HR Transformation
Envisioning the Future
Management Summary

HR needs to adapt itself to be able to deal with internal and external challenges. We envision four business trends that impact the evolution of the HR function: Digital Revolution, Borderless Business, Personalization and Shifting from focus on cost reduction to investing in growth.

Based on these trends, we see six challenges (expressed in paradoxes) for the organization of the HR function. The paradoxes we see are:

- Being partner of the business while being ahead of the business.
- Enabling digital transformation while going through its own digital transformation.
- Being locally based while supporting a global organization.
- Being data-driven but employee focused.
- Providing standardized but personal service.
- Lowering costs while improving added value.

To face these challenges, the HR organization and its way of delivering products and services need to evolve. Based on our ‘HR Maturity Model’, we see three drivers for excellence that shape the evolution:

- Customer excellence by transforming from HR Business partnership to strategic HR business partnership and from there to an integral business partnership (focused on specific business issues).
- Operational excellence by evolving from regional shared service centers to (partly) globally outsourced shared service centers and from there to digitalized transactional HR activities.
- Functional excellence by evolving from Centers of Expertise to Integrated CoEs and from there to new CoEs combined with other (non HR) functional areas.

These three drivers need to be developed to a higher maturity level to anticipate the six challenges mentioned above. It is crucial that this is not done separately from each other but integrated and end-to-end.

In this vision document, we describe how the defined trends and challenges are causing a need for change in the HR organization. We will describe our perspective on how HR should be organized in the future to anticipate the challenges they might face. Based on our HR Maturity Model, we focus on how to organize the required (strategic) business focus, the expert knowledge and the commodity (administrative and operational) role of HR to tackle the defined challenges.
Trends

On a global scale, organizations need to adapt faster to internal and external challenges. People management plays an important role in the adoption rate and flexibility of organizations. To be able to keep up with the pace of their customers, HR needs to change itself as well. We have identified four main trends that influence business processes, people management and thereby the HR function.

Digital revolution

The digital revolution takes place in all (types and parts of) organizations. There are no organizations where the impact of digitalization has gone unnoticed. The digital revolution can impact an organization in a variety of ways. We structured the impact in three columns: Changing Business Model, Changing Customer Experience and Changing Operational Excellence. Three concrete examples of digitalization impacting organizations are:

- The opportunity to own larger parts of the value chain because steps of the value chain are digitalized.
- The opportunity to optimize internal processes of an organization by the use of digital tooling.
- The change in the way the employees and managers communicate internally because of the use of social media.

In previous years, for a lot of companies the main focus of digitization was on the customer experience part. This makes sense, since at the customer experience part of digital transformation the impact is the most visible. However, the challenges, opportunities and impact of new digital technologies now lie in other strategic aspects and in the operations of organizations as well. More and more cognitive tasks that were once handled by employees for example are being replaced by machines and robots. Another example of the operational impact of digitalization is 3D printing. In many manufacturing companies 3D printing is considered to be the new production method. The last but certainly not the least example of the impact of digitalization is the availability of data about almost everything (big data) where organizations need to find a way to make the data of use.

Borderless business

To remain competitive organizations are becoming more borderless geographically, internally, externally and virtually. The boundaries between countries and regions are dissolving which enables clients to become less restricted by geography. In a business to business (B2B) environment, clients are organized more globally and, therefore, also forcing companies to treat them as a global client. In a business to consumer (B2C) environment, the development in e-commerce is changing the relation between organizations and clients. Clients no longer go to stores physically but order (via internet) from home. Next to this the new way of working plus social and mobile tooling enable the internal organization to operate more borderless.

Personalization

Customers and employees are changing. While it is not in the scope of this document to describe changes on demographics and society, it is clear that the needs of (new) generations are changing, and that people live and sometimes work longer. Through this, we can predict that we will have a constant change in personal needs and preferences. All these people (as customers and employees) are increasingly getting used to being serviced on a personal level, 24/7 and independent of where they are. This will impact organizations and the way they serve these customers and employees.

Shifting from cost reduction to investing for growth

The global economy has been in decline for the last couple of years which has forced organizations to focus on efficiency and cost reduction. Especially in the Euro zone, operational efficiency was on the top of the to-do list of CEOs. This focus is changing because the global economy is strengthening. The IMF recently predicted global growth of 3.6 percent this year. Next year, the expansion will further increase to 3.9 percent. For a lot of companies, the predicted growth will lead from a cautious shift in focus on cost cutting and operational excellence to productivity growth and innovation.
Challenges for the HR organization

The business trends we described in the previous paragraph are impacting HR. Of course, the level of impact will differ per organization but all organizations will need to react on these trends. Based on the impact of the identified trends, we see six challenges (expressed in paradoxes) that HR needs to solve:

Being partner of the business while being ahead of the business

To help identify the specific impact of the trends for their organization, HR needs to be ahead of the business and discuss with them future people issues. At the same time, the business demands HR to help them in solving issues that need immediate attention. HR often doesn’t get the budget to face the future challenges, because the business doesn’t see or prioritize these challenges yet. But tackling some HR challenges (e.g. changing the competences of the current staff or positioning the organization to be attractive for people with specific skills) often take a long time. Furthermore, the solutions for strategic challenges can even conflict with the shorter term business objectives. This means HR needs to walk a thin line between being a partner of the business, and advising the business what they need to do now and in the future in order to solve future people issues.

Enabling digital transformation while going through its own digital transformation

Digital revolution has a major impact on work, people management and the HR organization, impacting business on the whole. For HR, this means that they will be asked to support the business in handling the (people part of) digital transformation. This includes the war for digital talent, supporting the transformation management intensity1 by creating the right (leadership) capabilities and guiding employees on their digital journey. At the same time, HR needs to handle their own digital transformation regarding HR functionality. Investments in technology-enabled initiatives change how HR operates.

Being locally based and supporting a global organization

For HR, further globalization brings about the challenge on how to support a global organization. What should it do globally, regionally and locally and how should it work together in all these different areas? Some HR functionalities like compensation and benefits are still a local subject. Local labor laws, local legal employers and negotiations with local unions and works councils still push (the compensation and benefits part of) HR to a locally considered service area. Functional centers of expertise are looking at data from their own functional side, resulting in segregated data collection and data management. Combine those two, and supporting a global organization by HR reporting and analysis is a challenge for a lot of organizations.

Being data driven and employee focused

HR is about people, but the language spoken in the board room is numbers. Executives ask HR to base their advice and reports on HR metrics and analytics, while managers ask to advise them at the level of individual employees. HR needs to enable itself to fulfill both demands: accurate data and information about the staff as well as knowing the drives and issues of individual employees.

Providing standardized and personal service

From a globalization, cost and a technology point of view, processes need to be standardized where possible. On the other hand, employees and managers ask for a personalized HR service because the use of apps and the personalization of websites have changed their expectations of being serviced. Some employees expect a personal area on the intranet where they have access to all of their HR information and can perform all their HR tasks. Some will expect to get an answer within a couple of hours and to be personally updated about the progress regarding the handling of their questions. Others ask why they cannot collaborate with co-workers the way they can with friends: anytime, anyplace with any device. They want HR support which is no longer linked to time zones and the physical location they are in. The challenge for HR is to deliver with standardized solutions while at the same time being able to deliver on the demands of individual employees.

Lowering costs and improving added value

For HR, the cautious focus on growth means that accommodating the increasing business needs will be key. Examples of business needs are the increasing demand for the recruitment and retention of talent and the need for a different kind of labor relation to stay cost efficient and become more flexible. The strengthening of the global economy is still very fragile, especially so for Europe. The pressure on cost reduction and the prerequisite of being cost efficient will therefore remain. This will challenge HR to remain at a low-cost level and at the same time create higher added value.

To be able to cope with all paradoxes, HR needs to evolve to an organization that excels in the way they provide services and expertise, as well as in their ability to translate business issues into people solutions.
HR (or P&O) started as a function of administrative personnel focused on generalists: supporting the managers, taking care of the administration and payroll of employees and helping the employees (centered as ‘P&O’ within the HR maturity model in figure 1).

To achieve the evolvement mentioned in the previous paragraphs, we predict the necessity of three excellence drivers of HR: excellence in service providing (operational excellence), excellence in providing HR expertise (functional excellence) and excellence in translating business issues into people solutions (customer excellence). These three drivers for excellence shape the maturity of the HR function and enable HR to cope with the challenges described in the previous paragraph.

When we look at the three drivers separately, we see that each has its own level of maturity (see the three focal lines in the HR Maturity Model below). Furthermore, the three excellence drivers are interrelated. To reach a new maturity level, HR needs to move outward on all three axes in a balanced manner. It is important to acknowledge that to increase the maturity of the HR organization an integral view on all three drivers of the model is required. When a maturity increase on one of the axes is planned it will in almost all cases also impact the demand for a maturity increase on both of the other axes.

The different maturity levels for each excellence driver are described below.

Evolvement of the commodity level and how to organize HR operational excellence

In the last few years we have seen a kind of gradual approach in the evolvement of commodity HR activities. The main steps identified are:

1. Process standardization and ERP application support.
2. Introduction of Employee- and Manager Self Service for simple transactional processes.
3. Centralizing HR activities in Shared Service Centres.
4. Outsourcing.

Today in a lot of cases, this is not good enough anymore. The change HR needs to make is to create a situation where better business agility is possible and from a solid HR foundation, the business can be (strategically) supported in making (data driven) choices. The fastest way to move forward is to adapt the best practice processes from a SaaS solution.

Focus on centralizing commodity HR activities will continue to be a top priority. A digital HR transformation makes it possible to centralize the support for all standardized activities, and for the organization to have one ‘Portal’ for employee queries regarding HR topics. Furthermore, shared service centers allow the working area to remain within the guiding principles of the global templates. The need for HR Business Process Outsourcing (BPO) will even be eliminated by:

- Using standardized processes.
- Processing transactional changes via Self Service by manager and employees.

- From a technological point of view all Cloud-based applications are maintained by the vendor.

Specific localized processes such as payroll will be the exception and it makes sense to keep this knowledge out of your own HR organization. When transactional HR processes are supported by an application and executed by manager and employee Self Service, the ‘Digital Stage’ of the commodity area is reached.

Evolvement of the HRBP level and how to organize HR customer excellence

The business context in which the HRBP operates has changed drastically over the years. At this moment, a lot of companies are still struggling to position the HRBP role in an adequate way and to create real, measurable added business value from it. A large part of the group that we call HRBPs is still facing a large amount of operational work. Root causes we see are: a poor level of organizational adoption of Employee and Management Self Service tools (ESS/MSS), a low maturity of the business in fulfilling the people management activities, a lack of organizational alignment of the HRBP with the other HR functions (CoEs and transactional/operational HR) and the...
level in which the HRBPs themselves hold on to operational activities with which they are traditionally endowed.

When companies overcome these root causes, they will empower their HRBPs to enter the phase of being a strategic business partner. After reaching that phase the challenge for the HRBP no longer lies with creating time for strategic work, but rather with how to get beyond the rhetoric of wanting to be a strategic and lean business partner and making it a reality instead. There will be an increased focus on helping to develop (the people and organizational part of) business strategies, analyzing trends and defining the strategic people agenda.

Given the growing requirements for strong business skills, many predict that the HRBP career path will change. As we saw in the past, a lot of HRBPs developed themselves from an operational service role to a more advisory and business partner role. But when we look at the future, we predict that HRBPs will most logically be attracted from within the business itself; with experience gained in CoEs or HR Consulting firms.

If we follow this line of thought, and the business is people focused, further digitalization makes it possible to automate part of the HRBP role as CoEs are able to connect with the business direction. The question that arises is whether or not ‘HR’ BPs are needed in the future at all. For some this might be difficult to imagine, but think of the possibilities for Big Data. What if we can analyze the communication between management and employees and even the communication within a leadership team? Would it then not be possible to create a CoE that creates new policies and tools based on this analysis, directly providing this to the business managers who use them to manage their business?

**Evolvement of the expertise level and how to organize functional excellence**

Centers of Expertise (in the first stage) provide the business the needed functional and specialist HR knowledge. CoEs have profound functional knowledge (thought leadership) and understanding of leading practices within their HR area of expertise. CoEs are responsible for designing HR programs and processes, applying best practices from outside the organization and providing subject matter expertise.

The second step in maturity of CoEs is to actually deliver an integrated approach to solve the people related (HR) business issues. To reach this phase of maturity, we foresee the development that functional CoEs are linked to the management of the people flow through the likes of Recruitment, Talent Management, Strategic Workforce Management and Learning and Development. They will be combined into one CoE which covers all of the cross-functional components. This brings together the knowledge and expertise from the more traditional CoEs, which enables the combined CoE to work in cross functional teams to come up with real integrated solutions for people issues.

When we look a little further into the future and extrapolate the evolvement of the CoEs, we foresee integration possibilities with other business functions such as Finance and Legal, allowing the CoE to approach business issues in an integral way. For example, in the situation of Mergers & Acquisitions, the CoEs can play an important role in managing the people aspects in the analysis, preparation and execution phases of these programs.

**Conclusion - the Solutions for the HR Paradoxes**

We can conclude that the way of operating and the channels used to deliver products and services are critical in providing an answer to the challenges HR is facing. For each paradox the following solutions can be found by increasing the maturity of the three interrelated focal lines.

**Being partner of the business while being ahead of the business**

This paradox is linked to the way HR is organized on a less mature level than desirable, where the responsibility of being part of the business and being ahead of the business is organized in mostly one role: the HRBP. When the CoEs are integrated and analytics are in place, the HRBP is positioned in a more strategic way and the manager has a strong people orientation. It makes it easier to combine both objectives since the HRBP has more distance from the daily operations and is more oriented on long term issues, which will give him a position to challenge the business while at the same time being ahead of the business.

**Enabling digital transformation while going through its own digital transformation**

To be able to support the business in its (digital) transformation, HR first needs to standardize, restructure and digitalize themselves rapidly. The more integral CoE focus and the digitalization of the commodity level will make it easier to follow the speed of changes in the business and support them with accurate data and analyses. This also frees up time for the HR Business
Partner to really challenge the business and enable their transformation.

**Being locally based while supporting a global organization**

Outsourcing of payroll can take the focus off local HR tasks, while other tasks should be managed on a global scale. Further digitalization (where the solution provider is responsible for compliance with local labor laws) will make this even easier. Next to this, the CoEs need to become more global, with global processes and global products and services with local flavors. By evolving to a more business issue driven organization, the CoEs will support the global organization.

**Being data driven but employee focused**

Standardized and digitized HR processes enable the HR organization to set up proper Master Data Management. Integrated CoEs create more focus on business issues instead of HR functional solutions. This creates the basis to make relevant HR analytics available. The ‘Big Data’ trend will provide new insights and opportunities. When the basics are set up correctly, HR can decide on how to interpret data and link to the business goals. In the same way as digitization and implementation of Employee and Manager Self Service tools (ESS/MSS), personalized apps will provide a better alignment and accessibility of data based on personal (employee focused) needs. This will create more room for the manager to engage with his employees on a personal level, while at the same time resulting in less involvement of HR. The role of the HRBP (or a new CoE) will increasingly focus on the coaching and support of managers, and directing the change towards a more people oriented culture.

**Providing standardized but personal service**

Standardization of processes is needed for HR to grow on the maturity focal lines and to provide the needed cost effectiveness. However, this can go hand-in-hand with providing a personal service by using out-of-the-box HR solutions. It will be possible for employees to personalize the user interface and make use of HR solutions that are as intuitive as current-day social apps. Following the direction of tools employees are using outside business hours for socialization makes it easier to digitalize the HR processes and have this accepted as a common solution within the organization. Next to this, providing the HR service in a standardized and centralized way with a “one HR Portal entrance” gives employees the opportunity to search for information that is important to them and to use contact tools that they personally prefer.

**Lowering costs while improving adding value**

Centralizing, globalizing and standardizing HR activities from Commodity and CoE perspective will lower the cost of HR. The use of global digital tools and outsourcing of commodity activities can lower the total cost of ownership of the IT part. Agreeing on service levels with external providers concerning outsourced activities or SaaS solutions improves the quality of delivering and managing services and, therefore, the quality of the added value. Centralizing knowledge means that specialists in certain areas will arise and thereby deliver added value to the service of HR. A more integral focus of the CoEs will improve the quality of the answers to business issues. Finally business acumen driven activities from the HR Business Partner improve the possibility to provide added value by that HR Business Partner.

In general, we can state that the way of operating and the channels used to deliver products and services are critical in providing an answer to the challenges HR is facing. The own digitalization of services and tools lever the development of business oriented Centers of Excellence and business partners with a broader scope than just HR. This will enable HR to provide integral advisory and support services to their customers at low costs.

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**Notes**

2. Source: ‘The Shift’ Lynda Gratton May 2011,
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