The Hackett Group
World Class Defined and Enabled

World-Class HR: Redefining Performance in a Digital Era

By Tony DiRomualdo, Franco Girimonte and Harry Osle

Executive Summary

The forces of change, including digital technology, have given HR organizations fresh opportunities to transform their service delivery models and performance. For example, smart automation can dramatically accelerate HR groups' digital transformation and progress toward world-class performance, letting them execute current volumes and types of work with 26% fewer FTEs – freeing up resources that can be directed to urgently needed projects. Smart automation, in combination with other digital technology and new and time-tested practices, is letting world-class HR organizations further raise the bar for efficiency, effectiveness, and now, stakeholder experience.

Key takeaways:

- World-class HR organizations excel at performance and stay ahead of change via an unrelenting focus on five fundamentals: business alignment, cost, productivity, quality and talent.

- World-class HR organizations are leveraging digital technology to design and deliver services around customer experience; shift resources from low- to high-value activities; build and deploy sophisticated analytics capabilities; and provide high-value tools, expertise and insights to business leaders.

- Building the digital capabilities of the HR organization requires fresh strategies and approaches to service delivery in six areas: technology, service design, analytics and information management, organization and governance, service partnering and human capital.

The Digital Imperative

Digital competition is shaping the business model of the future. Although few businesses are truly there yet, business leaders understand that digital is changing everything. Nearly 60% of business leaders from a variety of functions responding to our 2019 Key Issues study say digital transformation has already had a high or very high impact on their industry, a number that will grow to 72% within two to three years. Forty-six percent report it has strongly affected their operating model today; 72% expect it will do so within two to three years. When looking only at responses from HR executives, the expectations are similar. Seventy percent of them anticipate a high impact on the HR function's performance over the next two to three years, and a similar percentage say digital transformation will have a substantial influence on their operating model.

A variety of trends are pressuring HR organizations to digitize their operations (Fig. 1). Greater economic and geopolitical volatility compel it to optimize its cost structure in order to respond with agility to changing conditions. By embracing automation, it can reduce manual work and redirect capacity to more value-creating activities, for example leveraging advanced analytics to provide management with informed insights for decision-making.

FIG. 1 HR change drivers and impact

Forces of change	Impact on the HR function
Economic slowdown & geopolitical volatility	A focus on agility and cost optimization
Intensified competition & business-model innovation	Emphasis on becoming a business partner/advisor
Disruptive technologies	Adoption of smart automation technologies and tools
Increased data volume, velocity and veracity	Architecting the information value chain (also analytics)
Rising stakeholder demands	Customer-centric mindset that leverages design thinking

Source: The Hackett Group

As HR moves into the digital world, it must better understand the total cost to deliver customized services.

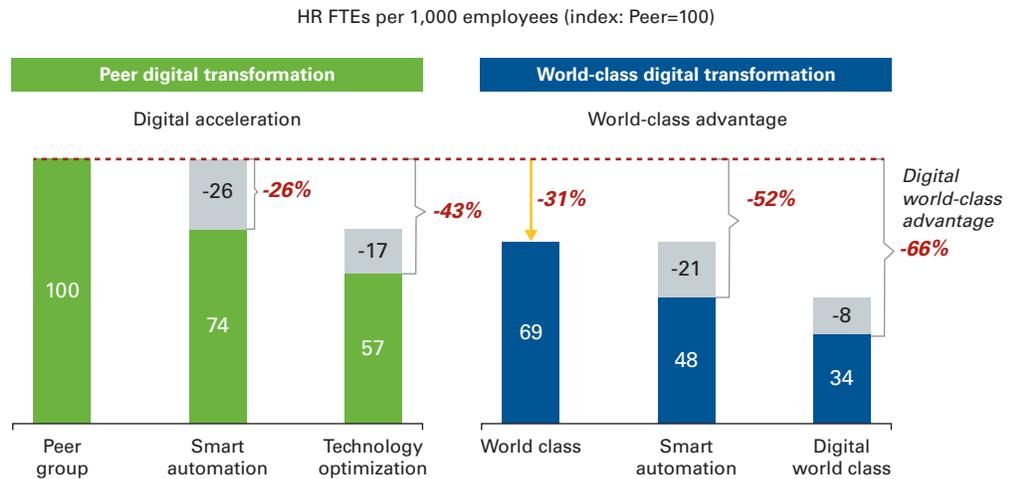### The 3 E's of Performance: Efficiency, Effectiveness and Experience

Traditional performance metrics evaluated the HR organization's internal efficiency and effectiveness. Now, these have been augmented by externally oriented KPIs centered on stakeholder satisfaction.

Efficiency metrics

Traditional efficiency metrics capture resource utilization per unit of work, such as number of FTEs involved in the recruiting process. However, as HR moves into the digital world, it must better understand the total cost to deliver customized services – for example, insight into cost to serve (e.g., the cost of delivering analytics services by specialists located in a center of excellence) will permit HR to optimize its service portfolio and underlying delivery processes.

Analysis of The Hackett Group's benchmark data finds that smart automation can dramatically accelerate typical HR organizations' digital transformation and efforts to achieve world-class performance. It also quantifies the extent to which today's world-class organizations can further improve performance through smart automation (see sidebar), effectively redefining what constitutes world-class HR performance in the digital era (referred to in this report as "digital world class"). The analysis reveals that typical HR functions (i.e., the peer group) can execute existing volumes and types of work with 26% fewer FTEs by adopting smart automation (Fig. 2).

FIG. 2 HR smart automation productivity opportunity

HR FTEs per 1,000 employees (index: Peer=100)

Source: The Hackett Group, 2019

Smart automation

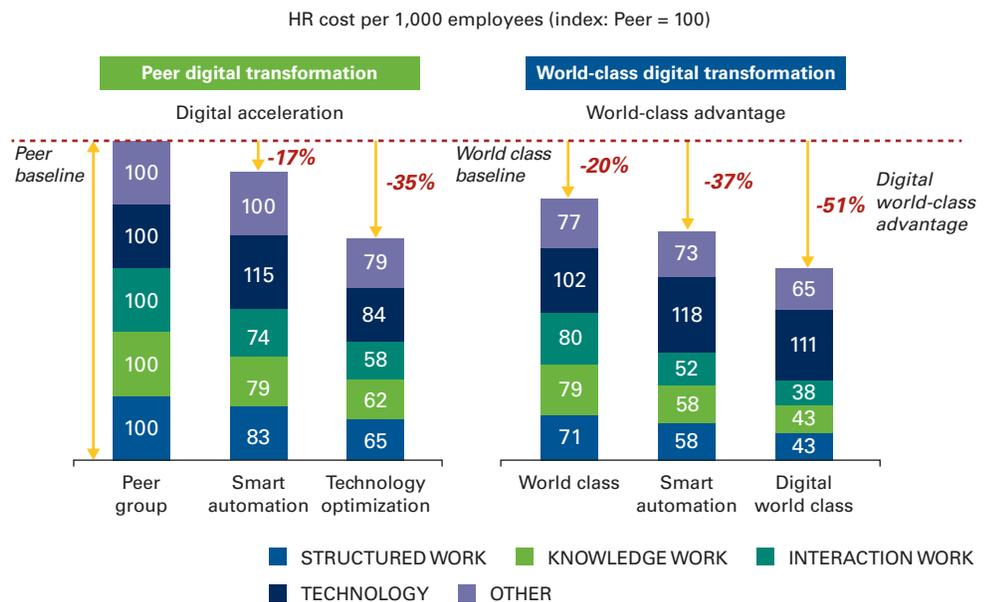| Smart automation technology	Description	Benefits
SMART DATA CAPTURE **Mimics human interpretation**	• Extracts information from structured and unstructured data sources • Captures analog and digital inputs, including document, text, voice, video and image • Includes technologies such as OCR, handwriting recognition, machine reading and image recognition • Reads and captures large volumes of analog or digital inputs • Digitizes data and converts it into a format suitable for downstream processing • Combines capture activities with classification and tagging activities	• Enables FTE reduction or redeployment • Accelerates processes and turnaround • Improves quality, accuracy and control • Produces enhanced insight
CONVERSATIONAL INTERFACES **Mimics human interaction**	• Includes technologies such as chat bots and virtual assistants that focus on linguistic interaction with people • Understands human queries in a realistically human way (by voice-to-text chat) • Enables organizations to scale up customer, supplier and/or employee engagement capabilities around the clock • Leverages artificial intelligence and machine learning to steer and optimize conversations based on history and new insights about caller requirements	• Enables FTE reduction or redeployment • Improves responsiveness • Delivers a better customer experience • Increases contact coverage and enables personalized service at scale • Enables omnichannel delivery
ROBOTIC PROCESS AUTOMATION (RPA) **Mimics human actions**	• Emulates human execution of routine tasks on business applications • Applied primarily to automate clerical/administrative work • Performs rule-based tasks on structured data • Applied typically at user interface level, but also can be applied at application or server level • Operates using existing applications, systems and processes • Works with almost all user applications and systems • Does not require significant integration and is less expensive than an ERP or workflow tool • Principal technology is programmable software robot capable of accessing APIs and operating within an existing application's graphical user interface	• Enables FTE reduction and deployment • Accelerates processes • Improves quality, accuracy and control • Increases responsiveness
COGNITIVE AUTOMATION **Augments human intelligence**	• Processes unstructured, complex or high-volume information to provide insights, judgments and predictions • Predicts events or outcomes • Prescribes or recommends decisions • Dynamically adaptable, making it contextually aware and able to operate in real time • Includes technologies such as artificial intelligence, machine learning, intelligent virtual agents, natural language processing and computer vision	• Improves quality, accuracy, control and risk management • Produces new analytical insights • Enables new capabilities and services • Equips employees to deliver greater value • Automates non-transactional activities that previously required judgment and expertise
AGILE ORCHESTRATION **Coordinates execution of work**	• Coordinates work executed by established systems, human workers and smart automation tools • Enables ticketing, case management, workflow and performance improvement • Monitors work taking place in an environment • Identifies a resource constraint • Takes action or applies resources to address the constraint • Makes process changes dynamically based on what is happening in the environment • Links together different systems and workers needed to perform a process (as opposed to individual automations, which are usually at the task level) • Includes technologies such as workflow, case management and ticketing, combined with new AI techniques	• Accelerates processes • Improves quality, accuracy and control • Optimizes use of assets • Controls and manages the process dynamically, at scale • Reduces downtime • Smooths the use of operational resources

Source: The Hackett Group

Smart automation also helps HR organizations improve productivity in the short term. But to capture the entire opportunity (which can yield productivity gains as high as 43%), HR organizations must also optimize and rationalize their overall technology environment. This includes reengineering processes and leveraging the full capabilities of existing core human capital management systems and best-of-breed applications. This typically requires significant investment and spans multiple years.

The HR process cost reduction opportunity is less pronounced than the productivity improvements shown in Fig. 2 for two reasons. First, while technology rationalization is self-funded through the lower operating cost of the updated environment, smart automation requires net-new technology investment, eroding some of the process cost savings. Second, because smart automation eliminates structured work, which is disproportionately executed by lower-cost clerical workers, it changes the staffing mix toward higher-compensated HR roles. Accounting for these factors, our analysis found that peer-group organizations have an immediate opportunity to reduce cost per 1,000 employees by 17% through adoption of smart automation (Fig. 3). The full transition from peer-group performance to digital world-class performance extends the opportunity to reduce cost by up to 51% over the current peer baseline.

FIG. 3   HR smart automation productivity opportunity

HR cost per 1,000 employees (index: Peer = 100)

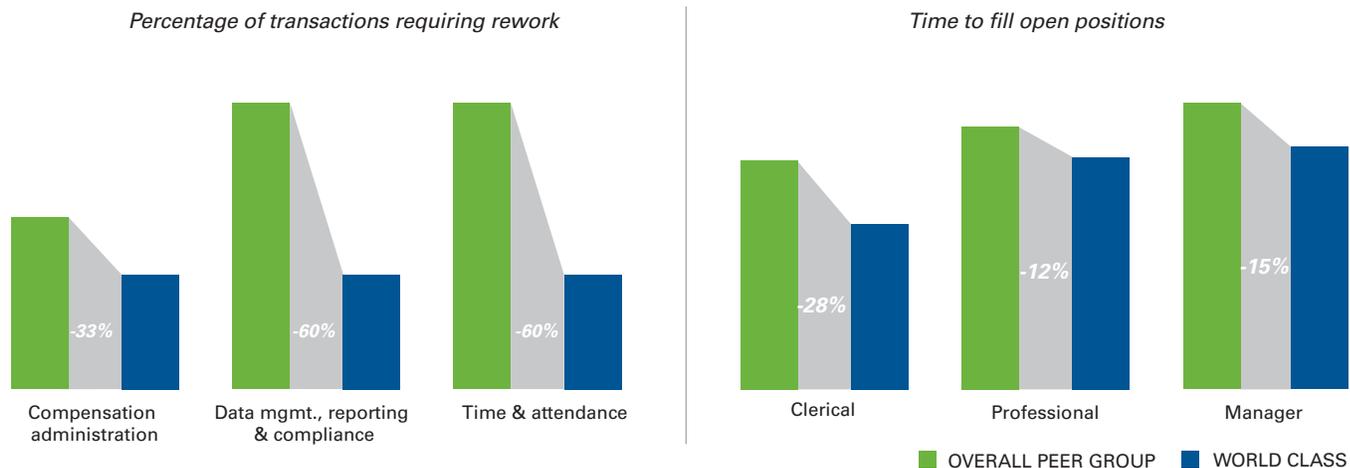| Peer digital transformation			World-class digital transformation		
Digital acceleration			World-class advantage		

Source: The Hackett Group, 2019

This analysis underscores the potential magnitude of the cost savings associated with technology enablement and how smart automation can both accelerate the realization of productivity and efficiency benefits and add to them. Further, it is important to recognize the improved effectiveness and value that smart automation can bring by eliminating structured work and allowing HR staff to be reallocated to higher-value, knowledge-based activities.

To unlock the potential value of smart automation, HR functions must be able to identify and pursue the best opportunities within their organizations. This requires detailed analysis of HR work to determine which aspects could be automated, as well as modeling the corresponding cost and labor savings opportunity. HR organizations must also develop a deep understanding of smart automation tools as the basis of solution design. Since these are rapidly evolving, this will require technology expertise within the function and capabilities for keeping that technology knowledge up to date.

Effectiveness metrics

Traditionally, HR leaders assessed their function's performance by measuring error rates and compliance with performance standards, not its value to users or business customers. In the digital age, effectiveness KPIs should directly reflect value contribution from the perspective of the customer (**Fig. 4**). New KPIs may document the quality of decision support, the effect of HR decisions on operational metrics (like time to market or inventory turnover), or ease of interpreting data through visualization techniques. For example, world-class organizations can capture hire-to-revenue cycle time for a salesperson, enabling an end-to-end measurement of the HR's contribution to business value.
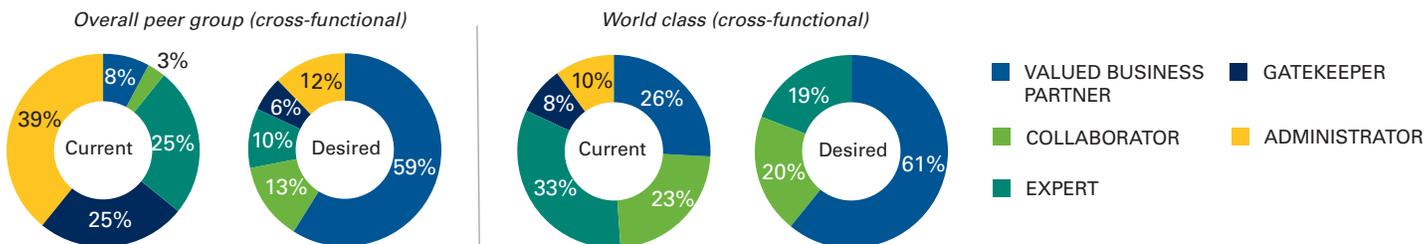
FIG. 4   HR effectiveness metrics

Percentage of transactions requiring rework

Compensation administration: -33%
Data mgmt., reporting & compliance: -60%
Time & attendance: -60%

Time to fill open positions

Clerical: -28%
Professional: -12%
Manager: -15%

OVERALL PEER GROUP   WORLD CLASS

Source: The Hackett Group 2019

Experience metrics

The Hackett Group's performance analysis has always embedded customer experience in its effectiveness measures (such as error rates and cycle time). At individual companies, customer experience has typically been tracked on performance scorecards based on findings from customer satisfaction surveys. In this approach, companies measure the cost of delivering services by channel, then create incentives (or disincentives) to drive traffic to the cheapest service delivery method. By contrast, digital-era customer experience metrics focus more on the customer's preferred delivery channel (e.g., mobile, interactive graphics or static reports delivered via email) and then calculate what share of HR services are delivered using each channel. In addition to calculating the service delivery cost for each channel, HR organizations now must understand which channels customers prefer to use and the percentage of services being delivered through each.

At present, the perceptions that business stakeholders have about HR vary considerably and the gap between what they desire of HR versus what they perceive it delivers can be substantial. While even world-class HR organizations have difficulty fully meeting the expectations of their customers, a far greater percentage are viewed as valued partners of the business (**Fig. 5**).

FIG. 5   Perceptions of HR

Overall peer group (cross-functional)

Current: 8%, 3%, 25%, 25%, 39%
Desired: 12%, 6%, 10%, 13%, 59%

World class (cross-functional)

Current: 10%, 8%, 33%, 23%, 26%
Desired: 19%, 20%, 61%

VALUED BUSINESS PARTNER   GATEKEEPER
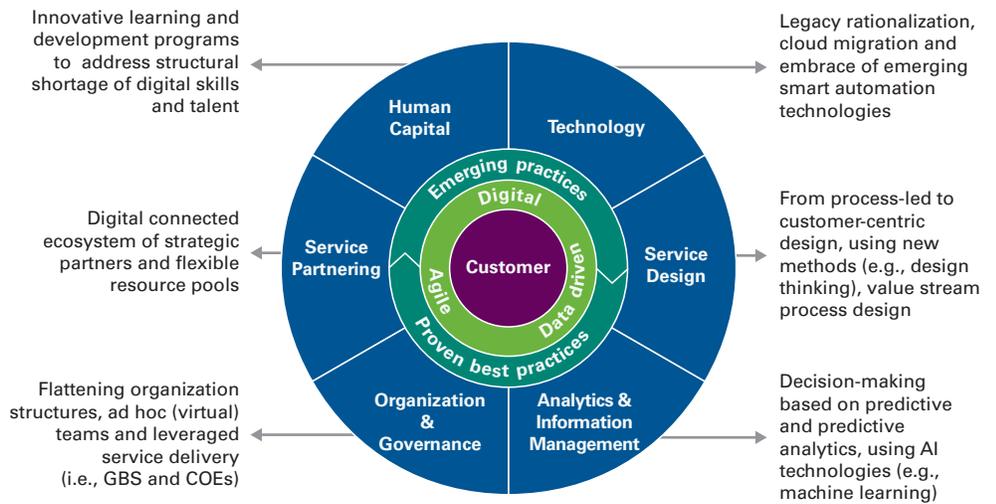COLLABORATOR   ADMINISTRATOR
EXPERT

Source: The Hackett Group 2019

World-Class Digital Service Delivery

The digital era has raised the performance bar for HR organizations. Today, they must strive not just for world-class performance as traditionally measured, but rather, digital world-class performance. Putting the customer at the center of The Hackett Group's service delivery model guides the overall digital, agile and data-driven enterprise culture. This shift in perspective allows best practices, both proven and emerging, to power the transfer of momentum from the outer ring of six interconnected service delivery capabilities: technology, service design, analytics and information management, organization and governance, service partnering, and human capital. Key differentiators of world-class HR performance in each of these categories are shown in **Fig. 6**. Several KPIs are associated with each service delivery capability. Our data reveals significant wide gaps between world-class organizations and the peer group, as discussed below.
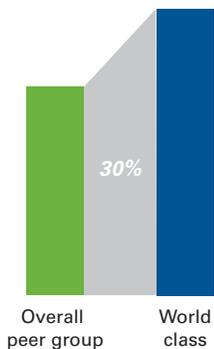
FIG. 6 Digital service delivery model and major trends

Innovative learning and development programs to address structural shortage of digital skills and talent

Legacy rationalization, cloud migration and embrace of emerging smart automation technologies

Digital connected ecosystem of strategic partners and flexible resource pools

From process-led to customer-centric design, using new methods (e.g., design thinking), value stream process design

Flattening organization structures, ad hoc (virtual) teams and leveraged service delivery (i.e., GBS and COEs)

Decision-making based on predictive and predictive analytics, using AI technologies (e.g., machine learning)

Source: The Hackett Group, 2019

Technology

The convergence of cloud-based infrastructure and applications, virtual business and technology networks, and smart automation is creating exciting new opportunities for HR organizations, enabling them to apply digital technologies to transform service delivery. Electronically enabled processes reduce errors and make information easier to access without the need for assistance by HR staff. Increasingly, digital technology is becoming the platform for a whole new class of services, such as virtual assistants to answer employee queries or artificial intelligence that nudges managers to reach out to prized employees before they become flight risks. World-class organizations also understand that getting the right infrastructure in place is the first step to ensuring a successful digital technology platform.

While world-class HR groups spend slightly more on technology per employee than the peer group, in terms of overall HR cost, they allocate a good deal more to technology (**Fig. 7**).

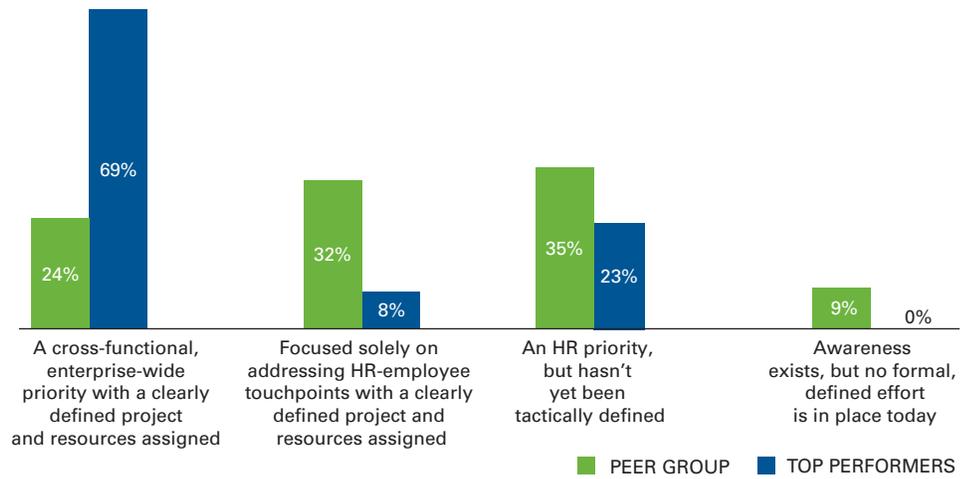### Service design

With widespread talent shortages and retention difficulties, the concept of employee experience is being widely embraced as a key to attracting and keeping high-caliber talent. HR organizations now recognize the importance of a good employee experience and their role in ensuring it. While many HR organizations primarily view employee experience through the lens of their interactions with HR (and mainly its technology infrastructure), top performers are almost three times more likely to incorporate touchpoints across the entire enterprise in their employee experience strategies (**Fig. 8**).

Digital technology is becoming the platform for a whole new class of HR services.

FIG. 7 Technology cost as a percentage of total HR cost

30%

Overall peer group

World class

Source: The Hackett Group 2019

FIG. 8 Approaches to improve the employee experience

	A cross-functional, enterprise-wide priority with a clearly defined project and resources assigned	Focused solely on addressing HR-employee touchpoints with a clearly defined project and resources assigned	An HR priority, but hasn't yet been tactically defined	Awareness exists, but no formal, defined effort is in place today
Peer group	24%	32%	35%	9%
Top performers	69%	8%	23%	0%

■ PEER GROUP ■ TOP PERFORMERS

Source: Employee Experience Poll, The Hackett Group, 2019

FIG. 9 Role of HR as proactive partner and facilitator of strategic workforce planning

49%

Overall peer group — World class

Source: The Hackett Group, 2019

FIG. 10 Percentage of organizations that have an explicit HR service delivery model

2.2X

Overall peer group — World class
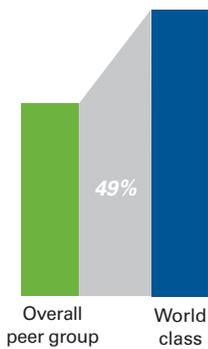
Source: The Hackett Group, 2019

Analytics and information management

World-class HR organizations are concerned not just with their own performance but with how they can enable the success of the enterprise as well. Strategic workforce planning translates business strategy into its future implications for managing talent, plus illuminating and eliminating obstacles in the road ahead. SWP analyzes the dynamics of talent demand and supply (e.g., current staffing levels, growth assumptions, historical internal/external labor movement, macro-level workforce demographics) and pinpoints areas of risk. This data is used by the business to prioritize and fund improvements aimed at attraction and retention of talent to fill critical roles.

The relationship between world-class HR organizations and business leaders is also very different: HR business partners bring their own view of the business's needs to meetings with company leaders and lead the dialogue on strategic talent decisions. Talent leaders in peer-group organizations, on the other hand, often wait in vain for guidance from busy business leaders who struggle to translate their business strategy in people terms.

Senior executives in world-class HR organizations take the lead in ensuring that effective workforce strategies are developed and linked to business strategy (**Fig. 9**). They use a single set of SWP tools to facilitate a consistent process across the entire organization.

### *Organization and governance*

Many HR organizations devote excessive amounts of attention and resources to transactional activities, to the detriment of analytics, measurement and working with organization leaders on devising talent strategies that bolster business results.

To reduce time spent on routine work, HR must make its structure and processes more efficient and effective. A formal service delivery model clarifies roles and responsibilities and matches the capabilities, cost and location of resources (e.g., global business service unit, center of excellence, corporate) with the type of work performed. This approach is well-established at world-class HR organizations compared to only a minority of the peer group (**Fig. 10**). Thus it is unsurprising that so many of the latter are consumed by efforts to contain costs and deliver consistent levels of service.

Service partnering
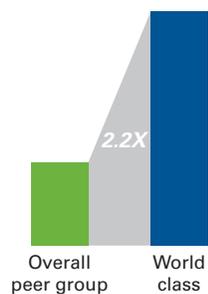
World-class HR organizations utilize the capabilities of external service providers to greater effect than peers. For example, while they allocate a nearly the same percentage of their budget to outsourcing, they spend less than the peer group to manage those relationships. More important, they can leverage third-party relationships to reduce overall process costs and internal staff levels (or staff up quickly in response to changes in demand) (Fig. 11).

FIG. 11   Outsourcing allocation and number of FTEs

Outsourcing allocation — Transactional: 18%; Employee lifecycle: -5%
Total FTEs per 1,000 employees — Transactional: -37%; Employee lifecycle: -32%

OVERALL PEER   WORLD CLASS
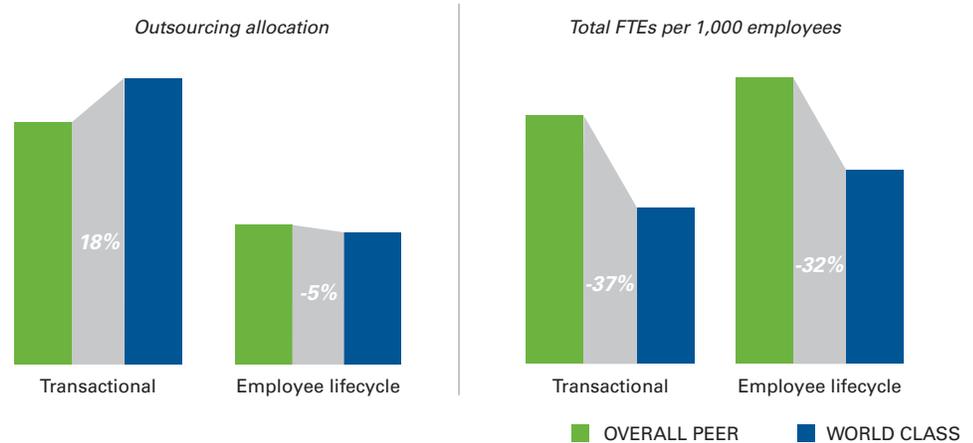
Source: The Hackett Group, 2019

Furthermore, judicious use of external service providers allows in-house HR staff to focus on higher-value activities on which they can excel. In the digital age, world-class HR groups increasingly seek to leverage an ecosystem of external partners (including universities, professional associations, industry groups, contractors, entrepreneurs and other thought leaders) to feed their thinking and support people-services delivery, above and beyond the traditional BPO vendors.

Human capital

World-class HR organizations employ a different mix of staff than the peer group, with more professionals and fewer managers. This holds true for every category – planning and strategy, employee lifecycle and transactional HR processes. This suggests the presence of staff with the ability to do more advanced work.

The higher overall quality of world-class HR staff is evidenced by greater numbers with effective strategic thinking and analysis skills, goals aligned to company strategy and outstanding leadership abilities (Fig. 12). The qualitative attributes of staff are a key contributing factor to why world-class HR organizations are so effective.

FIG. 12   Key staff characteristics in world-class HR organizations

1.3X more likely to have effective strategic thinking and analysis skills

49% more likely to have performance goals/expectations linked to the strategic plan of the company

61% more likely to demonstrate effective leadership in performing their roles

Source: The Hackett Group, 2019

Conclusions and Recommendations

There are many steps that HR organizations can take to improve their performance and value, whether in the beginning or later stages of transformation.

HR organizations just beginning their digital transformation:

- **Measure baseline efficiency, effectiveness and customer experience:** Benchmark HR to provide a foundation for assessing performance, evaluating capabilities and identifying improvement opportunities.

- **Use a portfolio approach to documenting HR projects:** Evaluate initiatives based on their alignment with business and HR objectives, and their strategic and operational impact.

- **Assess staffing levels and skills mix:** Make sure the number and capabilities of staff correspond with documented stakeholder needs.

- **Reduce complexity:** Simplify, standardize and streamline programs and processes for greater consistency and performance.

- **Deploy technology to improve process quality and cycle time:** Digital technologies such as cloud-based systems and RPA can be applied to upgrade transactional and administrative performance.

- **Adopt a digital service delivery model that aligns task complexity with available technology and skills:** Align people and skills based on business priorities, value and cost considerations.

HR organizations that are well down the road toward digital transformation:

- **Review KPIs and take action where improvement is needed:** Metrics should gauge what drives performance and how successful HR is at meeting its strategic goals. Work with business leaders to develop initiatives aimed at improving these performance barometers.

- **Put customers at the center of service design:** Design service delivery for different workforce segments and levels of management. Apply methods such as focus groups, design committees, user personas, customer journey mapping and iterative prototyping.

- **Use digital technology to increase productivity and improve the customer experience:** Provide information and tools that increase the productivity of HR staff and the overall workforce. Use a "mobile first" principle to enforce simplicity of design. Accelerate the deployment of smart automation such as chatbots to handle routine inquiries and transactions.

- **Build analytics capabilities:** To develop better insights and decisions, assign dedicated analytics resources within HR. Establish data management governance and processes to provide consistent, usable and meaningful data for analytics.

- **Develop HR's digital skills:** Redesign HR roles and career paths to incorporate digital skills requirements: technical (e.g., analytics and modeling), behavioral (e.g., agility and change orientation) and business (e.g., data savviness). Train HR staff, especially those in business partner roles, to solve problems using data and to package analytical findings into business-relevant stories and recommendations.

- **Increase HR's business acumen:** Recruit from other parts of the company (including people with HR backgrounds who have moved into other parts of the business), or HR professionals working in consulting firms with experience advising senior business executives on HR strategies and issues. Assign staff to cross-functional teams to learn about the operations of different parts of the organization.

- **Build capabilities that can improve business performance, such as leadership, innovation and agility:** For example, implement initiatives aimed at developing innovation skills companywide, such as creativity among the general workforce and innovation-nurturing among managers.

About the Advisors

Tony DiRomualdo
Senior Research Director, Global Human Resources Executive Advisory Program

Mr. DiRomualdo has over 25 years of research and advisory experience in the areas of HR, IT and business strategy. His work has focused on areas including talent management, workforce planning, recruiting, learning and development, employee engagement, leadership, performance management, measurement and analytics and HR technology and outsourcing. In addition to his research and case studies for The Hackett Group, Mr. DiRomualdo has published articles in prominent business and academic publications including *MIT Sloan Management Review*, *Strategic HR Review* and *Chief Learning Officer* magazine. Before joining The Hackett Group, Mr. DiRomualdo headed his own research firm and ran research programs at major management consulting firms.

Franco Girimonte
Associate Principal, North American Human Resources Executive Advisory Program Practice Leader

Mr. Girimonte has over 26 years of experience of combined consulting and practitioner experience. He has led a wide range of transformation programs aimed at better aligning the HR function with the business strategy and improving HR performance in a variety of areas. With a concentration in functional transformation, his experience includes large-scale program management, vision and strategy development, operating model design and development, workshop design, organizational design, process improvement and change-management solutions.

Harry Osle
Principal in Charge, Global Human Resources Practice Leader

Mr. Osle has more than 20 years of experience in human resources and transformation. At The Hackett Group, he advises clients on leveraging HR best practices, organizational alignment, optimization and automation, project management and needs analysis. An expert in HR strategy development, service delivery model design, benchmarking, and HCM selection and implementation, Mr. Osle has been quoted in numerous print and online publications including *HR Executive*, HR.com and WSJ Online.

The Hackett Group (NASDAQ: HCKT) is an intellectual property-based strategic consultancy and leading enterprise benchmarking and best practices digital transformation firm to global companies, offering digital transformation including robotic process automation and enterprise cloud application implementation. Services include business transformation, enterprise analytics, working capital management and global business services. The Hackett Group also provides dedicated expertise in business strategy, operations, finance, human capital management, strategic sourcing, procurement and information technology, including its award-winning Oracle and SAP practices.

The Hackett Group has completed more than 16,500 benchmarking studies with major corporations and government agencies, including 93% of the Dow Jones Industrials, 89% of the Fortune 100, 83% of the DAX 30 and 57% of the FTSE 100. These studies drive its Best Practice Intelligence Center™ which includes the firm's benchmarking metrics, best practices repository and best practice configuration guides and process flows, which enable The Hackett Group's clients and partners to achieve world-class performance.

The Hackett Group
World Class Defined and Enabled

Email: info@thehackettgroup.com
www.thehackettgroup.com

Atlanta +1 770 225 3600
London +44 20 7398 9100
Sydney +61 2 9299 8830

Atlanta, Chicago, Frankfurt, Hyderabad, London, Miami, Montevideo, New York, Paris, Philadelphia, Portland, San Francisco, Seattle, Sydney, Vancouver

Please visit **www.thehackettgroup.com** to learn more about The Hackett Group and how we can help your company sharply reduce costs while improving business effectiveness. Or contact us toll-free at **1 866 614 6901** in North America, **+44 20 7398 9100** in Europe or **+61 2 9299 883** in Asia.