to respond to unexpected change.

The tools available to a business (and its competitors) will change rapidly, and directors may need to consider strategies with shorter lifecycles or which can be more readily changed to respond to this shifting dynamic.

Directors will also need to be prepared to be **accountable** for the impact of technology on their human workforces. Automation can enhance business productivity, but downsizing workforces can be seen as a breach of community expectations. Downsizing can also result in workforce disengagement and can adversely impact a company's reputation, which may also have commercial consequences.

Boards should consider the potential impact of automation on issues such as headcount and be satisfied that staff have been engaged in processes to understand any impact on their jobs.

Investing in minor automations may not displace workers in the short term, but the development of these technologies is exponential. How and when a mass adoption of artificial intelligence may occur is a matter of debate among experts, and boards must accept this as a key **risk** in decision making on this matter. Many of the impacts of AI on the workforce are largely unknown.



QUESTIONS FOR DIRECTORS

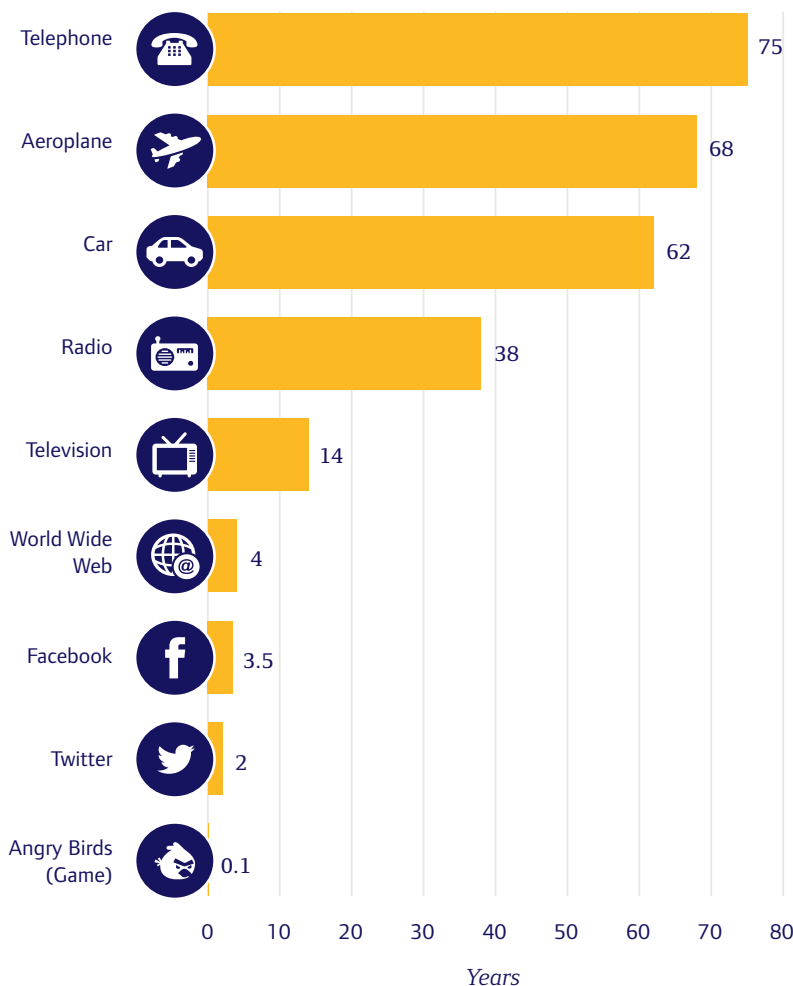
1. Have we quantified what work is being done and how it might be affected by developments in technology?
2. How do we communicate about AI augmentation to our staff and employees?
3. How do we best engage the redundant human capacity generated by automation?
4. What ethical framework will we use to make decisions about these issues?
5. What assumptions are present in our decision making about AI given the uncertain nature of its development?

1.2 Data light vs. data driven

The capabilities of technology are expanding quickly. Moore’s Law states that the number of transistors on computer circuits doubles every two years. This exponential development has occurred in other areas such as the power density of batteries and DNA sequencing.

Consumer adoption of technologies is also capable of keeping pace with this rapid development. Twitter took two years to accrue 50 million users, compared to the 38 years it took radio to reach 50 million people.

Figure 3: Time taken to reach 50 millions users

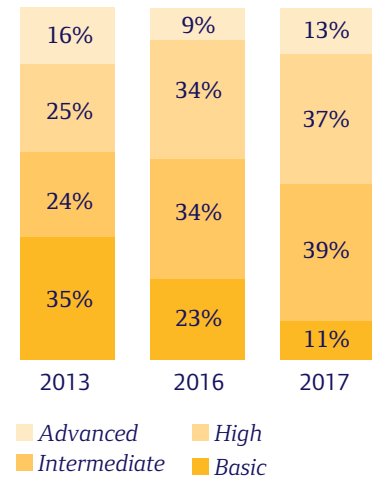


Source: Tech Today (2017)

This exponential adoption of technology means that the volume of data generated is growing significantly. Currently, the world generates 2.5 quintillion bytes of data every day, and 90 per cent of the world’s total data has been created in the last two years.⁶ Every minute of 2017 saw 3.6 million Google searches, 15 million texts and 154,000 Skype calls.⁷

Businesses of all sizes are investing to harness the opportunities that mass creation of data presents. In 2017, only 11 per cent of small businesses were rated ‘basic’ on a digital engagement scale, compared to 35 per cent in 2013.⁸

Figure 4: Digital engagement among small businesses over time



Source: Deloitte Access Economics 2017, Connected Small Business 2017.

⁶ IFLScience 2017, *How much data does the world generate every minute?*, accessed online March 2018 via <http://www.iflscience.com/technology/how-much-data-does-the-world-generate-every-minute/>

⁷ Domo 2017, *Data never sleeps 5.0*, accessed online March 2018 via https://www.domo.com/learn/data-never-sleeps-5?aid=ogsm072517_1&sf100871281=1

⁸ Deloitte Access Economics 2017, *Connected Small Business 2017*.

Looking ahead

As more data is generated, the insights that can be extracted from it will grow. Businesses will become more aware of their data and its value – and many will change the way they operate to improve the volume and quality of data collected. Data-driven decision making will be the norm.

Data will also be recognised as a balance sheet asset. Leaders will invest in and maintain this asset for the value it brings to their business, but also consider it a commercial product in and of itself. There will also be greater recognition that, as an asset, data can be lost, damaged or stolen.

The increase in data available will create greater transparency within businesses and, when combined with advanced analytical tools, unlock new insights. For example, businesses will be able to analyse what employees are doing and talking about in real time (through analysing their computer usage or using natural language processing).

Stakeholders too will have greater access to data about businesses. Publicly available data sources will enhance the ability of consumers and investors to make informed decisions about their interactions with business.

What does it mean for directors?



Data is no longer a by-product – it is an asset. Directors should think about how their business is collecting, using and protecting data.

It can be used internally to monitor performance or improve processes, and externally to better understand customers, workers and suppliers. Like other assets, it should be subject to appropriate controls and oversights in terms of use, access, development and ownership.

In this context, directors should consider how to use data to drive **performance**, particularly to inform decision making. Directors will have access to real-time performance data that can assist to make timely decisions.

Making the most of this data within the constraints of time-limited and infrequent board meetings may present challenges. Boards should explore options for digital tools that enable collaboration outside of board meetings to analyse data, ask questions and even make decisions in real time.

Directors will also need to be conscious of protecting this asset, and ensure the business is **compliant** with data security and privacy laws. Data breaches can cause significant damage to a business – and managing this will become more important as the volume of data generated continues to grow (and the consequences for misuse become more severe).

Directors are **accountable** to stakeholders and have a responsibility to protect their data. However, they also need to recognise that data breaches do happen and be satisfied that in the event of a breach there is a plan in place to minimise damage to stakeholders and the company.

As stakeholders gain greater access to data about businesses, boards should also consider how they report on their performance in a way that complements the data that stakeholders already have available to them. In some cases, stakeholders will be able to develop their own performance metrics for companies, and boards will need to consider how this affects public perception of their performance.



QUESTIONS FOR DIRECTORS

1. How is our data protected against misuse, damage, loss or theft?
2. Are the implications of a data breach fully understood and costed?
3. Have we considered using data from a third party, particularly if we do not have the resources to collect our own?
4. Are we aware of and are we meeting our obligations to stakeholders as custodians of their data?
5. What data do our stakeholders have about our performance and how do we measure up?



1.3 Commercial focus vs purpose

Performance expectations of businesses in relation to environmental, social and governance (ESG) issues are growing among the community, governments and investors.

In 2015-16, Australian businesses donated a total of \$17.5 billion to the community in the form of money, goods and services.⁹ In 2017, 88 per cent of Australian and New Zealand businesses reported that practising social responsibility helped them to build their reputation, and 78 per cent say it contributed to brand positioning.¹⁰

Today some of the most influential voices in promoting socially and environmentally responsible corporate behaviour are institutional investors, who increasingly expect that companies have a solid vision for long-term value creation. For example, Larry Fink, Founder and CEO of Blackrock, recently released a letter to fellow CEOs on the importance of purpose-led work.¹¹

Millennials, in particular, expect business to be purpose-led. They are more than twice as likely to prefer to work at a sustainable company, pay extra for sustainable products and check product packaging for sustainable labelling as their counterparts in Generation X, and more than four times as likely to do so compared with baby boomers.¹²

A recent global survey of executives found that only two-in-five businesses globally are 'purpose-led'.¹³ This may increase as millennials age and take a larger role in management ranks. However, whether these perceptions will change over time is unknown.

Looking ahead

Traditional paradigms that portray big businesses as impersonal and profit driven, and smaller businesses as community-minded could be reversed. Big businesses are more likely to have the resources to plan and sustain long-term value-creation strategies and to spend on social and environmental initiatives. By comparison, smaller businesses, competing for survival, may have an increasingly narrow focus on the bottom line.

Regardless of size, businesses that are not cognisant of community expectations may be penalised by investors, consumers and indeed governments. It seems likely that there will be an increasing focus on conduct, culture and corporate responsibility as governments grapple with addressing declining trust in institutions.

Consumers will be more inclined to do business with firms that have a social purpose they support, and that give back to the community. Today, 86 per cent of millennials think that business success should be measured in terms of more than just financial performance¹⁴, and as this generation takes on a greater share of leadership roles, businesses that let purpose rather than simply profit dictate strategy will have an advantage.

“There will be an increasing focus on conduct, culture and corporate responsibility as governments grapple with addressing declining trust in institutions.”

⁹ Australian Government, Prime Minister's Community Business Partnership (2016), *Giving Australia 2016*, accessed online August 2018 via https://www.communitybusinesspartnership.gov.au/wp-content/uploads/2017/04/giving_australia_2016_fact_sheet_-_business_giving_and_volunteering_accessible_3.pdf

¹⁰ ACCSR (2017), *Re-imagining sustainable value: the Sustainable Development Goals gather pace*, accessed online August 2018 via <http://accsr.com.au/wp-content/uploads/2017/05/ACCSR-State-of-CSR-Report-2017.pdf>

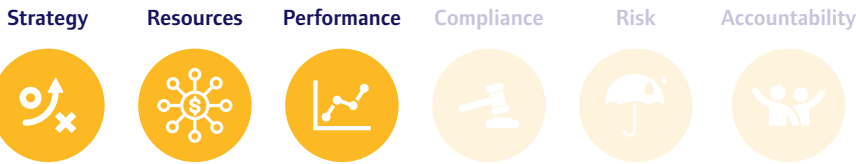
¹¹ BlackRock 2017, *A Sense of Purpose*, accessed online August 2018 via <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

¹² Nielson 2014, *Doing well by doing good*, accessed online February 2018 via <https://www.nielsen.com/content/dam/nielsen-global/jp/docs/report/2014/Nielsen%20Global%20Corporate%20Social%20Responsibility%20Report%20-%20June%202014.pdf>

¹³ Harvard Business Review 2016, *The business case for purpose*, accessed online February 2018 via <https://hbr.org/resources/pdfs/comm/ey/19392HBRReportEY.pdf>

¹⁴ Deloitte 2017, *The 2017 Deloitte millennial survey: Apprehensive millennials: Seeking stability and opportunities in an uncertain world*.

What does it mean for directors?



Embedding elements of purpose within **strategy** requires thought, input and authorisation of the board. Directors should take an active role in identifying community expectations and overseeing strategies to ensure they are considered, understood and met.

For organisations to be truly purpose driven, boards will need to develop practices that enable them to align decision-making practices with the organisation’s purpose, balancing their purpose against financial and operational considerations without neglecting their legal duties.

Directors will need to make **resources** available to develop purpose-led initiatives. As business becomes more cognisant of the value of trust and the social licence to operate, boards will need to consider how the impact of investment in maintaining and developing it is measured.

Increased focus on these issues may require a rethink of **performance** measurements. Today, most businesses measure their progress against strategic plans using largely financial metrics. However, directors should consider ways to assess the alignment of the organisation to its purpose and the social and economic impact of its activities.

“Directors should consider ways to assess the alignment of the organisation to its purpose and the social and economic impact of its activities.”

As trust in political and community leaders declines,¹⁵ there is an opportunity for business leaders – including directors – to play a more significant role in public life. There is a growing expectation that directors will take ultimate accountability for the conduct of their business, and this presents an opportunity for directors to take a greater public role in representing the company and its work to the community.



QUESTIONS FOR DIRECTORS

1. Have we identified our stakeholders and their expectations of our business?
2. How do we incorporate considerations of purpose into decision making?
3. How do we manage stakeholders who may be hostile to the business?
4. How do we communicate our purpose to stakeholders?
5. Do we measure our ESG performance against industry benchmarks?

¹⁵ Edelman 2018, 2018 Edelman Trust Barometer, accessed online July 2018 via <https://www.edelman.com/trust-barometer>

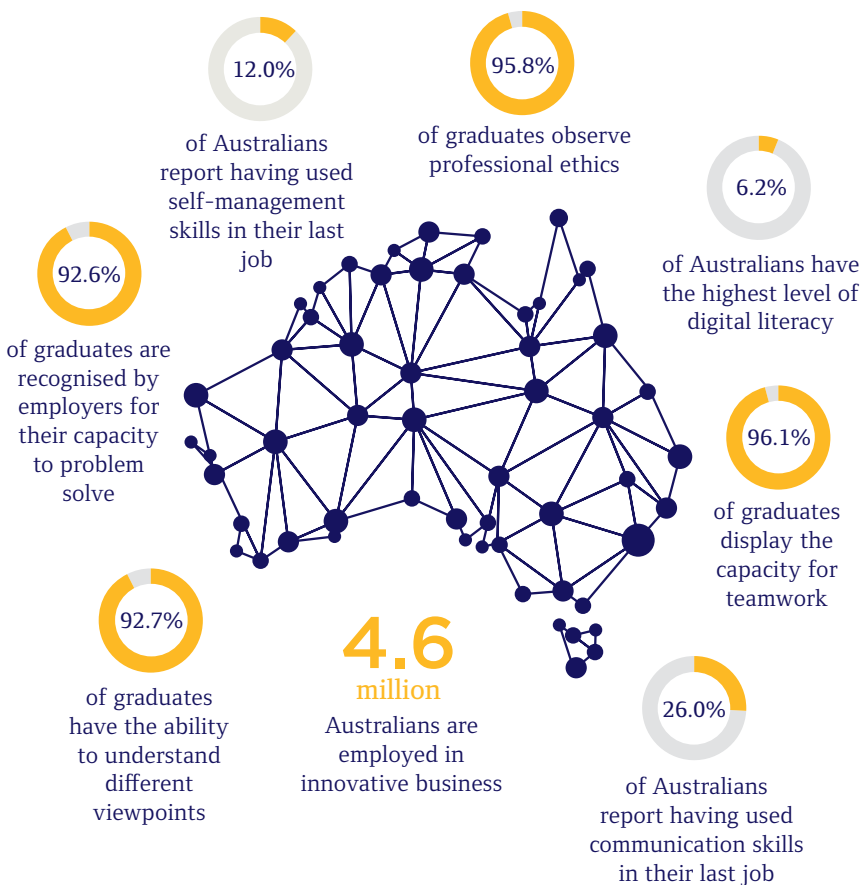
1.4 Technical vs soft skills

Subject matter and technical expertise has always been highly valued by business. But technology makes it easier to upskill quickly and there is now less of a premium placed on certain subject matter expertise.

Successful outcomes are no longer guaranteed by meeting technical requirements. Instead, success requires a combination of technical expertise and soft skills.

Of the 16 'crucial proficiencies in the 21st century' identified by the World Economic Forum, 10 are non-technical. Today, nearly three in four advertised jobs list communication skills as a requirement, and one in four require digital literacy skills and critical thinking.¹⁶

Figure 5: Soft skill attainment in Australia



Source: Deloitte Access Economics 2017, *Soft skills for business success*.

Many technical skills have already been automated, and some soft skills are also beginning to be outsourced to technology. For example, Google recently launched AI software (Google Duplex) with communication skills so advanced it can successfully call and make a restaurant reservation without the restaurant employee even realising they are interacting with a program.

Looking ahead

While technologies are learning to understand and mimic human tone and emotion, they are less able to exercise judgement or make decisions that take account of wider context. Higher order soft skills such as empathy, professional ethics and emotional judgement will be increasingly valued by business.

Soft-skill intensive roles (e.g. managers, health professionals and community workers) will grow much faster than more technical roles (e.g. clerical workers, labourers and sales support workers). By 2030, two-thirds of Australian jobs will be soft-skill intensive, compared to half of Australian jobs in 2000.¹⁷

Businesses are already facing an undersupply of critical soft skills – a quarter of employers recruiting for entry level positions report having difficulty filling vacancies because applicants lack these skills.¹⁸ This gap will widen as soft skills become increasingly valued. It is likely that education and training providers will retool courses to address this need, though there may be some lag in the market's ability to meet growing demand.

¹⁶ Deloitte Access Economics 2017, *Soft skills for business success*.

¹⁷ Deloitte Access Economics 2017, *Soft skills for business success*.

¹⁸ Deloitte Access Economics 2017, *Soft skills for business success*.

What does it mean for directors?

Strategy



Resources



Performance



Compliance



Risk



Accountability



The soft skills of a workforce should be identified and treated as an indispensable business **resource**. As such, directors should be satisfied that they have the skills available to meet their resource needs, and that there is a plan to ensure that these skills are developed or acquired to satisfy future demand.

“In many cases, soft skills are not measured, and this can make it difficult for a business to know what resources they have and how they perform.”

In many cases, soft skills are not measured, and this can make it difficult for a business to know what resources they have and how they perform. Directors should work with management to establish a **performance** framework that recognises and rewards soft skills, and invests in relevant training and development.

Directors should also consider how their **strategy** will change in the future and how this will impact their skills needs. Some organisations, such as care-based businesses, may already have a significant focus on soft skills, but those whose focus has historically been more technical may need to undergo an organisational transformation process to support greater emphasis on soft skills.



QUESTIONS FOR DIRECTORS

1. What skills does our business need to meet its current objectives and how might this change over time?
2. How are we developing our existing workforce to build capacity in alignment with skills needs?
3. Do we recognise development and use of soft skills in our incentive and reward frameworks?
4. Is our workforce equipped to exercise the emotional and ethical judgement required of them?
5. Do we need to engage with education and training providers to ensure that graduates are skilled in the areas we need?



WORKER

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WORKER

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2.0

2.0 WORKER



The workforce capabilities and composition required to carry out the work

Workers are the 'who' of the future of work, and core to 'how' work is done.

The workforce itself is changing. Technology, globalisation and demographic change are shaping a more diverse workforce. This new workforce includes human and mechanical workers, varying qualifications and skills, and new models of working.

Automation is one of the most commonly discussed topics in the future of work. However, augmentation better describes the reality.

With technology increasingly able to do manual, repetitive tasks more efficiently, new jobs will be created. Human workers will focus on higher value-add roles reliant on skills such as emotional intelligence, judgement and empathy – and their ability to do so will be enhanced through augmentation.

The demand for specific skills is fluctuating, and these skills quickly become outdated. Individuals and workplaces will need to invest in continuous learning, rather than 'set and forget' qualifications and ad hoc training.

Changing skill requirements will support more diversity in the workforce. Contingent work, in particular, has become more popular. Simultaneously, workplaces are becoming more diverse across factors such as gender, age, ethnicity and sexuality.




Leading organisations have already identified the benefits that diversity can bring to performance and are leveraging this to gain commercial advantage. These organisations demonstrate a commitment to diverse and inclusive workplaces by being flexible, culturally sensitive and investing in employee wellbeing.

2.1 Human workers vs augmented cognitive workers

Automation has been a feature of economies since the first industrial revolution. Just as looms replaced weavers in the industrial factories of the 18th century, today's robots are performing advanced surgeries and AI is being used to drive cars and trucks.

Increasingly, humans are working collaboratively with technology as a tool to make work more efficient, interesting and accurate.

Automation can augment or even replace human effort in three ways:

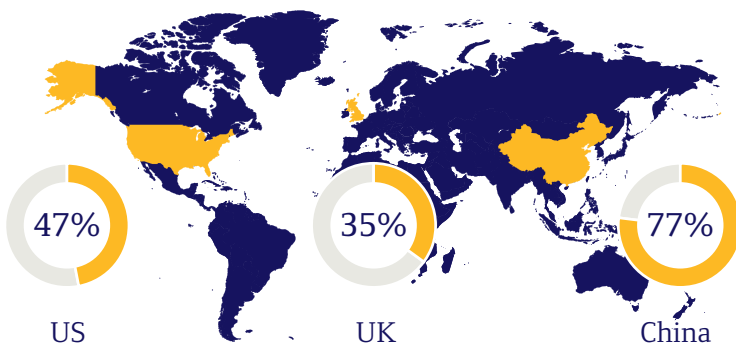
- 1  **Automation assistants**
Responsible for action (work of the hands)
- 2  **Cognitive assistants**
Responsible for cognition (work of the minds)
- 3  **Artificial intelligence advisors**
Responsible for judgement (decision making)

Source: Deloitte Access Economics

Automation has not entirely replaced human effort, nor is it likely to. Instead, it is being used to augment human capability and allow individuals to refocus on higher value-add tasks.

This does not mean that the future workforce will have fewer jobs. Instead, the nature and type of roles will change. New jobs will be created in fields that don't yet exist. McKinsey estimate that only 5 per cent of jobs globally will be completely lost, but that 60 per cent will be significantly changed by automation.¹⁹

Figure 6: Percentage of jobs vulnerable to automation



Source: Citi GPS 2016, Technology at work v2.0.

Looking ahead

With the exponential development of technology, the relationship between human workers and technology will continue to change. When Industry 4.0 is fully realised, the majority of roles will have been impacted in one of four ways:

1. Replaced: a small proportion of roles will see all, or a substantial proportion of, their current tasks be replaced by technology.
2. Atomised: automation will take on components of, or assist with, mundane or repetitive tasks, but human involvement will still be key to the overall process output such as through quality assurance and troubleshooting.
3. Relieved: automation will remove the need for human involvement in complete processes that are mundane, repetitive, arduous or risky.
4. Empowered: human tasks such as decision making will be augmented by AI supporting increased insight, accuracy and speed.

For example, in professional services, robots already support tax compliance tasks. The robots use tax file numbers to search for records in tax compliance software and pre-populate some data files, among other tasks.²⁰ This is an example of atomisation, with technology being used to complete a mundane task freeing up human workers for more complex tasks.

Another example is using natural language processing software to analyse large datasets and generate reports much faster and more accurately than human workers.²¹

¹⁹ KcKinsey 2017, *Jobs lost, jobs gained: workforce transitions in a time of automation*, accessed online February 2018 via <https://www.mckinsey.com/~media/McKinsey/Global%20Themes/Future%20of%20Organizations/What%20the%20future%20of%20work%20will%20mean%20for%20jobs%20skills%20and%20wages/MGI-Jobs-Lost-Jobs-Gained-Executive-summary-December-6-2017.ashx>

²⁰ Cooper 2017, *When humans and robots work together*, accessed online June 2018 via https://dais.au.deloitte.com/News_media/news_articles/Pages/homepageDAIS_tax_Robotics_01June2017.aspx

²¹ Schulze 2017, *Are we ready to use Robotic Process Automation on high risk processes?*, accessed online June 2018 via <https://www.veritone.com/insights/natural-language-processing-for-intelligence-reporting/>

An augmented workforce can support productivity improvements, and even improve staff engagement, with employees doing more interesting and meaningful tasks. If Australian firms embraced automation to the same extent as peer economies, productivity levels in some sectors could increase by over 50 per cent.²²

But AI is not yet creative; it makes decisions based on a series of rules, and although these rules may be incredibly complex, they have limits. Humans are still required to set and revise the goals of AI and will continue to play a significant role in managing its contribution to work.

What does it mean for directors?



To remain competitive and boost productivity, most businesses will need to transition to and adopt labour-augmenting technology, and the way that directors manage this transition is critical.

Boards will need to understand the profile and capabilities of a technology-augmented workforce and its impact on their **strategy**.

Instead of looking at roles at a high level (considering issues such as headcount and turnover), directors will need to understand what tasks are done in the business, how they are done and why. Boards and management will need to assess costs and benefits of augmenting their human workforce by automating tasks.

These decisions have significant impact on an organisation's **resources**. The balance between capital and operating expenditure will need to shift to accommodate the speed of technological advance. It may not make sense to invest heavily in capital that will be outdated in a matter of months; at the same time, underinvestment in technology means a risk of being left behind.

While this augmented workforce brings many new opportunities, it also creates new **risks**. Consider the implications of automation, for example, for:

- Licence compliance;
- Data leakage and privacy;
- Cybersecurity;
- Incident management and business continuity; and
- Identity and access management.

This issue also presents reputational risks. Where automation and augmentation do result in redundancies, directors will need to consider the reputational impact of these decisions.

Boards will need to make decisions about how the workforce is engaged with and affected by these changes. Will staff be retrained, redeployed or made redundant?

At the 2017 World Economic Forum, 80 per cent of CEOs who were investing heavily in artificial intelligence also pledged to retain and retrain existing employees.²³ Retraining not only plays well in the media, but it also makes economic sense because it is often cheaper to retrain an employee than hire a new one.²⁴ Boards will need to balance this against the operational realities of their strategy and environmental context.



QUESTIONS FOR DIRECTORS

1. How do we identify work that is suitable for technological augmentation?
2. Do we have the skills we need to incorporate AI into our work?
3. Are there frameworks in place to support workers as more machines are adopted into the workplace?
4. What external education/technology/advisory partners can we call upon to support the transition and sustainment of this new workforce?
5. How will human resources processes need to be adjusted to accommodate AI augmentation?

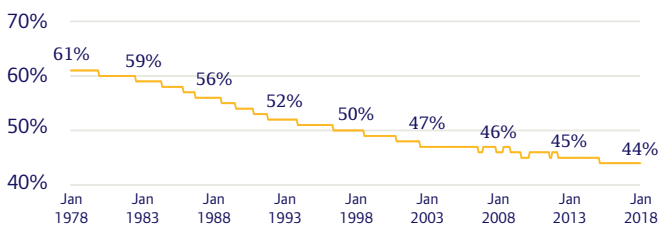
²² AlphaBeta 2015, *The automation advantage*, accessed online February 2018 via <http://www.alphabeta.com/wp-content/uploads/2017/08/The-Automation-Advantage.pdf>
²³ McKinsey & Company 2018, *Retraining and reskilling workers in the age of automation*, accessed online March 2018 via <https://www.mckinsey.com/global-themes/future-of-organizations-and-work/retraining-and-reskilling-workers-in-the-age-of-automation>
²⁴ Dice 2012, *The Cost of Bad Hiring Decisions Runs High*, accessed online June 2018 via <https://insights.dice.com/report/the-cost-of-bad-hiring-decisions/>



2.2 Permanent and homogenous vs contingent and diverse

Traditionally, the majority of the workforce was a homogenous group working on a permanent basis. This has been changing for decades; the proportion of workers who are full-time male employees has been steadily falling, from 61 per cent in 1978 to 43 per cent in 2018.²⁵

Figure 7: Proportion of total employed persons that are full-time male employees



Source: ABS cat. no. 6202.0, Table 1

Today’s workforce is more complex and demands flexibility. As of June 2018, more than one quarter of working Australians do not have leave entitlements.²⁶ There are over 90,000 people earning money through the collaborative economy in New South Wales alone,²⁷ and a recent survey showed that 53 per cent of Australian millennials are already part of, or are considering joining, the gig economy instead of full-time work.²⁸

This more agile and responsive workforce is also increasingly diverse in terms of, for example, age, language spoken, gender, ethnicity and sexuality.

Today, women make up 47 per cent of the workforce, compared to 36 per cent in 1980,²⁹ though they still only make up 20 per cent of its senior leadership.³⁰ Similarly, the proportion of board members on the ASX200 who are under 50 years of age doubled between 2009 and 2015.³¹

Gender diversity among the same cohort is also continuing to improve, albeit slowly, with 27.9 per cent of directors on

ASX200 companies’ boards being women as at June 2018.³² Cultural diversity is improving too but continues to lag compared with the broader population – only 22 per cent of directors are culturally diverse and the number drops to 13.5 per cent for chairs.³³

The positive impact of diversity on business performance is now widely accepted.

Research on gender diversity, for example, shows that boards with gender-balanced representation perform better than those without.³⁴ Previous modelling has shown that the average business could boost profitability by 2.1 per cent if they reached gender parity in their senior management teams.³⁵ They could also see other benefits such as lower rates of absenteeism, more engaged female customers and greater collaboration in the business. More broadly, equal representation in leadership could lift labour force participation and add \$10.8 billion to the Australian economy each year.

Looking ahead

Workforce numbers will rise, but this is more likely to be in the contingent, rather than permanent workforce.

Changing tax structures and incentives allow businesses to keep a skeleton staff of full-time, permanent workers, and flex the rest of the workforce up and down according to need. Workers such as consultants, freelancers and contractors will increasingly be hired for projects requiring their skills and expertise.

More than 80 per cent of large companies are planning to substantially increase their use of flexible workers.³⁶ This may not align with workers’ preferences; some people may prefer full-time permanent employment. As a consequence, some workers could experience increased insecurity and financial stress.

²⁵ ABS 2018, 6202.0 – Labour Force, Australia, May 2018, accessed online July 2018 via <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6202.0>

²⁶ Centre for Future Work 2018, *The Dimensions of Insecure Work: A Factbook*.

²⁷ Deloitte Access Economics 2017, *Developments in the collaborative economy in NSW*.

²⁸ Deloitte 2018, *2018 Millennial Study*.

²⁹ ABS 2018, 6202.0 – Labour Force, Australia, May 2018.

³⁰ Chief Executive Women 2017, *Senior Executive Census 2017*, accessed online August 2018 via <https://cew.org.au/wp-content/uploads/2017/09/CEW-Executive-Census-2017.pdf>

³¹ Corrs Chamber Westgrath 2015, *ASX 200 Boards are getting younger*, accessed online July 2018 via <http://www.corrs.com.au/news/asx-200-boards-are-getting-younger/>

³² Australian Institute of Company Directors 2018, *Board Diversity Statistics*, accessed online August 2018 via <http://aicd.companydirectors.com.au/advocacy/board-diversity/statistics>

³³ Diversity Council Australia 2018, *Capitalising on Culture in the ASX 200*.

³⁴ Deloitte Access Economics 2017, *Westpac: Diversity Dividend*.

³⁵ Deloitte Access Economics 2017, *Westpac: Diversity Dividend*.

³⁶ Intuit 2010, *Intuit 2020 Report: Twenty trends that will shape the next Decade*, accessed online February 2018 via https://http-download.intuit.com/http.intuit/CMO/intuit/futureofsmallbusiness/intuit_2020_report.pdf

Jobs will be pixelated – broken down into specific components requiring different skills. The rise of platforms such as Airtasker and Upwork show that this pixelation is already happening. Businesses will identify problems that require specific skills and hire specialist workers to fill gaps on a temporary basis.

Diversity in the workforce will also continue to grow – at all levels. This diversity will allow businesses to adapt quickly and respond effectively to changes by bringing together different perspectives and methods of addressing problems, and thus boost performance.

Competition between businesses to access specialist skills will increase, driving more flexible working conditions and thereby bringing a more diverse worker cohort into the job market.

Diversity in the workplace has and will continue to bring significant social benefits, including better living standards, greater financial independence for women, improved mental health and a more equitable society.³⁷

The community's expectations of diversity in business, particularly among its leaders, will grow. As research demonstrating the positive impact of diversity on corporate performance becomes stronger and more widely accepted, it is likely that institutional investors will also begin to expect more robust commitments to diversity from business.

What does it mean for directors?



Simply having a more diverse staff cohort does not guarantee improved **performance**; directors will need to consider how their businesses are leveraging a diverse workforce to achieve their goals.

Boards themselves can take an active role in this. Many boards endorse formal diversity policies, oversee diversity strategies and set performance targets associated with them which have proven to be effective among Australian businesses.³⁸ Setting the tone from the top is critical, and boards should also consider whether they themselves reflect the diversity they are seeking to achieve within their organisations.

Diversity will need to be considered in the context of **strategy**. Directors should inquire into what steps the organisation is taking to accommodate a diverse workforce – such as offering flexible working arrangements, professional development programs and diversity and inclusion training.

Non-permanent workers have, on average, fewer entitlements compared to permanent workers. If the majority of the workforce shifts towards being contingent, boards will need to think about if they are providing the right support and protection for their workers.

The lower overhead costs of using a contingent workforce may provide greater flexibility to respond to changing market conditions, but this should be

supported by an appropriate human resources framework. Large cohorts of contingent workers will generally not fit seamlessly into traditional employment contexts without tailored policies and procedures. As such, directors should be satisfied that their **compliance** frameworks accommodate new ways of working.

As workforces become more contingent, governments may also increase the statutory protections available to contingent workers and boards should be prepared to respond to these.



QUESTIONS FOR DIRECTORS

1. How will we maintain workforce culture as more independent contractors begin to replace the traditional full-time workforce?
2. What kind of workplace entitlements do contingent workers receive?
3. How do we define and measure progress in diversity and its contribution to performance?
4. How do we manage the negative impact of a contingent workforce, such as insecurity and financial stress for workers?
5. Do we need a workforce advisory panel, or other mechanism, to provide insight to the board?

³⁷ Deloitte Access Economics 2017, *Westpac: Diversity Dividend*.

³⁸ Deloitte Access Economics 2017, *Westpac: Diversity Dividend*.

2.3 Ad hoc training vs lifelong learning

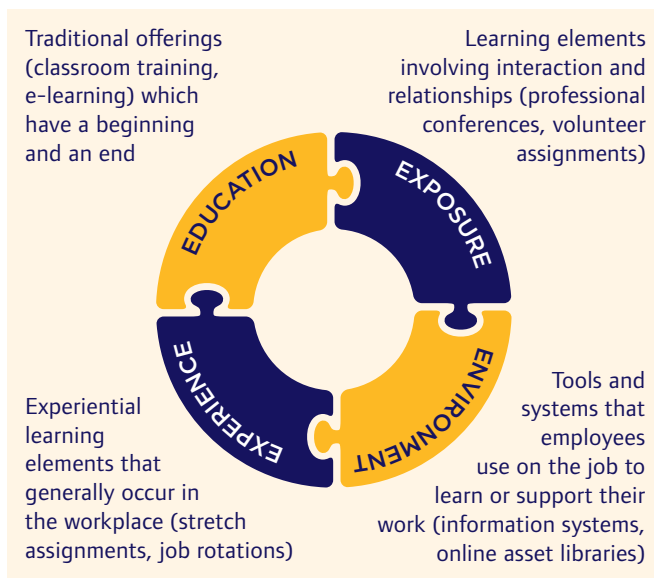
Traditionally, workers followed a linear learning pathway: from primary to secondary school, through tertiary or further education and then into the workforce. On-the-job learning was often through formal structures, such as internships, apprenticeships, and ad hoc, organisation-specific training.

However, the 'set-and-forget' approach to qualifications and skills is no longer working. Some skills are becoming outdated not long after they are learned: half of what a student learns in their first year of a technical degree is outdated by their third.³⁹

Instead, today's workers will need to focus on continuously updating their skills over time. One quarter of employees say they are likely to pursue further informal education (such as online courses) at some point in their careers.⁴⁰

Employers play a critical role in supporting this approach to lifelong learning. Most learning is not formal; employees can grow their skills through a range of methods.

Figure 8: Areas for employee learning



Source: Source: Deloitte (2014)

Formal training continues to be an important part of the overall learning environment. Australian businesses spend \$4 billion every year on employee training.⁴¹

Recognising this is critical to attracting talent. Three in five employees seeking more formal education want financial support from their employer or another source.⁴²

Between the rate at which learning becomes outdated and with an ageing global workforce, ad hoc training is no longer enough. Leading organisations are looking to create a culture of continuous learning, providing opportunities for employees to learn and develop without leaving their roles.

Looking ahead

As the skill needs of businesses evolve more rapidly, relying on new hires to address gaps will not suffice. As traditional work models fall away, and more of the workforce becomes contingent rather than permanent, professional experience will become more important than formal education.

Workers (and, in turn, businesses) will need to rethink workplace learning. Employees will need to learn on demand so that skills remain current and new skills can be developed quickly. Workplace learning will shift, from something that is done to enable work, to an ongoing partnership between employees and employers.

Rigid, qualification-based hiring systems will no longer provide a sufficient pipeline of talent. Instead, businesses will think more broadly, partner with training providers to design tailored education aimed at meeting operational needs and consider investing in training candidates who have strong soft skills, the capacity to learn and a passion for the business.

Even businesses that have the talent they require may need to offer continual learning and job reinvention, or risk losing valuable workers. Training needs to be integrated into day-to-day operations and offered in real time.

³⁹ World Economic Forum 2017, Skills Stability, accessed March 2018 via <http://reports.weforum.org/future-of-jobs-2016/skills-stability/#view/fn-13>

⁴⁰ Chartered Accountants Australia and New Zealand 2014, *The Future of Work: How can we adapt to survive and thrive?*

⁴¹ Deloitte Access Economics 2017, Soft skills for business success.

⁴² Chartered Accountants Australia and New Zealand 2014, *The Future of Work: How can we adapt to survive and thrive?*

What does it mean for directors?



Human capital is a core asset for businesses. Depending on the industry, labour makes up as much as 92 per cent of a business’s costs.⁴³ Appropriate governance of human capital as an organisational **resource** is vital.

However, often the value of this asset is not understood. As a result, some businesses do not sufficiently maintain, invest in or prioritise their people. Only one in ten businesses nominate staff as their top priority when it comes to preparing for the future.⁴⁴

“Only one in ten businesses nominate staff as their top priority when it comes to preparing for the future.”

Boards should seek to develop an understanding of what this resource looks like in their business. One way is to break it down into four components: skills, knowledge, abilities and personal characteristics (SKAP). Directors should ensure that policies are in place to monitor and report on SKAP levels to future-proof the organisation.

Directors will need to make resources available to management to invest in technology that builds personalised learning journeys for employees to learn, anytime, any place. They will also need to be satisfied that these investments are subject to appropriate oversight and that their returns are measured.

Directors should consider human capital availability in setting a **strategy**. Charting a course through an uncertain future must involve a consideration of the SKAP required, which may mean new dimensions of strategic planning emerge for some boards. The skills profile of the organisation (and of competitors) should become an essential component of the environmental scan.

Learning is important for the **performance** of the business. Directors should consider how incentive and reward frameworks are structured to encourage and reward learning. Executives should be evaluated not just on their capacity to achieve returns, but also their ability to facilitate and encourage learning among their employees.

Boards should understand the impact of this investment for the business and inquire of management as to how it is quantified and leveraged.



QUESTIONS FOR DIRECTORS

1. Do we assist and incentivise employees to improve their skills?
2. How do we measure SKAP in our business?
3. Have we defined our current skills needs and forecasted how these might change over time?
4. How could we experiment with new learning and development programs, such as boot camps, consumerised learning, competitions or hackathons?
5. Are our senior staff encouraged and rewarded for teaching?

⁴³ Department of Industry, Innovation and Science 2016, *Australian Industry Report 2016*.

⁴⁴ Chartered Accountants ANZ 2018, *The future of business: dynamic, digital and socially responsible*.

2.4 Work/life separation vs wellbeing at work

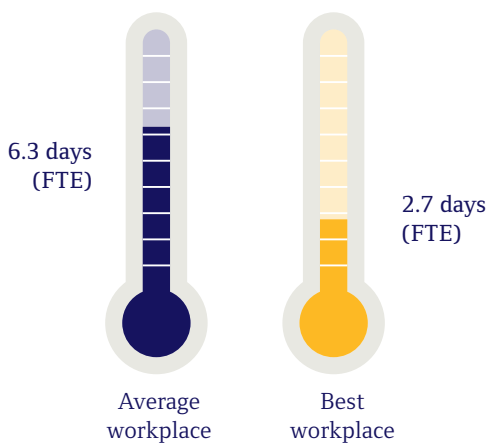
There are often artificial barriers between work and home life. For many, being a professional means conforming to a certain set of behaviours that may depart from personal identities.

Many organisations have historically tried to separate the professional from the personal. Yet ignoring issues such as stress or mental health, do not lessen their impact on the individual or the business.

Having overwhelmed employees is detrimental to business performance. Full-time workers do an average of five hours a week in unpaid overtime, including staying back late and working through breaks.⁴⁵ At the moment, absenteeism costs the Australian economy \$44 billion each year.⁴⁶

Businesses with the best wellbeing programs see 3.6 fewer sick days per employee annually than the average workplace, resulting in direct productivity gains.⁴⁷

Figure 9: Average days of sick leave per employee.



Source: Great Place to Work 2016, *Wellbeing and the importance of workplace culture*

An increasing proportion of businesses are recognising the importance of staff wellbeing. In the US, 70 per cent of companies offered staff wellness programs in 2017, up from

58 per cent in 2008.⁴⁸ Today the corporate wellness market is worth almost \$8 billion in the US alone.⁴⁹

A broad focus on all elements of employee health including physical, mental, financial and spiritual health supports employee satisfaction, and can have positive business benefits. Employees that feel included and valued at work are 41 per cent less likely to consider leaving than those who feel excluded,⁵⁰ improving turnover and thereby retention of corporate knowledge.

Looking ahead

An increased focus on employee wellbeing will be driven by fierce competition for the most talented workers. The best staff will look beyond pay, promotions and even training, and be attracted to organisations with purpose that really care about their wellbeing.

Wellbeing will become a staple of modern working environments, and leaders will have to make wellbeing a priority to attract and retain talent.

New technological developments will allow businesses to monitor employees' stress levels and manage their wellbeing more effectively. For example, employers may increasingly sponsor wearable fitness tracking devices for their employees,⁵¹ encouraging them to incorporate their personal wellbeing goals into their work life.

Organisations will see investment in wellbeing as not just an employee benefit or as part of corporate responsibility, but as a business performance strategy. A 'well' workforce will be more effective and productive.

Businesses that have a reputation for looking after staff wellbeing will have an advantage when it comes to recruitment and staff retention. This will be especially true as more workers become contingent and exercise greater discretion in regard to whom they work for and how. Work/life balance might be the deciding factor for top talent when choosing between similar projects or firms.

⁴⁵ Centre for Future Work 2018, *The Dimensions of Insecure Work: A Factbook*.

⁴⁶ Deloitte 2017, *The Wellbeing@Work Index*.

⁴⁷ Great Place to Work 2016, *Wellbeing and the importance of workplace culture*, accessed online February 2018 via http://www.greatplacetowork.co.uk/storage/Publications/wellbeing_and_culture_final_011216.pdf

⁴⁸ Benefits Pro 2017, *Wellness programs on the rise as employers consider more than ROI*, accessed online July 2017 via <https://www.benefitspro.com/2017/06/08/wellness-programs-on-the-rise-as-employers-consider/?slreturn=20180605033015>

⁴⁹ IBISWorld 2016, *Corporate Wellness Services in the US*.

⁵⁰ Deloitte Access Economics 2017, *Westpac Diversity Dividend report*.

⁵¹ King 2018, *Help us bring our first robot Valentina to life*, accessed online June 2018 via https://dais.au.deloitte.com/News_media/news_articles/Pages/HP_Strategy2020_MCBD_Help%20us%20bring%20our%20first%20robot%20Valentina%20to%20life_27April2018.aspx

What does it mean for directors?



Directors aiming to enhance workplace culture and become an employer of choice should take an active role in overseeing the development of a **strategy** to achieve this.

Directors need to advocate for and understand organisational policies and support systems to drive the wellbeing agenda. Part of this should include adequate consideration of the impact of board decisions on employee wellbeing.

One way this can be done is through positioning wellbeing as a **performance** issue. Directors should set and monitor performance against indicators that contribute to employee wellness and embed these in the performance frameworks of executives and the business more broadly. Directors should also seek to quantify the impact of employee wellness on performance – either positive or negative.

“Directors should set and monitor performance against indicators that contribute to employee wellness and embed these in the performance frameworks of executives and the business more broadly.”

Directors should also understand how their employees’ wellbeing impacts their competitiveness in the talent marketplace. Employee wellness can also improve engagement and employer brand. More than half (58 per cent) of millennials rank the quality of the work environment as more important than financial benefits when choosing a place to work.⁵²

As part of this work, boards may need to make **resources** available to management to direct towards employee wellbeing. Workplace wellbeing initiatives cost money, but they can also reap rewards. Ensuring that there is an appropriate balance to achieve a return on investment should be central to the focus of boards on this issue.



QUESTIONS FOR DIRECTORS

1. What is our target for staff wellbeing and how well do we measure up to that aspiration?
2. How do we monitor the performance of our wellbeing initiatives and what is their return on investment?
3. Is there a feedback mechanism in place for our workers to communicate their wellbeing needs?
4. Do we have genuine insight about why our employees leave our organisation?
5. How do we communicate to the talent market about our employment value proposition in terms of wellbeing?

⁵¹ Fidelity 2016, Better Quality of Work Life is worth a \$7,600 pay cut for millennials, accessed online February 2018 via <https://www.fidelity.com/about-fidelity/individual-investing/better-quality-of-work-life-is-worth-pay-cut-for-millennials>



WORKPLACE

WORK

WORKPLACE

PLACE

3.0

3.0 WORKPLACE



The physical, digital, cultural and structural environment required to carry out the work

The workplace is the ‘where’ of work: the physical, digital and organisational context in which work occurs. This includes facilities, infrastructure and technologies, as well as less tangible components such as culture and structure.

Workplaces are changing. Some of the trends influencing the form of workplaces have been evolving for some time. For example, most large organisations already recognise the costs of silo structures, and remote working has been on the rise for over a decade. It’s also now widely accepted that leaders who display personal power rather than simply ‘pulling rank’ are more effective in their roles.

Other trends, however, are still emerging. With consumer preferences evolving rapidly, there is a new focus on organisational agility, and the ability to react quickly to external change. Many of these trends pose challenges for business. Boards are typically not designed for rapid response, and remote workforces can make it more difficult to monitor performance, security and even occupational health and safety.

However, directors who successfully embrace future workplaces can foster more innovation, and informed risk taking. It can mean better staff engagement, and a stronger pipeline of future leaders.



3.1 Silos vs networks of teams

Most organisations are structured around tasks, roles and specialisations. This has been driven by process innovations in manufacturing, specifically the introduction of the production line.

As a result, most businesses are composed of silos of technical specialisations such as finance, marketing or product development. These silos are stratified into hierarchies where employees are arranged by seniority and influence, usually in a 'pyramid' shape.

There are benefits to these structures. Dedicated teams build subject matter expertise and hierarchies can support clear accountability; but they can also impede innovation.

Communication between silos can be difficult, teams may have conflicting performance targets and tasks can become duplicative. Having teams and systems that do not align can make it hard for an organisation to become and remain a cohesive team. Only 14 per cent of executives believe that the traditional organisational model – with hierarchical job levels based on expertise in a specific area – makes their organisation highly effective.⁵³

Leading companies are beginning to push toward a more flexible, team-centric model.⁵⁴ Organisations are seeking balance between specialisation and siloing, by having specialised people working in cross-functional teams.

Already, around 40 per cent of university-educated employees work in industries outside their field of study.⁵⁵ This reflects an increasing demand for a multidisciplinary approach to problem solving.

Collaboration is currently worth \$46 billion to the Australian economy every year, but unless businesses find ways to increase collaboration in the workplace, we stand to lose \$9.3 billion worth of value.⁵⁶

Looking ahead

Businesses that collaborate and innovate perform better than those that don't. One of the ways businesses can encourage greater collaboration is through creating cross-functional teams. Companies that prioritise collaboration are five times more likely to experience a considerable increase in employment, twice as likely to be profitable, and twice as likely to outgrow competitors.⁵⁷ This is good for businesses and the economy.

Companies will gravitate toward new, more collaborative work approaches, such as 'We Working'. This model uses small and flexible teams in response to fluctuating workloads and the need for fast information exchange and coordination. It will encourage businesses to create small, autonomous and high-performing teams that converge, act and dismantle as assignments change.

A 'partnership ecosystem' will form, where businesses remove not only internal team structures but also increasingly collaborate with other businesses on shared goals. Already, some large businesses partner with specialist firms (for instance publicity firms, marketing firms etc.) to incorporate their expertise into existing teams. Others participate in government-funded projects that encourage collaboration between businesses.

For example, Australia's Cooperative Research Centres (CRC) Program links researchers with industry and government with the focus of research application. Since 1991, the CRCs have produced technologies, products and processes which are estimated to have achieved almost \$14.5 billion of direct economic impact.⁵⁸

⁵³ Deloitte 2017, *The organisation of the future: Arriving now*, accessed online February 2018 via <https://www2.deloitte.com/insights/us/en/focus/human-capital-trends/2017/organization-of-the-future.html>

⁵⁴ Deloitte 2017, *The organisation of the future: Arriving now*, accessed online February 2018 via <https://www2.deloitte.com/insights/us/en/focus/human-capital-trends/2017/organization-of-the-future.html>

⁵⁵ Chartered Accountants ANZ 2014, *The future of work: how can we adapt to survive and thrive?*

⁵⁶ Deloitte 2014, *The Collaborative Economy*.

⁵⁷ Deloitte 2014, *The Collaborative Economy*.

⁵⁸ Cooperative Research Centres Association, accessed online October 2018, <https://crca.asn.au/about-the-crc-association/about-crcs/>

What does it mean for directors?



Directors should consider how collaboration can be incentivised and enabled through developing a **strategy** that demands it. As workplaces evolve, businesses with rigid hierarchies will not keep up with more agile competitors and thus risk becoming uncompetitive.

Flexible teams can also mean a more efficient allocation of **resources**. Businesses can flex the size and composition of their teams to respond to different business needs as they arise. Directors will need to consider how their oversight of resources may change to enable resource allocation under flexible structures. For example, this might mean aligning resources to projects, rather than teams or silos, and reflecting this movement in accountability, oversight and reporting frameworks.

Directors should be aware of how more dynamic team structures could influence culture and approve strategies to maintain and develop a strong culture. This could include developing a performance framework that shares accountability for business goals between teams to encourage collaboration, or articulating cultural norms that help guide the behaviour of staff as they move between different project teams.

“If performance measures are aligned to silos, then it should not be surprising if collaboration is forced or does not occur at all.”

Directors should also consider how setting **performance** targets can encourage (or discourage) collaborative workplaces. If performance measures are aligned to silos, then it should not be surprising if collaboration seems forced or does not occur at all.

Instead, directors should define and measure performance in a way that rewards collaboration. One way that this can be done is through requiring high-level organisational goals be shared across divisions. This can incentivise collaboration and help build a shared sense of responsibility for the organisation’s headline goals.



QUESTIONS FOR DIRECTORS

1. How do our policies, processes and systems encourage or discourage silos in the business?
2. Is our performance reporting framework aligned to teams or to projects?
3. How do we incentivise or discourage collaboration between teams?
4. Are managers responsible for outcomes, or for inputs, like headcount and budget?
5. Are our high-level strategic goals distributed across the performance framework in a way that incentivises collaboration?



3.2 Positional vs personal power

Traditional leadership is often defined by position and hierarchy. Historically, leaders were defined by titles, a certain number of direct reports, or responsibility over a particular budget.

Today, organisations increasingly recognise that leadership is a skill. Leaders come at varying levels of seniority and may have differing levels of responsibility. People can influence, motivate and inspire – irrespective of formal position.

Though businesses often promote individuals based on technical skills, this does not necessarily make for good leaders. Soft skills, like the ability to problem solve, influence stakeholders and exercise emotional judgement are, in many cases, more important in a leader than technical knowledge.⁵⁹

Relying on positional power can have negative consequences for businesses – for instance through staff engagement. Staff that feel listened to and are guided by ‘authentic’ leadership are more engaged with their work and satisfied with their jobs.⁶⁰ Effective businesses ensure that all opinions are listened to, and the best idea is used, even if it comes from the most junior person in the room.

Quality of leadership has a significant impact on the success of businesses – the World Management Survey found that a single point improvement in management score (on a five point scale) is equivalent to the same increase in output that would come from a 25 per cent increase in labour or a 65 per cent increase in capital.⁶¹

Looking ahead

The most successful businesses will take a more expansive view of leadership. Hierarchies will still play an important role, particularly for allocating tasks and monitoring teams, but the relationship between titles and leadership will begin to dissolve.

Leadership will be less about formal authority and more about personal skills and the ability to use those skills to inspire. Instead of a top-down approach, organisations will focus more on a bottom-up approach for identifying leaders.

Junior leaders will play a more important role in setting and implementing strategy. In Australia, 93 per cent of university graduates are recognised by their employers for their capacity to communicate, problem solve and understand different viewpoints⁶² – all essential skills for effective leaders.

More effective leaders will mean more productive businesses. Currently, Australian management skills are ranked 6th out of 16 countries, behind Canada, Germany, Sweden, Japan and the United States⁶³, meaning that while our leaders are good, there is room for improvement. If Australian management could be brought up to world-leading standards, we would see a \$70 billion boost to GDP.⁶⁴

“Soft skills, like the ability to problem solve, influence stakeholders and exercise emotional judgement are, in many cases, more important in a leader than technical knowledge.”

⁵⁹ Deloitte Access Economics 2017, *Soft skills for business success*.

⁶⁰ See Giallonardo, L, Wong, C and Iwasiw, C 2010, *Authentic leadership of perceptors: predictor of new graduate nurses' work engagement and job satisfaction*, *Journal of Nursing*; and Babcock-Robertson, M and Strickland, O 2009, *The relationship between charismatic leadership, work engagement, and organisational citizenship behaviours*, *Journal of Psychology*.

⁶¹ Deloitte Access Economics 2016, *Westpac Businesses of Tomorrow report*.

⁶² Deloitte Access Economics 2017, *Soft skills for business success*.

⁶³ Green 2009, *Management Matters in Australia: Just how productive are we?*, commissioned by the Department of Innovation, Industry, Science and Research.

⁶⁴ Deloitte Access Economics 2016, *Westpac Businesses of Tomorrow report*.

What does it mean for directors?

Strategy



Resources



Performance



Compliance



Risk



Accountability



As part of promoting leadership as a skill and not a rank, managers should define **performance** frameworks that recognise leadership at all levels. Employees who exercise significant personal leadership should be recognised and incentivised to align their contribution to the business' leadership needs.

This shift to personal power may result in a misalignment between who is responsible and who is actually driving or influencing a decision, and performance frameworks should attempt to reconcile this.

This may require boards to review their **accountability** frameworks which typically flow top down. If the influence of leaders can be felt at different levels of the hierarchy, employees should be empowered to take ownership of and be accountable for the influence and responsibility they exercise.

Directors should also ensure that leadership skills are recognised as an important **resource** which is developed and maintained in line with the business' operational needs. Directors should make sure that management have identified who the individuals with personal influence and power within the organisation are and ensure their skills are appropriately utilised.

“If the influence of leaders can be felt at different levels of the hierarchy, employees should be empowered to take ownership of and be accountable for the influence and responsibility they exercise.”



QUESTIONS FOR DIRECTORS

1. Do we know who the people with personal power are in our business?
2. Do our titles, reporting lines and seniority reflect the actual power held by individuals?
3. Do those with personal power know, understand and support the broader firm strategy?
4. Does the business allow for all voices to be heard, irrespective of seniority?
5. Are the people in our executive ranks recognised as leaders by their teams?



3.3 Reactive vs nimble and innovative

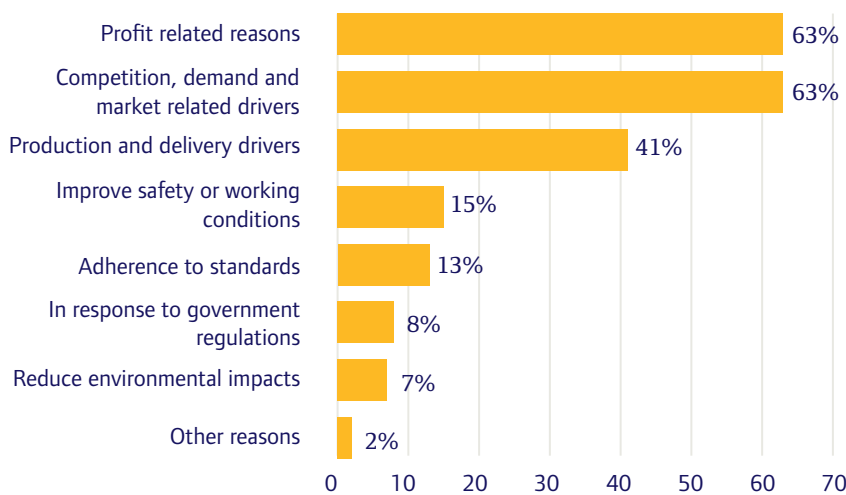
Innovation is the development of new or improvement of existing products, services or processes,⁶⁵ and it is becoming a mainstream expectation in business. Almost half (45 per cent) of Australian businesses engaged in some form of innovation in 2014-15, compared to 34 per cent in 2004-05.⁶⁶ Almost two thirds of businesses that innovate do so to remain competitive or because of its importance to profit.⁶⁷

Customer expectations are evolving quickly, with technology creating new channels through which they can interact with businesses. Employees are increasingly willing to change jobs – more than one in three Millennials are planning to leave their current job within the next two years.⁶⁸ And all the while investors expect increasing profits. In this world, a business that stands still is going backwards.

Adaptable organisations in a competitive environment consistently outperform those that are rigid in their strategic choices, their business model or their organisational structures.⁶⁹

Innovation-active businesses are more financially successful, generating more than three fifths of Australia’s revenues and employment, despite constituting 45 per cent of the total number of employing businesses. They are twice as likely to export and two-to-three times more likely to report increased productivity, employment and training.⁷⁰

Figure 10: Reasons businesses innovate



Source: Australian Bureau of Statistics 2015, 8158.0 – Innovation in Australian business, 2014-15

⁶⁵ Deloitte 2015, *Deloitte Innovation Survey*, accessed online August 2018 via <https://www2.deloitte.com/content/dam/Deloitte/lu/Documents/about-deloitte/lu-en-innovations-survey-25032015.pdf>

⁶⁶ ABS 2016, 8158.0 – *Innovation in Australian Business, 2014-15*, accessed online July 2018 via <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/8158.0Main+Features132014-15?OpenDocument>

⁶⁷ Australian Bureau of Statistics 2015, 8158.0 – *Innovation in Australian business, 2014-15*.

⁶⁸ Deloitte 2017, *The 2017 Deloitte Millennial Survey*.

⁶⁹ Deloitte 2017, *Building the Lucky Country #6 – What’s over the horizon? Recognising opportunity in uncertainty*.

⁷⁰ Office of the Chief Economist 2016, *Australian Innovation System Report 2016*, accessed online February 2018 via <https://industry.gov.au/Office-of-the-Chief-Economist/Publications/Documents/Australian-Innovation-System/2016-AIS-Report.pdf>

⁷¹ Office of the Chief Economist 2016, *Australian Innovation System Report 2016*, accessed online February 2018 via <https://industry.gov.au/Office-of-the-Chief-Economist/Publications/Documents/Australian-Innovation-System/2016-AIS-Report.pdf>

⁷² Chartered Accountants ANZ 2018, *The future of business: dynamic, digital and socially responsible*.

Looking ahead

Businesses are now able to access markets all over the world, but it’s getting harder to stand out. This means that businesses that take risks can win big, but also have a lot to lose.

Businesses are aware of this, and risk appetites are changing across the board – those that don’t take appropriate risks will be left behind. Those that innovate are 1.4 times as likely to increase income and profitability as those that don’t.⁷¹

Agility will become even more important, with more nimble organisations better able to take calculated risks. Exponential technologies such as AI and blockchain will be critical to achieving this agility, allowing them to respond to changes in the business environment in real time.

Smaller businesses may struggle without the necessary capital to invest in these technologies – only one third of small businesses use these technologies today, and five years from now only half of small businesses plan to.⁷²

As the business landscape changes, business leaders will need to think of new ways to generate value and market their product to investors, companies and causes.

Instead of asking ‘why?’ , businesses will ask ‘why not?’ – but this must be balanced against a consideration of the community’s expectations about how exponential technologies will influence society.

What does it mean for directors?



Innovation needs to be a permanent agenda item for boards and a core part of the **strategy**. Importantly, innovation should not be delegated solely to management; boards themselves should get involved. Directors should lead by example, challenging themselves to come up with new ways to work on the business.

There is a difference between inventing and adapting. It will not be enough to adapt in the future; businesses will need to reinvent, businesses need to invent to be competitive. Directors should ensure that enough **resources** are allocated to research and development to support this. Greater and more fit-for-purpose oversight may also be required of an organisation’s innovation tools such as its intellectual property (IP) and staff skills.

“Innovators should be rewarded for learning, irrespective of success, and directors should incorporate this part of their culture through setting the tone from the top.”

As part of keeping innovation on the agenda, it should be measured and reported on. This might require the introduction of new **performance** metrics. Traditional measures such as being on time, to spec and within budget do not always enable innovation. New metrics might include the volume of new ideas that the business implements each month, volume of IP generated, or changes to sales because of an improved product.

Directors should also make sure that there is an innovative culture within their organisations, supported by an appropriate attitude to **risk**. Directors should set criteria for an agreed level of risk, and be satisfied that these criteria are being adhered to. One way to manage this balance is to accept the fail fast paradigm, ensuring that failures that (inevitably) happen are acted on quickly and learned from. Innovators should be rewarded for learning, irrespective of success, and directors should incorporate this as part of culture through setting the tone from the top.



QUESTIONS FOR DIRECTORS

1. Is innovation on our board agenda and do we have the data we need to discuss it?
2. How do we incorporate innovation into our strategy?
3. Does our culture encourage innovation?
4. How do we measure innovation and is it incentivised and rewarded?
5. What is our attitude to failure as a business?



3.4 Traditional office vs frictionless workspace

The physicality of the workplace is changing. New technologies and changing societal norms mean that people are working more flexibly, both in terms of location and hours, and this is delivering benefits for both businesses and employees.

The workplace is being reorganised to enable staff to be more productive and collaborative by aligning physical and digital environments to work tasks. This is called 'activity-based working'. In 2015, 28 per cent of businesses and 27 per cent of people were using an activity-based working model. By 2020, this is expected to rise to 66 per cent of businesses and 40 per cent of people.⁷³

The 9-5 model is also becoming obsolete, with technology making it easier for some employees to work the hours convenient for them. Part-time workers now make up one third of the workforce in Australia,⁷⁴ and almost half (45 per cent) of US workers complete work outside of traditional work hours.⁷⁵

These new developments can have very positive effects for businesses. Global working can improve turnaround time by extending working days with work handed over at the end of the work day in each region to counterparts in other time zones. However, the 24-hour work cycle may also force workers into unsociable hours in some situations.

For the average business, rent represents up to 30 per cent of total costs,⁷⁶ so reconfiguring the workplace can mean significant savings. Over one third (34 per cent) of meetings turn out to be no-shows, suggesting that there may be an oversupply of dedicated meeting spaces in some organisations.⁷⁷

This also presents new challenges.⁷⁸ Research has shown that sitting near a high performer can increase a worker's productivity by 15 per cent, a remote workforce may not benefit from that productivity boost. Agile working can be much more challenging to manage, and can remove the opportunity for spontaneous collaboration.

Looking ahead

As technology advances and cities become more crowded, office workspaces will change, and remote working will become more common. New possibilities for where to locate labour and capital are emerging.

Already, there has been a rethink of the physical and digital locations where work is done; remote working is commonplace in many businesses.

Traditionally, businesses have made decisions about task locations by considering the balance between skill requirements and labour costs. This has spurred global trends like offshoring and outsourcing. But in the future these considerations will not be as important, and these trends may slow or even reverse.

Sensors on employee desks and in meeting rooms will be able to monitor their use and assist businesses to optimise infrastructure investment. Virtual and augmented reality will make it easier for workers to attend meetings without having to physically travel to the room.

The volume of people working from home or from other parts of the world will mean businesses can scale back office space and save on rent. The physical office space will be replaced with a virtual one.

Some businesses may abandon offices altogether in favour of co-working spaces. Collaborative work spaces are already appearing around the world – WeWork (a global network of shared workspaces) has over 200,000 members around the world in 200 locations around the world.⁷⁹

⁷³ Samsung 2015, *Activity-based working is driving business outcomes*, accessed online February 2018 via <https://www.samsung.com/au/business/resources/activity-based-working-whitepaper.pdf>

⁷⁴ Reserve Bank of Australia 2017, *The rising share of part-time employment*, accessed online January 2018 via <https://www.rba.gov.au/publications/bulletin/2017/sep/pdf/bu-0917-3-the-rising-share-of-part-time-employment.pdf>

⁷⁵ CareerBuilder 2016, *Majority of U.S. Workers Think Traditional 9-to-5 is a Thing of the Past, Finds New CareerBuilder Survey*, accessed online July 2018 via <http://www.careerbuilder.com/share/aboutus/pressreleasesdetail.aspx?ed=12%2F31%2F2016&id=pr959&sd=7%2F21%2F2016>

⁷⁶ Department of Industry, Innovation and Science 2016, *Australian Industry Report 2016*.

⁷⁷ Frost & Sullivan 2016, *The Frictionless Office Meets the Internet of Things™ Using Data to Increase Productivity, Reduce Costs and Drive Better Outcomes*, accessed online February 2018 via <https://www.teem.com/resources/the-frictionless-office-meets-the-internet-of-things/>

⁷⁸ Kellogg Insight 2017, *Sitting Near a High-Performer Can Make You Better at Your Job*, accessed June 2018 via <https://insight.kellogg.northwestern.edu/article/sitting-near-a-high-performer-can-make-you-better-at-your-job>

⁷⁹ WeWork 2018, *WeWork celebrates 8th birthday by doubling membership and revenue*, accessed online August 2018 via <https://www.wework.com/blog/posts/wework-celebrates-8th-birthday>

What does it mean for directors?



The traditional barriers between work and non-work are disintegrating. Directors should consider **strategies** that provide greater flexibility of place and work hours. Activity-based workers are 16 per cent more productive than other workers⁸⁰ and directors should consider how to make the most of this productivity.

However, while flexibility can represent an opportunity for businesses to increase productivity, it also requires careful management. Flexibility should not come at the expense of worker wellbeing.

One way to do this could be to set **performance** measures that monitor workloads and ensure work-life balance is maintained under more flexible arrangements, particularly during a period of transition. Boards play an important role in setting expectations that balance this additional flexibility without adversely impacting employee wellbeing.

Overseeing a workforce in more flexible settings will have **compliance** implications that directors should be aware of. Managing workplace health and safety for employees working from home, especially across different jurisdictions, presents new challenges and boards should be satisfied that management have plans in place to respond.

Boards will also need to consider how these changes may impact organisational culture, and adjust their focus to suit the context of their workplace. This may include investing in internal engagement strategies, or utilising technologies that enable easy virtual communication, collaboration and even socialising between workers across multiple different workplaces.

Changes in the settings in which work is done may also present challenges in managing conduct if there is less oversight of the behaviours of employees.

Directors will also need to think about how to maintain a culture of inclusion with a remote workforce. Unconscious bias is often displayed in meetings where some parties are not physically present. It can be hard to form a connection with those that are not in the room and they are often included in the conversation as an afterthought rather than a key member of the group. Chairs in particular will need to have regard for this in managing board discussion where one or more director participates by digital means.

As Rob Hillard, Deloitte Chief Strategy and Innovation Officer puts it:

“As an electronic participant in a meeting... (I) move from being part of the “in group” to being part of the “out group”. I’m still “me”, yet even people that I know well, act differently. I’m included, but not in the natural flow of the conversation. I’m consulted, but as an afterthought. I’m respected, but because of who I have been (in person) not because of who I am as a robot in that meeting.”



QUESTIONS FOR DIRECTORS

1. How important is the physicality of the workplace in generating innovation?
2. How do we manage compliance with work health and safety and across more dispersed workforce?
3. How do we ensure that remote workers don't feel isolated?
4. Can we better harness technology to allow more workers to work remotely?
5. How do we ensure remote workers are engaged and collaborating with their peers?

⁸⁰ Samsung 2015, Activity-based working is driving business outcomes, accessed online February 2018 via <https://www.samsung.com/au/business/resources/activity-based-working-whitepaper.pdf>

Conclusion

Changes in the nature of work create opportunities for businesses to grow, access new markets, improve their products and services, and recruit and retain staff. But it also poses new challenges and risks, from meeting community expectations to maintaining safe and healthy workplaces.

Directors must navigate these pressures, balancing the sometimes conflicting demands of a variety of stakeholders, including investors, staff and government. If well managed, the future of work can be more productive than today and build more successful, well-rounded businesses.

In practice, harnessing the potential of this change will be different for every business, but key lessons for directors are:

- 1. Be prepared to take informed, appropriate risk**
Innovation is critical for business, but it requires a fit-for-purpose approach to risk. Directors should articulate the organisation's expectations around risk and take active steps, such as through design of performance frameworks and resource allocation, to ensure that this is reflected in the practices of the business.
- 2. Embrace automation and be prepared to implement it in a strategic way**
Automation can be an effective way to improve productivity in a business, whether it be through taking on menial tasks that free up human workers for higher-order tasks, or by more efficiently processing large datasets. However, directors need to be mindful of the broader impacts of automation on the business such as through adversely impacting employee morale or failing to meet community expectations.
- 3. Quantify the human capital you have, what you will need and how you will acquire it**
Directors need to ensure they have a strong understanding of their workers' capabilities, beyond their job descriptions (both in terms of technical knowledge and soft skills), so that they can identify strengths and gaps as they arise. Boards should oversee appropriate engagement and communication with workers on how these changes will affect them.
- 4. Govern flexibly and promote flexibility**
Flexibility of plans, policies, operations and even workforce is vital to business agility. In the fast-paced world in which businesses now operate, flexibility and quick responses will be important to success. Directors should consider whether their governance framework provides for sufficient flexibility and ensure that the board is not itself a roadblock to innovation.
- 5. Develop and be guided by a strong purpose**
There is increasing evidence that purpose-led businesses are more successful – they are more likely to be growing in revenue, and better able to expand into new markets. Directors should seek to define, understand and codify their business's purpose. This purpose should serve as a benchmark to setting and monitoring strategy and performance in the long term.

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