

A person is surfing on a wave in turquoise water. The surfer is wearing a purple sleeveless shirt and black shorts. The water is splashing around the surfer, creating a dynamic and energetic scene. The background is a deep blue-green color, suggesting a clear, sunny day at the beach.

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Consulting

HR Transformation Survey: A case for business driven HR

A survey of more than 150 of the world's largest
companies conducted by Deloitte Consulting LLP

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Deloitte Consulting LLP (Deloitte Consulting) conducted a survey on HR transformation to better understand if and how some of our largest clients are bringing HR into the 21st century. It's no secret that people issues are at the forefront of the CEO and Board agendas. Some of those drivers include the talent crisis, global workforce challenges, leadership development, and risk threats. Deloitte Consulting surveyed more than 150 global companies, each with more than \$2 billion in revenue.

Overwhelmingly, the majority of respondents are currently involved in HR transformation. At the same time, most respondents have a very modest and traditional view of what HR transformation means. We find that to be alarming. At most respondents, HR transformation is still about systems and processes. The business drivers are still cost savings and effectiveness. These are not “bad” or unimportant drivers; they are merely solutions in a vacuum. Transformation—despite the urgency, the competitive imperative, or the call to action from the C-suite—is still occurring slowly and is not occurring in the context of supporting a business strategy or helping a company meet its business objectives. Never before has there been more pressure on or opportunity for HR to step up. How HR addresses transformation is pivotal.

Key findings

The Deloitte Consulting survey of global companies highlights the fact that HR transformation is very much top of mind for C-suite executives. More than 84 percent of respondents are either currently transforming HR or are planning to do so.

At the same time, when asked to identify the current business drivers for HR transformation, the overwhelming majority of respondents, 85 percent, cited cost savings or efficiency—the traditional hallmarks of the HR function. This suggests that most companies are focused on cost savings in an area that accounts for less than 1 percent of corporate revenue, rather than on determining how HR can help support business strategy.

As they have in the past, in our experience most HR improvement programs still center on tactical initiatives, such as standardization, system implementation, and HR organizational restructuring.

Very few respondents indicated they are transforming HR so that it can become a strategic business “partner” within the company. Only 35 percent cite building HR capability as a transformation driver, and even fewer (30 percent) said transformation is driven by the need to free HR to undertake a more strategic role. One could look at this data and argue that while a majority of respondents take a traditional view of transformation, some enlightened companies are focused on creating competitive advantage through HR. We would need to see if this is an emerging trend through future surveys.

At the same time, when they look to the future, C-suite executives in general, and HR leaders in particular, want the HR function to become a strategic business “partner” within the company.

When asked about future concerns, significant numbers of respondents cited the need for the HR function to address emerging strategic business issues. We see this as a call to action for HR.

Figure 1. Focus of HR improvements

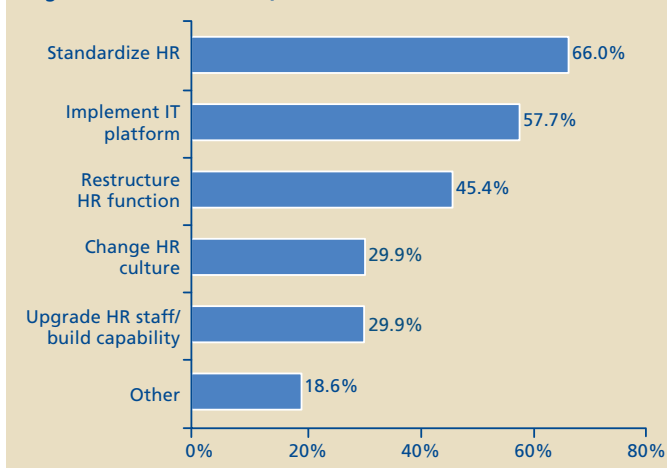
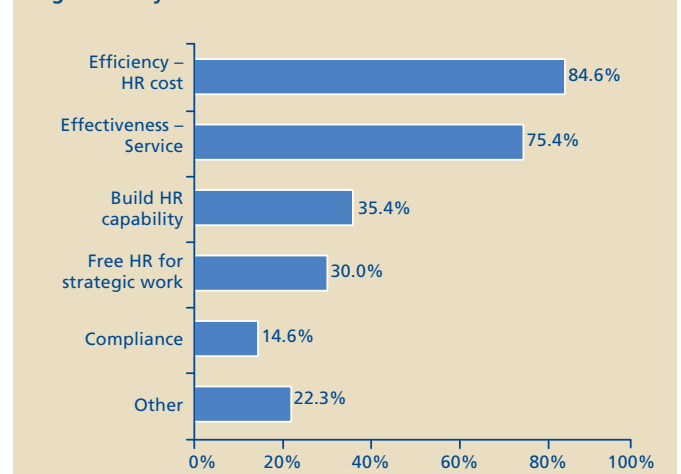


Figure 2. Key drivers of HR transformation



Outsourcing and transformation

How can HR functions that want to play a more strategic role prepare themselves to become a true business “partner” within the company? One strategy is to outsource HR administrative activities while retaining HR’s strategic capabilities in-house.

Forty percent of the respondents that are transforming HR have outsourced or are planning to look at HR outsourcing as a key strategy for delivering HR services. This is an increase of 15 percent from the current base of companies looking at or outsourcing HR operations today. We are concerned about the markets capability to support such a large increase in sales and delivery activities.

The activities that are by far the most likely to be outsourced are routine, administrative operations. At the same time, however, the survey shows that some respondents may be planning to outsource strategic HR activities, such as training and development, recruiting and staffing, compliance talent management, and global mobility. The market for these new and emerging HR services is less developed than the traditional core HR services areas and presents more risk to buyers.

The key factor involved in the decision-making process were business case (32 percent), industry/peer benchmarking (19 percent), and technology/capability analysis (14 percent).

Figure 3. HR activities most likely to be outsourced

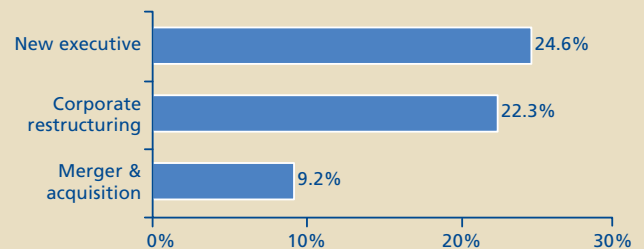


Transformation triggers

Survey results indicate that most transformation efforts are more likely to be launched in response to specific business events, rather than as part of a strategic plan.

Three business events trigger more than 50 percent of the initiatives to transform HR. The most common is the arrival of a new CEO or CHRO. Corporate restructuring (i.e., cost reduction) is a close second, followed by a merger or acquisition.

Figure 4. Primary triggers for improving HR



Different industries.

Different types of transformation.

The overwhelming majority of respondents in every industry are currently involved in HR transformation. However, the way respondents define HR transformation: varies from one industry to the next. For example, respondents in the technology, media, and telecommunications (TMT) industry, as well as those in the life sciences and health care (LS&HC) industry are more focused on making HR a strategic business “partner” than are other industries.

Only about a third of respondents overall cited building HR capability as a transformation driver or said transformation is driven by the need to free HR to undertake a more strategic role. However, half of TMT respondents said transformation was driven by the need to free HR to undertake a more strategic role, and 52 percent of TMT respondents said it was driven by the need to build HR capability. Among LS&HC respondents, more than 50 percent said transformation was driven by the need to build HR capability. This high percentage is not surprising given the struggle these companies have to fill job openings for nurses, pharmacists, and lab technicians.

At the other end of the spectrum, public service (PS) organizations are significantly less involved in transforming HR so that it can become a strategic business “partner” than are respondents in other industries. Only 20 percent of PS organizations said transformation was driven by the need to free HR to undertake a more strategic role, and 20 percent said it was driven by the need to build HR capability. Interestingly, financial services (FS) respondents also had a rather narrow view of HR transformation. Just 25.9 percent of them said transformation was driven by the need to build HR capability.

For more information about the people challenges and solutions that apply to your specific industry, please visit www.deloitte.com.

Who makes the decision and how?

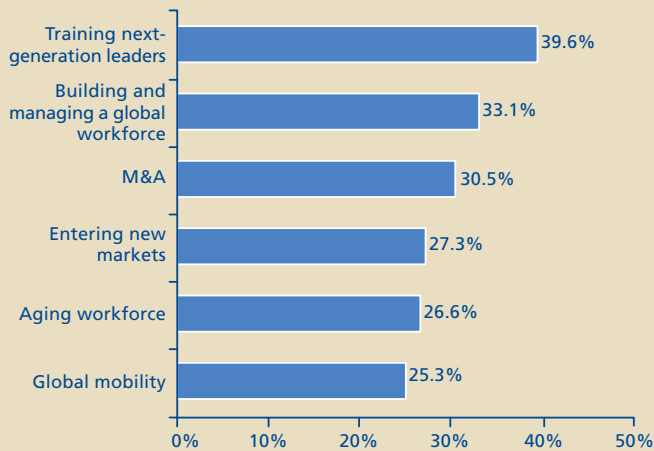
Corporate or global leadership drives the majority (84 percent) of transformation initiatives. Moreover, among the surveyed respondents, 71 percent said the CHRO is the primary sponsor for HR transformation. This indicates that CEOs are empowering CHROs to bring HR into the 21st century and are asking the CHRO to take responsibility for business-HR alignment. Finally, while 56 percent of HR transformations are stand-alone efforts driven by HR, a large minority (44 percent) are part of a larger corporate change effort.

What the future may hold

It appears that the future may hold more of the same. According to the survey, only 40 percent of respondents have structured processes for future HR planning. This is clearly an area that needs improvement. HR cannot support business strategy without a formal mechanism to solidify this alignment. Seventy percent of those surveyed identified "Improving HR Services" as their primary goal, while 59 percent identified "Improving HR Technology."

There are some areas of hope. A small but growing number of respondents identified the key business issues that they need to support in order to support business strategy. We see this as an indication that business-HR alignment is an emerging and important business issue and that Business Driven HR may be the wave of the future.

Figure 5. Emerging business issues driving future HR transformation



Next steps

In our experience, HR transformation is still moving slowly, while market forces are moving much more quickly. A more complete definition of transformation is necessary for HR to assume the role forward-looking C-suite executives want from HR--acting as strategic business "partner" within the company. What can HR do?

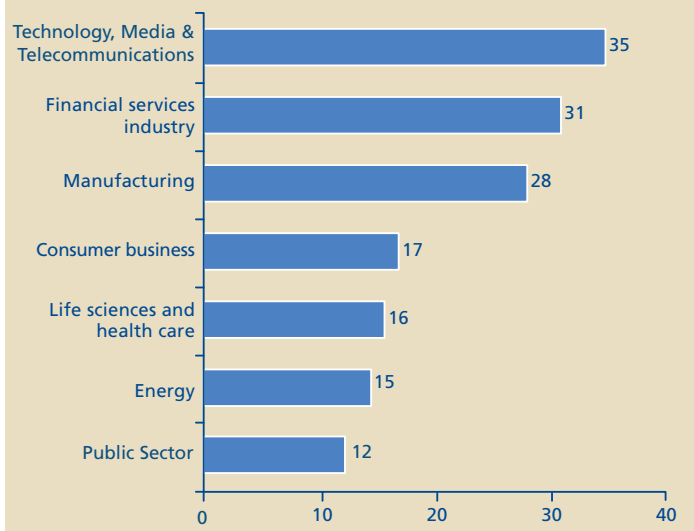
- **Speed the transformation of core services.** HR will most likely not realize its strategic potential or enhance its impact on HR unless it can continue to improve the efficiency and effectiveness of HR products and services.
- **Balance HR's portfolio.** HR leaders should balance their portfolio of services and programs, adding capabilities to address strategic people issue to their current programs centered on administrative activities.
- **Align HR's portfolio.** HR leaders will need to manage their portfolio in ways that will align it with the company's strategic objectives. To make the workforce a unique competitive advantage for the company, HR should invest in areas that will contribute most to overall business goals.

Increasingly, we see that HR's contribution to the company is measured not by its administrative efficiency, but by how well it supports the company's business strategy and addresses people issues. To be a true business "partner," therefore, the transformation process must continue to improve HR's core services. It must also free up resources and add capabilities so HR can take on a broader role. And it must do so fast.

Methodology and demographics

Deloitte Consulting conducted a survey of 150 of its most significant global clients with \$2 billion plus in revenue. The objective of the research was to understand how HR functions and leaders are approaching transformation. The following industries were represented in the survey results.

Figure 6. Number of respondents by industry



HR Transformation Survey Fast Facts

HRT Market is Strong

- 84% are either transforming or planning to transform HR

Business Events Trigger HRT

- 25% cited a new Head of HR or a CEO as a key trigger

CHROs are the Buyers

- 71% of HRT initiatives are sponsored by the CHRO

Efficiency and Effectiveness Drive the Case for HRT

- 85% cited cost savings as a key driver
- 75% cited building more effective services as a key

Future Drivers for HRT

- 40% cited training next generation of leaders
- 33% cited building and managing a global workforce
- 31% cited supporting mergers and acquisitions



For further information

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