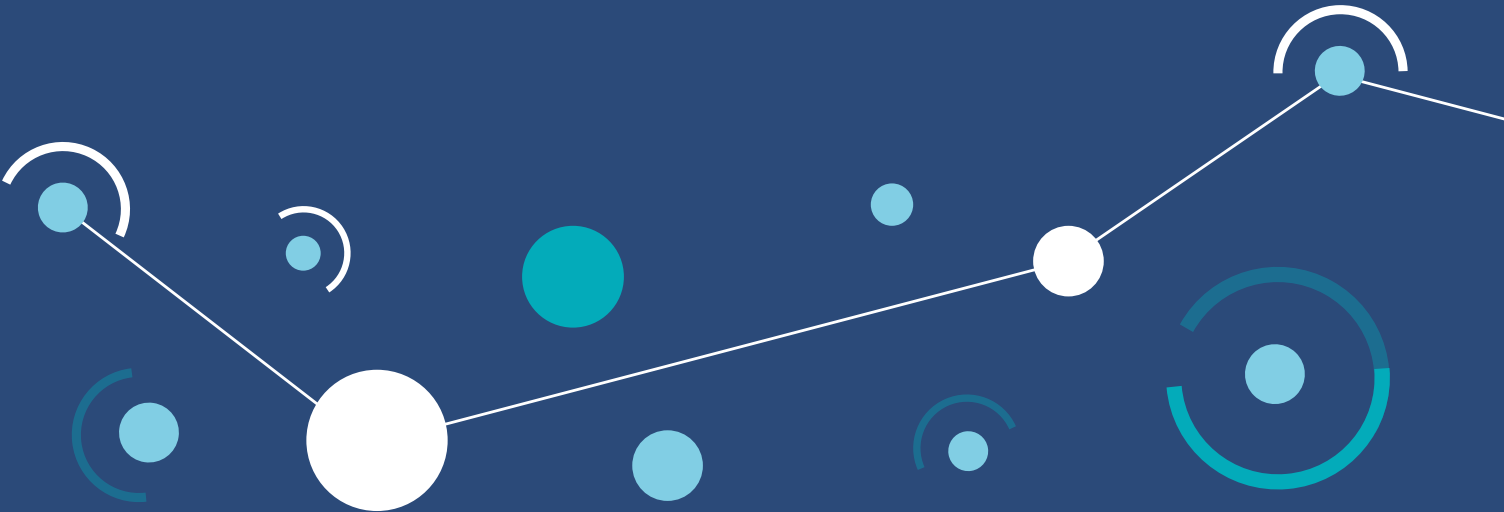MOVING UP THE DIGITAL LADDER:

2019 Industry Trends in HR Technology and Service Delivery

A report exploring the challenges and opportunities facing HR organizations today.

March 2019

EXECUTIVE SUMMARY

HR organizations today face the competitive challenges of becoming a top destination for talent, building the workforce of the future, managing an agile organization and retaining top employees, all while providing strategic insight to key decision-makers. To become true strategic partners to the business and enable enterprise-wide digital transformation efforts, leaders must act quickly to modernize the HR organization and align its capabilities to address these new challenges.

Today's dynamic HR technology and services market is responding in kind. Human capital management (HCM) software providers continue to expand and acquire new capability, emerging technologies such as artificial intelligence (AI), machine learning and HR chatbot solutions are flourishing, and new automation is being used to improve operational efficiency and employee experience. Innovation is happening everywhere in HR tech – from the core HCM software-as-a-service (SaaS) providers, to employee experience technologies, performance and feedback tools, to talent acquisition solutions, digital learning technologies, wellness platforms, and even payroll services (think flexible and on-demand).

For organizations seeking to leverage this innovation, a new organizational capability in the adoption and optimization of these technologies is required. To better understand these challenges and how organizations are making their way along the digital transformation journey, ISG engaged 271 companies with a series of questions about their HR technology and service delivery environment. The companies represented a cross-section of industries operating in key geographic regions around the world and ranged in size from 1,000 employees to more than

20,000 employees. **ISG's 2019 Industry Trends in HR Technology and Service Delivery Report** is an analysis of that data, augmented with our deep market experience.

Answers from survey respondents paint a distinct picture of the typical journey toward maturity in HR technology, happening in phases, as seen in Figure 1 below. As organizations evolve their HR capabilities, they move toward a full SaaS solution, experiencing an increasing degree of digital adoption with optimized processes and strategic business insights that feed critical decision-making and drive business outcomes.

> **Innovation is happening everywhere in HR tech. For organizations seeking to leverage this innovation, a new organizational capability in the adoption and optimization of these technologies is required.**

Fig 1 | ISG HR Tech Capability Model

HR Tech 1.0

- No strategy or central ownership of HR technology; unable to adequately respond to business needs

- No/limited SaaS

- No/limited direct access (MSS/ESS)

- Processes are not harmonized or optimized; not customer centric

- Basic reporting only; no metrics and KPIs

HR Tech 2.0

- HR technology not well aligned to organizational objectives; challenges responding to business needs in a timely manner

- Partial SaaS or hybrid models

- Some direct access, but gaps in user experience

- Mix of manual and automated processes with only some processes harmonized

- Largely operational reporting with limited investment in analytics; few established metrics and KPIs

HR Tech 3.0

- HR is aligned to the organization's broader objectives with ability to effectively respond to business needs

- HCM SaaS solution; some emerging technologies applied

- Direct access with solid adoption and user experience

- Core processes are automated and harmonized, but optimization opportunities still exist

- Enterprise-wide dashboard and analytics; established metrics and KPIs

HR Tech 4.0

- Central governance established by an HR tech CoE; HR viewed as a strategic partner helping drive the organization's broader objectives/roadmap

- Full SaaS; advanced use of emerging technologies (AI, automation)

- High degree of direct access, including use of emerging channels (chat, voice); full adoption and strong user experience focused on "moments that matter"

- Processes are fully automated, harmonized and optimized

- Fully integrated intelligence platform; leading metrics and KPIs; strategic business insights

Report Highlights

- Organizations are eager to move to full SaaS solutions, but many are not moving as quickly as they had hoped.

- While SaaS often costs more than anticipated, more than 60 percent of companies cite significant savings in the areas of IT/technology operations and HR administration.

- Although strong governance is required in this complex and dynamic technology landscape, many organizations have not yet created an HR technology center of excellence (CoE) or defined an HR technology strategy to drive business outcomes.

- In moving more HR functions to a single platform, organizations are finding they require new software solutions for an improved end-to-end experience and an integration layer that will allow them to capitalize on innovation happening outside the HCM platform.

- Organizations are making significant investments in advanced technology to address many of the complex HR challenges, but they are missing opportunities to optimize processes and failing to prioritize change management to ensure adoption.

- And, while many enterprises are improving capability and gathering better data, they are not sure how to translate the data into measurable business value.

This report explores the state of HR technology and services today and provides guidance to address some of the challenges and opportunities organizations face as they move through the phases of HR tech capability toward digital transformation.

TABLE OF CONTENTS

HR Technology: Key Trends and Analysis

The Chief Human Resources Officer (CHRO) agenda is tied closely to the Chief Executive Officer (CEO) agenda: finding the right talent, retaining top performers and driving enterprise agility and innovation. Modern organizations understand that people are what drive growth and enable organizational change for digital transformation.

Over the past several years, SaaS has been firmly established as the clear choice when it comes to the future of HR technology, and the results of this survey confirm that trajectory. However, while the demand remains strong, data suggests that companies may not be moving to SaaS as quickly as they had anticipated. Figure 2 depicts the aggregate response from our survey participants when we asked them to select one profile that best describes their enterprise's current (primary) HR technology model and the one that best describes where they will be in 2020.

In looking at the HR technology profiles of the companies that participated in the survey, 20 percent indicate that a SaaS subscription-based or hybrid solution best describes their HR technology platform today, while the remaining 80 percent continue to operate on-premises, hosted or internally developed solutions. This is lower than predicted based on the results from the prior survey Industry Trends in Human Resources Services and Delivery 2017, in which over 40 percent of respondents expected to be up and running on a SaaS solution in 2018.

Fig 2 **HR Tech Profile**

■ Licensed Software On-premise ■ Licensed Software Hosted ■ SaaS Subscription Based
■ Hybrid ■ Internally Developed System
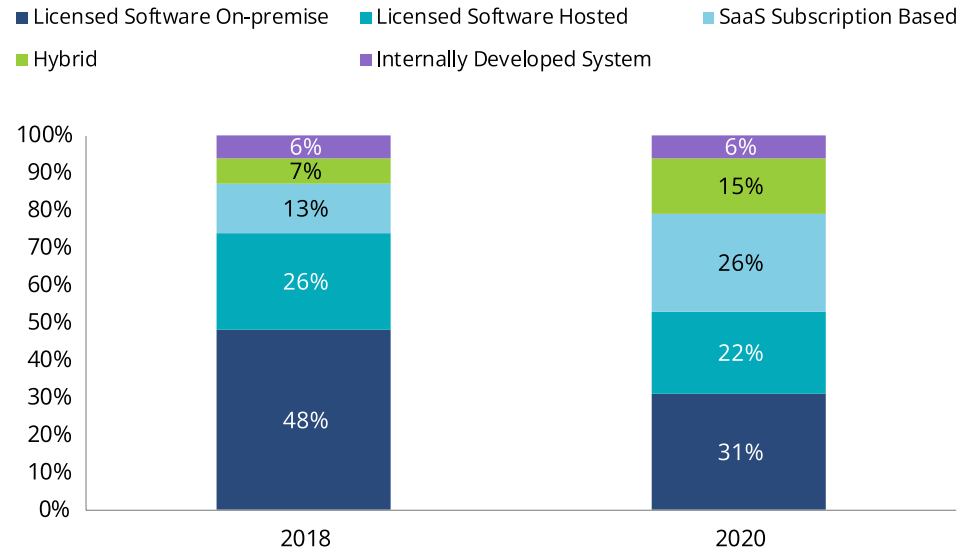
Companies often underestimate the planning involved in moving to a cloud-based solution – securing approval for an internal business case, selecting a platform and negotiating a contract, ensuring readiness (including resourcing, data readiness, service delivery readiness, change readiness) and implementing a new platform and operating model. Lean HR teams, competing priorities and limited budgets can undoubtedly impact project timelines. Still, the desire and ambition to migrate to SaaS remains strong, and this year's survey results continue to point toward rapid growth, indicating that the number of companies operating a SaaS or hybrid model will double by 2020.

Selecting an HR Technology Platform

With the influx of HR technology solutions in the market, prioritizing selection criteria becomes key to making the right technology decision. Figure 3 shows the criteria that drives HR technology selection decisions and the percentage of respondents that characterized each of the criteria as either "must have," "nice to have" or "not important."

Fig 3 — HR Technology Selection Criteria

■ Must Have ■ Nice to Have ■ Not Important

Criteria	Must Have	Nice to Have	Not Important
Data Security	72%	23%	5%
Ease of Maintenance/Agility	69%	27%	4%
Ease of Use	66%	29%	5%
Depth of Functionality	66%	31%	3%
Configurability	64%	32%	4%
Predictive Analytics	59%	37%	4%
Price	55%	38%	7%
Mobile Access	54%	39%	7%
Global Design	50%	39%	11%
Artificial Intelligence, Automation	45%	46%	9%
Chat, Voice, and Self-service Capabilities	44%	44%	12%
Social Features	43%	44%	13%
Modern Look/Feel	43%	47%	10%

imagine your future®

According to the survey, data security once again tops the list of must-have functionality when organizations are selecting a HR technology platform. This comes as no surprise following a year in which security breaches were prominent in headlines around the world and in which we saw the rollout of the new Global Data Privacy Regulation (GDPR) in the European Union.

Ease of maintenance/agility placed second in importance of must-have functionality. This prioritization speaks directly to the abilities of HR and IT to respond to changing business needs. Organizations must be agile to survive in today's rapidly changing business environment; creating an environment that can respond to change is a priority. Organizations also continue to place a high priority on user experience, ranking ease of use just below ease of maintenance/agility in order of importance. Survey results underscore the fact that the CHRO agenda is tied closely to the business strategy of enabling an agile organization and creating a best-in-class user experience.

According to survey results, today's technology must go beyond the look and feel of the interface (a criterion that rated last on the list of priorities) to increase productivity and become an integral part of an employee or manager's day-to-day work. For example, a new wave of technology has cropped up in areas such as performance management and coaching that includes plug-ins or chat capability so a manager can directly capture a performance check-in or coaching conversation with an employee inside of their email application. Learning solutions also are increasingly embedded into other platforms on which employees spend the bulk of their time, such as short video training sessions for the sales team in Salesforce. This trend is being further explored by entrants such as Google and Slack that are edging into the HR space with workplace technologies.

Mobile capabilities are growing in importance as well, aligning with broader workplace trends that support a more virtual, on-the-go workforce that demands flexibility and convenience.

Notably, the cost of HR technology solutions is not a driving factor for many organizations. Price ranked seventh on the list, with 44 percent of survey respondents categorizing it as "nice to have" or "not important." This may reflect an acknowledgment that investment is required to gain the other benefits cited as "must have."

> **Today's technology must go beyond the look and feel of the interface to increase productivity and become an integral part of an employee or manager's day-to-day work.**

Emerging technologies such as AI, automation, chatbots and voice are making valuable contributions to HR. AI has found its way into talent acquisition with success stories reported in the way companies source, match and assess candidates. Organizations also are extending their use of AI into development planning, digital coaching, recognition and wellness. While emerging technologies play a lesser role in core HR technology decisions for most organizations, these technologies are a significant part of the HR market's innovation. We expect these technologies to become more important as vendors continue to expand their capabilities – and as customers share use cases, experiences and success stories more widely.

imagine your future®

Achieving Value

HR and IT organizations expect a long list of benefits when they select new HR technology, as seen in Figure 4. Improving the employee user experience tops the list of expected benefits followed closely by reducing HR administrative cost and increasing access to ongoing innovation and best practices. Reducing dependency on IT is high on the list as well, tying to customers' priorities for ease of maintenance and agility.

Improving the employee user experience tops the list of expected benefits of new HR technology, followed closely by reducing HR administration costs. Three other benefits - reducing HR's dependence on IT, increasing access to ongoing innovation and best practices and increasing employee engagement - were also high on the list.

Most companies deploying SaaS expect to achieve some level of cost reduction in both HR and IT. While SaaS may not always result in direct savings, Figures 5 and 6 below confirm that expectations around cost reduction are achievable. The data indicates that, of the companies leveraging SaaS, around half have been able to attain savings between 10 and 30 percent in both the areas of IT/technology operations and HR administration, with an additional 15 percent of companies realizing 30 percent or more savings in both areas.

Fig 4 Expected Benefits from SaaS

Benefit	Percentage
Improve the employee user experience	31%
Reduce HR administration cost	30%
Reduce dependency on IT	28%
Access to ongoing innovation and best practices	28%
Increase employee engagement	28%
Improve integration of data and applications	27%
Enable globalization	23%
Increase scale and leverage	23%
Speed to implement and achieve value	23%
Reduce technology cost of ownership	21%
Enable use of artificial intelligence	20%
Avoid capital expenditure	17%

imagine your future®

Fig 5

What savings were you able to achieve in **IT/technology operations, maintenance and support** by leveraging SaaS?

Category	Value
Spent more	7%
No savings	8%
Less than 10%	22%
10-20%	34%
20-30%	14%
> 30%	15%
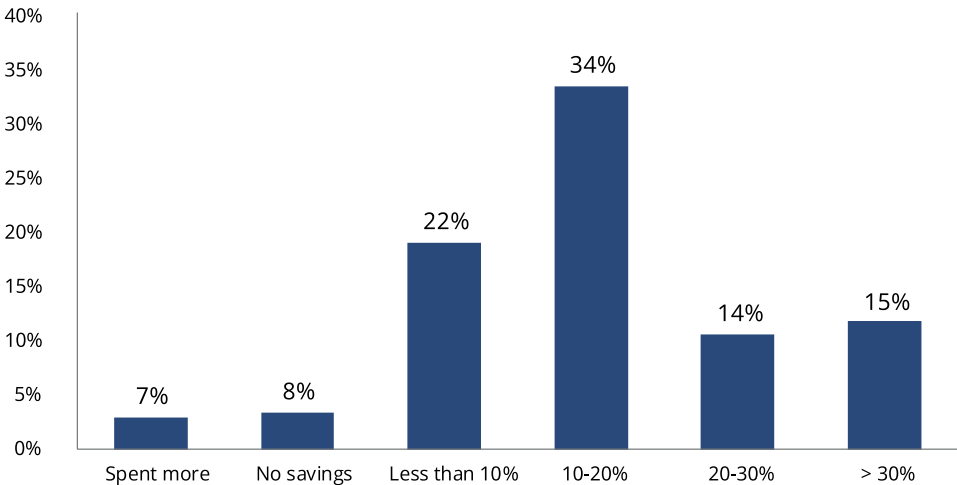
Fig 6

What savings were you able to achieve in **HR administration and management** by leveraging SaaS?

Category	Value
Spent more	7%
No savings	6%
Less than 10%	21%
10-20%	29%
20-30%	22%
> 30%	15%

imagine your future®
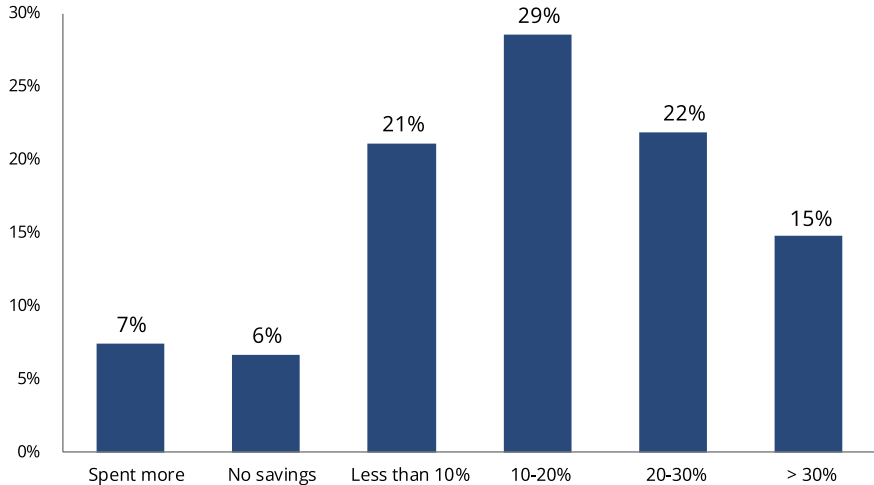
When asked about the ability to translate SaaS technology to measurable business value (e.g. increased retention, reduced time to fill or other business-value measures), 41 percent of survey respondents say they have achieved measurable business value by adopting SaaS, while 59 percent say they have not. This breakdown is depicted in Figure 7.

While more than 60 percent of survey respondents have achieved significant cost savings, fewer have been able to translate that savings into measurable business value.

Fig 7

Have you achieved measurable business value improvements by adopting SaaS?

■ Yes ■ No

41%

59%
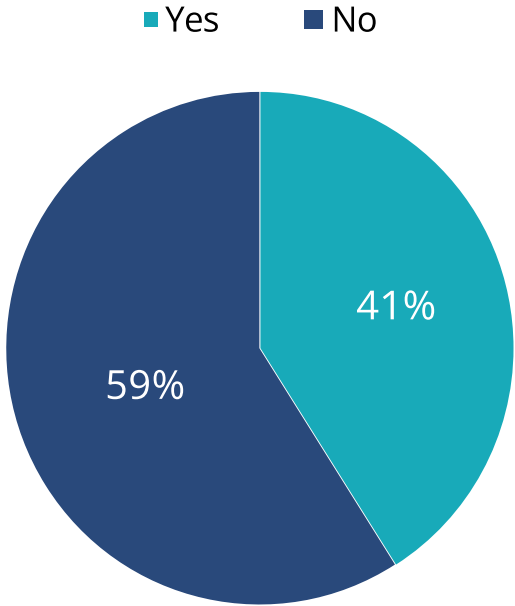
These numbers illustrate a significant gap between the investments made in SaaS technology and an organization's ability to demonstrate improved business results. We see a few reasons for this gap:

1. Organizations are realizing that their HCM solutions do not fully address all their HR technology needs. Buyers may find that additional technologies are required to provide a more comprehensive and intuitive end-user experience. SaaS vendors are coming to this realization as well, and some leading SaaS providers are investing in case management software, knowledgebase and portal solutions, or developing strategic partnerships with vendors that have these capabilities. Oracle has already invested in this area, Workday is building its own portal, and the recent acquisition by technology company Ultimate Software of HR service delivery platform PeopleDocs emphasizes the complementary role of these technologies and potential convergence of this space.

2. While companies are purchasing more products from a single HCM provider in the move to the cloud, innovation in the market has made it difficult for organizations to reduce the overall number of vendors they use. Innovation is happening so quickly that HCM vendors alone cannot compete at the rate of the broader marketplace. To reflect this reality, HCM providers such as Oracle, SAP and Workday have articulated a clear extensibility strategy that enables integration through open APIs.

3. Regardless of how advanced HR technology may be, organizations still need to build an end-to-end employee experience. While more organizations are optimizing processes in parallel with their technology change, a larger transformation effort is not occurring across all organizations, and these companies can feel the gaps.

4. Organizations underinvest in change management. Without a carefully considered (and funded) digital adoption plan, managers and employees do not fully adopt new technology to a degree that drives business results.

5. Organizations need to take a fresh look at their metrics. For example, even though user experience is a driving factor in why organizations are purchasing new HR technology, few organizations have taken steps to measure user experience and its effects on the organization. And, while organizations may believe they are able to make organizational changes more quickly or better attract new candidates, they have not developed an effective way to measure these improvements.

Organizations are realizing that their HCM solutions do not fully address all their HR technology needs and that they may need additional technologies to provide a more comprehensive and intuitive end-user experience.

Investing for the Future

When we asked survey participants to shift their attention toward the future and tell us how they are planning to invest over the next two years, analytics and enabling technologies rose to the top. Figure 8 shows how respondents replied when asked this question: Which category below represents the highest category of HR technology spend?

There is no question HR organizations are embracing data and intelligence. Forty three percent of survey respondents say analytics and reporting are top priorities for how they allocate their HR IT budget. Teams are seeking new ways to gather and analyze data, and HCM and standalone analytics providers have been busy building out capability.

The same number of survey respondents cite enabling technologies, including portal, case management and knowledgebase, as top investment priorities. In some cases, these technologies are serving as the front-end employee interaction layer. For example, an organization may deploy a vendor such as ServiceNow to provide a portal to which employees can ask HR questions, initiate a search, view content or connect into the HCM technology.

Fig 8 Priorities for HRIT Spend

- Enabling technologies (e. g., knowledgebase, portal, case management, etc.) — 43%
- Analytics/reporting — 43%
- Knowledge management — 40%
- HCM (SaaS) solution — 35%
- AI/cognitive analytics — 33%
- Employee wellness trackers — 28%
- Robotic process automation (RPA) — 28%
- Customizing applications — 27%
- Chatbots/virtual agents — 20%
- Other — 3%
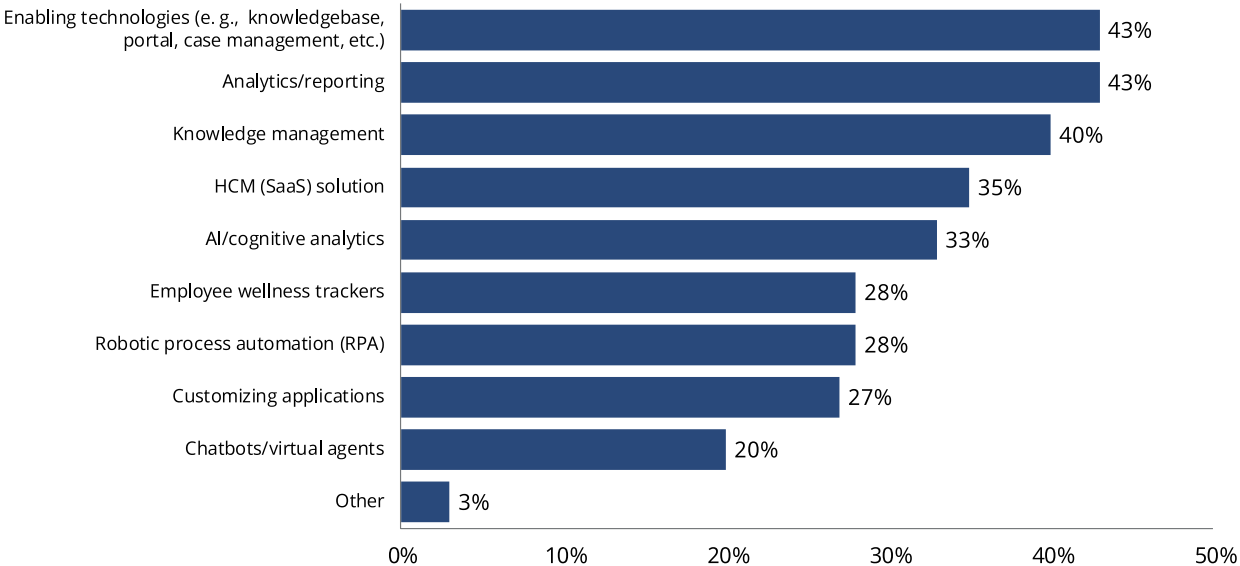
Looking beyond HR technology, a surprisingly significant number of organizations – 68 percent – indicate they are combining or planning to combine HR and enterprise resource planning (ERP) systems into a single vendor solution. Of those, 37 percent say they are currently selecting a platform or deployment partner or intend to begin selection within the next 24 months. Some of the cloud HCM/ERP providers are aggressively building out combined HCM/cloud-based ERP platform capabilities, and the current viability of these solutions for small-, mid- and large-market enterprises has driven increased market interest. Even for organizations that are not looking to make a cloud ERP investment right away, there is an increasing desire to understand current vendor capability in the market as part of the organization's long-term technology strategy.

A surprisingly significant number of organizations – 68 percent – indicate they are combining or planning to combine HR and enterprise resource planning (ERP) systems into a single vendor solution.

HR Tech
Capability Model

This year's survey examines the maturity of the HR tech environment in global companies and how adoption of HR technology, optimization of processes and the associated service delivery impact organizational capability. The HR Tech Capability Model tracks an organization's HR capabilities across five areas: 1) HR technology strategy, 2) HR processes, 3) HR service delivery, 4) direct access with employee self-service (ESS)/manager self-service (MSS) and 5) reporting and analytics.

Fig 9 **ISG HR Tech Capability Model**

HR Tech 1.0

- No strategy or central ownership of HR technology; unable to adequately respond to business needs
- No/limited SaaS
- No/limited direct access (MSS/ESS)
- Processes are not harmonized or optimized; not customer centric
- Basic reporting only; no metrics and KPIs

HR Tech 2.0

- HR technology not well aligned to organizational objectives; challenges responding to business needs in a timely manner
- Partial SaaS or hybrid models
- Some direct access, but gaps in user experience
- Mix of manual and automated processes with only some processes harmonized
- Largely operational reporting with limited investment in analytics; few established metrics and KPIs

HR Tech 3.0

- HR is aligned to the organization's broader objectives with ability to effectively respond to business needs
- HCM SaaS solution; some emerging technologies applied
- Direct access with solid adoption and user experience
- Core processes are automated and harmonized, but optimization opportunities still exist
- Enterprise-wide dashboard and analytics; established metrics and KPIs

HR Tech 4.0

- Central governance established by an HR tech CoE; HR viewed as a strategic partner helping drive the organization's broader objectives/roadmap
- Full SaaS; advanced use of emerging technologies (AI, automation)
- High degree of direct access, including use of emerging channels (chat, voice); full adoption and strong user experience focused on "moments that matter"
- Processes are fully automated, harmonized and optimized
- Fully integrated intelligence platform; leading metrics and KPIs; strategic business insights

HR Technology Strategy Capability

A global HR technology platform is a "must have" for companies on the path toward globalization and digitalization. Over half of survey respondents say their organizations have a global HR technology platform in place, and, for the majority of those respondents, that platform includes some SaaS component.

Per Figure 10, 52 percent of respondents are monitoring and reporting on HR technology service levels/performance. Fewer organizations say they are achieving alignment and connection to the business. Just under half (48 percent) of survey respondents indicate they have agreed on their HR technology service levels with the business. This correlates with the fact that only 20 percent strongly agree and 27 percent agree that their business leaders view HR as a strategic partner.

Forty six percent of organizations indicate they have established an HR technology CoE or shared services group responsible for HR systems; this result is likely impacting the ability of HR to be viewed as a strategic partner to the business. The concept of an HR technology CoE continues to gain traction as companies examine their service delivery models and seek to optimize them with SaaS technology. Establishing centralized accountability for HR systems is key to driving the HR technology strategy within an organization, and, as more organizations adopt this concept, we expect to see increased maturity around HR technology governance that will ultimately drive a stronger connection to business objectives.

Fig 10 Technology Strategy Capability

Legend: ■ Agree ■ Strongly Agree

Statement	Agree	Strongly Agree
We have a global HR technology platform	29%	22%
We monitor and report on HR technology service levels/performance	31%	21%
Our HR technology solution has enabled us to respond to business needs	31%	20%
We have an HR technology CoE or shared services group that is responsible for all HR systems	25%	21%
Our business leaders view HR as a strategic partner in the orgnaization's objectives	27%	20%
We have agreed upon HR technology service levels with the business	27%	21%
We review all new functionality available in each HCM release and take the updates that fit with our HR technology strategy	27%	18%
We maintain an HR technology roadmap that looks out 3+ years	30%	18%
We participate in any HCM SaaS communities that are available to our organization	29%	14%

imagine your future® 12

Organizations are not yet taking full advantage of the tools at their disposal in a SaaS model, as indicated by responses to the questions around release management and SaaS community participation. Responses to both questions show a lower degree of maturity compared to other areas of technology strategy. Leading organizations are investing in ongoing optimization and support.

Process Capability

We asked a series of questions to assess the maturity of respondents' HR processes and found the approach to process for most organizations lags slightly behind the maturity of their technology strategy. Figure 11 shows how survey participants responded to a series of statements about their HR processes.

Almost half (47 percent) of respondents indicate they are proactively improving their HR processes in a structured way. Similarly, 45 percent of companies agree or strongly agree that their HR processes are aligned to their HR technology platform. These results indicate that companies are not yet consistently optimizing processes along with their technology enablement. The responses also indicate that significant opportunities exist to harmonize processes and systems across regions and business lines.

Breaking down the responses by industry, companies in the Technology and Business Services/Communications sectors show greater maturity when it comes to technology adoption than those in the Healthcare, Public Sector and Travel, Tourism and Hospitality industries.

Fig 11 **Process Capability**

■ Agree ■ Strongly Agree

Statement	Agree	Strongly Agree
We proactively improve HR processes in a structured way	23%	24%
The organization understands and follows our HR processes as designed	23%	21%
Our HR processes are aligned to our technology platform	23%	22%
We regularly monitor and report on HR delivery service levels/performance	26%	19%
We have agreed-upon HR delivery service levels with the business	26%	19%
Our HR processes are standardized across business lines	24%	18%
Our HR processes are standardized across geographies	25%	19%
We optimized our HR processes before implementing a new HCM technology	29%	18%
Our company accurately estimates the amount of change management HR technology requires	23%	18%

0% 10% 20% 30% 40% 50%

imagine your future® 13

Results show companies are underinvesting in change management with only 18 percent of companies strongly agreeing and 23 percent agreeing that they accurately estimate the amount of change HR technology requires. Change management is key to driving adoption of new technology and processes, and a lack of investment means companies will likely continue to struggle in achieving full adoption.
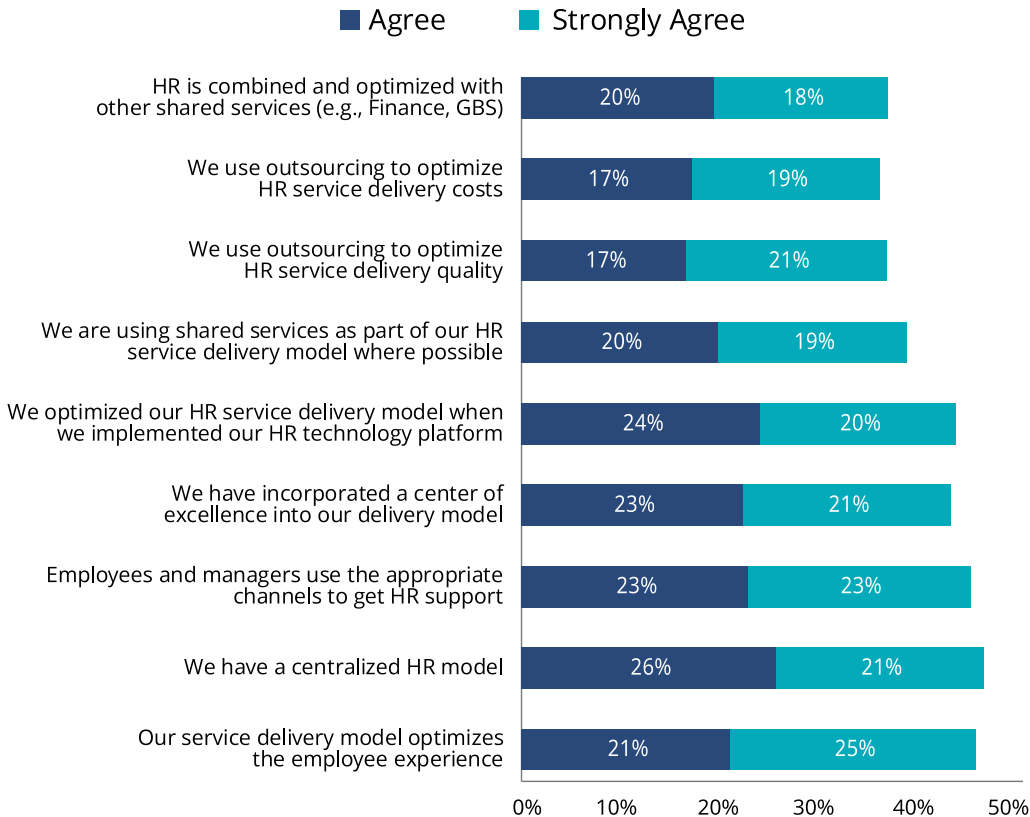
Organizations that have moved too quickly to implement technology often find themselves spending more money after technology deployment to optimize processes. To truly realize the value of the investment, companies must do the upfront work needed to harmonize and optimize processes before implementing the technology. Rolling out new tools at the same time as optimizing processes will encourage adoption by creating a better end-user experience from the outset.

Service Delivery Model Capability

In addition to optimizing processes, organizations also have a key opportunity to maximize the return on their technology investments by improving the associated HR service delivery model. Survey results indicate that this is another area in which HR organizations have ample room to grow. Figure 12 shows responses to a series of statements about HR service delivery models.

Fig 12 — Service Delivery Model Capability

Legend: ■ Agree ■ Strongly Agree

Statement	Agree	Strongly Agree
HR is combined and optimized with other shared services (e.g., Finance, GBS)	20%	18%
We use outsourcing to optimize HR service delivery costs	17%	19%
We use outsourcing to optimize HR service delivery quality	17%	21%
We are using shared services as part of our HR service delivery model where possible	20%	19%
We optimized our HR service delivery model when we implemented our HR technology platform	24%	20%
We have incorporated a center of excellence into our delivery model	23%	21%
Employees and managers use the appropriate channels to get HR support	23%	23%
We have a centralized HR model	26%	21%
Our service delivery model optimizes the employee experience	21%	25%

imagine your future®

Improving the employee user experience tops the list of expected benefits from SaaS, but a great end-user experience does not rely on technology alone. The right service delivery model makes that experience a reality. As depicted in Figure 11 above, a quarter of respondents strongly agree and 21 percent agree that their HR service delivery model optimizes the employee experience; 46 percent either strongly agree or agree that employees and managers are using the appropriate channels to get HR support. Change management is key to getting employees to use the appropriate channels once they have been defined, so the underinvestment in change manage-ment noted earlier is likely impacting success here as well.

More than three-quarters of survey respondents indicate they use an inter-nal shared services model, outsourced or hybrid internal shared services/outsourced model for their HR activities. Figure 13 below shows the primary delivery model survey participants are using for a variety of HR functions.

The shared services model is the dominant delivery model, a finding that is consistent with the prior survey results. Around half of respondents are using an internal shared services model across most services, and com-panies today are working to centralize their learning and performance management work more than they were last year. When considering the recent market trends around SaaS adoption, this shift likely correlates to increased adoption of the HCM talent modules, resulting in opportunities to shift more of the harmonized administrative activities into a shared services model. With the acceleration of HCM SaaS, we see more and more HR out-sourcing providers focusing on SaaS-only service delivery models.

Improving the employee user experience tops the list of expected benefits from SaaS, but a great end-user experience does not rely on technology alone. The right service delivery model makes that experience a reality.

Fig 13 | Primary Service Delivery Model

■ Internal Decentralized ■ Internal Shared Service ■ Outsourced ■ Hybrid Internal / Outsourced

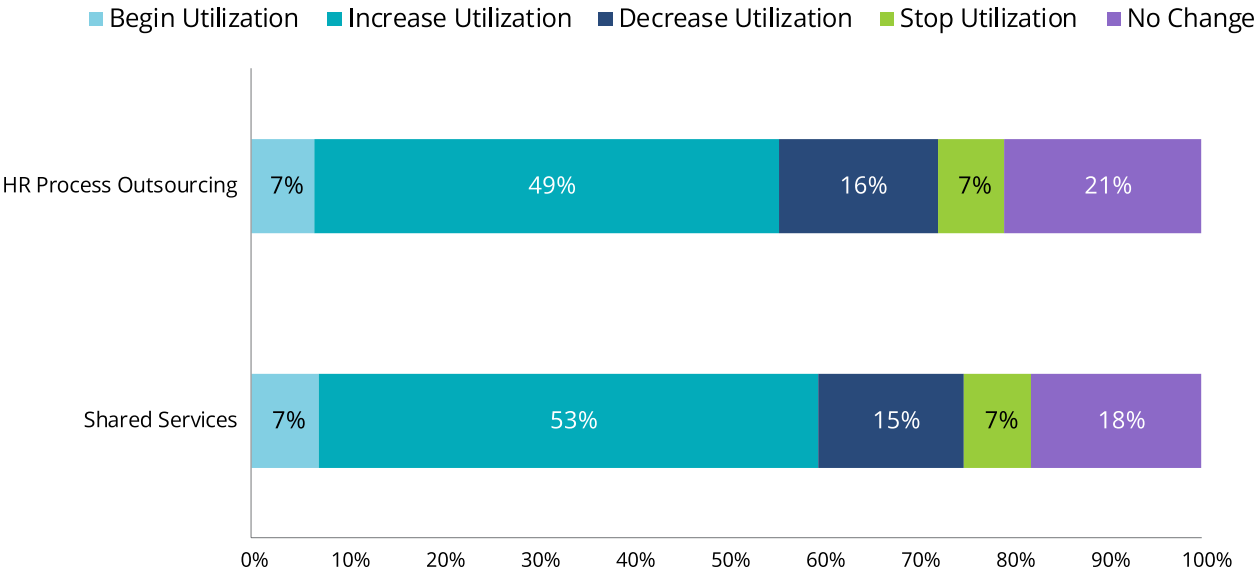| Category	Internal Decentralized	Internal Shared Service	Outsourced	Hybrid Internal / Outsourced
HCM Application Maintenance Support (AMS)	16%	51%	20%	13%
HR Analytics	15%	49%	20%	16%
Workforce Management (Time and Attendance)	21%	46%	21%	12%
Payroll	20%	46%	23%	11%
Performance Management	18%	54%	18%	10%
Talent Acquisition (Recruiting)	17%	44%	22%	17%
Learning Management	17%	48%	22%	13%
Compensation	20%	48%	21%	11%
Retirement Benefits	15%	51%	21%	13%
Health & Welfare Benefits Administration	20%	42%	25%	13%
Workforce Administration	20%	55%	13%	12%

As depicted in Figure 14, survey respondents indicate that further adoption of both shared services and outsourcing will continue to rise with nearly half of respondents expecting an increase in the use of HR process outsourcing and 53 percent in shared services.

This increase in expected reliance on shared services and outsourcing indicates that these models are leading to improved user experience, quality and reduced costs for organizations.

Fig 14

Change in HR Service Delivery Models

■ Begin Utilization ■ Increase Utilization ■ Decrease Utilization ■ Stop Utilization ■ No Change

	Begin Utilization	Increase Utilization	Decrease Utilization	Stop Utilization	No Change
HR Process Outsourcing	7%	49%	16%	7%	21%
Shared Services	7%	53%	15%	7%	18%

Direct Access Capabilities

The maturity of an organization's direct access or self-service capabilities is another key component of HR technology and service delivery – and especially indicative of the quality of the end-user experience. Figure 15 shows how survey participants responded to a series of statements about their HR self-service functionality.

According to survey results, 44 percent of respondents indicate that direct access to HR platforms is well adopted by employees and managers. Breaking down the responses by industry, companies in the Technology and Business Services/Communications sectors show greater maturity when it comes to direct access deployment than those in the Healthcare, Public Sector and Travel, Tourism and Hospitality industries (see Figure 16 below).

Organizations taking advantage of voice and chatbot technologies for self-service reported higher quality of employee user experience; they were also more likely to focus on the key "moments that matter" in the HR process (such as employee onboarding, birth of a new child, leave of absence, relocation or other critical employee events).
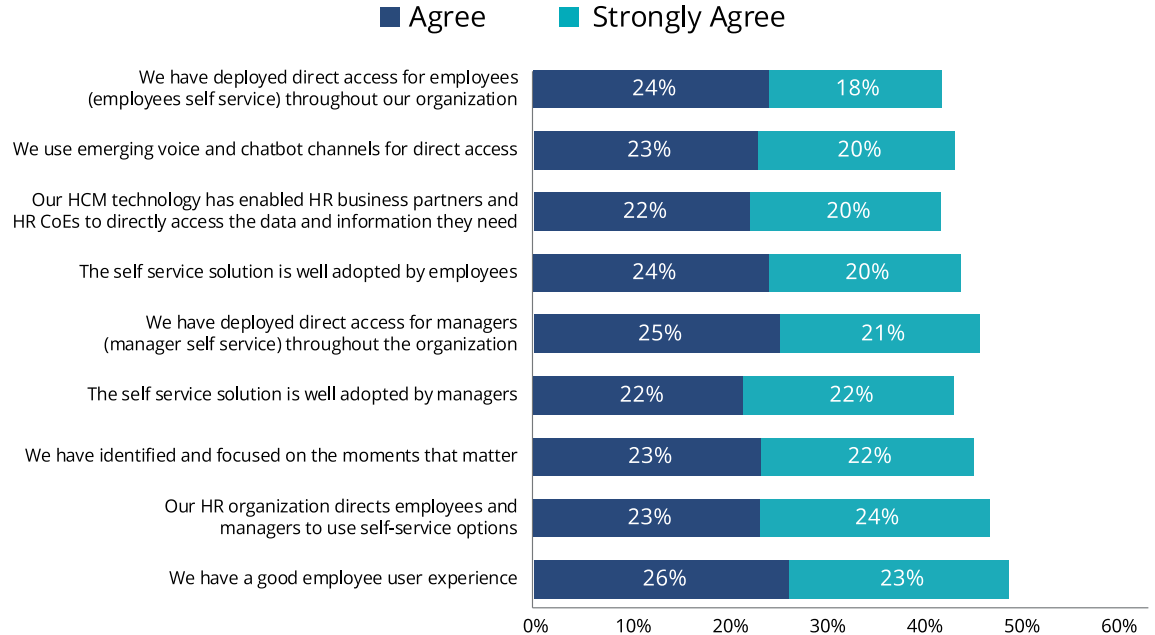
Fig 15 **Direct Access (Self Service) Capability**

■ Agree ■ Strongly Agree

Statement	Agree	Strongly Agree
We have deployed direct access for employees (employees self service) throughout our organization	24%	18%
We use emerging voice and chatbot channels for direct access	23%	20%
Our HCM technology has enabled HR business partners and HR CoEs to directly access the data and information they need	22%	20%
The self service solution is well adopted by employees	24%	20%
We have deployed direct access for managers (manager self service) throughout the organization	25%	21%
The self service solution is well adopted by managers	22%	22%
We have identified and focused on the moments that matter	23%	22%
Our HR organization directs employees and managers to use self-service options	23%	24%
We have a good employee user experience	26%	23%

Fig 16 Direct Access by Industry Segment

Legend: TTH · Public Sector · Healthcare · Business Services + Communications · Technology · BFSI · Industrials

Categories:
- We have deployed direct access for employees (employees self service) throughout our organization
- We use emerging voice and chatbot channels for direct access
- Our HCM technology has enabled HR business partners and HR CoEs to directly access the data information they need
- The self service solution is well adopted by employees
- We have deployed direct access for managers (manager self service) throughout the organization
- The self service solution is well adopted by managers
- We have identified and focused on the moments that matter
- Our HR organization directs employees and managers to use self service options
- We have a good employee user experience
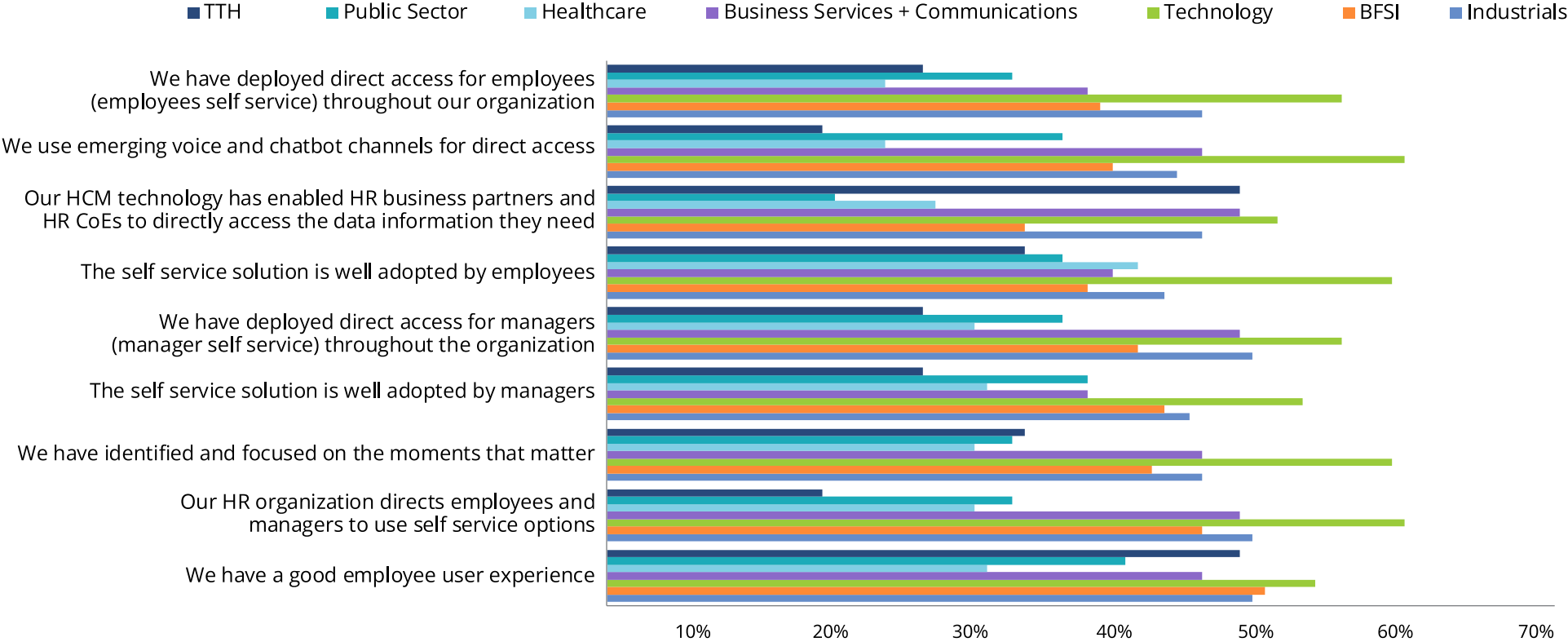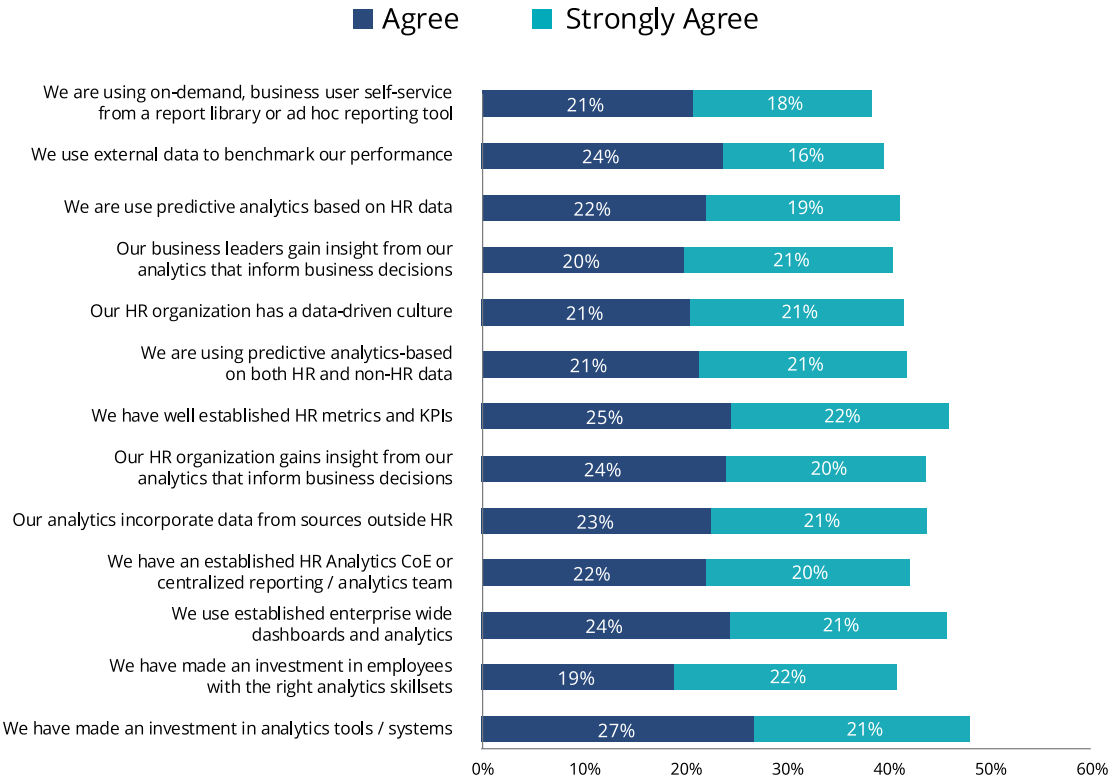
Reporting and Analytics Capability

Advanced analytics is seen as the next level of organization capability. Over the past several years, the desire for enhanced analytics has been growing for HR leaders, but many have taken a "wait and see" approach as HCM vendors continue to solidify and strengthen their analytics offerings. Now, as these offerings become more mature, we are seeing a shift from operational reporting from a single functional domain to enterprise dashboards and analytics and embedded intelligence directly in the application. Figure 17 depicts survey responses to a variety of statements regarding HR analytics.

Forty eight percent of all the companies surveyed indicate they have made an investment in analytics tools/systems. Almost the same number claim to have well-established HR metrics, KPIs and enterprise-wide dashboards. Many respondents say they are not, however, bringing in the right talent to maximize return on those investments. Just over 40 percent of respondents say they have invested in employees with the right analytics skillsets and established a formal HR analytics CoE or centralized reporting and analytics team.

In terms of size, the companies with less than 5,000 employees show the greatest maturity in making investments in technology and analytics, followed by companies with more than 20,000 employees. Companies between 5,000 and 20,000 employees lag both these groups.

Fig 17 Reporting and Analytics Capability

■ Agree   ■ Strongly Agree

Statement	Agree	Strongly Agree
We are using on-demand, business user self-service from a report library or ad hoc reporting tool	21%	18%
We use external data to benchmark our performance	24%	16%
We are use predictive analytics based on HR data	22%	19%
Our business leaders gain insight from our analytics that inform business decisions	20%	21%
Our HR organization has a data-driven culture	21%	21%
We are using predictive analytics-based on both HR and non-HR data	21%	21%
We have well established HR metrics and KPIs	25%	22%
Our HR organization gains insight from our analytics that inform business decisions	24%	20%
Our analytics incorporate data from sources outside HR	23%	21%
We have an established HR Analytics CoE or centralized reporting / analytics team	22%	20%
We use established enterprise wide dashboards and analytics	24%	21%
We have made an investment in employees with the right analytics skillsets	19%	22%
We have made an investment in analytics tools / systems	27%	21%

0%   10%   20%   30%   40%   50%   60%

The survey also finds that companies are not actively incorporating non-HR data and external benchmarks into their HR analytics, but we expect to see increased maturity in this area in the coming year, given the investments that leading SaaS providers are making to incorporate external benchmarking services into their offerings. With the uptick in adoption of SaaS for ERP, we anticipate increased interest in merging HR and non-HR data to provide more robust and meaningful analytics to the organization.

We also predict that combining operational data with experience data will be a new frontier for HR analytics. Leading companies will not simply define and build key moments that matter into the process but ensure insights on those moments are captured through data. Examples like cloud-based UltiPro powering its Perception employee-feedback software with AI platform Xander and SAP SuccessFactors' recent acquisition of experience management software company Qualtrics support the idea that companies are increasingly interested in leveraging end-to-end listening technology that focuses on experience management.

Combining operational data with experience data will be a new frontier for HR analytics. Leading companies will not simply define and build key "moments that matter" into the process but ensure insights on those moments are captured through data.

Conclusion: Executive Guidance

Enterprises today look to their HR organizations to facilitate competitive advantage – position themselves as a top destination for talent, build the workforce of the future, create and sustain an agile organization and facilitate data-driven decisions. And, though advances in technology set out to solve many of these challenges, organizations must build key capability around process, service delivery, self-service and analytics as well to achieve business outcomes. Leaders must act quickly to modernize the HR organization and grow its capabilities, but they must also act discerningly.

Decision-makers should consider the following guidance:

- **Define realistic savings goals.** Savings from implementing SaaS is achievable. While SaaS often costs more than anticipated, more than 60 percent of companies cite significant savings in the areas of IT/technology operations and HR administration. Having a strong technology strategy, a well-defined business case and a clear understanding of what is achievable from vendors in today's market will help define realistic goals for your organization.

- **Prioritize agility.** In evaluating new technology, the ease of maintenance and ability to support an agile organization has become a top requirement. Ensure this is prioritized in use cases, hands-on trials and customer reference conversations.

- **Embed HR technology into day-to-day work.** Digital adoption requires technology that is easy to use within the flow of an employee's daily life and that will enhance productivity. New HR technology startups and the near-constant innovation in workforce tools make this a market to watch.

- **Move enabling technologies (e.g. portal, knowledgebase, case management tools) to center stage.** Organizations undertaking an HCM evaluation should consider as part of an upfront assessment how they might include an employee interaction layer that would work with their HCM capabilities. Leveraging this type of technology in conjunction with an HCM implementation also can help provide a quicker time to value with potential rollout of targeted capabilities even in advance of the broader HCM technology.

- **Keep in mind that HCM vendors will not own 100 percent of the innovation.** Modernizing HR technology involves more than implementing an HCM, and significant innovation will continue outside of HCM vendors. Ensure you have flexibility in your HR technology strategy to incorporate niche plug-in solutions where appropriate to enhance the end-to-end experience or achieve additional operational efficiency.

- **Identify opportunities for robotic process automation (RPA) to improve HR service delivery.** The approach will vary based on where an organization is in its transition to the cloud – whether it is pre-transformation, mid-transition or post-transformation – but RPA enables organizations to control costs, improve user experience and address areas that are not likely to be replaced by SaaS tools.

● **Carefully evaluate the potential for AI.** Be sure to tailor an evaluation of AI technology to your company's specific use cases, gather stories from other clients, understand how data will be used and ensure transparency in the algorithms to avoid unintended results.

● **Don't dismiss process.** While technology modernization has enabled HR leaders to advance much of their agenda, process optimization is still critical to ensuring the right end-to-end experience for employees and managers. Use design thinking focused around key moments that matter to define an optimal future state.

● **Incorporate user experience into your metrics.** After identifying key moments that matter, define opportunities to capture the data and incorporate user experience metrics (XLAs) into the overall assessment of any HR tech investment.

● **Understand the ERP landscape prior to conducting an HCM evaluation.** While your organization may have separate and distinct buyers and timelines, be aware of what's available in the market and consider the potential impact of an investment in ERP on the long-term HR technology strategy.

● **Get a head start on readiness.** Given the fast pace of today's implementations, pre-project readiness has become a high priority. This is referred to as "phase zero." Clients have found significant benefit in taking time prior to project initiation to collect and clean data, evaluate processes, ensure adequate resourcing and set up strong project governance.

● **Don't underestimate change management.** A comprehensive digital adoption plan is critical to ensuring that managers and employees adopt new technology to drive business results.

● **Evaluate application management services (AMS).** AMS models are more flexible than ever, allowing clients to purchase ad hoc, shared or comprehensive services – and for shorter terms. AMS services can be a means to augment internal support while building organizational capability or shifting to a more proactive service delivery model.

● **Spotlight the role of the HR Technology CoE.** Given the dynamic marketplace, the pace of innovation and the need for accountability, the role of HR Technology CoE has never been more important. The HR Technology CoE plays a critical role in defining the roadmap and ensuring the organization has the right tools and information available for its leaders and employees.

● **Budget for ongoing investment.** Leading enterprises invest in HR tech. Budget annually for optimization to ensure the organization can continually adopt and optimize new capability to support the rapidly changing needs of the business.

BACKGROUND AND DEMOGRAPHICS

ISG's HR Technology survey is intended to provide insight into the global HR technology and service delivery market landscape. The survey captured insights from 271 companies, representing a cross-section of industries operating in key geographic regions around the world. The report tracks how market trends are evolving based on prior research and examines the maturity of organizations as they make their way along the digital transformation journey.

Company Size
- Less than 4,999 employees — 32%
- 5,000 - 19,999 employees — 38%
- Greater than 20,000 employees — 30%

Title Distribution
- Information Technology — 36%
- Management / Executive — 34%
- Human Resources / Shared Services Operations — 21%
- Finance — 9%

Region Headquarters
- United States & Canada — 39%
- Europe — 31%
- Asia Pacific — 29%

Functional Distribution
- C-level — 31%
- Information Technology — 31%
- Business / Finance — 18%
- Human Resources / Shared Services Operations — 20%

Annual Revenue
- Less than $1B — 29%
- $1-5B — 30%
- $5-9B — 17%
- $10-19B — 12%
- $20B or more — 12%

Industry
- Industrials — 35%
- BFSI — 17%
- Technology — 15%
- Business Services / Communications — 11%
- Healthcare — 9%
- Public Sector — 8%
- Travel, Tourism and Hospitality — 4%

imagine your future®

Operating Regions

●	North America	66%
●	Western Europe	50%
●	Asia	45%
●	Australia / New Zealand	38%
●	Eastern Europe	38%
●	Middle East	20%
●	Central / South America	16%
●	Africa	14%

AUTHORS

Stacey Cadigan, Partner

Stacey Cadigan is an HR thought leader who is passionate about HR and talent management. With more than 20 years in HR, she has leveraged her deep experience and expertise to help clients achieve their strategic, operational, and financial objectives. Through her diverse experience in HR strategy, HRO operations, RPO, HR technology, and transitions, she has developed unique insight and the ability to ask the right questions in assisting organizations with finding solutions to effectively align their HR initiatives with their vision. Stacey was named "HR Thought Leader of the Year" in 2016 and "HRO Superstar" by HRO Today Services and Technology Association for 2016, 2017, and 2018.

Deb Card, Partner

Deb leads ISG's Human Resources Technology practice, drawing upon extensive experience in shared services, outsourcing and HR management to help clients define and implement their HR technology and service delivery strategies. Deb helps enterprises assess the business case for Human Capital Management software-as-a-service (SaaS) solutions, understand the capabilities and experience of leading HR SaaS providers and integrators, and formulate and execute effective negotiation strategies for HR SaaS software and implementation. She has authored ISG's annual survey on HR Technology and Service Delivery Trends since 2014. Deb has 29 years of experience and has been involved in more than 150 HR engagements across HR administration, payroll, benefits, talent acquisition and HR technologies.

AUTHORS

Kelly Will, Principal Consultant

Kelly Will is an HR technology and service delivery specialist who is passionate about the opportunity to facilitate and impact HR transformation through service delivery model design, process optimization and technology deployment. With over 18 years in the HR technology and operations space, she has leveraged her experience and expertise to help organizations align their HR technology initiatives and service delivery model with their strategic vision for the HR function. As a Principal Consultant in ISG's HR Technology and Delivery Strategies Practice, Kelly brings a unique ability to simplify complex HR processes and effectively design operational improvements and technology solutions that enable high-quality HR service delivery across large, global organizations.

imagine your future®

Moving Up the Digital Ladder: 2019 Industry Trends in HR Technology and Service Delivery

March 2019

ISG (Information Services Group) (Nasdaq: III) is a leading global technology research and advisory firm. A trusted business partner to more than 700 clients, including more than 70 of the top 100 enterprises in the world, ISG is committed to helping corporations, public sector organizations, and service and technology providers achieve operational excellence and faster growth. The firm specializes in digital transformation services, including automation, cloud and data analytics; sourcing advisory; managed governance and risk services; network carrier services; strategy and operations design; change management; market intelligence and technology research and analysis. Founded in 2006, and based in Stamford, Conn., ISG employs more than 1,300 digital-ready professionals operating in more than 20 countries—a global team known for its innovative thinking, market influence, deep industry and technology expertise, and world-class research and analytical capabilities based on the industry's most comprehensive marketplace data. For more information, visit **www.isg-one.com.**