The workforce of the future

Technological innovation, demographic shifts, and other ongoing changes in society are affecting many aspects of doing business, and one of the most important is the evolving nature of the workforce. Identifying the skills needed to execute the company’s strategy, recruiting and empowering the workers who have those skills, and retraining or transitioning those who do not have always been key imperatives for companies large and small, but never more so than now. New ways of harnessing technology and flexible work models – ranging from contracting to full-scale outsourcing – present both opportunities and risks for firms. Oversight of talent management and employee experience increasingly requires a cross-functional effort that encompasses not just human resources (HR) but other functions as well, including the board of directors.

On June 27, 2017, members of the North American and European Audit Committee Leadership Networks (ACLN and EACLN) met with George Brooks, EY Americas People Advisory Services Leader, and Jeffrey Akin, People Advisory Services Regional Managing Partner – Northeast, Ernst & Young LLP, to discuss the workforce of the future and its implications for companies and boards. For biographies of the guests, see Appendix 1, on page 11. For a full list of participants, see Appendix 2, on page 13.

Executive summary

In conversations before, during, and after the meeting, ACLN and EACLN members and the guests explored the following topics:

- **Technological and demographic trends are having major effects on the workforce (page 2)**
  
  Several important trends are shaping the workforce. Technological innovation is increasing the demand for certain skills and decreasing the need for others, with the net effect on jobs unclear. Meanwhile, baby boomers are retiring, while millennials are entering the workforce with new expectations about work. These trends are in turn fueling the growth of contract or contingent employees (the “gig economy”), which provides a flexibility that is attractive to both companies and workers. However, while some observers believe the gig economy will only grow, others foresee an eventual resurgence of traditional employment as the risks of contingent work and a contingent workforce become more salient.

- **Companies can respond in several ways (page 4)**
  
  Companies can turn workforce trends to their advantage by reconfiguring business models and processes to find more productive combinations of humans and technology. However, success will also require renewed attention to recruitment and retention, plus a strong commitment to training both new and existing employees. Companies are also finding that the work environment, including physical spaces as well as company culture and purpose, are more important to retention. To tackle these diverse issues,
companies will need to go beyond the HR function as traditionally conceived and integrate resources from other functions, including finance, information technology (IT), and real estate.

- **Boards are increasing their attention to workforce issues** (page 7)

  While workforce issues are often seen as operational concerns best left to management, the strategic impact of current trends and the need for an effective response are pushing these issues higher on boards’ agendas. The risks involved may increasingly call for oversight by the audit committee as well as the compensation or HR committee, and the strategic implications militate for full board engagement. For boards to rise to the challenge, they may need to assess and adjust their delegation of responsibilities, the information they are receiving, and their own expertise in workforce strategy.

For a list of discussion questions for audit committees, see Appendix 3, on page 14.

**Technological and demographic trends are having major effects on the workforce**

Guests and audit chairs explored several trends that are having a significant impact on the workforce, including technological innovation, demographic shifts, and the rise of the “gig economy.” They expressed concerns about the impact these trends will have on both companies and society as a whole, and their views on how the trends may ultimately play out varied.

**Technological innovation is putting a premium on scarce skills**

New technologies, such as artificial intelligence and robotic process automation (RPA), are changing the workforce and the job market. Many of the skills and competencies necessary to develop and manage these technologies are in short supply. Companies are competing fiercely for workers who have these skills, which include technical expertise in emerging technologies, but also managerial and other “soft” skills in areas such as organizational transformation and customer relations.

At the same time, new technologies are challenging workers who lack these skills. RPA is handling an increasing number of rote tasks, and artificial intelligence is making inroads in areas where more advanced skills are required. Research by the McKinsey Global Institute found that while the percentage of jobs that can be fully automated using current technology is low (less than 5%), the percentage that can be partially automated is much higher (60% could be automated by at least 30%). In one high-profile case reported earlier this year, a company was using a learning machine to interpret commercial-loan agreements, a task that once took lawyers and loan officers 360,000 hours. Members and guests acknowledged that the component tasks of nearly all jobs – both skilled and unskilled – are likely to change as new technologies are integrated.

Mr. Brooks argued that, on balance, new technologies have the potential to create jobs: “We’ve been through these transformations before, and typically, transformation creates new jobs. What we are seeing is that there will be jobs lost, but there will also be augmented jobs and new jobs at the same time.” Some members were less optimistic. One said, “So far there hasn’t been a net loss of jobs, but what’s coming down the pike is a much larger elimination of jobs.”

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In a pre-meeting conversation, another member said, “On a broader scale, the social ramifications of these changes will include a greater divide between the haves and have-nots. That could have a major impact, increasing the divide we already see.”

Baby boomers are retiring, and younger generations view work differently

While the financial crisis forced many baby boomers to delay retirement, the pace at which they leave the workforce is going to be steady and high in the coming years. While technology will take over a portion of the work done by retiring workers, companies will still face the loss of important skills, experience, and institutional knowledge. An EACLN member noted, “It’s more and more relevant – the problem of losing the expertise of retiring people.”

Boards and management teams are also observing new attitudes toward work among those entering the workforce. An ACLN member noted that the cultural differences between generations has come up in board meetings as a factor in the company’s ability to hire. Members are particularly interested in how the millennial generation, born between the early 1980s and the middle 1990s, views the world of work. These workers are often the ones with the technical skills companies are seeking.

Millenials are sometimes seen as fundamentally different from older workers, but studies of millennials from around the world suggest that while some of the stereotypes about this cohort contain kernels of truth, the real picture is more complex. As a group, millennials are willing to work hard, and they do not job-hop any more than young people did thirty years ago. However, they are more likely to care about aligning their personal values with their work. They look for meaning in their jobs, including a higher-level purpose that transcends (though by no means disavows) the goal of making money for themselves and their companies.

The “gig economy” is expanding

New technologies and attitudes are in turn combining to spawn additional workforce developments, including a dramatic increase in the pool of contingent workers. Members noted that the gig economy is not limited to unskilled workers; a growing number of well-educated, skilled professionals have opted for the flexibility of less traditional careers. An EY study suggested that nearly one in five US workers will be contingent by 2020, and these workers are not just responding to peaks and troughs in demand, but also playing a role in strategic initiatives such as driving organizational change. Mr. Brooks said, the percentage of workers that are contingent is currently about 15% in the United States, but that in Europe the number is closer to 50%.

Mr. Brooks noted that, in general, both companies and workers are satisfied with this arrangement: companies like the access to bright and highly skilled workers at lower and more flexible overall cost, while workers like the flexibility. But he predicted that this trend could change as both parties better understand

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6 Aisha Gani, “Millennials at Work: Five Stereotypes - and Why They Are ( Mostly) Wrong.”
some of the downside risks, such as workers’ need for more stable income and companies’ need for employees steeped in their corporate cultures. Millennials in particular could have a change of heart: “Millennials liked this control – it looks appealing. But, when you look at the stats, they don’t own homes, or cars. I predict that there will be a time when they will want those things – and it will come back to more traditional employment. As for companies, we will need these adaptable people, and we will need to retrain them.”

Several members challenged his forecast. One ACLN member remarked, “The general movement in corporate America is to have more work done by a flexible workforce, not full-time. Seems like a one-way street. Why would [corporations] go back?” But an EACLN member noted that in Europe the trend towards a flexible workforce seems to be in retreat. “Europe went too far with the contract employee economy. It has become a cost issue. If you have the best employee, it becomes much more expensive to hire them as a contractor through an agency than as a full-time employee,” he said.

Companies can respond in several ways

What do these workforce trends mean for companies? Guests and members discussed several action areas for companies seeking to turn the current trends to their advantage while ameliorating the attendant risks for themselves and society more broadly.

**Developing new business models and processes**

New technologies are changing the way work is done in ways that go beyond enabling more mobility and flexibility. Business processes may need to be modified or even transformed entirely to ensure that advanced technologies achieve their full potential. Experts note that the impact of technology is less about specific jobs being replaced than about jobs being disaggregated and reconfigured. As a recent article in *Harvard Business Review* argues, “Optimally integrating humans and automation requires greater ability to deconstruct work into discrete elements – that is, seeing the tasks of a job as independent and fungible components. Deconstructing and then reconfiguring the components within jobs reveals human-automation combinations that are more efficient, effective, and impactful.”

These changes will extend to the customer experience as well as internal business processes. Mr. Akin and Mr. Brooks pointed to a recent initiative at McDonalds, in which “technology augmentation” is allowing employees to be “more customer-centric.” The fast-food chain announced that it is replacing cashiers with self-service kiosks in 2,500 stores, but those cashiers will not be terminated, according to a spokesman. Rather, the kiosks “provide an opportunity to transition back-of-the-house positions to more customer service roles such as concierges and table service where they are able to truly engage with guests and enhance the dining experience.” Mr. Akin noted, “IT changes the business model from commodity based to experience based .... There will be a new orientation of the employee around creating an experience for the customer.”

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Recruiting, retaining, and empowering the right employees

Several members said that companies will need to be creative about recruiting and motivating employees with critical skills. Company culture is a key element in attracting the right employees and helping them succeed. Mr. Brooks noted that “50% of the human capital risks are around culture – having the right culture to drive innovation.” After being told by a manager that the company’s culture was too formal, one ACLN member was particularly interested in how companies can entice younger, more technologically savvy workers to come on board.

Traditional draws such as salary and benefits may need to be supplemented by a variety of other aspects of the work experience, including the company’s collective purpose and its reputation for social responsibility. Experts argue that a company’s ability to attract and motivate not only millennials but employees in general may be influenced by its ability to convince them that the company has a reason for being that is meaningful and can serve as a call to action. Such a purpose may include providing benefits to local and global society.10

Mr. Brooks also mentioned more concrete factors, such as the physical environment and the technology available to employees, as being essential not only for recruiting and retaining employees but for nurturing innovation. For example, he described a company that designed physical workspaces to mix together employees from different functions in order to break down organizational silos and create opportunities for cross-fertilization of innovation efforts. Mr. Brooks added that the hardware and software a company provides to its employees can make a meaningful difference, too, as more skilled workers expect tools that enable them to transition seamlessly from the office to remote locations.

Training employees and transferring knowledge

Effective training of both new and existing employees is becoming increasingly important and may require large-scale efforts. Mr. Brooks cited AT&T as an example of a company that forecasts a need for 100,000 employees with new digital skills. The company decided to redeploy existing employees through a $1 billion training program. Mr. Brooks acknowledged that this kind of approach is challenging for workers as well as companies: “It’s really important that employees have the ability to be adaptable, and not everyone is adaptable.” An ACLN member pointed out that “the people at the core will have to be better at the work that they do and understand a more complex environment.”

Given that the specific skills needed are constantly evolving, it may be less about specialized knowledge and more about “how you think and solve problems,” as Mr. Brooks put it. Members agreed and cited examples of redeploying high performers in new roles as the needs of the business shifted, a strategy that becomes increasingly relevant the faster specific skills become obsolete.

With the coming wave of retirements comes the risk of large-scale knowledge loss. Experts say measures such as analyzing the experiences that have shaped top performers, creating partnerships between baby boomers

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and millennials, and establishing effective knowledge management systems can all help preserve institutional knowledge. Mr. Brooks noted that companies should think about using technology to transfer knowledge.

Elevating the human resources function or going beyond it

The big shift in workforce demographics poses additional questions about whether the HR function’s own capabilities and strategies are up to the task. Experts suggest that the HR function should “make the same leap [as] the finance function” and become a “partner to the CEO.” A survey of CEOs and HR executives suggested that the transformation can be difficult, and many HR functions are lagging.

The discussion at the meeting took a different track, suggesting that a comprehensive workforce strategy needs to be centered on functions that are traditionally situated outside HR. The challenges posed by automation, retraining and redeploying employees, and managing the mix of permanent, contract, and offshore employees will require new kinds of leadership. Mr. Brooks said, “A new, decentralized leadership model needs to emerge.” He and Mr. Akin cited as an example a company that hired a head of employee experience, a role that encompassed IT (because an employee’s technology experience is crucial), branding (because communicating the company’s purpose is vital), real estate (physical space considerations are important), and the traditional HR role.

As companies take action in each of these areas, their efforts may in themselves present risks. For example, adapting business processes to make effective use of automation and contingent workers may lead to a “hollowing out” of the jobs that have traditionally served as the pipeline for developing the company’s future leaders. Companies will need to move forward with a coherent, integrated approach in which the different elements reinforce each other rather than work at cross-purposes. A recent survey of executives found that companies with a strong sense of collective purpose transform and innovate more effectively.

Contributing to a societal solution

Successful efforts by companies, especially in training employees for new jobs, will go a long way toward defusing the threat of lost jobs, Mr. Brooks reflected: “Those new jobs will be a major challenge because they will require skills that people don’t have yet. But if we do a good job on learning, we’ll get it right.” He added that this model is already in use in places outside the United States: “I’ve been traveling to other parts of the world, and I’ve noticed that employment is treated differently. [American companies] spend money on termination. In other places, companies are spending on retraining or redeploying workers. There’s an attitude of ‘leave no persons behind.’”

A member agreed: “It’s confirmed that in companies with a lot of robotics, with the highest population of robots, they have the lowest unemployment, for example [in] Japan. I haven’t seen an analysis that says it will be different in the future. It’s about retraining. In Europe, they’re also doing this, realizing that retraining is more prudent and cost-effective.”

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11 Brandon Rigoni and Amy Adkins, “As Baby Boomers Retire, It’s Time to Replenish Talent.”
In a pre-meeting conversation, one ACLN member brought up another way in which business can help society address the problem: “Business needs to be more engaged in education – it’s not good these days. It’s better to train people when they’re younger, rather than later.” Finding a way to work with government might be difficult, but at present “the business community is not doing much about it,” the member observed. “Part of it is that business doesn’t enjoy engaging with the government. They lobby, but they don’t engage in governance where they actually operate ... And government is not always welcoming. It’s Venus and Mars trying to get together.”

Boards are increasing their attention to workforce issues

How are boards tackling these issues? What kinds of questions are directors asking management, and where are they intervening? ACLN and EACLN members noted that many boards are just beginning to address issues related to the workforce, which have often been viewed as mostly operational issues best left to management. One ACLN member said, “It’s coming up on the agenda, but it’s not top of the agenda.” For another ACLN member, attention has been driven by a specific public policy issue: “In the boardroom, the issue of immigration is a big deal.”

Nevertheless, members acknowledged the importance of workforce strategy and said that certain aspects were starting to get more attention. One ACLN member observed, “The first part is seeping in – can we attract the talent that we need? As enterprises become more dependent on technology, they realize they need more of that capacity and that it’s not easy to acquire it. So concerns about skill needs are creeping more into board conversations.” Members and guests noted that audit committees and boards should discuss with management the changing employee base and how the company’s workforce strategy is addressing these changes. For example, is the company finding new ways to recruit and motivate employees now that flexibility, purpose, and the technology experience are key? Is the company leveraging the gig economy safely and effectively?

Boards and audit committees often frame the challenge as a risk issue, assessing the risks of action as well as inaction. One member brought up the example of outsourcing and its potential consequences: “It raises questions for audit committees about how much of our work is being outsourced and what risks are then being introduced, such as cyber risks. At one company, there was a rogue employee who damaged systems because of concerns about outsourcing. A company’s culture can be negatively affected by outsourcing.” Mr. Brooks identified a number of risk areas for boards and audit committees to consider, including a “skills gap” between the skills required to execute a company’s strategy and those of its current workforce, a “leadership gap” between the agility required of a management team and the rigidity of its current leadership and a “loss-of-knowledge gap” between older, highly experienced employees and newer, younger employees.

In considering the role of the board in talent strategy, several additional questions come up:

- **Who on the board owns this issue?** As a risk issue, workforce strategy may fall to the audit committee. A member mentioned elements that are particularly relevant for audit committees: “I make sure to include a conversation in the audit committee agenda because it relates to the oversight of internal controls and the work environment.” At the same time, specific human capital tasks (for example, succession planning, leadership performance evaluation, setting pay plans) may be delegated to compensation/remuneration/HR.
committees or nominations and governance committees. Moreover, some directors believe that the full board should ultimately own talent strategy, especially as it intersects with the company’s overall strategy.

- **How can the board get better data and metrics?** An EY report on board oversight of human capital notes that “increasing and/or improving a board’s role in talent strategy relies on two fundamental prerequisites: the quality of the information given to the board and sufficient human capital expertise among board directors.”¹⁵ Yet directors have reported that they lack the information they need to govern talent strategy effectively. To address this void, boards can ask their chief human resources officers to provide benchmark analysis of key measures such as attrition rates among top performers and executives, employee engagement levels, and other measures tracked by HR. See the tint box on page 9 for examples recently identified by EY.

However, Mr. Akin returned to the idea that talent strategy ultimately extends beyond the HR function, which implies the need for a broader set of metrics: “You have to understand what you’re doing right and get the data from HR, while also understanding that the solution is not only based in HR; it’s broader.”

- **How should the board enhance its own capabilities?** A recent Heidrick & Struggles report noted that “between 2009 and 2013 about two-thirds of the newly appointed directors were sitting or former CEOs and CFOs. While such board members are comfortable diving into the minutia of strategy and finance, without a human resources background they are often reluctant to delve into talent issues.”¹⁶ As workforce strategy becomes an increasingly important aspect of risk management and even overall strategy development, boards will likely seek more directors with experience in HR and other workforce-related functions.

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HR metrics for boards to consider

EY’s Center for Board Matters has seen boards ask for specific strategic human capital metrics, including the following:

- Employee engagement scores
- Employee training and development spends
- Number of new competency-targeted jobs filled
- Attrition rate
- Total revenue/total reward cost
- Diversity and inclusion goals

Conclusion

Guests and ACLN and EACLN members took a comprehensive approach as they discussed the workforce of the future, touching on several trends shaping workforce issues and exploring both the company-level and societal implications of these trends. Mr. Brooks articulated an overarching issue: “It’s all about this: how do you get to a place where you bring humans and technology together to create value?” He and Mr. Akin highlighted the importance of adapting business models and processes to take advantage of new ways to deploy workers and technology. They noted that success depends on effective recruiting, a strong commitment to training, and creative attention to the work environment, including physical spaces and company culture. In turn, success in those efforts depends on a comprehensive, integrated approach that goes beyond HR as traditionally conceived.

For boards and audit committees, workforce strategy is beginning to emerge as a priority, especially as a domain of risks that pose significant threats to the company. Boards will need to assess and potentially adjust the delegation of the responsibilities among committees and the full board, and they may need to enhance not only the information they receive from management on workforce issues but also the background expertise of directors.

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17 EY Center for Board Matters, “Boards Turn to the Talent Agenda,” Board Matters Quarterly, June 2017, 5.
About this document

The European Audit Committee Leadership Network (EACLN) and Audit Committee Leadership Network (ACLN) are groups of audit committee chairs drawn from leading European and North American companies committed to improving the performance of audit committees and enhancing trust in financial markets. The networks are organized and led by Tapestry Networks with the support of EY as part of its continuing commitment to board effectiveness and good governance.

*ViewPoints* is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management, and their advisers as they endeavor to fulfill their respective responsibilities to the investing public. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, members of management, and advisers who become systematically engaged in this dialogue, the more value will be created for all.

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SCORE no. 04897-171US
Appendix 1: Guest biographies

Jeffrey Akin

Mr. Akin is People Advisory Services Regional Managing Partner – Northeast, Ernst & Young LLP. He has 20 years of experience helping clients across industries improve organizational performance results through enhanced talent-related insights, design and implement targeted talent programs and process interventions, transform their HR functions, and drive effective restructuring and/or postmerger integration.

Mr. Akin works across the firm’s talent-management solution suite to help his clients drive improved business performance through people, often engaging across HR, IT, finance, and operations to ensure both the effective design and adoption of highly visible, high-impact talent management programs.

Prior clients hail from such diverse industries as chemicals, consumer products, energy, financial services, health, hospitality, industrial products, life sciences, oil and gas, retail, professional services, and technology.

Mr. Akin came to EY from Booz Allen Hamilton, where he was vice president and leader of the firm’s strategic human capital and talent management consulting business for all client markets.

Mr. Akin has an MBA from Emory University, a BS in finance from Bradley University, a master’s certificate in mergers and acquisitions from the University of Chicago, and a master’s certificate in big data analytics from Harvard Business School. He is also a certified senior professional in HR (SPHR).

George Brooks

Mr. Brooks is the EY Americas People Advisory Services Leader and leads an incredible group of professionals across the Americas. He has over 28 years of international experience, vast knowledge of the EY integrated People Advisory Services offerings, and significant client service success.

Within People Advisory Services, Mr. Brooks focuses on global transactions, often engaging across due diligence, negotiations, day one, and postmerger integration to ensure both the effective design and adoption/execution of high-visibility, high-impact programs.

Mr. Brooks has overseen over 560 country transitions in the past several years and has worked extensively representing buyers and sellers on cross-border and multicultural transactions.

Prior clients have come from such industries as consumer products, energy, oil and gas, retail, hospitality, transportation, professional services, and health/biotech and have spanned the public, private, and nonprofit sectors. Clients personally served throughout his consultative career include Lenovo, IBM, Daimler, BlackRock, P&G, Caterpillar, Covidien, GM, HP, ITT, Kellogg’s, Kodak, Google, Pfizer, MDP, Schlumberger, Siemens, Stanley Black & Decker, and more.

In his prior role, Mr. Brooks was the global leader of EY’s TAS Human Capital team, as well as the Human Capital Talent & Reward leader for the Northeast region. He has advised companies through some of the world’s largest and most complex global transactions.
Mr. Brooks graduated with honors from Canisius College with a bachelor of science degree, majoring in accounting, and cum laude from the State University of New York at Buffalo, Faculty of Law of Jurisprudence, with a juris doctor degree. He is a member of the New York Bar and is a certified public accountant.
Appendix 2: Participants attending all or part of the meeting

Members of the North American and European Audit Committee Leadership Networks participating in the summit sit on the boards of 35 public companies:

- Ron Allen, Audit Committee Chair, Coca-Cola Company
- Alan Bennett, Audit Committee Chair, Halliburton
- Pam Daley, Audit Committee Chair, BlackRock
- Dave Dillon, Audit Committee Chair, 3M and Union Pacific
- Carolyn Dittmeier, Audit Committee Chair, Generali
- Eric Elzvik, Audit Committee Chair, Ericsson
- Tim Flynn, Audit Committee Chair, Wal-Mart Stores
- Helman le Pas de Sécheval, Audit Committee Chair, Bouygues Telecom
- Mike Losh, Audit Committee Chair, Aon
- Blythe McGarvie, Audit Committee Chair, LKQ
- George Muñoz, Audit Committee Chair, Altria
- Chuck Noski, Audit Committee Chair, Microsoft Corporation
- Tom Schoewe, Audit Committee Chair, General Motors
- David Vitale, Audit Committee Chair, United Continental

EY was represented by:

- Steve Howe, US Chairman and Americas Managing Partner
- Frank Mahoney, Americas Vice Chair of Assurance Services
Appendix 3: Discussion questions for audit committees

? Are trends like the use of automation or artificial intelligence likely to impact the workforce at your companies? Which trends seem most important to you?

? What workforce-related developments do you think might be on the horizon?

? What aspects of workforce transformation have your boards discussed?

? What have you noticed about what your companies are doing to recruit, retain, and motivate the employees they need?

? What kinds of training programs do your companies have in place? How is the transfer of knowledge from departing employees maximized?

? How are business processes changing in response to new technologies? How are contingent workers incorporated into the workforce strategy?

? How is the human resources function adapting to these new challenges?

? How can the board focus more closely on talent strategy? What kind of communications should it get from management? What issues should it focus on?

? What committees of the board should take the lead on talent strategy? Should the board review its own capabilities and expertise in this area?