Digitalization
The Next Step in HR's Journey

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Introduction

Over the past few years, HR as a function has taken a number of steps forward. HR Leaders have garnered additional power by climbing into C-Suite Positions, Human Capital has gained a “seat at the table,” and HR as a whole has become more strategic—especially in companies where business leaders value the importance of their people. Famous HR leaders like Laszlo Bock and Kevin Cox have brought HR into the global discussion.

While HR has gained more respect for its ability to drive business results, other functions have begun to master advancing technologies. Marketing has begun to take advantage of consumer analytics via social media. Manufacturing has begun to master automation, bringing back facilities in high wage countries. E-commerce has emerged as a strategic weapon with aligned supply chains.

We’ve reached the next frontier for HR. Digital Artificial Intelligence advances like machine learning, and natural language processing, and platform advances via cloud, mobile technology, and social media will be a massive boon to HR departments. However, if the function doesn’t begin to embrace new technologies and ways of working, they may get left behind. HR seems “stuck in the middle,” precariously balanced between the administrative and the strategic. Digitalization is the next step in HR’s future and it is up to the function to embrace the opportunities provided by advances in technology. HR has a rare opportunity to lead the charge for digital transformation; it just needs to broaden its perspective and look to the future.

HR is not well equipped to support the digital agenda of the business
Moving To Digitalization

When speaking about digitalization the focus is often on the foundational HR technology (such as cloud, mobile applications, big data, and social networks), the nuts and bolts of the functional change. Research on technological disruption often yields results about the types of technology leading the way and how technology will be the trigger to change everything. However, this may be missing the point.

Focusing on the more holistic picture, technology change requires leadership. As the foundation for technology continues to advance, there must be a foundation of digital leadership to help support that change. This trend is represented in Figure 1, which highlights that the digital advance of HR is dependent on both leadership and infrastructure. Regardless of the specific technology, ultimately people are the ones interacting with these systems and should be the focus of change.

Let’s look at some specifics. Advances in HR technology have the opportunity to change the mechanisms for HR systems (such as the move from on-premise to cloud-based systems), the availability and sharing processes for data, and the convenience of using familiar technology globally to interact with core HR processes. However, advances in HR technology can have impacts beyond just the immediate technological benefit. Employees and leaders are the end users and ultimately technology is just a means to help them perform better in their roles. HR will need to acknowledge that doing things more effectively year after year will not substantially change the business model; technology demands a total redesign and simplification of the policy and process landscape. For example, we often work with companies implementing cloud solutions that feel unsatisfied with the final product due to a lack of understanding about why they implemented the solution in the first place. The value inherent in cloud technologies is the opportunity to simplify and de-clutter, and if companies do not start implementation with this in mind, they are unlikely to see this value addition. Technology for technology’s sake is unlikely to yield expected outcomes.

**Figure 1: Digital Maturity in HR Requires Focus on Two Dimensions**

The true value of digitalization comes not just from movement on one axis, but the combination of technological and cultural change that can advance HR.

The X axis refers to the employee-centered aspects of HR, the culture, digitally-enabled talent, and leadership that role models behavior.

The Y axis refers to HR’s technology infrastructure—the software and hardware that HR interacts with on a daily basis.
The benefits of digitalization can permeate every tier of an organization. Cloud technology can enable a stronger approach for data-based decisions. When data is stored on shared servers based on consistent processes, analytics can be done in real-time allowing leaders instant analysis and data to help support their decisions. Many companies are starting to realize the potential of the mass amount of data that HR could provide to the business, beyond classic financial data. Technology advances can enable convenience via mobile solutions, giving employees access to information on new platforms. For example, one UK-based construction company uses a data/insights hub model to share important updates on business metrics like sustainability and compliance, as well as knowledge via presentations and reports. All of this information can be shared through mobile apps that employees can access anywhere. The value for this organization was not just the ability to create a data/insights hub, but in the advancement of organizational knowledge that this technology enabled.

Social networks can enable the participation of broader employee groups in finding solutions, just like crowdsourcing enables financial sourcing. For example, one IT company uses fluid teams that dynamically assemble on a project by project basis. This has allowed them to quickly deliver on projects and manage time and cost effectively. In another example, a healthcare company used internal networks to generate ideas and solutions globally – in 48 hours with the participation of over 10K employees.

HR can significantly contribute to digital transformation in a number of ways. It can act as the driving force behind people analytics and big data and can facilitate new ways of working, leading to increased efficiency of internal operations. HR can create a ‘customer-centric’ view of their own functions by segmenting employees and making HR processes more streamlined for the end user. In order to achieve higher efficiency and a different customer experience, HR itself needs a different set of capabilities. Additionally, managers and leaders will need to take stronger accountability for data based people decisions. And as we are already seeing, HR can start to digitalize its own processes, creating a new HR business model across the organization.

“Technology demands a total redesign of the policy and process landscape for HR.”
HR Requirements for Digital Change

Firms looking to embrace digitalization will benefit from focusing on the following areas:

**Global Consistency**

HR departments often work in their own silos, e.g. talent processes and data are not shared with performance processes or compensation review, etc. This is still unfortunately “standard” in many organizations. To provide maximum value HR needs to act as a global function. HR will always need to follow the business operating model (holding, conglomerate, divisional). Nevertheless, consistent role distribution and consistency in core processes allow HR to build a foundation for a digital enterprise.

Global consistency requires clear HR governance and guiding principles. The agreed-upon governance should cover four major aspects:

- **Degree of standardization**: HR must have clarity around what to standardize and what is flexible across the business units and regions. Where is the freedom within the HR framework?

- **Process design**: The patchwork of former HR processes should be a thing of the past. Customer experience needs to drive the design. In addition, HR needs to assess the data journey between the processes so that redundancy or re-entry of data is avoided. Is there a process put in place to ensure current HR programs are consistently executed? Are the data definitions aligned?

- **HR structure and roles**: The HR business model should establish the roles and responsibilities in the new business environment. Digitalization will have an impact on every pillar (COE, BP, Services). What roles should be centralized and which are fine to remain as business or regional roles? Which new roles will need to be established? Which roles and tasks may not be needed?

- **Management accountability**: Digitalization and analytics will enable higher accountability for people based decisions. This transparency will also cause more pressure to deliver, ensuring and tracking management effectiveness. Does the business require a ‘high’ or a ‘low’ touch in HR in order to achieve their strategic goals?
Integrated Processes

The various programs and processes within HR often lack synergy: selection and acquisition professionals focus on bringing talent to the organization, while development professionals focus on skillsets within the organization. However, there is value in integrating these processes. For example, data gathered in the selection process can be used as a predictor for the success of new hires in the organization. In addition, data gathered in the onboarding phase and through development can be analyzed in respect to the output (how productive are the new hires). This simple example (that tech companies like Google are famous for) requires a disciplined approach of consistently assessing, gathering data, and analyzing the outcomes.

The HR process should work in a circular fashion (as represented by figure 2): attraction and acquisition professionals need to work to align their processes to other HR processes, which in turn can inform which skills to develop and how to equip employees for the future. In response, total rewards professionals should prioritize behaviors of employees that exemplify these skillsets and focus on retaining employees with desired characteristics. A mismatch of skillsets can then inform which employees to attract and acquire, and the cycle repeats. Overall, HR will need to ensure that the process landscape fits to the different employee and manager segments in the organization (just like marketing would segment solutions to different customer groups).

**Figure 2: Integrating Core Processes Unlocks Value**

HR processes often work in silos (represented by the arrows within the model). However, HR has a huge opportunity to integrate these processes together via digitalization. The boxes on the outside of the graph show how value can be added throughout HR’s programs.
HR Analytics

HR must also get better and quicker at analyzing data and integrating this data into decision making. To execute on this HR must move beyond basic dashboard reporting to predictive research models, integrating across functions and even outside the company as the analytics become more mature.

We see a successful journey in HR analytics following the Tier-Model (represented by Figure 3):

- **Tier 1**: These are the basic dashboards that make up most of the HR reporting. They typically include just the HR view. However, dashboards in HR need to be dynamic, not rigid. They must allow different metrics and KPIs to be displayed depending on the key workforce questions that the business wants to address. The goal is making analytics real-time with self-service.

- **Tier 2**: This includes actual reporting, usually at business units or functional levels. HR should function like Finance, providing a workforce report once a month that addresses the key workforce issues in all integrated core processes (sourcing, performance, talent, succession, development). Ad hoc reporting should be minimized.

Tier 1 and 2 provide the first level of transparency and build the foundation for the next maturity levels.

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Figure 3: People Analytics Maturity Model

Many organizations are stuck reporting internal descriptives, but the goal should be to move to external predictive models that can inform high-level strategic decisions.

The X axis refers to the level of maturity, starting with basic descriptives and ending with predictive models.

The Y axis refers to the inside/ outside view of an organization’s People Analytics. The best People Analytics integrate outside data where possible.
• **Tier 3**: People analytics make up the tier three and includes cross-functional analytics across the organization. Most organizations are trying to develop their HR programs with this goal in mind. Here the focus is also on outcome metrics where different processes need to work together (e.g., turnover rate of high performers, performance evaluation of new hires after a year). Tier 3 enables deeper analysis and provides the basis for the first “story telling” with workforce data. Already in this maturity level, companies may spot areas where HR was providing wrong advice based on “experience,” “gut feelings,” and just basic assumptions from business leaders.

• **Tier 4**: This tier includes research and predictive models to help inform business decisions. They include the external view and overall market-level or location-level analytics. Many companies jump to the predictive models, but without a foundation in the other tiers, this may not provide expected business outcomes.

To build these capabilities HR needs to up-skill their employees and management in four major areas. The first is analytical acumen, which involves an understanding of hypotheses crafting and story-telling. This is a core capability and should be the foundation for learning and development efforts. The second is technology, which involves increasing expertise in data analysis, as well as supporting learning agility. The third is major area is action, which consists of business facing capabilities such as influencing others and providing impact analyses for key questions. The fourth key area is data capability. This involves understanding the basics of analytic definitions and models as shown in Figure 4.

**Figure 4: Aon Hewitt’s Analytics Learning Model**

Aon Hewitt’s Analytics Learning Model is comprised of four major focus areas (the middle circles). The goal of the model is to up-skill HR by building each of the capabilities in the outer circle.
The Foundation for Digital Leadership

Organizations require alignment from leadership to fully leverage emerging technology. This will vary from company to company, but most often there is a combination of four major elements that can help to enable the digitalization change:

**New HR Business Model**

Resistance to change is a natural, human instinct. Technology implementers often have to fight upstream to change mindsets for employees unfamiliar with new technology—HR is no different. However, articulating and communicating the vision behind a digital culture can help to ease concerns and resistance.

Part of this transformation is allowing for pilot programs as well as trial and error within the organization and HR. Oftentimes the response to failure is immediate punishment. However, this does not help to inspire further risk-taking and impedes innovation. Instead, organizations must be transparent about learning from failures. Microsoft’s CEO Satya Nadella emphasizes this point when she explains, “It’s not about the failure, it’s about learning from the failures.”

Fostering internal collaboration is pivotal. In Aon Hewitt’s Growth Study we examined how to best create internal collaboration across business units. We found that high-growth organizations bring collaboration to life by aligning employees and management around a common cause, eliminating psychological and physical boundaries around business units, and creating connection points within organizational structures between verticals. One way to foster connection points is by the use of large-scale organizational participation in technology solutions. IBM has been using hackathons for years to innovate and ideate on existing technologies such as Watson.

Leaders will need to acknowledge and be open to learn from younger employees about the opportunities of digitalization. Opportunities for reverse mentoring are already becoming the norm at companies like United Health and Target, but HR must start to facilitate these connections within their own departments to prepare for the future.

We are also seeing a trend of convergence of the classic three pillar model in HR (Center of Excellence, Business Partners, and Services) into a model more closely aligned to professional services companies. This new model utilizes HR consultants and operations experts, and acts in a more strategic fashion.

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New “Customer” Experience
A customer-centric design of digital technology can help to drive a redesign of internal processes from HR—a redesign that can significantly change the scope and impact of the HR function. However, “customers” are not traditional buyers of products, but instead employees and end users. Unlike in the past, this redesign will be driven by customer experiences, not by policies and programs.

Efficiency of Internal Operations
HR also needs certain capabilities to advance technological change. In many HR departments there is still a focus on the day to day administration, but HR needs to take a hard look at what can be automated and what redundancies can be removed. To fully grasp the strategic value of technology, HR must become a strategic function and provide real value to the business.

New Capabilities
Buying technology and setting it up without supportive talent is unlikely to garner intended results. Instead, organizations must be careful to attract and nurture talent that can fully utilize new technology. For example, this is often a problem within HR analytics functions. HR data scientists have a wide range of tools at their disposal, whether through statistical programs or qualitative data processing software. However, without the right questions and hypotheses these scientists may be searching for a metaphorical needle in the haystack. HR needs not just statistical doers, but also content experts to drive the right outcomes.

One example of a company taking advantage of digitalization comes from GE. GE has been able to thrive for over 100 years largely as a function of its ability to adapt to changes in business. Digitalization has been the latest change for the firm. This process began when GE poached Bill Ruh from Cisco in order to spearhead its software and analytics team. Since then, the firm has launched a digital platform that allows internal and external developers to write applications. Advances in digitalization have helped the firm to cut its Selling, General, and Administrative Expenses ratio (SG&A) from 18% in 2011 to 12% in 2016.
Whether HR helps to drive digitalization or not, technology change is coming. Regardless of size, HR departments are becoming more and more streamlined, utilizing technologies that would seem like magic just 10 years prior. In another 10 years as cognitive computing and advances in Artificial Intelligence make selected HR’s work fully automated and completely strategic, we will likely look back on this period of HR as another step in the journey. At this point we will need to ask ourselves: did we lead the charge and fully embrace technology? Or did we simply continue in our functions, making only incremental improvements as other functions pushed ahead with giant leaps?

Some core questions HR professionals should ask themselves:

- Is HR prepared to support the digitalization of the enterprise (capabilities, talent and culture)?
- Do HR processes, programs, and polices provide an exceptional customer experience (employees and managers)?
- Are HR processes designed in an effective, simple, and integrated way (avoiding waste)?
- Does HR have a global governance that would lead to a new HR business model around enabling data based workforce decisions?
- Did HR build a foundation in analytics with flexible and dynamic dashboards as well as a holistic regular workforce report covering all major processes?
- Did HR provide business with better solutions based on data and strong business cases?

We think this is the time for HR to make bold steps and diminish potential internal roadblocks that are hindering HR’s advancement. Although change does not come easy, it is required for firms that want to remain competitive. As technology continues its frightening pace, HR must ensure that it is leading the charge, keeping human capital and technology in lock step. Ultimately, technology is for the benefit of the user, and HR must keep in mind that advances in technology are for the advancement of the entire organization.
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