ISG
INFORMATION SERVICES GROUP®

INDUSTRY TRENDS IN HUMAN RESOURCES TECHNOLOGY AND SERVICE DELIVERY SURVEY

Research conducted by Information Services Group (ISG)
Co-sponsored by HRO Today Services and Technology Association

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HRO
SERVICES AND TECHNOLOGY
A S S O C I A T I O N

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WHAT THE 2015 SURVEY FINDINGS MEAN TO YOU

Information Services Group (ISG) conducted its second annual *Industry Trends in Human Resources Technology and Service Delivery Survey* during the second half of 2015. The survey explores the changing landscape of HR technology and service delivery. **The key findings from this year's survey suggest:**

- **Enterprises continue to migrate from on-premises Human Resource Management Systems (HRMS) to Software-as-a-Service (SaaS)-based HR technologies; more than 70 percent of respondents have implemented or plan to implement HR SaaS within the next two years.**

- **User experience and usability factors are driving selection criteria and expected benefits for both HR technology and service delivery model decisions.**

- **HR organizations are shifting their focus from cost savings to strategic business alignment, process improvement and employee engagement.**

- **The market is seeing initial signs that enterprise-level HR decision making is becoming increasingly data-driven.**

Human Capital Management (HCM) SaaS technologies continue to develop rapidly amid fierce competition among the leading software providers. HR service providers are also maturing in their ability to provide the benefits of scale and repeatability through Business Process-as-a-Service (BPaaS) offerings built around these leading-edge technologies. Meanwhile, internal shared service models – those that bring together resources in one organization to provide services across the enterprise at lower cost and with better quality – are benefitting from increased investment and adoption as part of broader enterprise initiatives in Global Business Services. All of these factors are coming together to enable an unprecedented transformation in HR organizations around the world.

The *2015 Industry Trends in Human Resources Technology and Service Delivery Survey* covers ISG's key survey findings related to:

- The current HR technology landscape, trends and initiatives, including
  - Workforce Administration
  - Payroll/Time
  - Benefits Administration
  - Talent Management
  - HR Analytics
- The HR service delivery model landscape, trends and initiatives, including
  - Shared Services
  - HR Process Outsourcing
- The overall impact of technology and service delivery model changes to the HR function.

This report also offers recommendations and key considerations for HR and IT leaders and practitioners who are managing an HR transformation initiative.

As we move into 2016, organizations are actively seeking to transform the way they deliver and manage HR. As part of this, companies are increasingly buying and implementing new HR technology. Whether through a comprehensive move to a SaaS HCM suite or through a more targeted approach, enterprises must first carefully plan the right strategy to achieve their specific HR vision.

A best-practice, future-state HR technology strategy should include a systems environment that is highly configurable, creates a positive user experience, provides ongoing innovation, supports a global design, includes analytics that enable insight into business outcomes and enables mobile access.

Beyond making technology changes, enterprises must ensure service delivery excellence to achieve the overall goal of improving the user experience. Service delivery model changes are key to HR transformation and should include evaluating new or increased use of shared services or outsourced delivery models.

KEY SURVEY FINDINGS

Strategic Alignment is #1

HR organizations are focused on strategic alignment to the business.

One-third of survey respondents say their key focus area over the next three years is to ensure strategic alignment to the business. Such tight linkage with human capital is fundamental to enterprise growth.

Figure 1: Key Focus Areas for Improvement in HR Organizations between 2015 and 2018
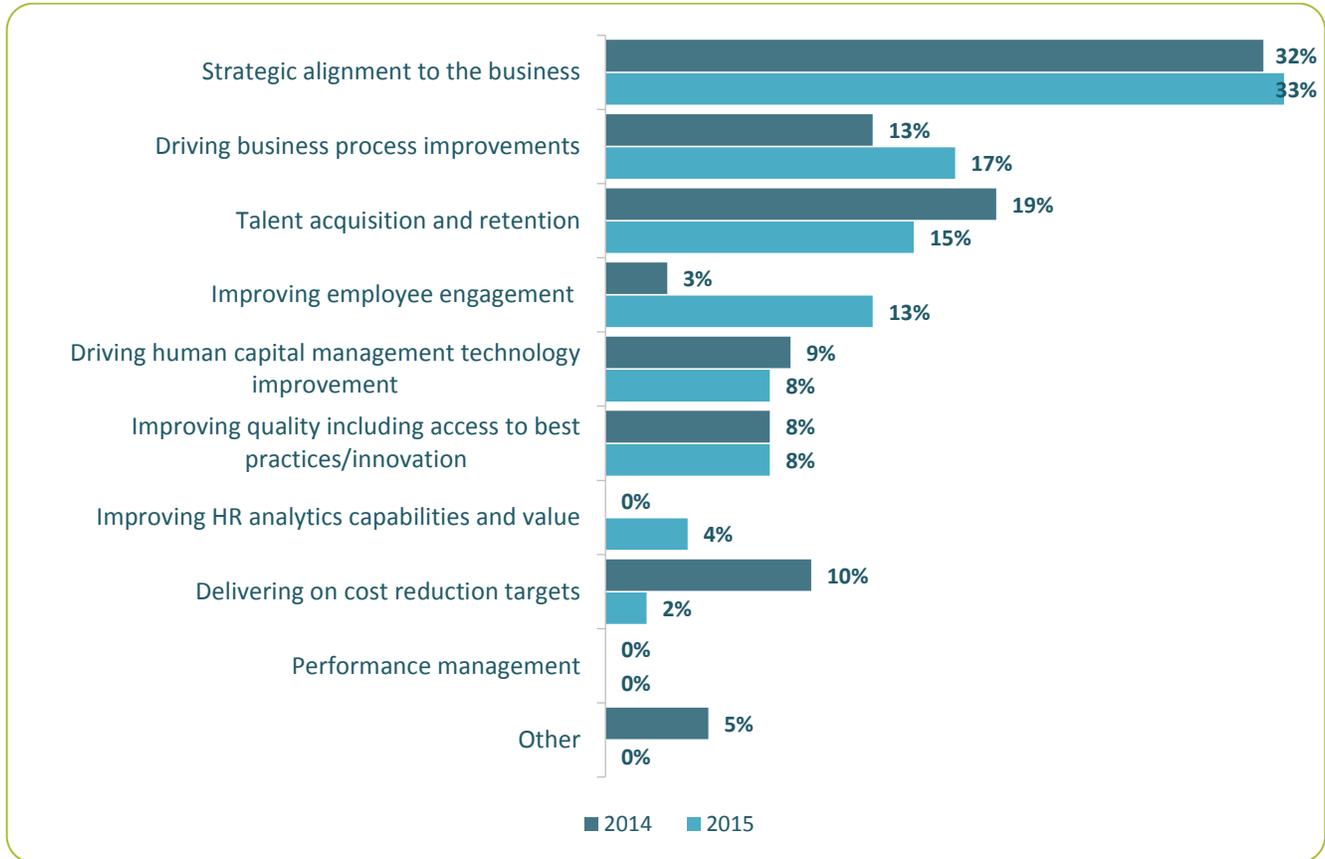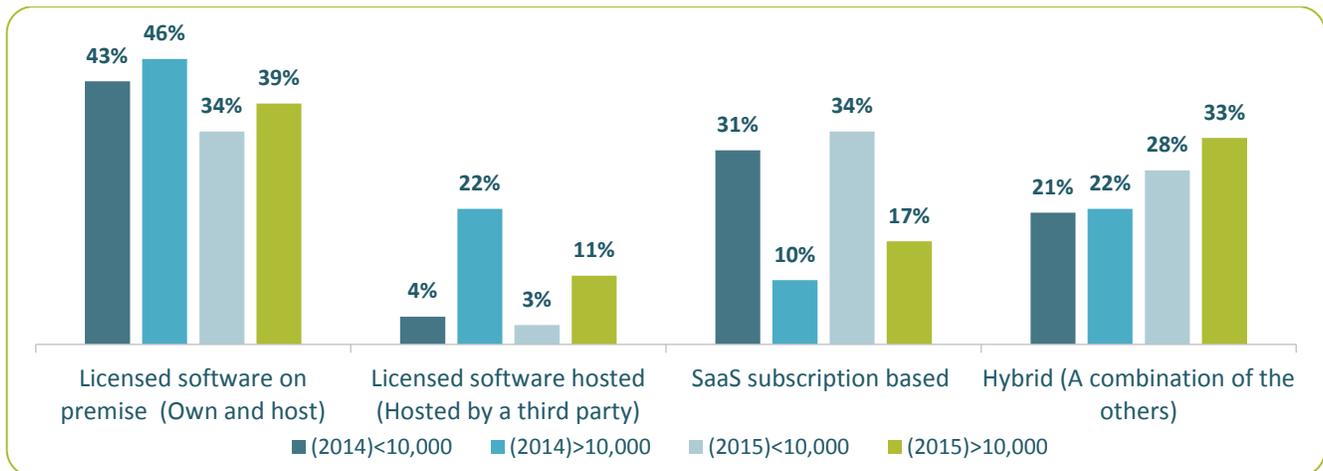

The intention to improve employee engagement increased by 10 percentage points between 2014 and 2015. Driving business process improvements and improving HR analytics capabilities and value are other areas that saw an increased response this year. Delivering on cost reduction targets saw the biggest decline since 2014, which may indicate increased executive support for investing in HR.

Migration to SaaS is Accelerating

Enterprises, particularly mid-sized companies with fewer than 10,000 employees, are rapidly shifting away from an all on-premises model towards SaaS and hybrid solutions.

Figure 2: Prevalence of HR Technology Deployment Models

Legend: ■ (2014)<10,000 ■ (2014)>10,000 ■ (2015)<10,000 ■ (2015)>10,000

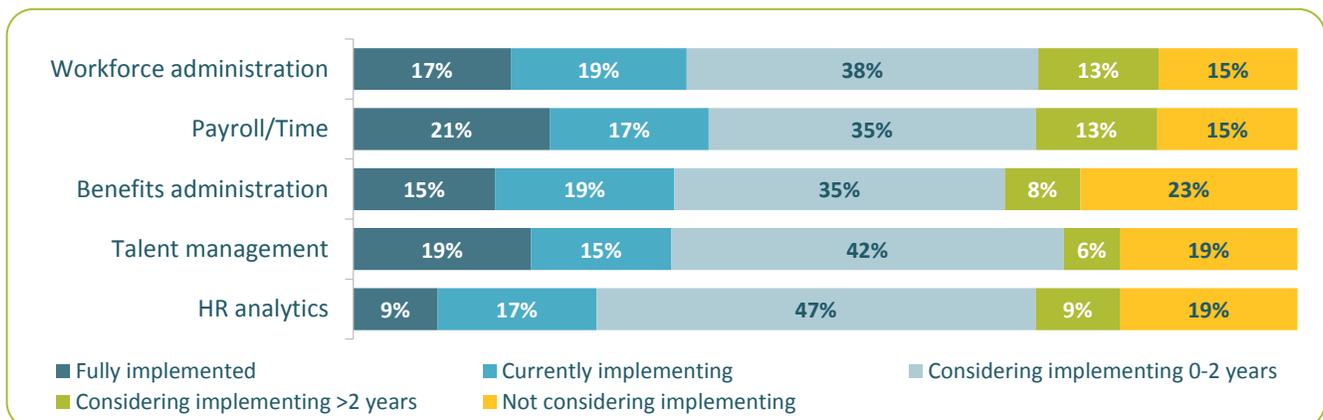|	(2014)<10,000	(2014)>10,000	(2015)<10,000	(2015)>10,000
Licensed software on premise (Own and host)	43%	46%	34%	39%
Licensed software hosted (Hosted by a third party)	4%	22%	3%	11%
SaaS subscription based	31%	10%	34%	17%
Hybrid (A combination of the others)	21%	22%	28%	33%

As a means to transform their HR systems models, companies are rapidly shifting to SaaS solutions. The approach varies significantly based on company size, with organizations employing fewer than 10,000 people leading the trend to SaaS. Thirty-four percent of organizations this size use a primarily SaaS-based model. Large, global organizations are slower to adopt a full SaaS model, often phasing that adoption while they evaluate the complexities of cloud technology, data security and the ability to support regional requirements.

Twenty-eight percent of organizations with fewer than 10,000 employees and 33 percent of organizations with more than 10,000 employees use a hybrid model. This is an increase of 11 percentage points over last year, which reflects the tendency to pursue a more varied approach, particularly among large organizations, that includes a combination of targeted system replacements, talent management suite solutions and broader HCM implementations. Larger employers are more inclined toward hybrid approaches to continue leveraging their significant investments in legacy, on-premises systems.

At the same time, a nine percentage point decline in use of on-premises models for companies with fewer than 10,000 employees and a seven percentage point decline for companies with more than 10,000 employees indicate a shift away from on-premises to SaaS and hybrid solutions. We expect this trend will continue with significant activity over 2016 and 2017.

Figure 3: Likelihood of Implementing a SaaS Technology Platform for a Specific HR Function

|	Fully implemented	Currently implementing	Considering implementing 0-2 years	Considering implementing >2 years	Not considering implementing
Workforce administration	17%	19%	38%	13%	15%
Payroll/Time	21%	17%	35%	13%	15%
Benefits administration	15%	19%	35%	8%	23%
Talent management	19%	15%	42%	6%	19%
HR analytics	9%	17%	47%	9%	19%

Depending on the HR solution, 35-47 percent of organizations surveyed are considering implementing a new HR technology within the next two years. Talent Management and HR Analytics are two of the fastest growing areas. More than 70 percent of respondents are either already on the path to SaaS or are considering implementing a SaaS solution within the next two years.

Nearly Half Plan to Replace Current HRMS with SaaS

SaaS HCM is gaining significant penetration as a core HR system of record.

Decisions around an organization's core HRMS are central to its HR technology strategy. The landscape for core HRMS solutions has changed significantly with Workday's disruption of the market and the traditional ERP vendors now focusing on providing cloud solutions (SAP's SuccessFactors Employee Central and Oracle HCM Cloud).

**Figure 4: Most Likely Outcome for Core HRMS Technologies between 2015 and 2018**
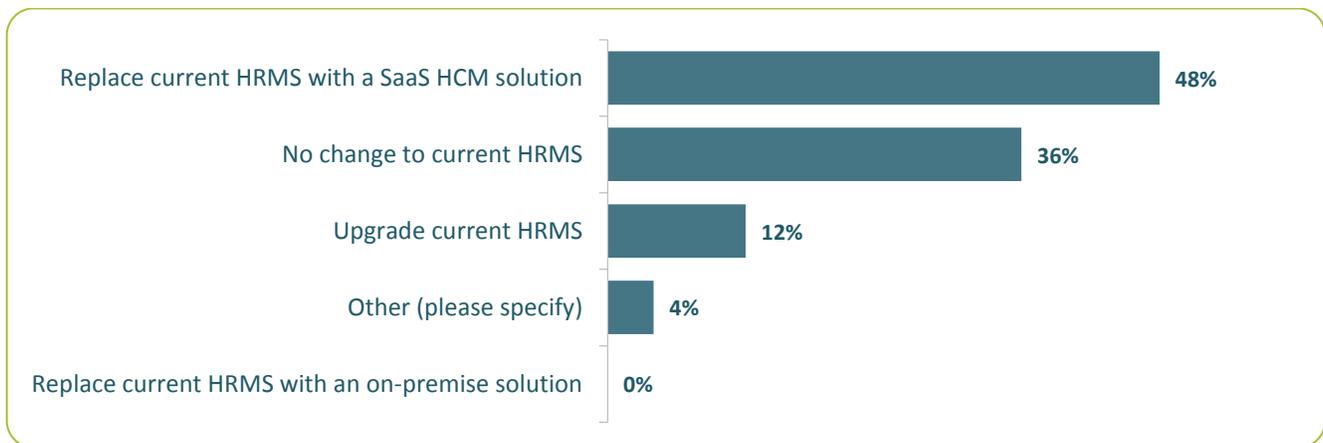
We see more organizations replacing their HRMS than upgrading it. About half of survey respondents are replacing their current HRMS with a SaaS HCM solution while only 12 percent are looking to upgrade their current HRMS. Among smaller organizations, ADP's Vantage and Workforce Now platforms, Ceridian's Dayforce and Ultimate Software's Ultipro are also seeing growth in this unified HCM space.

Don't Forget Talent

As companies move their core HR to the cloud, they are increasingly evaluating their talent technology as well.

Figure 5: Most Likely Outcome for Core Talent Technology Functions, Including Recruiting, Compensation, Performance, Succession and Learning, between 2015 and 2018
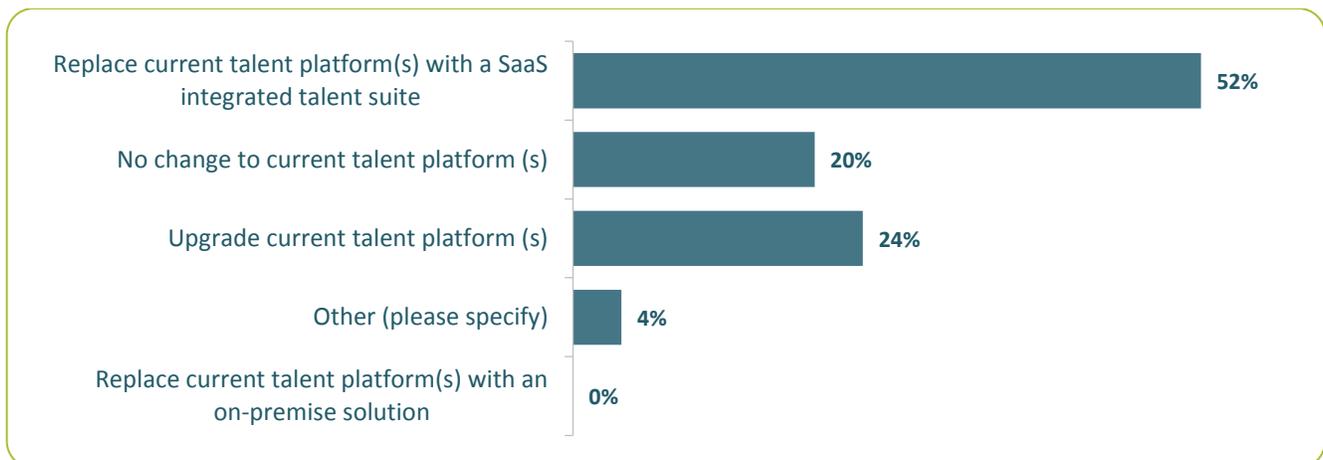
Talent technology is one of the most rapidly changing markets. As many as 80 percent of organizations are planning a change, such as a new purchase or upgrade in a talent platform, over the next three years.

While standalone or niche solution buying continues in targeted functional areas that have unique requirements, more than half of respondents are looking to replace former best-of-breed, highly customized or niche solutions with an integrated talent suite. Some of the change in HR buying is attributable to the enhanced capability of core HR technology solutions in the talent space. The talent suite solution enables integration of key business process touchpoints (such as the ability to make learning recommendations based on identified competency gaps), a more seamless user experience, as well as improved reporting and analytics. Organizations pursuing this approach are willing to sacrifice some of the deeper functionality and points of innovation from best-of-breed providers in order to take advantage of an integrated cross-talent solution.

Usability Drives Selection

After mandatory data security, usability features top the list of selection criteria among HR technology buyers.

Figure 6: Importance of Usability Features in Selecting New HR Technology
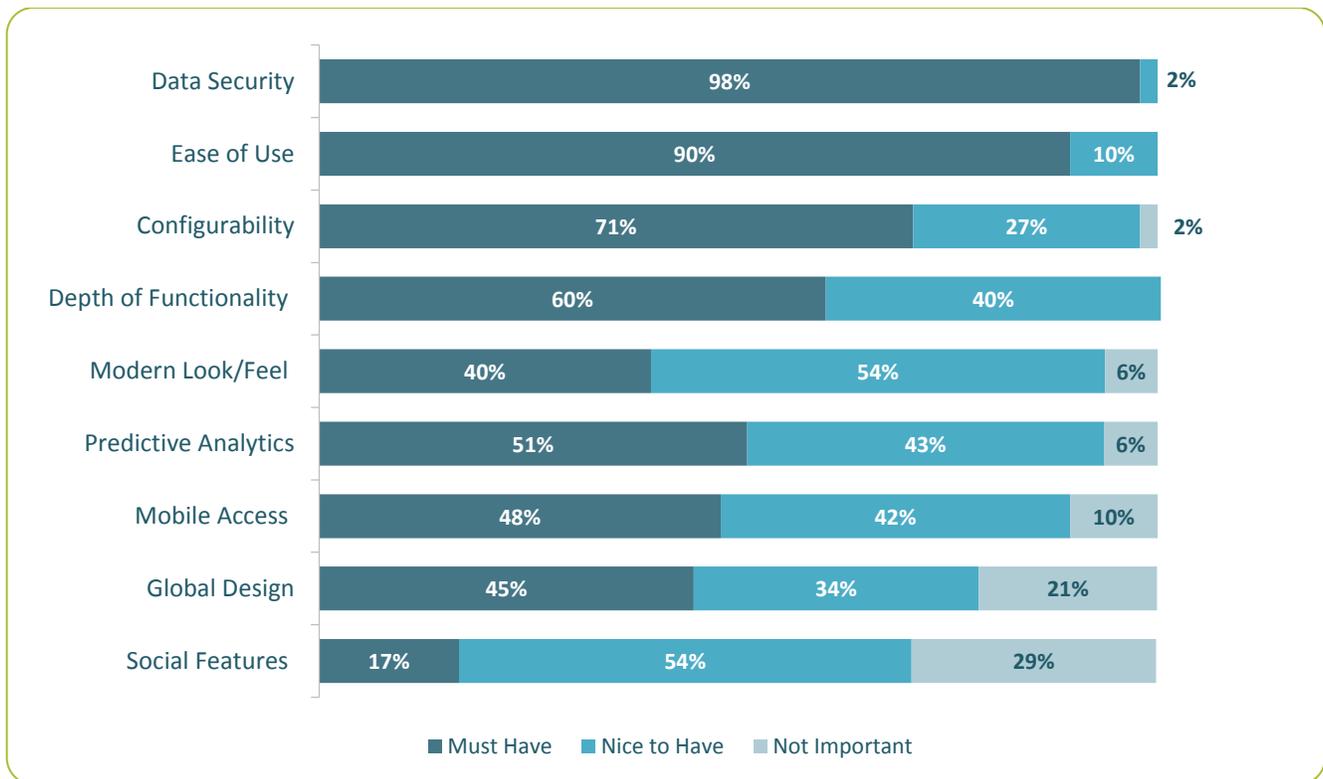
Data security and ease of use are clear "must haves" for enterprises selecting new HR technology. Usability continues to be the driver of user adoption and employee engagement. Configurability is listed third, topping depth of functionality in importance among selection criteria. As organizations move away from more customized solutions, the level of configurability becomes critical in enabling the technology to effectively support key business processes.

For large, global organizations, global design is also a critical requirement, scoring as a "must have" for 71 percent of organizations with more than 10,000 employees.

Mobile First

Mobile access is expected by managers, employees and HR.

Around half of all organizations see mobile access as a "must have," reflecting the expanded use of mobile to reach dispersed employee populations and the increasing expectation of mobile as a standard, particularly amongst Millennials.

Figure 7: Perceived Need for Mobile Access
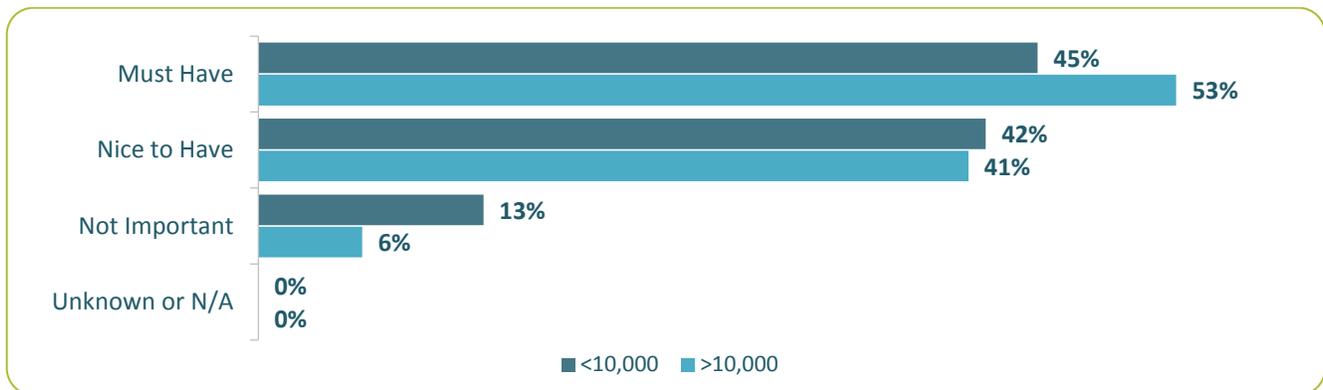
Most of the leading HR technology companies have previously offered limited mobile access to a core set of HR transactions. Today, they are designing with a mobile-first approach that is consistent with the kinds of consumer demands for software that can be used anywhere. This includes the desire among buyers to have a more user-friendly, interactive mobile solution (rather than a simple replication of the desktop experience), as well as dashboard analytics that can be reduced to a single screen.

Then Social

Social capability is becoming a "must have" among large organizations.

We continue to see an increase in the adoption of social media capabilities. Much less critical for smaller organizations, social features are now equally split between being a "must have" and a "nice to have" among large organizations.

Figure 8: Perceived Need for Social Features

Social media is considered a key strategy in achieving HR objectives. Recruiting, performance management, total rewards and learning are increasingly leveraging social networks and collaboration tools. We see areas of strong adoption such as LinkedIn for recruiting, Yammer for social networking and SharePoint for collaboration. For organizations that are increasingly global and/or virtual, these tools have become an important way to connect, share information and operate. Significant opportunity remains for broad organizational adoption of enterprise social strategies.

HR Warms to Analytics

Predictive analytics are beginning to allow HR and the business to make better decisions in areas such as talent acquisition, development, retention and HR spend. But we are in the early days of this journey.

Just over half of the organizations surveyed consider predictive analytics – the use of data, statistical algorithms and machine-learning techniques to predict the likelihood of outcomes – a "must have." While HR has yet to become a fully data-driven function, we are seeing signs that HR is moving from a more reactive stance to a more proactive, analytics-driven stance. This is particularly true among large organizations.

Figure 9: How Organizations Use HR Big Data/Metrics/Predictive Analytics to Make Decisions

Though most organizations still use basic operational reporting, many are beginning to leverage available dashboards and metrics as analytics are increasingly embedded within the core solution.

Being able to make predictions around key questions (such as which employees are at greatest risk to leave the organization or where the best talent for a role will be found) is a capability being addressed systematically by only six percent of organizations. Those that are using predictive analytics typically use HR data combined with other organizational data (such as finance data or demographic data) rather than HR data alone.

Smaller organizations have not yet made significant investments in analytics or business intelligence. Among organizations with fewer than 10,000 employees, 39 percent do not have an HR analytics or business intelligence platform, compared with only 17 percent of organizations with more than 10,000 employees.

In general, organizations are taking a more holistic view of metrics. Twenty-four percent of organizations are using analytics that include data integrated from multiple systems (e.g. recruiting, performance, compensation) versus 14 percent of organizations that focus on regular reports for a single process area.

Approximately one-third of organizations rarely use data or use data via ad hoc reporting for only the most critical decisions. While we expect this to change as organizations leverage more embedded and on-demand analytics, 22 percent of survey respondents indicate they expect to continue to run highly manual-based processes (such as the use of spreadsheets) to meet their needs over the next two years.

No one solution dominates the evolving HR analytics market. Internally developed solutions are used at 20 percent of the organizations we surveyed (ranked second only to those without a platform) to fill market gaps. Ten to 12 percent of respondents use SAP Success Factors and SAP BI/Predictive Analytics, while fewer than five percent of organizations in our study use any one of the other providers.

Better Systems = Better Data

Lack of investment in the necessary HR systems prevents more sophisticated use of data.

Figure 10: The Challenges to Achieving Better Use of HR Big Data/Metrics/Predictive Analytics Data by HR Professionals
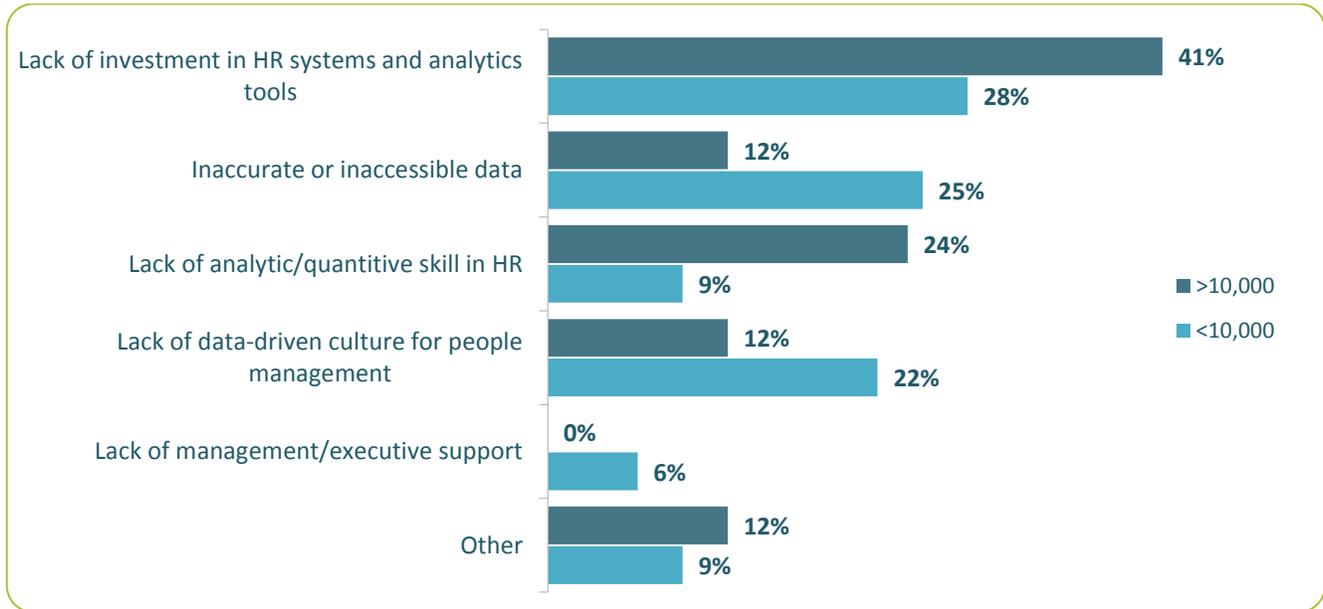
Most organizations cite a lack of investment in the necessary HR systems to support the use of metrics and predictive analytics. The lack of investment was the top challenge across small and large organizations alike.

We are seeing an increased need in the market for talent with HR analytics skillsets, and this need was echoed among larger organizations, in particular. Twenty-four percent of organizations with more than 10,000 employees cite the lack of analytics/quantitative skills among HR professionals as a significant challenge. Small organizations cite inaccurate or hard-to-access data as a particular challenge, along with the lack of data-driven culture—a significant inhibitor to achieving success in this area.

We expect to see organizations increasingly focus on improving access and visibility to high-quality data and embedded, on-demand dashboards/analytics as a part of the adoption of core HR and talent management technology solutions in the future. Our study indicates the HR analytics/business intelligence market will be a key area of investment to close current gaps in this area over the next two years. Of course, organizations will also need to invest in resources with the right expertise to conduct effective analysis of HR data.

The User is King

Improving the employee user experience and providing access to ongoing innovation tops the list of expected benefits.

Figure 11: Expected Benefits of HR SaaS Technology Solutions

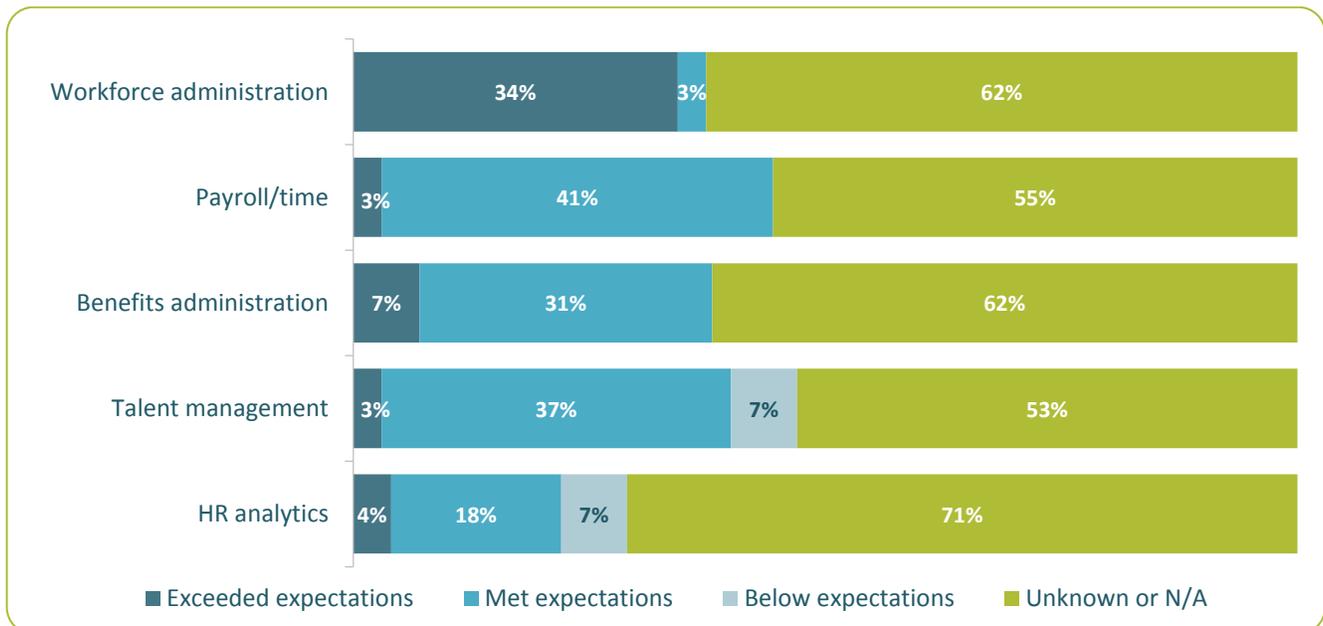| Benefit	Percentage
Improve the employer user experience	58%
Access to ongoing innovation and best practices	53%
Improve integration of data and applications	33%
Reduce total cost of ownership	27%
Reduce dependency on IT	20%
Speed to implement and achieve value	20%
Increase employee engagement	20%
Increase scale and leverage	18%
Establish a variable and predicatable cost structure	18%
Enable global data management	18%
Avoid capital expenditure	16%

Organizations expect a long list of benefits when they move to HR SaaS, with employee user experience at the top. This emphasizes the fact that companies are willing to invest in creating an employee user experience that mirrors that of the customer experience.

Access to ongoing innovation and best practices is also a key driver for just over half of the organizations in our study. The ability to take advantage of regular enhancements and innovations to better support the business is particularly compelling for organizations coming from an environment of highly customized products, infrequent upgrades and stagnant solutions.

How Does Technology Meet Expectations?

Early results show that HR SaaS technologies are generally meeting expectations but have room to improve.

Figure 12: Impact of HR SaaS Technologies

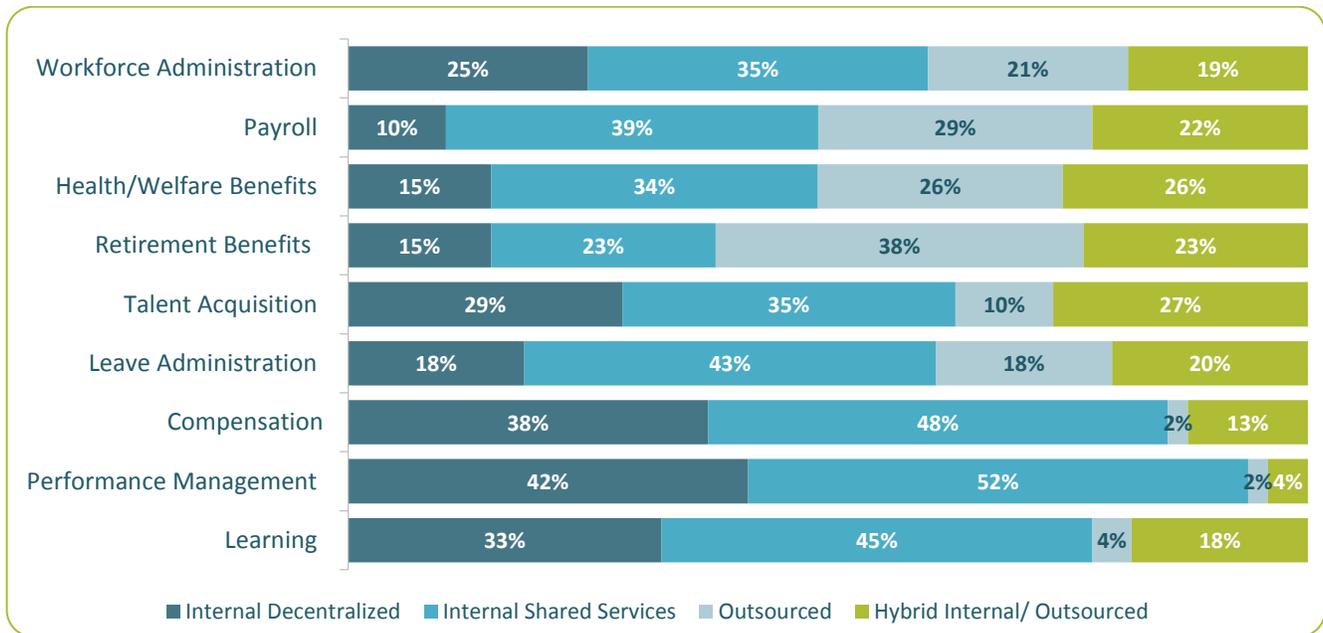| Area	Exceeded expectations	Met expectations	Below expectations	Unknown or N/A
Workforce administration	34%	3%		62%
Payroll/time	3%	41%		55%
Benefits administration	7%	31%		62%
Talent management	3%	37%	7%	53%
HR analytics	4%	18%	7%	71%

While organizations that have adopted SaaS technologies expect many benefits, the majority of organizations are not yet able to fully assess the results. Of those that are able to assess the impact, most say the move meets their expectations for specific applications. All organizations say the adoption of SaaS for Payroll/Time and Benefits Administration meets or exceeds their expectations. With regard to applying SaaS solutions to the areas of Workforce Administration, Talent Management and HR Analytics, a slightly greater number of organizations claim such solutions fall below expectations than those that claim the solutions exceed them. Whether hybrid deployment models and still-evolving HR systems environments are meeting expectations is unclear, but this will be an important development to watch as organizations continue broader SaaS adoption.

What is clear is that new HR technology on its own will not fully achieve an organization's HR transformation goals. An organization requires a holistic strategy around the HR service delivery model that includes the use of shared service centers, process re-design, and investments in areas such as the HR Knowledge Base/HR portal and customer support tools (e.g., telephony, chat, case management). The following sections will highlight key findings with respect to HR service delivery models and overall impact on achieving transformation goals.

Shared Models Dominate HR Delivery

Companies, particularly large ones, are shifting service delivery models as part of their HR transformation.

Figure 13: Primary Delivery Models Implemented for HR Functions

Function	Internal Decentralized	Internal Shared Services	Outsourced	Hybrid Internal/ Outsourced
Workforce Administration	25%	35%	21%	19%
Payroll	10%	39%	29%	22%
Health/Welfare Benefits	15%	34%	26%	26%
Retirement Benefits	15%	23%	38%	23%
Talent Acquisition	29%	35%	10%	27%
Leave Administration	18%	43%	18%	20%
Compensation	38%	48%	2%	13%
Performance Management	42%	52%	2%	4%
Learning	33%	45%	4%	18%

An increasing number of organizations deliver HR services with an internal shared services model, an area in which many organizations are making significant investments. In fact, it is the predominant delivery model today with more organizations moving in this direction. In our study, 47 percent of organizations intend to increase their use of shared services within the next two years.

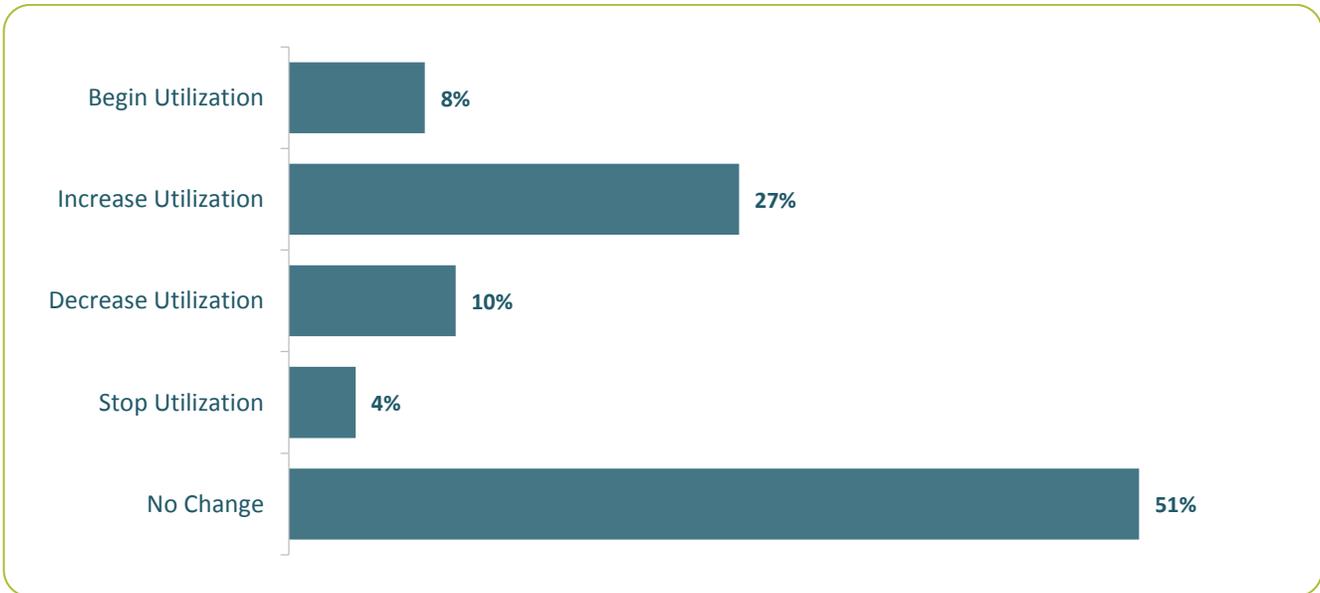**Figure 14: Expected Change in Use of Shared Services Delivery Models between 2015 and 2017**

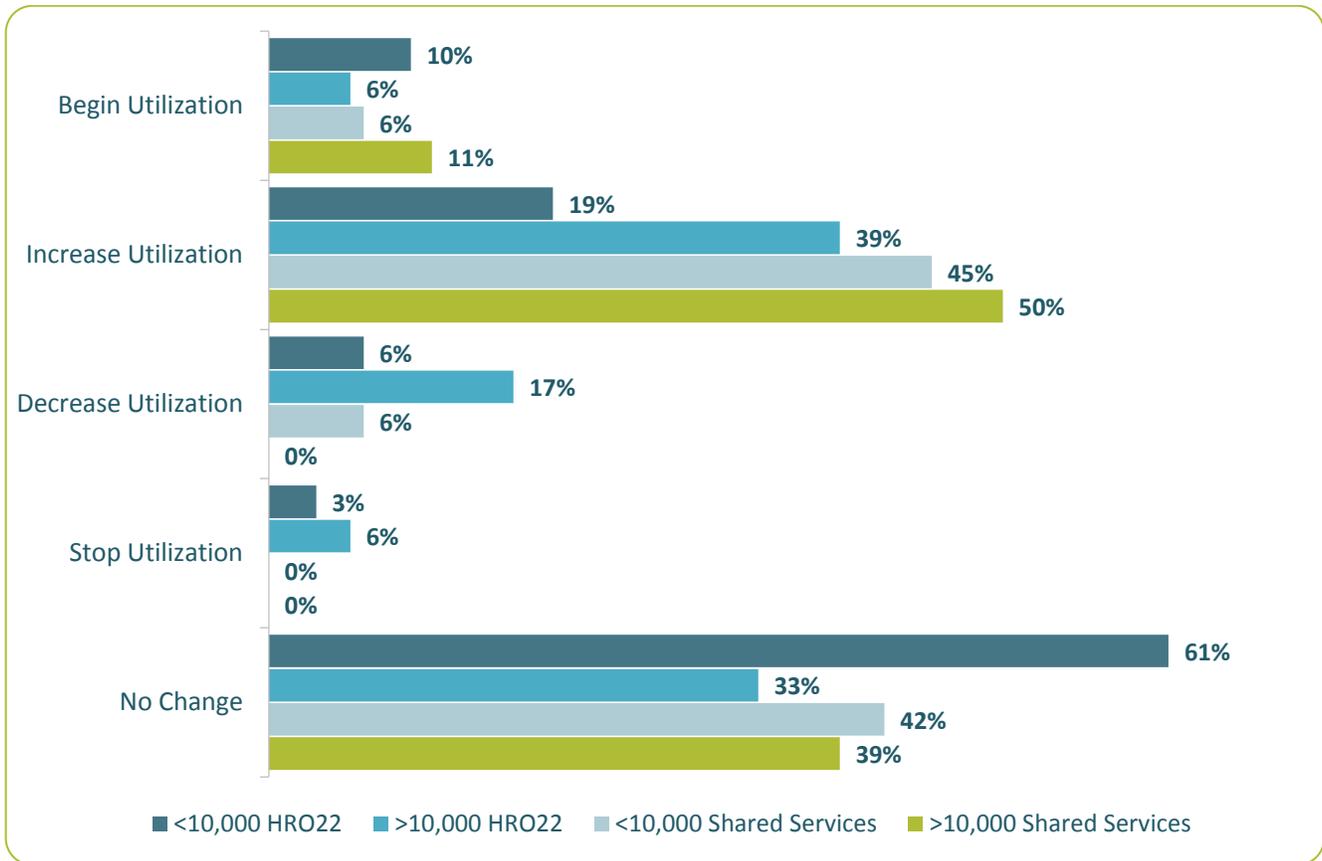|	
Begin Utilization	8%
Increase Utilization	47%
Decrease Utilization	4%
Stop Utilization	0%
No Change	41%
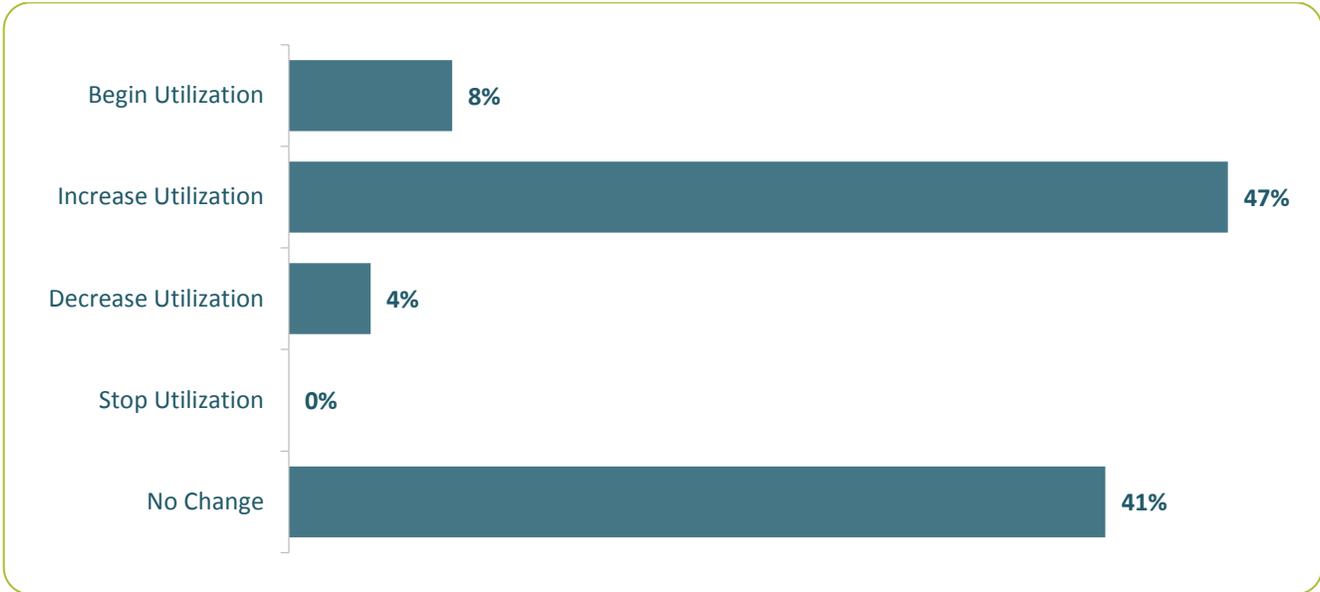
HR outsourcing remains healthy with 27 percent of all organizations indicating an increase in use and 41 percent with no change between 2015 and 2017.

Figure 15: Expected Change in Use of HR Process Outsourcing Delivery Models between 2015 and 2017

Begin Utilization	8%
Increase Utilization	27%
Decrease Utilization	10%
Stop Utilization	4%
No Change	51%

HR process outsourcing renewal activity remains strong, with only four percent of survey respondents indicating they expect to repatriate services. However, with the move to HCM SaaS models, we are seeing lower contract values generally associated with HR outsourcing engagements due to more limited outsourcing scope. Large organizations with more than 10,000 employees appear to be moving more rapidly to increase the use of shared services and HR process outsourcing.

Figure 16: Expected Change in Use of HR Process Outsourcing (HRO)/Shared Services Delivery Models between 2015 and 2017

Begin Utilization	10%, 6%, 6%, 11%
Increase Utilization	19%, 39%, 45%, 50%
Decrease Utilization	6%, 17%, 6%, 0%
Stop Utilization	3%, 6%, 0%, 0%
No Change	61%, 33%, 42%, 39%

Legend: ■ <10,000 HRO22 ■ >10,000 HRO22 ■ <10,000 Shared Services ■ >10,000 Shared Services

Delivery Experience and Efficiencies

Service delivery model changes are seen as the way to improve the user experience and provide access to ongoing innovation.

Not only is improving the user experience the top reason that organizations are adopting new HR technology, it is the reason for the adoption of new service delivery models as well.

Figure 17: Expected Benefits from Changing HR Service Delivery Models

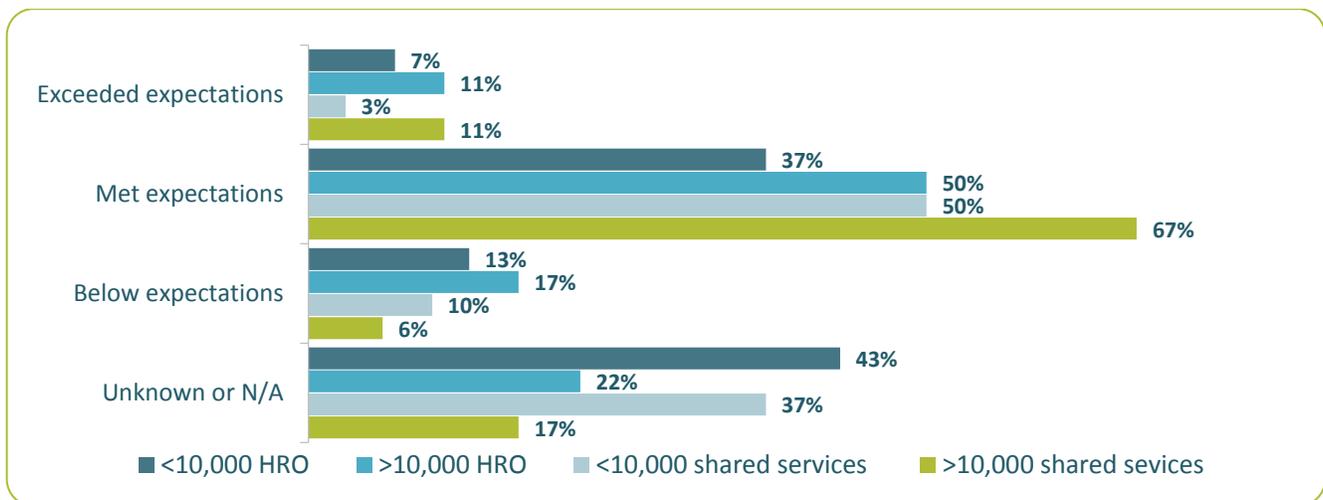| Benefit	Percentage
Improve the employer user experience	46%
Savings in resource costs/labor arbitrage	42%
Access to ongoing innovation and best practices	33%
Increase scale and leverage	31%
No changes planned	23%
Speed to implement and achieve value	17%
Enable globalization	15%
Reduce need for internal infrastructure	13%
Increase employee engagement	13%
Establish a variable and predicatable cost structure	10%
Reduce total cost of ownership	6%
Avoid capital expenditure	4%
Other (please specify)	2%

Traditional reasons that organizations make service delivery changes, such as labor cost savings and scalability, still represent significant drivers, but user experience and access to ongoing innovation have leapfrogged them to the top of the list.

How Does Delivery Meet Expectations?

Shared services adoption among large organizations is achieving the business case.

Shared services and outsourcing service delivery models are generally meeting business case objectives, particularly among larger organizations.

Figure 18: Impact of HR Process Outsourcing (HRO) and Shared Services Delivery Models on the Business Case

	<10,000 HRO	>10,000 HRO	<10,000 shared services	>10,000 shared sevices
Exceeded expectations	7%	11%	3%	11%
Met expectations	37%	50%	50%	67%
Below expectations	13%	17%	10%	6%
Unknown or N/A	43%	22%	37%	17%

For 78 percent of large organizations, shared services models are meeting or exceeding expectations; six percent of large organizations in our survey claim their shared services model falls below expectations. For 61 percent of large organizations, HR process outsourcing meets or exceeds expectations in achieving the business case; 17 percent of organizations claim that their HR process outsourcing falls below expectations. The numbers are less decisive for organizations with less than 10,000 employees, among which a greater percentage listed the impact as unknown.

CONCLUSION

- Organizations are investing significantly in HR technology with a particular focus on moving to the cloud.

- Despite the significant activity in moving to the cloud, we expect the majority of HR organizations are on a longer-term trajectory (of five or more years) to be fully cloud-based.

- The decision to move to HR SaaS is not one driven primarily by cost. Instead, it is driven by the possibility of improved user experience and access to innovation and best practices.

- Organizations predominantly choose HR technology that provides data security, ease of use, configurability, depth of functionality, global design, predictive analytics and mobile access.

- Organizations are increasingly leveraging shared services and HR process outsourcing models to achieve service delivery excellence.

- HR transformation efforts that include adoption of HR SaaS technology and changes to the service delivery model are generally meeting expectations but still have room to improve.

LOOKING FORWARD

Key Considerations

Organizations considering implementing new HR technology and/or service delivery model changes should consider the following:
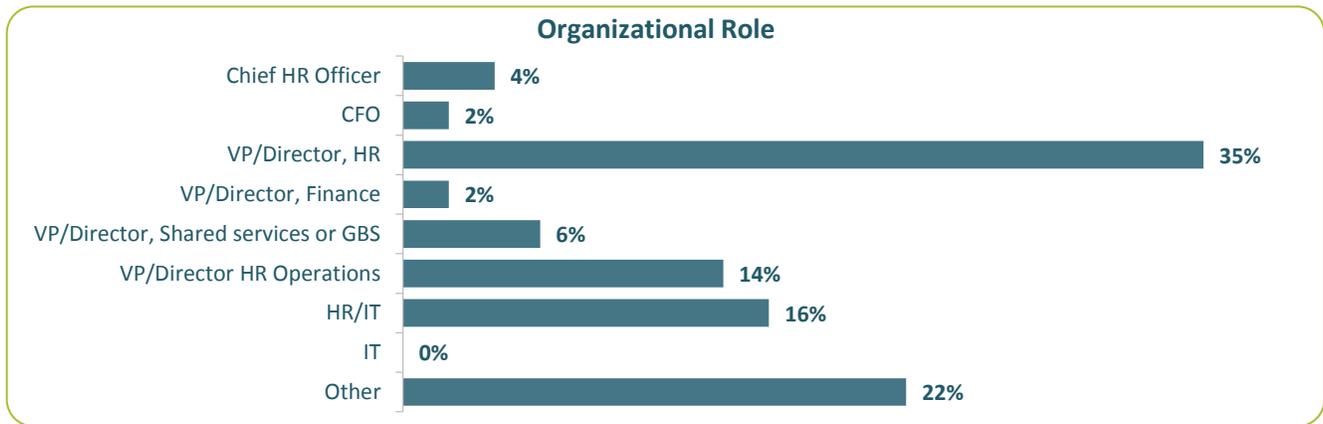
- Understand the specific ways HR technology can best support the most critical business processes; create detailed use cases that focus on the organization's key requirements.

- Ask for sandbox testing as a component to technology selection. Buyers need a firsthand experience of interacting with the application and navigating in the tool. Technology providers are adjusting to these demands by having ready-to-configure sandbox environments, detailed user guides and a help line within the sandbox. Providers unwilling to give open access to clients for testing will find it increasingly challenging to compete.

- Be sure to go beyond functionality to understand the software vendor's strategic direction, roadmap, services and support model.

- In making the HR transformation, be sure to address all parts of the overall service delivery model, including shared service centers, HR Knowledge Base/HR portals and customer support solutions (e.g. telephony, chat, case management).

- To ensure successful HR transformation, pay significant attention and investment to change management and process redesign. New tools applied to old processes, or tools that aren't used by the majority of employees or managers, will not work as intended.

- Develop a business case for change that incorporates the strategic, operational and financial benefits for the organization.

APPENDIX

About the Survey

ISG's *Industry Trends in Human Resources Technology and Service Delivery* Survey was conducted online during the second half of 2015.

- Approximately 40 percent of the survey sample consisted of companies operating primarily outside of North America.

- Approximately 35 percent of the responses came from organizations with more than 10,000 employees, and 20 percent of the responses came from organizations with greater than 50,000 employees.

- Survey responses came from companies in a broad range of industries, with the largest number concentrated in Business Services, Financial Services, Healthcare & Pharmaceuticals, Manufacturing and Telecom & Media.

Organizational Role

Role	Percent
Chief HR Officer	4%
CFO	2%
VP/Director, HR	35%
VP/Director, Finance	2%
VP/Director, Shared services or GBS	6%
VP/Director HR Operations	14%
HR/IT	16%
IT	0%
Other	22%

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Debora leads ISG's HR Technology practice and draws upon extensive shared services, outsourcing and HR management experience to help clients define and implement their HR technology and service delivery strategies. Debora has 29 years of experience in business process design, shared services and outsourcing consulting, including a significant focus on enabling technologies. Debora has led more than 150 engagements across all areas of HR, including selection of HCM platforms and implementation partners, global HR outsourcing, shared services optimization, benefits administration and global payroll.

Stacey Cadigan, Director, HR Technology and Delivery Strategies
Stacey is a thought leader who is especially passionate about HR and talent management. With more than 19 years of experience across all areas of talent management, Stacey combines a clear vision for talent strategy and technological enablement with a practitioner's understanding of what it really takes to make it work. Stacey has led engagements ranging from the design and execution of a learning transformation strategy to the evaluation of recruitment process outsourcing providers to the selection of integrated talent management software suites.

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