

Engaging the 21st century workforce Global Human Capital Trends 2014

Country report: United Kingdom



Engaging the 21st century workforce

Global Human Capital Trends 2014

CEOs and HR leaders see talent as a major challenge to growth. Where should you focus? Our survey of 2,500+ organisations in 90+ countries examines 12 critical trends shaping the human capital agenda. www.deloitte.com/HCTrends2014, www.deloitte.com/HCdashboard

Lead and develop



Develop leaders at all levels: Close the gap between leadership hype and readiness

Leadership remains the top human capital concern – and the largest “readiness gap” in our survey. The need: develop new leaders faster, globalise leadership programmes, and build deeper bench strength.

www.deloitte.com/leadersatalllevels

Attract and engage



Talent acquisition revisited: Deploy new approaches for the new battlefield

Talent acquisition and recruiting are undergoing rapid disruption, challenging companies to leverage social networks, aggressively market their employment brand, and re-recruit employees every day.

www.deloitte.com/talentacquisitionrevisited

Transform and reinvent



Reskill the HR team: Accelerate the development of HR professionals into skilled business consultants

HR pros need a wider range of skills than ever, not only in talent areas but also in understanding how the business works, makes money, and competes. How are HR teams staying current and viable?

www.deloitte.com/reskillingHR

Corporate learning redefined: Prepare for a revolution



It's a new age for Learning & Development. Online content, MOOCs, collaboration tools, and social media now fuel a training model where employees own their skills and experts share knowledge freely.

www.deloitte.com/learningredefined

Move beyond retention: Build passion and purpose in the workforce



Survey respondents say retention and engagement is the second biggest human capital challenge they face (after leadership gaps). What's the secret to becoming a “talent magnet” in the coming years?

www.deloitte.com/beyondretention

Implement talent analytics: Go from talking to delivering on Big Data



Analytics is an exciting and fast-growing areas of human resources, but many companies are lagging. How can they address this game-changing area of HR to move quickly and methodically into the future?

www.deloitte.com/talentanalyticsinpractice

Performance management is widely broken: Replace “rank and yank” with coaching and development



Companies worldwide are questioning their forced ranking, rigid rating systems, and once a year appraisal process. This is the year a new model of performance management will sweep through HR.

www.deloitte.com/PMisbroken

Shift from diversity to inclusion: Move from compliance to diversity as a business strategy



The world has become highly diverse, but many companies have not – especially when it comes to combining diversity with the inclusive culture needed to truly drive value.

www.deloitte.com/diversitytoinclusion

Race to the cloud: Integrate talent, HR, and business technologies



Cloud-based HR technology promises to integrate people systems, enable learning and talent management, and reengineer recruiting. But massive adoption of new software is harder than it seems.

www.deloitte.com/racetothecloud

The request for workforce capability: Create a global skills supply chain



Organisations now compete globally for scarce technical and professional skills. How can you locate and develop this talent when it takes years to develop expertise?

www.deloitte.com/workforcecapability

Rescue the overwhelmed employee: Simplify the work environment to improve life and work



Technology and too much access has turned us into “overwhelmed” employees. Nearly every company sees this as a challenge to individual productivity and overall performance, but struggles to handle it.

www.deloitte.com/overwhelmedemployee

Globalise and localise the HR function: Balance scale and agility



A new model of “high-impact” HR blends globalised talent practices for consistency and mobility with localised flexibility to attract, retain, and manage people appropriately.

www.deloitte.com/globalandlocalHR

Introducing the UK Human Capital Trends report, 2014

I am pleased to share with you a summary of the market trends and priorities that are driving human capital decisions, according to our survey of business and HR leaders across the UK.

This report is a special excerpt from our Global Human Capital Survey of over 2,500 business and HR leaders, capturing results from 94 countries, across all of the world's major economic regions. This year, 58 responses were received from 40 companies in the UK alone, and more than 1,000 were received within the EMEA (Europe, Middle East, Africa) region, representing almost a doubling of the number of responses received last year.

Deloitte's annual Global Human Capital Survey has always set out to analyse the HR and talent trends which we believe will most significantly impact organisations in the near future. But this year there is an added feature, as it also examines the readiness of business and HR leaders to address those trends, in the UK, regionally and globally.

This report is designed to complement the Deloitte 2014 Global Human Capital Trends report, available at www.deloitte.com/hctrends2014. We believe both reports will inform your organisation's leadership, both inside and outside HR and talent management, on the priorities which will help you engage the 21st-century workforce and achieve positive business results. In addition, we are pleased to provide access to a web based dashboard with the key survey results, also available online through the link provided above.

We look forward to discussing these insights further, and to helping you address the implications of these trends for your HR, talent management, and business operations as you prepare for the year ahead.

Yours sincerely,



David Parry
Partner in People and Programmes



Top future UK trends by importance, as compared to organisational readiness to address

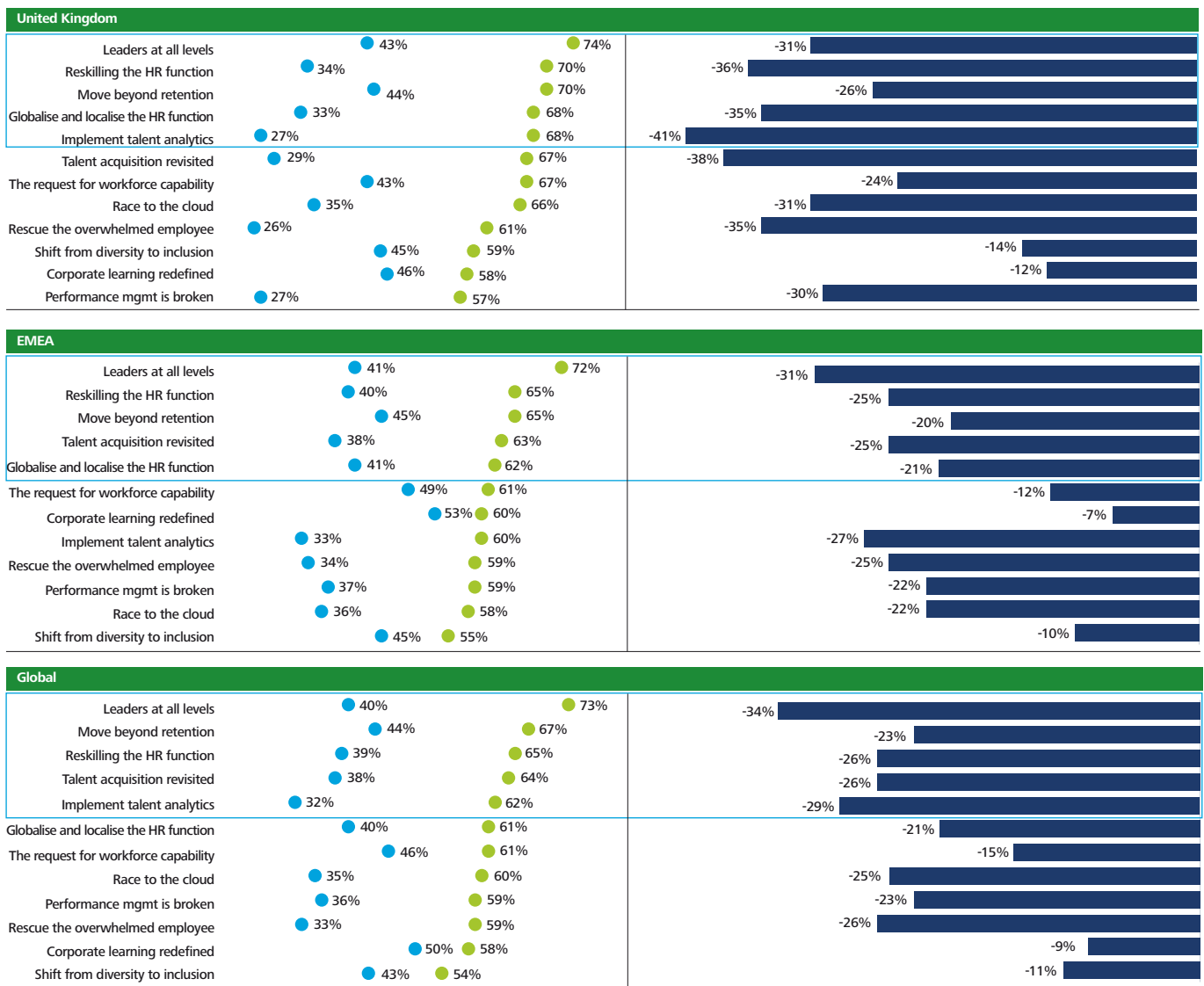
The top UK trends for 2014 – defined as those areas HR professionals consider most important for the year ahead – are broadly aligned to the top global and EMEA trends, the top five for the UK being:

1. Developing leaders at all organisational levels;
2. Reskilling the HR function;
3. Employee retention & engagement;
4. Globalising and localising the HR function; and
5. Implementing talent analytics.

As figure 1 below illustrates, HR professionals in the majority of organisations in the UK and overseas report that their organisations are largely not ready to address these trends.

The big trend to watch is leadership. Compared to 2013, when leadership effectiveness and development was only ranked fourth among the trends, it has now moved to the top of the rankings, suggesting that it is becoming an increasingly urgent priority in many UK organisations. Yet importantly the perceived readiness to address this trend remains low among respondents (43%).

Figure 1. Top trends by Importance & Readiness Index vs. Capability Gap



● Urgent and Important ● Readiness

The dots on the graph depict the importance index and readiness index. The difference between the importance and readiness indexes is defined as the capability gap index.

Importance index is a weighted average of all the scale options defined for importance of HC Talent Trends (Urgent: 100%, Important: 66.66%, Somewhat Important: 33.33%, Not Important: 0%)

Readiness index is a weighted average of all the scale options defined for readiness of HC Talent Trends (Ready: 100%, Somewhat Ready: 50%, Not Ready: 0%)

There may be a +/- 1% difference in the capability gap index between UK data in this report when compared to the UK data in the global report due to differences in the rounding methodology used.

The Human Capital Capability Gap Index

The Deloitte Human Capital Capability Gap Index is a research-based index that shows HR's relative capability gap in addressing a given talent or HR-related problem. It is computed by taking an organisation's self-rated readiness and subtracting its urgency, normalized to a 0-100 scale. For example, if an organisation feels that an issue is 100 percent urgent and it also rates itself 100 percent capable and ready to address the issue, the capability gap would be zero. These gaps, which are almost always negative, can be compared against each other.

The top 5 UK Human Capital Trends as ranked by HR and business leaders: so what do they imply?



1. Develop leaders at all levels: Close the gap between leadership hype and readiness

The development of effective leaders is the number one priority for most UK organisations. It always makes a strong showing, for example coming fourth in the 2013 ranking of trends, but its leap up to the top of the rankings both in the UK and globally appears significant.

There are a number of reasons why this might be the case, but a change in leadership needs – which are now far broader and deeper than merely developing the C-suite pipeline – and the challenge of addressing multiple generations of leaders are seen by us as key drivers.

There is a ticking timebomb aspect to this trend: there is strong evidence that millennials are not being sufficiently engaged and developed as future leaders, and that pathways to leadership for all employees are not being sufficiently articulated (*Leaders At All Levels*, Deloitte University press, 2014). Of course, the HR impacts of leadership are also felt elsewhere in the findings of the HC Trends Survey, particularly where respondents generally classed “employee retention and engagement” and “the overwhelmed employee” as top trends.

On the one hand, the need to retain and engage employees and leaders is paramount in ensuring a pipeline of leadership talent and retaining key people, and on the other there is a need for leaders who can refocus the priorities of employees, redefining purpose and direction in a time of renewed UK economic growth.

Globally in 2014, we have identified the need to enhance and globalise leadership development programmes, and also to move more quickly to identify and develop leadership potential, a need that equally applies to the UK. Leadership development must be flexible in order to respond to changing market and organisational demands and should target multiple generations of leaders – developing leaders at all levels of the organisation and not just at the top.



2. Reskill the HR team: Accelerate the development of HR professionals into skilled business consultants

Increasingly, HR is being seen more as a “business contribution” function – a role that demands deeper skills in data and analytics as well as consulting style capabilities. However, the capabilities and skills to deliver are often lacking, and HR objectives are not clearly defined. Many HR departments suffer from an inability to show strategic impact and drive change programmes, and we are seeing an ever greater pressure to deliver in these specialist, non-traditional areas.

In summary, the new skills required are being driven by:

- the rise of HR Analytics, and the need for people with the skills to deliver better reporting, analysis and insight;
- the need to bridge the skills gap that has formed as a result of years of under-investment in the development of HR teams and is limiting HR’s ability to impact business strategy and advance business goals;
- the rise of “Organisation Effectiveness”, in which HR departments are expected to deliver improved workforce planning and develop, monitor and interpret greater volumes of people performance data;
- the need to transform HR employees into skilled business consultants equipped with business-critical capabilities that go beyond the remit of traditional HR; and
- the need for HR departments to refocus attention on top talent and leadership development.

The skills gap we observe is the product of both a lack of investment in developing HR over a number of what have, for many organisations, been fairly lean years, and then what is often a lack of understanding within HR departments of precisely what HR capabilities are really needed in this changing environment. HR departments need to re-look at what added value their function should be delivering in these changing times, in respect of the 5 areas summarised above, reviewing their HR strategy and professional development plans accordingly.



3. Move beyond retention: Build passion and purpose in the workforce

Retention and engagement are becoming or at least are likely to become an issue for many organisations, given the several years of reduced investment, cost cutting, stagnating opportunities, careers and wages that have been characteristic of the period following on from the 2008 financial crisis – a period from which we in the UK are now emerging.

Given this backdrop, combined with recent spikes in job growth in the economy, and better than expected GDP growth, revitalising and re-engaging the workforce are becoming particularly urgent in the UK. Although the statistical evidence around increased employee turnover is as yet inconclusive in the UK, anecdotally at least it seems to be on the increase, and the high ranking of this trend in our report seems to support this. Employers need to understand the reasons why people stay or leave, and use those levers to retain their most valued staff.

The realignment of retention and reward packages with new objectives and a changing economic reality will undoubtedly have a part to play, putting a renewed emphasis on Reward and Performance Management capabilities, especially in industries such as banking, where many incentive schemes are being recalibrated towards longer term incentives (and where politics and new regulations and restrictions are also driving realignment).

But employers in all industries need to better understand and unlock the reasons why their employees leave or stay. For example, Do I understand what direction my organisation is heading? Do I understand where I will be in my career in 5 years time? At this time of renewed growth and investment, UK employers should take the opportunity to re-align individual employees to a sense of organisational purpose.

Both globally and in the UK, our experience suggests that organisations need to shift from strategies to “hold people here” to “attracting and engaging people” because employees, especially millennials, are increasingly looking for work that inspires passion and allows them to fulfil their professional, personal and social goals. To do this, leaders need to view their company as a growth platform for talent and find innovative ways to provide employees with the workforce flexibility they demand and the personal and professional development they need to grow and succeed. Importantly, they need to focus on finding ways to develop a “high-performance culture” where employees feel recognised and valued.



4. Globalise and localise the HR function: Balance scale and agility

With the rapid growth in emerging economies, organisations have to increasingly face the challenge of being able to balance global needs with those of local markets. Global organisations must have a global HR function but in order to compete successfully in diverse markets, they also need to be able to implement their HR and talent operating model locally, taking into account the local culture, labour market and the diverse needs of local business units.

Both globally and in the UK, we are seeing leading companies develop “high impact” HR operating models that are flexible enough to allow for local implementation and agile enough adapt to local markets and business needs. This is critical because when it comes to customers, talent and supply chains, each local labour market has vastly different dynamics. For example, talent markets surrounding the Asian operations of UK multinationals are not the same as those in the UK. Talent markets in developing economies are much faster moving, and require a different kind of engagement or Employee Value Proposition. To optimise HR agility, companies should focus on implementing an integrated HR operating model that centralises some areas identified as “core”, through service centres and global standards, and yet also empowers local HR teams to customise programmes for local needs where appropriate.

To take the example of Talent Management, talent strategies need to be global in scale and local in implementation in order to effectively match business need with existing skills. In the year to come, organisations must place greater focus on creating globally integrated talent practices that enable talent mobility and take into consideration localised challenges, regulations, expectations and workforce culture. Offering high-potential and highly skilled employees with global development assignments as one of their “tours of duty” may be a way for organisations to move specialists to global assignments more easily and address key talent gaps in new and emerging markets. But, again, it is a balancing act. Not every role is global, and a segmented strategy is needed to cover different types of roles.

The three sub-trends we see associated with the management of the global/ local HR balancing act in the UK are consistent with those we see globally. They are:

- Implementing global technology platforms that provide common HR standards and tools;
- Empowering local teams to innovate and customise global, corporate programmes; and

- Redefining measures of HR success, and tailoring them to specific geographies – it is not only about cost-cutting, but also HR’s ability to drive business performance and growth in key areas and locations (e.g. through workforce planning, analytics, leadership development and better talent management).

To develop an HR organisation that is globally “fit for purpose”, companies should focus on putting in place global consistency and standards to ensure efficiency and scale, balanced with local flexibility to drive agility, growth and employee engagement. The ultimate goal: to combine scale and agility to optimise talent management in every market where the company does business.



5. Implement Talent Analytics: Go from talking to delivering on Big Data

Even with the importance of HR analytics widely recognised, 86 percent of companies surveyed by Deloitte globally last year were still saying that there was no analytics capability in their HR function. This was despite a 57% increase in what has been described as “measurement and analytics” spending in 2013 (Bersin by Deloitte, 2013).

The lack of readiness reported in the 2014 survey around Talent Analytics should therefore not be surprising, even if it is perhaps a little disappointing, especially given the importance given to the trend this year. This is the first time that analytics has appeared in the top 5 HC Trends. In addition, as comparison with our global results confirms, companies in the UK appear particularly behind the curve along with, perhaps surprisingly, other major industrialised countries such as Germany and Japan.

So with all this focus on analytics, what is going wrong in terms of organisational readiness to address? And why is the capability gap here the largest of any of the top trends? As an emerging discipline for HR, there are still many areas of immaturity in terms of strategy, capability and overall relevance to the wider activities of the function. We commonly encounter organisations who struggle to articulate their analytic ambitions and require significant support in building robust business cases that successfully secure the investment needed to move forward. Unfortunately, HR analytics does not lend itself to a slow evolutionary improvement in capability when there is such a low starting point for such a significant proportion of organisations.

Instead, a critical mass of data, analytic technology and business capability needs to be created before the leap from basic reporting to basic analytics can be achieved. This requires a change in mind-set and a more structured approach to investment funding.

So assuming there is commitment within the business to build analytics capability, the next problem is knowing where to start. How do you build a new capability from scratch?

There are a number of practical ways that organisations can proceed:

- Identify specific business challenges to be addressed – so that the value of analytics and insight can be easily measured and proven;
- Identify the roles and skill sets necessary to establish a core level of analytic capability within the HR function, this may include people who have specialist analytic skills that may not normally be found in HR (for example econometricians, business intelligence specialists);
- Grab control of your HR data landscape and establish clear protocols for ensuring the quality and integrity of information that falls within the architecture of HR and business systems; and
- Make analytics user friendly – improving the customer experience around standard reports and building standard reporting into dashboards delivered, for example, via employee HR portals, frees up the analytics team to focus on analysis and production of data-driven insights as opposed to ad hoc provision of standard reports.

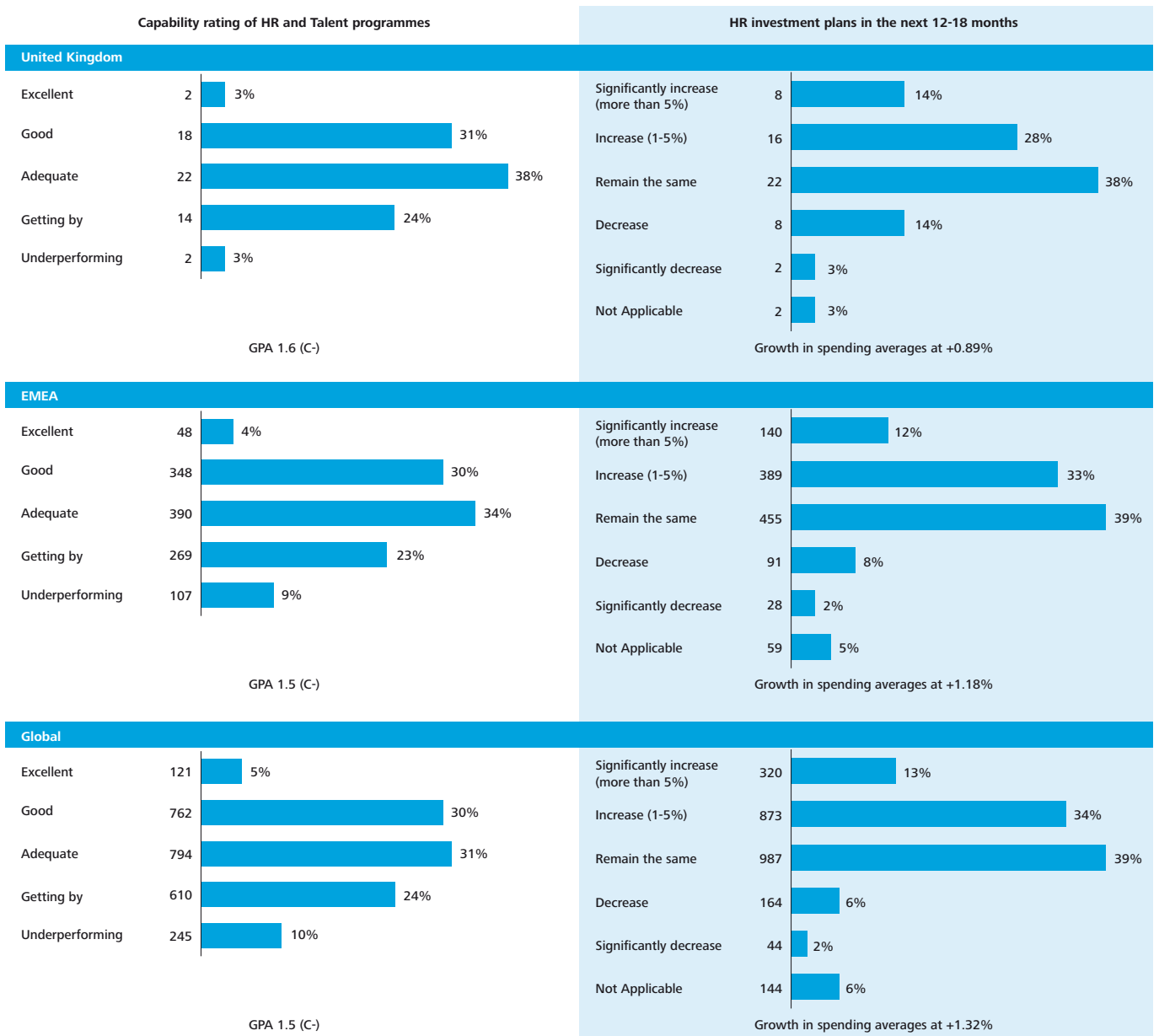
HR report card and trends in HR investment

Respondents were asked how they felt their HR Departments were performing in the delivery of HR and talent programmes, and what the HR investment trend was for 2014, for their own organisation.

Perception of the success of HR and talent programmes in the UK is lukewarm. In the UK, as well as globally, more HR and business leaders rated HR’s performance in managing programmes as “adequate” than any other category, and almost a quarter of respondents indicated that HR was only “getting by”.

However, in spite of this lukewarm assessment, investment plans for the most part seem set to “remain the same” over the next 12 to 18 months, with marginally less investment growth in the UK than the global and EMEA average. It remains to be seen whether this subdued level of investment will enable the 5 key HR trends identified to be fully and effectively addressed; to do so, in many cases, it is likely that a review or re-prioritisation of existing funded commitments will be required.

Figure 2. HR report card and investments



A Excellent B Good C Adequate D Getting by E Underperforming

Business outlook in the UK

Growth expectations for businesses in the UK are generally slightly more positive than the rest of EMEA and globally.

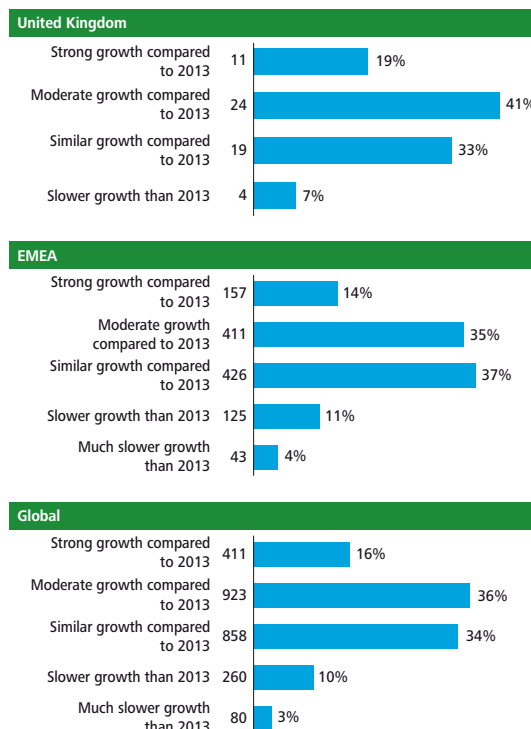
However, compared to 2013, business outlook has significantly improved among HR leaders in the UK.

In the 2013 survey, only 15% of respondents expected strong growth compared to the previous year, and 26% anticipated moderate growth, a total of 41% therefore seeing improvement, and a clear majority of 59% seeing stasis or decline.

In 2014, by contrast, a clear majority, or 60% of respondents, expect either strong or moderate growth for their business during the year ahead, while those seeing stasis or decline are now in a minority.

It is likely that the reason that employee retention and engagement has made a particularly strong showing in the challenges category this year is largely a result of perceived greater pressure to retain good people as overall business outlook improves, as judged by those responding to this survey. It is also possible that the increased focus on leadership – which was placed at the top of the future trends – is because of a need to effectively capitalise on growth opportunities. To do this, business and HR strategies will need to be transformed and will require, first and foremost, effective leaders.

Figure 3. Business outlook



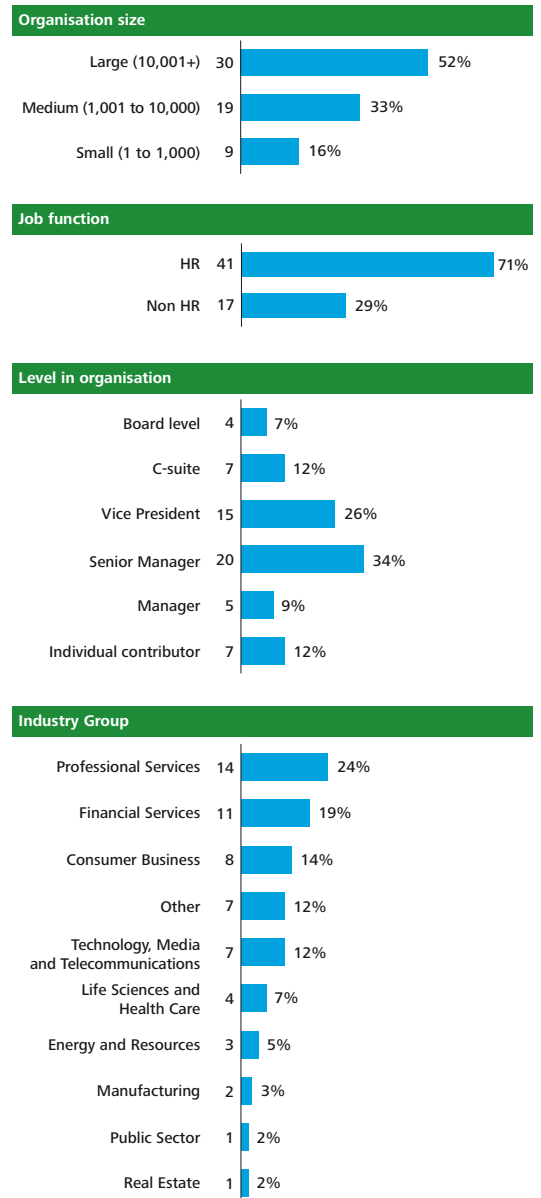
Region	Total
United Kingdom	58
EMEA	1,162
Global	2,532

Survey demographics

The survey respondents were mainly senior leaders, all the way up to Board level, with 79% at Senior Manager level or above.

Survey responses came from a wide range of organisations and industries, and mostly from large organisations of more than 10,000 employees, typical multinationals, although small enterprises of less than 1,000 employees, and/or based in a single country, were also covered in the sample.

Figure 4. Demographics – UK



In conclusion: UK Human Capital Trends 2014

The human capital trends identified for the UK in 2014 are similar to those identified in 2013, but with an increased sense of urgency around developing leaders and retaining employees. This may be driven in part by the perception among HR leaders of an improved business outlook and therefore a greater risk of losing key talent and capabilities just when they are needed most to capitalise on opportunities for business growth.

2014 will require much re-engagement with employees, and the creation of new internal development opportunities, in order to ensure retention and evolution of workforce skills to meet new demands. These demands are becoming increasingly varied, as companies' big growth markets shift, and sometimes rapidly, requiring a rebalancing between global and local HR. And more and more, business leaders, in the UK and around the world, are seeing the value of improved employee data and analytics as a source of competitive edge – allowing for better targeting of resources to address these HR priorities.

In summary

To tackle the changing workforce – one that's younger, more demanding and more dynamic than ever – and address the trends identified in this report, business and HR leaders need to reengineer, innovate and transform their human capital strategies and practices, founded on a deeper understanding of the 21st century workforce.

About the report

This report, focusing specifically on human capital trends in the UK, was designed to complement Deloitte's 2014 global human capital trends report.

The global human capital trends report 2014 was based on a comprehensive global survey of over 2,500 business and HR leaders, capturing results from all of the world's major economic regions.

This report compares national results to EMEA and to overall global results.

For more information visit:

www.deloitte.com/hctrends2014

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