

Organizing for the future

Platform-based talent markets help put the emphasis in human-capital management back where it belongs—on humans.

by Aaron De Smet, Susan Lund, and William Schaninger

The best way to organize corporations—it’s a perennial debate. But the discussion is becoming more urgent as digital technology begins to penetrate the labor force.

Although consumers have largely gone digital, the digitization of jobs, and of the tasks and activities within them, is still in the early stages, according to a recent study by McKinsey Global Institute (MGI). Even companies and industries at the forefront of digital spending and usage have yet to digitize the workforce fully (Exhibit 1).¹

The stage is set for sweeping change as artificial intelligence, after years of hype and debate, brings workplace automation not just to physically intensive roles and repetitive routines but also to a wide range of other tasks. MGI estimates that roughly up to 45 percent of the activities employees perform can be automated by adapting currently demonstrated technologies. (For more, see “Four fundamentals of workplace automation,” on mckinsey.com.)

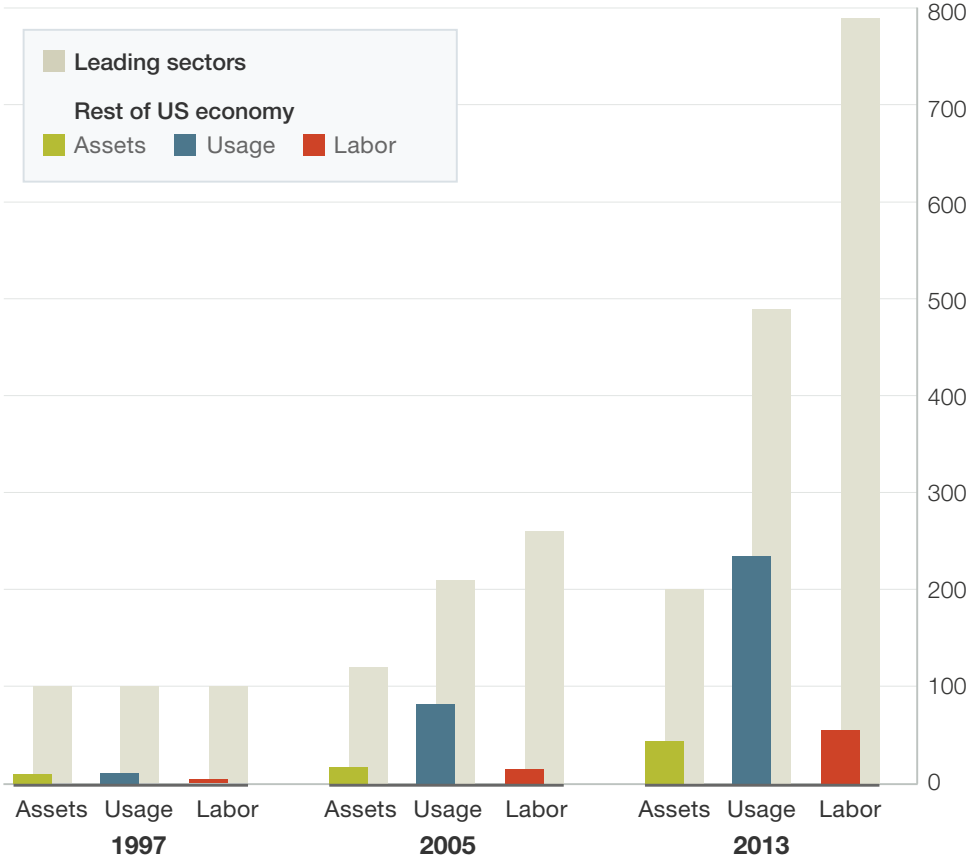
This coming digitization of the workforce—and the powerful economics of automation—will require a sweeping rethink of organizational structures, influence, and control. The current premium on speed will continue, to be sure, even as a new organizational challenge arises: the destabilization of the way people work.

¹ See McKinsey Global Institute, “Digital America: A tale of the haves and have-mores,” December 2015, mckinsey.com.

Exhibit 1

According to a recent study by the McKinsey Global Institute, most industries have yet to fully digitize their workforces and are lagging far behind the leading digitized sectors.

Degree of digitization; index: leading sectors in 1997 = 100



¹Measured using a set of 18 historical metrics spanning assets, usage, and labor.

Source: ARP research; DMA; US Bureau of Economic Analysis; US Bureau of Labor Statistics; McKinsey social-technology surveys in 2007 (n = 1,867) and 2014 (n = 2,346); McKinsey Global Institute analysis

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FROM BEDROCK TO QUICKSAND

The threat to organizational health is plain. As we argue in “Agility: It rhymes with stability,” on mckinsey.com, the hallmark of an agile age is the ability to be stable and dynamic, allowing incumbents to make the most of their big-company advantages, while simultaneously keeping pace with quicker-moving disruptors. Like old masonry buildings—such as the Musée

d’Orsay in Paris or the Asian Art Museum of San Francisco—that have new glass and steel added to their existing structures, today’s leading companies must integrate the contrasting elements of stability and speed to create a more functional, modern whole.

McKinsey research shows that bedrock aspects of stability—workers’ roles and the processes that support them—are the first and fourth most important factors, respectively, differentiating agile companies from the rest. What happens when these roles and processes suddenly turn to quicksand? Most of the organizational ideas of the last half-century or more have taken for granted the underlying building blocks of jobs and the way people work, both individually and together.

Automation can devastate these assumptions by disaggregating jobs into their component tasks and subtasks and then hiving off those that can be automated. It will force companies to figure out how to reassemble the remaining tasks into something that makes a new kind of sense, even as it reconceptualizes the very idea of what a job is. The early stages of these efforts may already be visible as organizations free highly specialized knowledge workers from mundane tasks. The most talented surgeons at one cardiac hospital, for example, perform only the heart surgery itself, while more junior staffers handle pre- and post-op procedures; a similar redesign has helped lawyers on the partner track and school administrators make the most of their scarcest skills.²

Once roles and tasks are sorted out, the newly constructed jobs that result must be reaggregated into some greater whole, or “box,” on the org chart. Those boxes then need a new relation to each other. Will the destabilization of jobs prove powerfully liberating to organizations, making them far more agile, healthy, and high performing? Or will it initiate a collapse into internal dysfunction as people try to figure out what their jobs are, who is doing what, and where and why?

REGAINING STABILITY

The answer may depend on the ability of corporate leaders to restabilize the workforce—and to reconceive organizational structures—by using the very same digital technologies that have destabilized it in the first place.

How can they do so? No doubt, at this early juncture, many possibilities exist. One intriguing approach might work as follows: first split multifaceted jobs

² See Martin Dewhurst, Bryan Hancock, and Diana Ellsworth, “Redesigning knowledge work,” *Harvard Business Review*, January–February 2013, hbr.org.

into discrete tasks, automating some and determining what can be done more effectively by humans. Then match those needs with the employees who can meet them, where they are, and when they're available.³ Finally, introduce a market-clearing mechanism to tie everything together.

Executives have long dreamed of organizational market mechanisms that could mobilize talented people for their best opportunities.⁴ But these have proved difficult to achieve at scale. They may be more feasible now, though, thanks to digital workforce platforms—software layers that help executives allocate collections of workers' skills against a wide array of projects and processes. Companies can deploy such a platform even as they lower overhead costs and improve their responsiveness and flexibility.

These new platforms, as we will see, may provide a novel form of organizational structure, but they won't restabilize the workforce in and of themselves. Companies must also be careful to account for the more permanent aspects of their employees' working lives, such as the business segments they know best, their functional areas of expertise, and the geographies where they live. As digital workforce platforms remake organizational structures, these more enduring "homes" will provide a key aspect of stability. More important, a dynamic internal market, in which the most talented and sought-after workers receive the highest compensation, helps people find new and more meaningful ways to commit themselves to their roles, even as the organization finds new ways to assess, develop, and reward them.

The combination of platforms, markets, and deeper engagement with digitally enabled workers holds appealing implications for managing human capital. That means not just allocating talented people effectively and efficiently, which is alluring enough in itself, but also freeing employees to focus on the more meaningful parts of their roles, as machines take over those that can be automated. Managers can benefit as well, by getting out from under the burden of appraisals, which will be redefined and multisourced on the workforce platform, so they can focus more on the development and professional growth of their direct reports. All this, to be sure, must carefully sidestep an obvious pitfall reflected in the current anxiety about a new kind of "digital Taylorism," which, rather than freeing

³ For a more detailed description of this process, see Susan Lund, James Manyika, and Sree Ramaswamy, "Preparing for a new era of work," *McKinsey Quarterly*, November 2012, mckinsey.com.

⁴ See Lowell L. Bryan, Claudia I. Joyce, and Leigh M. Weiss, "Making a market in talent," *McKinsey Quarterly*, May 2006, mckinsey.com.

employees to pursue greater meaning and purpose, would chain them to more highly controlled—and controlling—approaches to work.⁵

Done right, however, platform-based talent markets can help put the emphasis in human-capital management back where it always belonged—on humans.

THINK ‘PLATFORM,’ NOT ‘STRUCTURE’

Workforce platforms are therefore likely to provide considerable stability in changeable environments. Agile companies tend to have more fluid structures, in which day-to-day work is organized in smaller teams that often cut across business lines and market segments. Platform-based talent markets might provide a solid structure to help supplement and even replace traditional hierarchies. They could also greatly alter how matrix organizations work.

As the old view of hard and dotted lines begins to fade, companies might choose to group employees by their strongest activities and skills. From this functional home, they could be “rented,” via a talent market, by business-line and project leaders. The result would be at once more stable, since employees would be associated with familiar homes, yet more dynamic, as platform-based talent markets would help companies to reallocate their labor resources quickly when priorities and directions shift.

What is a platform?

“Platform” is one of those loosely used words that often lack a specific definition. Broadly speaking, digital platforms are software layers that gather and synthesize large volumes of data to make digital services available and accessible on various devices. They help define the rules and the way work gets done, while better coordinating activities and lowering interaction costs. The best kind of platform invites the involvement of diverse participants, some of whom build their own offerings, tools, and applications on top of it.⁶ In practice, platforms typically take the form of a website, app, or other digital tool that connects different types of users.

Most of us are familiar with the impact of digital platforms on business and consumer markets. Think, for example, of Google’s AdSense, connecting advertisers, websites, and customers. Newer industrial platforms, such as

⁵ See “Digital Taylorism,” *Economist*, September 12, 2015, economist.com.

⁶ For ideas on creating platforms that invite company-wide conversations, see Gary Hamel and Michele Zanini, “Build a change platform, not a change program,” October 2014, mckinsey.com.

GE's Predix or the German manufacturer Trumpf's Axiom platform, use the Internet of Things to connect machines and organize production.

Like digital technology in general, digital platforms have been slow to penetrate the world of work. But after transforming consumer and industrial markets, these platforms—publicly accessible ones like LinkedIn or Monster.com, as well as those inside companies—are now poised to do the same thing across the full spectrum of human-capital management. External platforms are already well established, but it's a different story behind the corporate firewall: companies must themselves fashion digital workforce platforms using customized mash-ups of tools from solutions providers. HireIQ, for instance, provides software to digitize the interview process and apply predictive analytics to the results. More comprehensive solutions offer further unity and integration. In either case, they usually require extensive customization.

The investment required to put together digital workforce platforms is not small. They also call for superior technical capabilities, including sophisticated data management, advanced-analytics skills, and adaptable application development. Perhaps more important, they require a far more robust understanding of each employee's skills, experiences, attitudes, performance, potential, and, if you will, desires or dreams for the future. Even though many of the tools used in platforms are available from third-party solutions providers, integrating them into a smoothly functioning whole is no trivial endeavor.

At least the utility of workforce platforms isn't trivial, either. MGI modeled sample organizations in a range of industries with a diversity of workforce mixes, operating models, and financial characteristics. In this way, it estimated that companies using a combination of publicly available and behind-the-firewall platforms could realize an increase of 275 basis points in profit margins, on average, by 2025.⁷ These increases come about through productivity gains among front- and middle-office workers (which can translate into revenue or other increased output opportunities) and through savings in recruiting, interviewing time, training, onboarding, and attrition costs. The upsides, we suspect, may be far greater for companies that actually succeed in making markets for talented workers inside their organizations.

What follows is a more detailed look at how workforce platforms can resolidify the way work gets done, even as they improve collaboration, retention, succession planning, and decision making.

⁷ For the full MGI report, see "Connecting talent with opportunity in the digital age," June 2015, mckinsey.com.

Matching individuals, teams, and projects

Companies have long had difficulty maximizing the visibility and mobility of their best people. Managers can struggle to find the right person for a specific project, and talented workers can't always see opportunities that might help them grow professionally and develop their expertise. Staffing coordinators have tried to step into the breach, but their efforts, even when effective, are necessarily limited in scale. These traditional shortcomings will soon increase as the exigencies of automation drive companies to break up jobs into their component parts.

Workforce platforms, which can sort information on employees' skills, performance in previous assignments, working styles, personality traits, availability, and locations, can be particularly valuable matchmakers. Moreover, they can play the clearinghouse role in a neutral and nonbiased way, matching people and opportunities while improving the success of staffing efforts by expanding the known pool of candidates across a whole company. Workforce platforms can also streamline the way employees find colleagues with specific expertise—an important capability for large multinationals with operations spread around the world.

Consider the uses of workplace platforms in hospital systems. Nurses must constantly be matched to departments and cases, taking into consideration their specialized training, availability, doctors' preferences, and technical requirements. Sophisticated software can better deploy the substantial float pool of nurses and per-diem physicians, and the platform's real-time communication tools can help frontline medical personnel access specialists immediately.

Bringing science to talent management

Whom shall we hire? What should we pay them? How can we retain these employees and help them grow and develop as their careers progress? Such people decisions are at the crux of organizational health not only for executives but also for entry-level workers, administrative staff, sales teams, and customer-service representatives. In the absence of sufficient data, companies often fall back on time-consuming and bureaucratic review processes that attempt to look at a year's performance and decide how to grade it for compensation purposes. These time sinks will probably become all the more difficult as companies break jobs into their component tasks, rendering previous role definitions and job descriptions less relevant for evaluating performance.

Ericsson, Google, 3M, Wells Fargo, Xerox, and other early adopters of digital workforce platforms are finding that they help ground people decisions in hard data rather than gut instinct. The software provider Symantec, for example, used a crowdsourced performance-evaluation process to gain a 16 percent increase in employee satisfaction and engagement.⁸ Xerox reduced new-hire attrition and made call-center agents 3 to 4 percent more productive by implementing Evolv's HR analytics software, which sets up a 30-minute online-screening test for applicants and compares the results with a profile of top performers.⁹ An aging workforce gave 3M a reason to build an integrated workforce-technology platform to plan for succession management, thus increasing its employees' internal mobility and boosting their annual productivity by 4 percent.¹⁰ Wells Fargo used Big Data analysis by Kiran Analytics to identify its most engaged and high-performing frontline employees; the company then designed its hiring processes to screen for candidates with similar traits, raising teller retention by 15 percent.¹¹ Ericsson globalized its HR processes around an integrated platform designed to regather the tools and processes scattered by decentralization. (For more, see "How Ericsson aligned its people with its transformation strategy: An interview with chief HR officer Bina Chaurasia," on mckinsey.com.)

Hard data can support more robust yet streamlined discussions that help companies to reach better-informed decisions. By making it possible to evaluate the performance of employees through multiple sources, digital platforms release managers from lengthy appraisal processes, freeing them to focus on coaching and professional development. They also bring to bear more data, such as the information generated when project teams bid for a particular employee with a specific set of skills, pushing up that person's per diem, which in turn gets reflected in the evaluation cycle. Rather than further destabilizing the organization, digital platforms, the markets they enable, and the hard data those markets provide can help to solidify and stabilize it.

ENGAGING THE DIGITAL WORKFORCE

In a digital world, where switching jobs is easier than ever and top performers are increasingly in demand, it's no surprise that employees have

⁸ Eric Mosely, *The Crowdsourced Performance Review: How to Use the Power of Social Recognition to Transform Employee Performance*, McGraw-Hill Education, 2013.

⁹ Jessica Leber, "The machine-readable workforce," *MIT Technology Review*, May 27, 2013, technologyreview.com.

¹⁰ See *Talent Mobility Good Practices: Collaboration at the Core of Driving Economic Growth*, World Economic Forum, in collaboration with Mercer, 2012, weforum.org.

¹¹ Katie Kuehner-Hebert, "Predictive analytics for hiring," *BAI Banking Strategies*, September 6, 2013, bai.org.

become more mobile.¹² This change might represent a positive dynamic in the broader economy. But many companies face increased rates of attrition, which is not only expensive but also destabilizing—particularly when strategic capabilities, institutional knowledge, and leadership skills walk out the door. Workplace platforms offer new ways to restabilize attrition rates by helping employees become more engaged with their work and flagging early warning signs, so that managers can intervene before high performers leave as a result of low morale or boredom.

Getting personal

By allowing even the largest organizations to move beyond a one-size-fits-all approach to human resources and talent management, digital workforce platforms can help create the conditions in which employees feel energized by their work, valued by their organization, and happy in their environment. Such platforms can, for example, create a more personalized onboarding process that incorporates what companies know about new hires and their skills when they arrive. Appical, a Dutch start-up that uses digital games to transform the onboarding process, is among the companies creating tools to streamline orientation and training for new employees.

Workforce platforms also support the ongoing and self-directed virtual learning that's crucial to professional development and growth. Digital training services like those provided by City & Guilds Kineo and LEO Learning enable companies to cut back on live training sessions and create more comprehensive, personalized, and effective online learning programs.

Designing employee journeys

In product and service markets, digital technology has helped companies take a new view of interactions with customers by mapping and shaping their “journeys” from their first awareness of a product to its purchase and beyond.¹³ This new, technology-enabled approach helps companies answer an age-old question: Why should customers buy from us?

There's a similarly long-standing question for employers, of course: Why should top performers choose to work for us?¹⁴ In response, some companies have begun examining the design of their employee journeys with the same intensity they bring to designing the customer experience.

¹² Warren Bennis and Phillip Slater were perhaps the first to foreshadow this trend, in 1968, in their book *The Temporary Society* (New York: Harper & Row).

¹³ See David Edelman and Marc Singer, “The new customer decision journey,” October 2015, mckinsey.com.

¹⁴ Professors Rob Goffee and Gareth Jones also ask this question in their 2015 book, *Why Should Anyone Work Here?: What It Takes to Create an Authentic Organization* (Boston, MA: Harvard Business Review Press).

Why does the employee experience matter? For one thing, because studies show that intrinsic factors—the meaningfulness and purpose of work, for example—can motivate employees more effectively than just traditional extrinsic ones (think: money) tend to do.¹⁵ Furthermore, inroads by automation will doubtless leave many employees feeling vulnerable, though it is more likely to redefine jobs than to eliminate them. Improving the employee experience can help balance that feeling of vulnerability.

Just as digital technologies help companies design the customer decision journey, workforce platforms help them design the experience of employees as they move through their career paths, from their initial consideration of a company until they become alumni. At each stage along the way, the platform provides greater visibility into what works and what doesn't, by tracking the behavior of employees and enabling real-time, personalized responses to it.

Workforce platforms could, for example, roll up and provide access to the data gathered through the “sociometric badges” invented by MIT computer scientist Alex Pentland, who cofounded the social-technology firm Humanyze. These badges look closely at the interactions and social behavior of employees, even while raising new questions about confidentiality, ethics, and the use and sharing of information, among other things. The data they generate can help reveal, measure, and analyze organizational dynamics—and give companies a better understanding of how employees work and of how to make them more satisfied with their jobs (Exhibit 2).

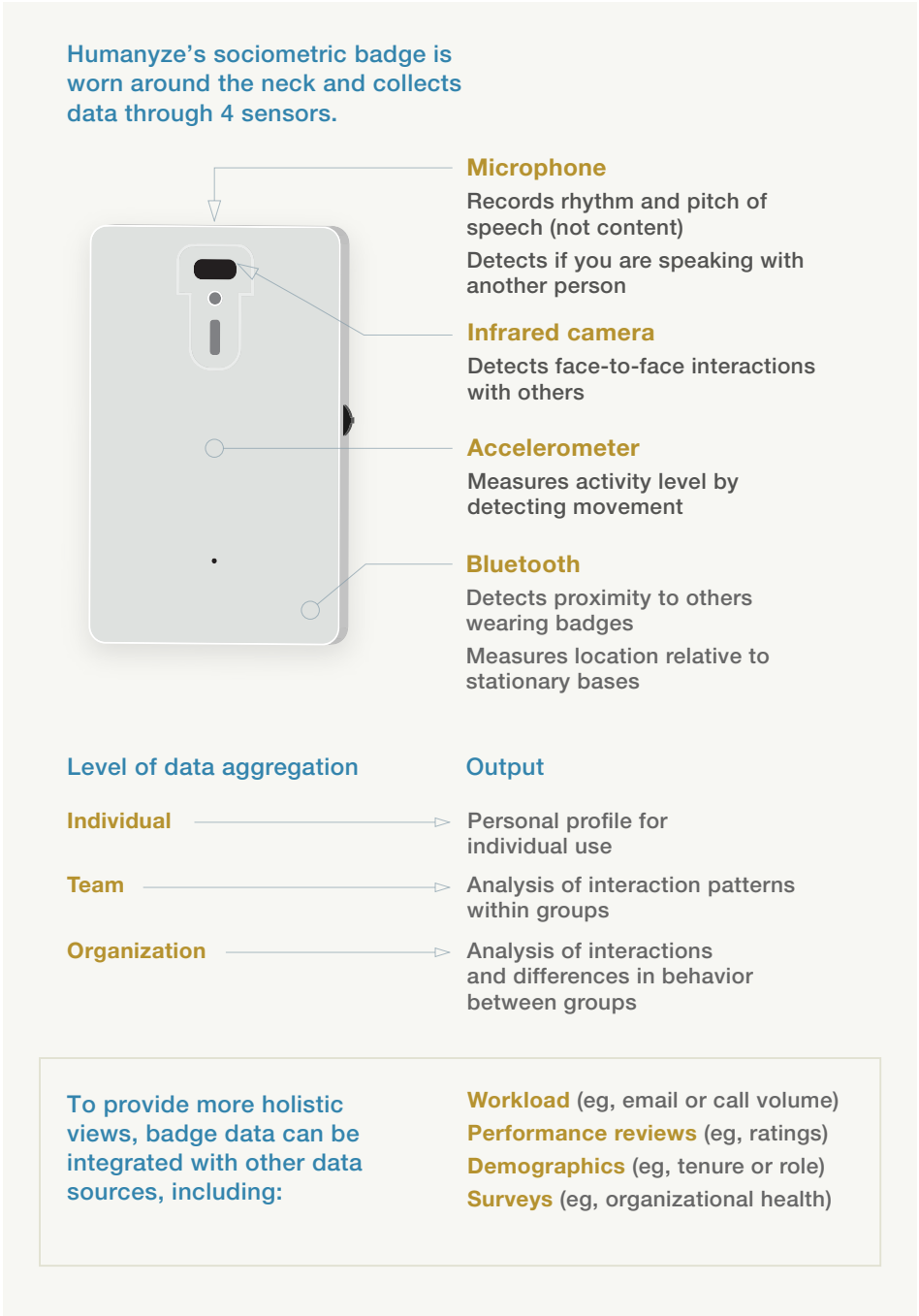
Will such devices bring the looming presence of Big Brother? Case studies conducted with them found that they can actually reinforce the more humanistic elements of high performance: a pharma company, for example, found ways to improve the way people communicate with each other across departmental lines, while a German bank used badge data in reconfiguring seating arrangements to encourage more face-to-face interactions and to control email overload.¹⁶

¹⁵ See, for example, Martin Dewhurst, Matthew Guthridge, and Elizabeth Mohr, “Motivating people: Getting beyond money,” *McKinsey Quarterly*, November 2009, on mckinsey.com; and Daniel Pink, *Drive: The Surprising Truth About What Motivates Us*, New York: Riverhead Books, 2011.

¹⁶ For more about these cases, see humanyze.com/cases.html.

Exhibit 2

Companies can use wearable technology, such as sociometric badges, to improve organizational dynamics and workplace design.



Of course, legitimate privacy concerns must be carefully tended to, though millennial workers, who have grown up with wearable technology, may be more comfortable with potential privacy trade-offs. Using aggregated and anonymized (rather than individual) data will help.

THE LEADER AS ORGANIZATIONAL ARCHITECT

Recent McKinsey research into the health of organizations finds that the definition of great leadership varies according to context. (For more, see “Leadership in context,” on mckinsey.com.) Certain kinds of baseline behavior that are required of leaders when organizational health is poor, for example, recede as it improves and other, higher-order forms of behavior come to the forefront. This idea bears a resemblance to Abraham Maslow’s hierarchy of needs: people concerned with their own (and their families’) physiological health and safety have little or no time for higher-order needs, like self-actualization.

The coming digitization of the workforce and the automation of tasks will take a toll on organizational health by destabilizing the ways and means through which work is performed. As this happens, executives should carefully reassess the well-being of their organizations and, in many cases, adjust their leadership styles for the new context. That may involve the kinds of behavior required when companies trend toward dysfunction: effectiveness at facilitating group collaboration, demonstrating concern for people, championing desired changes, and offering critical perspectives.

CEOs must be alert to how machine learning and advanced analytics will automate some of their own tasks, as well. They will not only have to rethink their leadership behavior but also keep a sharp eye out for their own comparative advantage.¹⁷

In an age of automation, CEOs and their top teams will need to gain an almost architectural sense of how machines and people work together side by side, each making the other more productive and effective, while never losing sight of their employees’ humanity. They will have to look beyond the architecture of mechanical “hard” structures to include the orchestration of complex social systems as well.

¹⁷ See Martin Dewhurst and Paul Willmott, “Manager and machine: the new leadership equation,” *McKinsey Quarterly*, September 2014, mckinsey.com.

HUMANIZING DYNAMIC SCHEDULING

The data insights woven into workforce platforms can help companies combine demand forecasting with scheduling tools, so that staffing is adequate at peak times. These automated, just-in-time scheduling systems have set off a wave of controversy and questions about which of their uses are legal. Many companies, particularly in the retail and food industries, have used software tools to manage workforce deployment so tightly that employees have little notice or downtime before shifts. Unpredictable, erratic schedules can make logistics like childcare impossible for employees, and when shifts are cut short they lose pay. Hourly employees often find their incomes and lives squeezed.

Dynamic scheduling does not have to be used in this way. Companies that want to

give employees greater flexibility can do so by using platforms that not only take into account the suitability of workers for a given assignment but also combine that information with their preferred tasks and times to work. Zappos, for instance, has launched an initiative to reward customer-service agents with “surge pay” during peak call-volume times, ensuring that flexibility matches up with customer demand. On-demand service platforms not only adjust pricing and deployment to meet instantaneous spikes in demand but also create flexible, entirely self-directed work opportunities. Approaching the schedules of workers empathetically can create win-win situations that pay off in greater retention, improved morale, better customer service, and higher performance.

Leaders must help to reconcile and interrelate the forces and mandates of digitization and automation, on the one hand, with the needs and tenets of organizational health, on the other. A virtuous circle could certainly arise, but so could a vicious one. If enthusiasm for technology makes executives lose sight of the human needs of the workforce—for example, by steering too far toward machine-based control of employees, especially lower-status, lower-paid employees—organizational health will surely suffer. (See sidebar, “Humanizing dynamic scheduling.”)

The broader view required will force CEOs to transcend their own functional or business-unit backgrounds. Former CFOs, for example, have always had to see beyond the numbers on becoming chief executives. Now top leaders will need an even deeper grasp of people, the roles and tasks they perform, and their fears about the future.

The approaching age of automation, together with the impending penetration of digital technology into the labor force, threatens to destabilize crucial aspects of how employees work, by undermining the stability companies depend on to be agile. Executives can resolidify their companies even while making the most of the coming transformation if they adjust their leadership behavior, embrace digital workforce platforms, and deepen their engagement with digitally enabled workers. (Q)

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