The Digital Transformation of People Management

An executive summary produced in collaboration with SAP
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Introduction

All around the world, in virtually every industry and every country, companies are going through unprecedented transformation. Three years after the global financial crisis, markets remain unsteady but technology adoption is fast-paced—driving and enabling major changes in the way businesses operate. As noted in a 2011 report produced in partnership with SAP, AT&T, PwC, Citi and Cisco entitled The New Digital Economy, the global market is critically influenced by four “Digital Megatrends”: mobility, data analytics, cloud computing and social media. These key technologies are literally reshaping companies everywhere.

The transformation is evident not only in business models, but in people management. Mobility and cloud computing allow employees to work virtually, giving companies access to the right skillsets regardless of geography. Data analytics helps workers connect dots, work more efficiently and speed decision-making. Social media fuels collaboration both with colleagues as well as suppliers and even customers. These developments are having a profound effect on how people work, what they expect from their employers, and how they want to grow and advance in their careers.

Technology is also reshaping the role of human resources (HR). HR leaders today can leverage tools that put metrics around things that once were difficult to measure or predict. Our research clearly shows that the transformation of HR into a strategic business function is well under way and will continue over the next three years. The process involves deepening and broadening collaboration between HR and other business units to improve the performance and analysis of talent management, and a greater focus on driving business results through the strategic use of technology. Traditional functions of the HR vertical remain necessary and important, but top HR executives are becoming more and more engaged in long-term strategic planning for business needs, and even leveraging their organizations to drive profits.

This report looks at how technology will affect the way HR executives reform their departments and work with other business leaders to become more effective partners. Ultimately, says Mike Cullen, Global Managing Partner–People for Ernst & Young, the traditional HR vertical should be understood as something separate from the new, broader discipline of people management across the enterprise. Our survey reveals the following key findings:

■ **Today, HR departments are included in the overall business planning process at 76% of companies surveyed.** One measure indicating HR’s strategic role is that 66% of survey respondents say their firm’s head of HR reports directly to the CEO. “HR is now taking the lead in developing strategic workforce planning processes, and working with our forecasting, engineering, operations and others throughout FedEx, including other industries,” says Robert Bennett, Vice President of HR and Chief Learning Officer at FedEx Express.

■ **But HR’s transformation is far from complete.** For example, only about half of all respondents agree that HR is seen as a profit driver. This issue is particularly pronounced in North America (23%) and Europe (43%); Asian and Latin American firms are far more likely to consider their HR departments as sources of profit (63% and 75%, respectively). Perceptions vary according to seniority: HR directors and vice presidents are much more likely to say that HR is not seen as a profit driver than are higher-ranking Chief HR Officers.
Analytics are becoming a key component of HR operations. Only 7% of respondents say their HR departments do not use business analytics at all; half use it significantly, and 84% say that greater adoption of business analytics will significantly affect how HR operates over the next three years. However, when it comes to providing strategic insight beyond the HR department, there is room for improvement—less than one-third say their HR departments provide key analytics across the enterprise. Again, views regarding the use of analytics vary according to titles: While two-thirds overall say their departments produce reports that support day-to-day operations and work on planning for the future, Chief HR Officers are much more likely to say reports are in wide use (82%) than vice presidents (62) and directors of HR (66%).

Of the four key technologies, mobile technologies are most widely adopted to date, with significant HR use at 51% of companies surveyed. Social media has been deployed at nearly 45% and cloud computing at 36%. Investment is anticipated over the next three years in all four technologies (including analytics), with HR executives expecting them to have a significant impact on how their departments and companies operate.

In terms of technology adoption for HR processes, companies in developed countries lag their peers in fast-growth economies. This puts them at risk of falling behind in an increasingly global marketplace where skilled and technologically savvy workers are at a premium. And this trend is accelerating: Companies in Asia and Latin America more focused than those in Europe and North America on spending on the four digital megatrends over the next three years.

Who took the survey?

This report is based on an online survey of 250 Human Resources executive, conducted in March 2012. The largest group came from the US, with 21% of replies, followed by Mexico (12%), Germany and the UK (10% each), Brazil (8%) and China (7%). Industries represented include business services (24% of respondents), manufacturing (18%), financial services (10%), public services and education (9%), and information and communications (8%). A majority of companies (54%) had sales of over $1 billion, with many registering $20 billion or more; 22% had between $500 million and $1 billion in revenue. Approximately 58% of respondents were directors or the equivalent, 22% were senior vice presidents or vice presidents, and 20% held the title of Chief HR Officer or the equivalent.

In addition to the quantitative results of the survey we also conducted interviews with HR executives at FedEx Express and Ernst & Young. We thank everyone who participated in the research.
Leveraging the digital megatrends to transform HR

The impact of technology on HR is measurable and growing. For example, more than 80% of HR executives say their departments are open to adopting new technologies to improve workforce planning. One benefit of this change will be increased visibility into HR's effectiveness, with 77% of executives saying their departments will actively measure and track the impact of HR initiatives on the business within three years, and 70% of HR executives expecting to have the proper tools to support the business with analytics.

And in the face of global competition, those tools are a necessity, not a luxury. “Technology is changing so quickly, and it’s imperative that we stay ahead of the curve,” says Mr. Bennett. “Not only is it happening faster, but the impact is greater and the scope is greater, whether it’s training-related, compensation-related, business-related—all of these are interrelated. You can’t really keep any of them separate.”

Companies of all sizes and across all regions and industries are focusing on key technologies including mobile devices and applications, business analytics, cloud computing, and social media. These technologies already are in widespread use within HR departments and the larger companies they serve.

Emerging economies lead on HR transformation

Companies in developing economies, including China and India, are scrambling to hire enough skilled workers. A recent report, Will a Shortage of Qualified Labor Derail the Brazilian Economy?, from the Wharton School of Business at the University of Pennsylvania, notes the shortage of educated workers in Brazil, where employers are investing millions of dollars in training and education programs of their own: “Indeed, as one of the key inputs to Brazil’s burgeoning economy, qualified labor is a precious resource whose inadequate supply could pose significant risks to the country’s growth trajectory.”

Given the skills-development imperative, coupled with the fact that many companies in these regions are unencumbered by legacy systems, it is perhaps unsurprising to see more aggressive adoption of new technology and management approaches in these markets compared with the industrialized world. What is more surprising is the desultory performance of companies in developed nations, especially North American companies, in many key areas.

While the developing world is honing its HR technology and increasing its ability to compete for talent, complacency is often the rule in industrial markets. For example, companies in Latin America (83%) are much more likely to expect their HR departments to have the proper tools to support the business with analytics than companies in North America (68%) or Europe (63%), while firms in Latin America and Asia-Pacific (both 87%) outpace rivals in North America (74%) and Europe (69%) in terms of sophisticated workforce planning tools. Already, HR is seen as a driver of profits to a much greater extent in developing economies than in advanced economies.
Collaboration between HR and other departments follows the same trend. For example, about two-thirds of companies in the Asia-Pacific region and almost three-quarters of those in Latin America report significant value from collaboration between HR and marketing, compared with less than half of those in North America and Europe. This disparity could represent an advantage for companies based in countries with fast-developing economies as the global competition for human capital heats up. These organizations also may be better positioned to operate globally, as they are more likely to have had a worldwide strategy from inception, and are less likely to find themselves encumbered by traditional organizational structures and decision-making processes.

Of course, none of this is happening in a vacuum. HR is subject to the same global shifts that are remaking businesses in general. As noted in *The New Digital Economy*, growth in developing countries has accelerated relative to their industrialized peers in the wake of the 2008 financial crisis, and the digital divide that once put developing economies at a competitive disadvantage has narrowed sharply—and in some cases even reversed itself. Dramatic evidence of these trends can be seen in the digital transformation of HR in developing economies.
Significant investment in the four digital megatrends is expected over the next three years, with HR executives expecting them to have a significant impact on how their departments and companies operate.

**Mobility**

More than 72% of HR executives say mobile technologies will have a large impact on operations over the next three years, with the most-cited benefits to HR coming from increased efficiency (50%) and more effective virtual work (35%). Reduced HR costs, improved workforce optimization and better access to data also were mentioned frequently as benefits.

Companies in developing economies are more likely to describe themselves as “highly mobile” today than those in industrialized countries. These companies lead their developed counterparts in mobile adoption in all but two of the 17 functions covered by the survey, including payroll, benefits administration, IT support, and recruitment. Enhanced training quality via mobility rated much higher in rapidly-developing countries than in highly developed ones; 46% of HR departments in developing countries have moved to mobile training, compared with just 29% for those in industrial markets. In fact, nearly 20% of respondents from mature economies answered “none” when asked which HR processes are currently available on mobile devices, versus 8% of respondents in other nations. North American companies (58.5%) are least likely to make significant investments in mobile over the next three years, trailing Latin America (78.3%), Europe (73.8%), and Asia-Pacific (70%).

Large companies ($20 billion or more in sales) and manufacturing firms have been quickest to adopt popular mobile applications such as travel booking and payroll information. Meanwhile, smaller companies ($100 million to $999 million in sales) lead larger ones in recruitment via mobile devices. Business services firms are most likely to make HR analytics mobile.

**Figure 3: Mobile adoption in HR**

Which of the following HR processes are currently available on mobile devices?
Analytics

HR executives clearly understand the importance of metrics and data: Roughly 75% of respondents say they use analytics to anticipate workforce needs. But when it comes to providing strategic value to the business, there is room for growth. Just 31% of HR departments surveyed provide key analytics across the enterprise that support and drive the business forward (this figure drops to 24% for firms in highly developed economies). Another 46% provide analytics only to a few departments upon request. Furthermore, while almost two-thirds of companies provide widespread visibility into employee satisfaction, analysis of employee skills and skills gap assessments are available at less than half of companies surveyed. No particular industry group stands out as a clear leader in general deployment of analytics across the enterprise.

However, investment is planned over the next three years and is much more aggressive in developing economies than in more industrialized nations, with 78% of companies in Latin America and 68% in Asia-Pacific intent on substantial moves, versus 59% in North America and 57% in Europe. Large companies (over $20 billion in sales) are much more likely (40%) to provide analytics across the enterprise than are mid-sized (33%) and small firms (26%).

And respondents agree that the benefits of improved HR analytics are substantial. Almost 40% anticipate improved impact on the business at large, and 28% expect that analytics will help HR better support other departments and business units. The payoffs for HR itself include lower costs (24%) and superior decision-making (28%).

**Figure 4: How HR uses analytics**

Which of the following statements best describes the use of HR analytics at your firm?

- HR provides analyticsto a few departments as requested.
- HR provides key analytics across the enterprise that support and drive the business forward.
- HR analytics are not shared broadly outside the HR department.
- HR does not perform data analytics.

Making sense of the massive amounts of data collected by various enterprise systems is essential, says Mr. Bennett. His department runs analytics on its own operations and on broader operational inputs. “We try to relate everything to the bottom line for continuous improvement in the performance of the business.”
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Cloud computing

The cloud will become increasingly critical to HR, with about 60% of firms anticipating significant impact from cloud technology. Just 21% of HR departments have no plans to use the cloud; about 35% currently use the cloud in some way. The most commonly-used cloud data sets and applications today include recruitment (29%), employee administration (26%), benefits administration (26%), and payroll processing (26%).

Again, companies in rapidly-developing economies far outpace those in developed countries in terms of HR cloud adoption. This gap is startling when viewed in terms of plans for investment over the next three years, with 82% of Latin American companies and 78% of companies in the Asia-Pacific region planning significant investment, compared with just 59% in Europe and 45% in North America.

Greater collaboration across geographic regions is seen as the biggest benefit of cloud computing. Other anticipated payoffs include instant upgrade ability, cited by 26% of respondents, along with reduced HR costs (23%) and streamlined HR processes (21%).

Ernst & Young Gets Smart about Analytics

Flexible work options and employee diversity are not feel-good ideas at Ernst & Young, they are business imperatives. Mike Cullen, Global Managing Partner – People for the giant consulting and accounting firm, has the data to back up that assertion. “I’ve got the analytics to prove the case for driving a whole engagement strategy,” says Mr. Cullen. “This is a causal link to brand favorability and what your clients think. This is directly correlated to the turnover rate in your business, and the performance of your people.”

Underpinning Mr. Cullen’s analytic capabilities is E&Y’s Big Data machine—integrated global systems for key functions like finance and HR. Global systems may seem like a given in many industries, but they are a relatively new phenomenon in the consulting world. Without them, number-crunching would be a much less useful endeavor.

Surveys, analytics and social media all underscore the importance of worker engagement to E&Y’s bottom line. “We’ve done a lot of work on the power of engagement,” says Mr. Cullen. “Academics say the best-performing businesses are always the ones that have the most engaged people.”

And the people issues translate directly to the bottom line. “To get people around the world to subscribe to my people agenda,” says Mr. Cullen, “I say, if you computed the growth of this firm to double revenues, would you like to think how much square footage you now need to buy in New York, or London, or Tokyo, unless you change your working practices?”

Mr. Cullen’s response is a global vision called Workplace of the Future. “Of course, that is actually a misnomer, because the workplace of the future is not a single place—it can be anywhere,” he says. As the firm continues to expand its global presence, it must employ professionals who can work across cultural and generational divides. Diversity extends beyond gender and ethnicity, too, with an increasing focus on the multi-generational workforce, especially as workers extend their careers later into life.
Social media

Social media is seen as a powerful tool both within companies and for external use. Just 22% of companies lack any strategy for social media, and almost half of HR departments have a meaningful role in social media strategy. The acceptance of social media has accelerated since early 2011, when 35% of executives surveyed for *The New Digital Economy* said they considered social media to be irrelevant.

“Social is a great tool for gathering information, for informing our leaders, and for communicating with our employees,” says Mr. Bennett, who cites strategic workforce planning as an area where social technologies are especially useful. Improved recruitment is seen as a major benefit of social media by 28% of respondents, with those in developed countries (34%) much more enthusiastic than their peers in developing markets (18%). Gaining information about employee skills (19%) and identifying risk (9%) also were cited as significant benefits.

The move to social media involves a generational shift, says Mr. Cullen. Younger workers have different expectations about “how we permit people to talk and interact.” A key shift in social media is from the customer-facing role that has dominated in its early years to increasing internal usage, although a greater external focus (33%) still is more common than emphasis on deployment inside the firewall (24%). Improved communication with employees and the creation of a common, company-wide culture are the most-cited internal benefits of social media.
Behavior Drives the Business at FedEx Express

Robert Bennett is skeptical of the praise he receives after delivering a presentation at a conference. The Vice President of HR and Chief Learning Officer at FedEx Express appreciates the kind words, but he knows that just hearing useful information is not enough. “You won’t learn it until you do it,” he says.

The same logic applies to managing and educating FedEx’s 160,000 employees, a process increasingly supported by social and mobile technologies. “Behaviors are what drive the business,” says Mr. Bennett. Merely identifying a desired result without changing routines won’t lead to sustainable success; for HR to work most effectively, theory has to be put into practice on a regular basis.

Before FedEx created its HR Coach program, the department’s HR representatives were salted throughout its far-flung organization, handling routine employee issues. Mr. Bennett lobbied to turn the reps into advisors and make them part of the FedEx learning organization. These advisors now are responsible for coaching operations-management personnel in the field.

“Theyir job is to reinforce what was taught in classes,” says Mr. Bennett, who as a new FedEx hire years ago set up his own office at a shipping facility to understand the core business. “I will put the quality of our learning and development courses against any other organization,” he says.

But how can the coaches themselves stay current enough on the minutiae of a global enterprise to help front-line employees do their jobs? By using social tools like chat rooms to discuss issues and details with their advisory peers. On the drawing board: mobile access to make that information sharing even easier, by providing access on-the-go to an application Mr. Bennett calls the “Little Black Bag,” which allows coaches to share wisdom, solutions, and contacts when problems arise.

Meanwhile, HR uses layers of analytics to track the effectiveness of its programs, measure employee engagement, and get a handle on worker turnover and future workforce needs.
Overcoming challenges, identifying opportunities

All change brings challenges, and changing technology is no exception. Yet the transformation of HR into a more strategic role also brings opportunities to enhance its impact and improve overall business performance.

Each of the four transformational technologies comes with concerns for HR and business in general.

- With mobile technology, more than half of HR executives are nervous about information security. Rising costs (25%) and consistency of connectivity (22%) also give them pause.
- The most common concern about analytics, cited by about one-third of executives, involves sensitivity to the use of deeper analytics (such as tracking employee skill sets). Over 30% of executives listed the diverse needs of different departments and the sheer volume of data as their top concerns.
- The number-one challenge of cloud computing? Security, say 51% of executives; the next-most common answer, compatibility with existing applications, was mentioned only half as often.
- Appropriate representation of brands by employees on social media is seen as the biggest challenge stemming from that technology. Almost 30% of HR executives say getting buy-in from senior executives is a major hurdle.

Although the benefits of technology transformation should be significant, the transition won’t be easy: More than one-third of survey respondents indicate that the complexity of existing infrastructure makes transformation impractical. And 35% say their firms lack the visionary skills to define the right strategy.

But technology concerns are not the only challenges to HR transformation. The hardest part of the transition often involves culture and business process as well. Harris Corporation HR chief Jeff Shuman, quoted on the Harvard Business Review website, says that in order to take on a more strategic role, his department first had to convince managers across the company to accept some responsibility for employment and talent issues. Only then came the technology that allowed managers to handle their newly expanded role in personnel matters. Says Shuman: “That has freed up our HR staff to help managers solve more strategic problems.”

Other challenges include diversity, including the different needs of each generation in the workforce, and globalization. Education, perhaps especially in the US, is a major concern that companies like FedEx are addressing with technology and other approaches.

Opportunities of strategic HR extend beyond the boundaries of the company itself. One opportunity is to drive profits by extending HR expertise to external customers. The Walt Disney Company created a consulting business out of its Disney Institute training unit, which evolved from a program called “The Disney Approach to People Management.” At FedEx, Mr. Bennett thinks his robust training operation could follow a similar path. “Part of our strategy should be potentially turning ourselves into a profit center.”
Conclusion

Strategic thinking has become an essential component of Human Resources leadership. The basics of the HR vertical remain important, but now they are just table stakes. People management across the enterprise is the new mantra. To compete successfully in the new digital economy, HR should:

- **Use technology effectively to execute on business imperatives and extend collaboration** with other departments, incorporating mobile, analytics, social media and the cloud to ease the transition to a strategic role.

- **Consider the competitive risk of not leveraging technology to contribute to business strategy.** Organizations in developed economies are not adopting technology as quickly as their counterparts in fast-growing economies and may risk being left behind in the global competition for talent. At the same time, HR executives need to understand the cultural factors within HR and across companies that influence the success of technology adoption and shifting strategic roles.

- **Embrace the transition to strategic thinking and driving business results.** Says Bob Bennett of FedEx Express, “If our HR strategies do not link to that business strategy, then we are not supporting the company the way we need to be supporting it.”