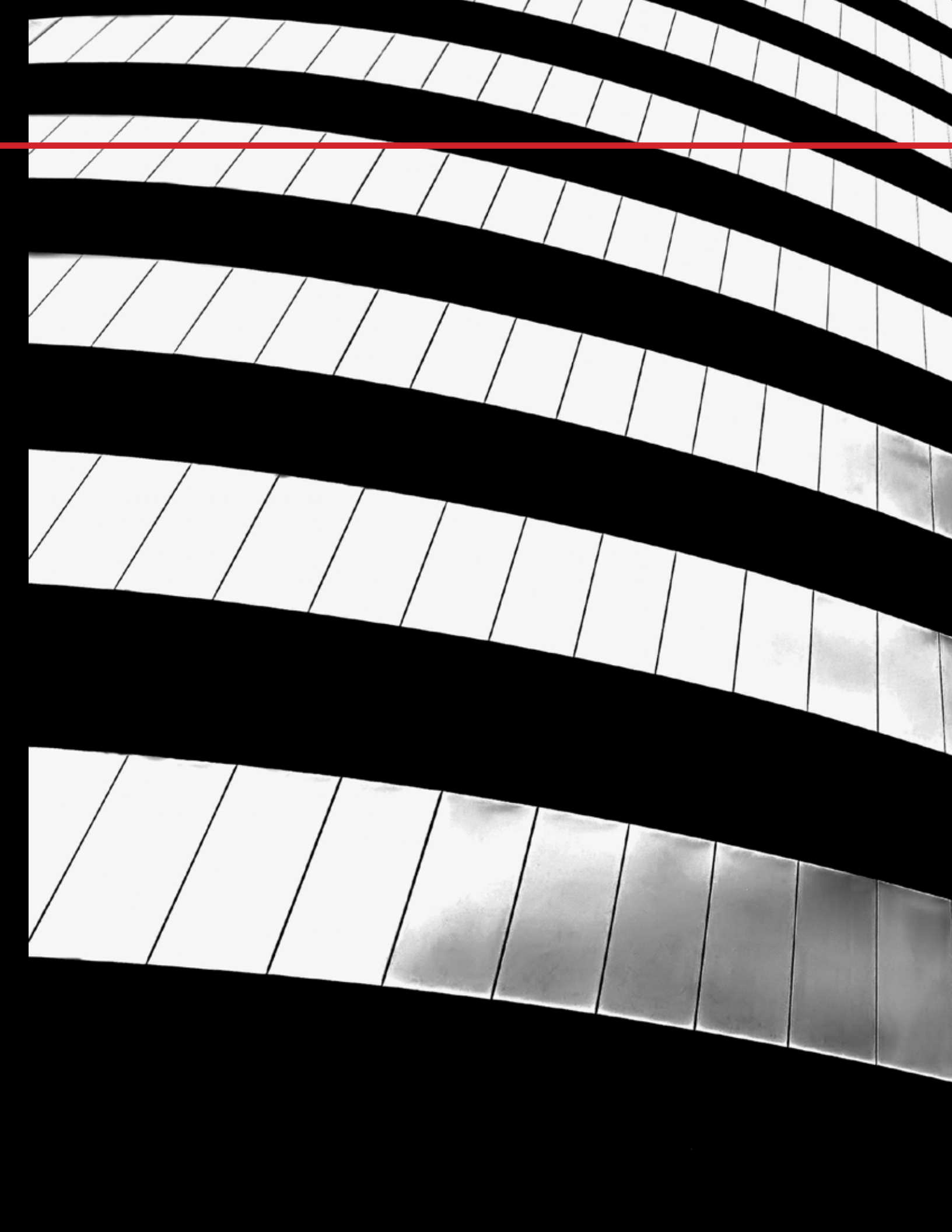# 2021 HR Transformation Report

The
Talent
Strategy
Group

SCIENCE + SIMPLICITY

2021 HR Transformation Report

Welcome to our 2021 HR Transformation Report. This research presents insights and data for more than 200 companies around the globe representing every industry, geography and size of organization.

We have conducted this research to provide you with practical advice and guidance as you consider your organization's HR transformation. We were pleased to find that many organizations have made strong progress In their transformation efforts. However, our findings also show that most organizations overestimate what they will achieve and the speed with which they will achieve it.

On behalf of myself and the research team at Talent Strategy Group, we thank you for your interest in this report. We appreciate the opportunity to serve the human resources community in this way.

Best regards,

Marc Effron
President
Talent Strategy Group

Our Report in Brief

The CHRO's Guide to the HR Transformation Report

CHROs should clearly define transformation success and build HR strategic capability earlier to get more value from HR transformation

Our first HR Transformation Report brings generally good news but with warning flags and specific guidance for CHROs who are planning a transformation. We find that many companies achieve their HR transformation goals but often more slowly, less completely and with less satisfaction than they expected.

Those findings, detailed in this report, provide three clear insights for how CHROs should manage their approach to HR transformation.

Findings and Recommended Actions

Finding #1: HR leaders were less satisfied than expected with HR's effectiveness after the HR transformation. There were meaningful gaps between HR's predicted effectiveness and the post-transformation reality.

Take Action:

- **Set collective and individual accountability for HRLT members:** Your HRLT should have a collective metric around HR Transformation success that influences their compensation. The measure(s) should be the specific transformation goal(s) that you set before transformation and that your CEO is holding you accountable to deliver. We typically see metrics around cost or headcount reduction and a measure of client satisfaction with HR.

- **Clearly define post-transformation HR standards:** Identify the three key performance standards for each sub-function (TM, TA, DE&I, Regional HR, etc.) post-transformation. These should be measurable standards with both the metric and measurement tool identified. For example, "Talent acquisition will manage candidates and hiring managers to ensure 95% candidate satisfaction with the recruiting process. This will be measured with a 5-question survey administered 60 days after Day 1. Scores of Agree and Strongly Agree will count towards the 95% standard."

- **Be transparent about the future state with your internal clients/customers:** Give your internal customers a specific, 1-page, From/To description for each

sub-function that describes how you'll provide services to them post-transformation.

Make this an operating document, not a marketing document. If they will no longer have an HR representative at their location, explain why and how they will access HR services. Do not spin this as "easy 24/7 answers right at your fingertips" unless they'll have a better experience interacting with your technology than with your HR leaders.

Finding #2: HR leaders took longer than expected to perform in the new organization. This finding is not surprising given the minimal training that most respondents reported their HR teams received to perform in the transformed organization.

Take Action:

- **Make key HRLT changes before the transformation:** We often hear CHROs say that they need to retain their team members until the transformation is complete and they will make changes at that point. Make those tough calls before the transformation so that you have the right team members to guide you through it and accelerate your Journey out of it.
  It makes more sense to delay your transformation for 6 months to make needed HRLT changes than to bring in HR leaders afterwards who have to live in a system that their predecessor or a consulting firm designed.

- **Conduct mid-transformation, "dry run" training in the new operating model:** The statement, "I'm sure our HR leaders can figure out how to work in a matrix" accurately predicts a challenging post-transformation environment. There is nothing natural about competing with peers for resources, decision rights and authority. Even absent this type of change, your HR team needs sufficient rehearsal in all elements of the transformed organization, not just your new technology.
  Conduct live scenario training with your HRLT where you practice making decisions in the new, realistic scenarios that will occur after the transformation. Examples include: How will your regional HR leader make a compensation decision now that you have a centralized compensation philosophy? How will talent management help an HRBP produce an internal candidate slate with 48 hours of request?
  Identify process gaps and disagreements to fix before the go-live date.

Finding #3: HR leaders over-estimated the improvement in how the HR organization would function post-transformation.

Take Action:

- **Define what will improve in HR leaders and how:** A common refrain in HR transformation is that this effort will free up HRBPs to focus on strategic activities. If this is your objective, write out in long form what that looks like and exactly how it will occur. Use our category list on page 10 to guide that discussion. Your goal is to understand the exact mechanisms that will improve individual leader's strategic capability.

  Our experience suggests that no magical transformation occurs from HR tactician to HR strategist simply because tactical work has been removed from someone's plate. Transformation may provide HRBPs with the time to be strategic, but it does not provide them with the skills, mindset and experience. To our earlier counsel, selection and training are far more essential ingredients to ensure highly competent HR teams in the transformed function.

- **Deliver comprehensive training to build strategic capability:** Deliver a comprehensive development program to the HR team to support the individual transformation described above, and to align the capabilities and mindsets of all your HR leaders. This training should help them to understand and practice the realities of strategic HR, with a focus on talent-building, mapping strategic needs and developing their individual influencing and consulting abilities.

- **Conduct a post-transformation "metrics and loose ends" session:** This session should occur a few months after completing the transformation, once you've had a chance to gather data on your key metrics and listen to your key customers. The purpose of this session is to objectively evaluate the success of the transformation and make agile corrections given early customer feedback.

  In this session, the HR team compares actual functioning to the promised metrics. Gaps are identified and an owner is assigned to close those gaps in a specific period of time. Feedback from your customers/clients (which you have thoroughly collected) is reviewed, prioritized and assigned to specific individuals to resolve.

HR Transformation Summary

Positive changes but slower, less complete and less satisfied than expected

Our first HR Transformation survey brings generally good news but with a number of warning flags. We found that many companies achieve their HR transformation goals, but often slower, less completely and with less satisfaction about the results than they expected.
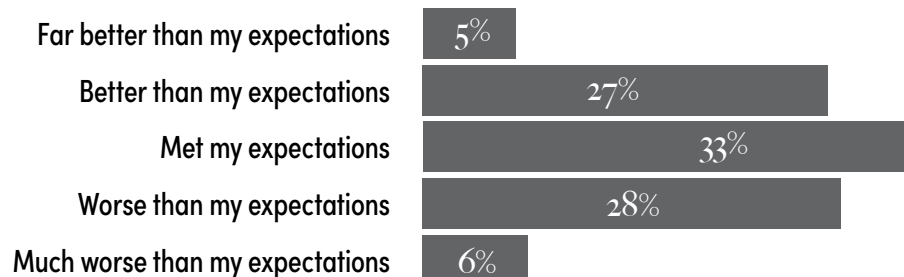
Our primary conclusions are:

Strong but slow progress in transformations: While 65% of companies reported improvements in core HR functions after HR transformation, it took them twice as long as they expected to complete those changes and they drove less change than they predicted they would.

HR teams transform more slowly than expected: Companies found that the average HR team took twice as long as expected to perform in the new HR operating model and they often received less than a day's worth of training in how to succeed in the new model.

Broad-based change in HR operating models: 86% of organizations said they have or will change their HR operating models as part of HR transformation. One notable shift was towards the "Ulrich model",[1] with 68% of respondents using a pure Ulrich model or a hybrid Ulrich model prior to transformation and 88% planning to use one of those choices post-transformation.

How satisfied are you with the results of your company's HR Transformation compared to your expectations?

Far better than my expectations	5%
Better than my expectations	27%
Met my expectations	33%
Worse than my expectations	28%
Much worse than my expectations	6%

Companies whose HR transformation was primarily because of the COVID pandemic **3%**

Companies reporting that one or more HR functions were less effective post-transformation **13%**

[1] This statement refers to the original framework attributed to Professor Dave Ulrich and popularized partially through his book Human Resource Champions. As Dave will point out, the model has been updated many times since then through RBL's HR Competency Study.
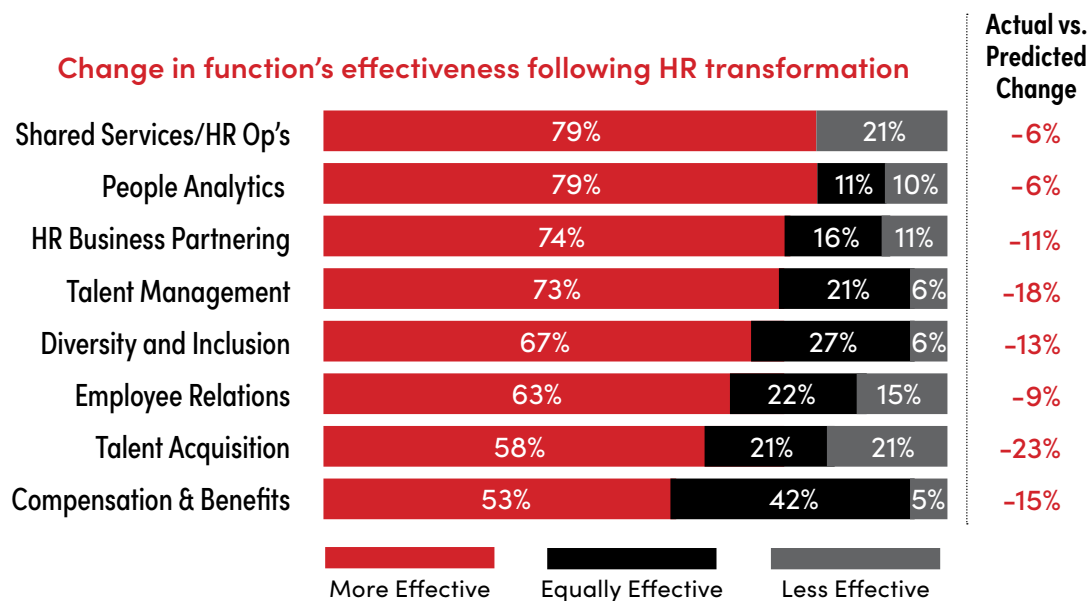
HR Effectiveness Changes

HR transformations delivered significant change but not always in the expected direction

The good news from the 200+ companies that participated in our survey was that most saw positive change from their efforts. We found that more than half of companies reported positive changes in the effectiveness of HR functions, with the largest positive changes in Shared Services and People Analytics.

However, all of the positive changes were less than the amount predicted prior to transformation. The largest gaps in Actual vs. Predicted Change were in Talent Acquisition (23% less than predicted), Talent Management (18% less) and Compensation and Benefits (15% less). Surprisingly, a small number of companies reported that practices were less effective after transformation, including 21% reporting that Talent Acquisition and Shared Services were less effective.

Change in function's effectiveness following HR transformation

Function	More Effective	Equally Effective	Less Effective	Actual vs. Predicted Change
Shared Services/HR Op's	79%		21%	−6%
People Analytics	79%	11%	10%	−6%
HR Business Partnering	74%	16%	11%	−11%
Talent Management	73%	21%	6%	−18%
Diversity and Inclusion	67%	27%	6%	−13%
Employee Relations	63%	22%	15%	−9%
Talent Acquisition	58%	21%	21%	−23%
Compensation & Benefits	53%	42%	5%	−15%

Legend: More Effective | Equally Effective | Less Effective

Expected Length vs. Actual Length of HR transformation

Expected length	
Less than 6 months	1%
6 months – 1 year	11%
1 year – 2 years	45%
3 years – 4 years	34%
5 years or more	8%

Difference between expected and actual length of HR transformation

+1.3 Years

HR Structure

HR transformation translated into structural changes at most companies but not always in the expected direction. Consistent with the typical desire to increase spans of control and decrease layers, the average span in HR increased in 53% of companies and the number of CHRO direct reports increased in 42%. The total number of layers in the HR organization increased in 32% of companies.

Most companies increased the number of outsourced services but few reduced the number of locations where there was an on-site HR employee. 1 in 7 companies increased the number of locations with an HR employee.

HR Structural Changes

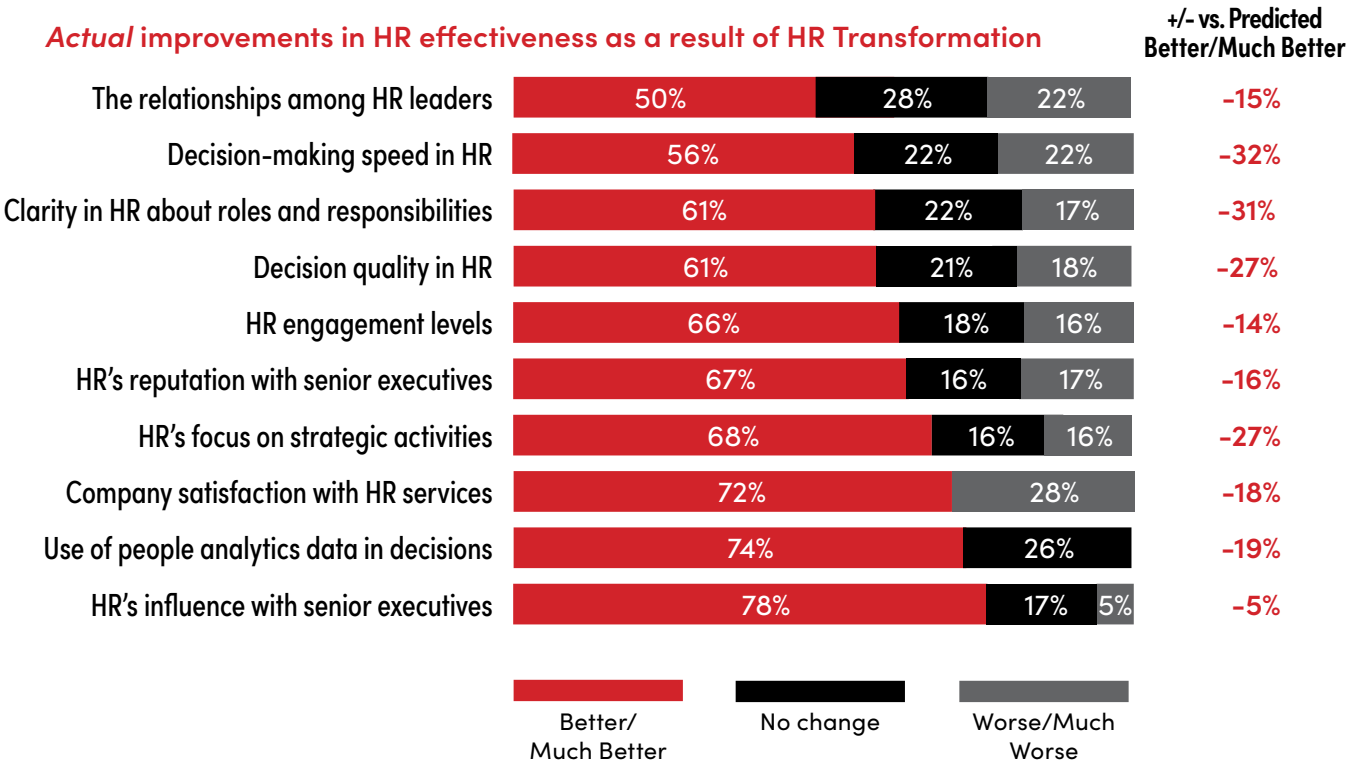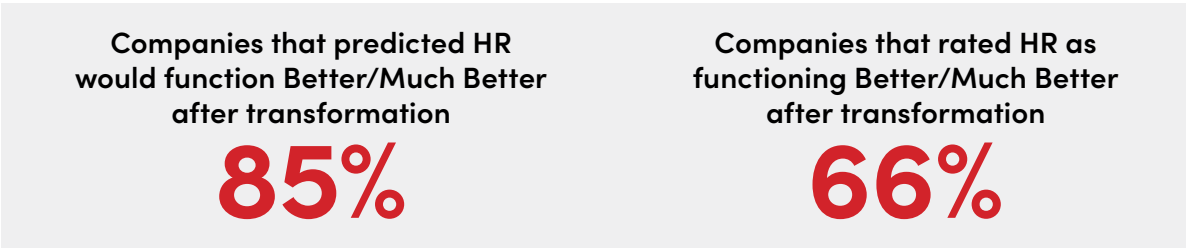| Structural Change Area	% Increased	% No Change	% Decreased
Average span of control in HR	53	31	16
Number of outsourced HR services	53	42	5
Number of CHRO direct reports	42	37	21
Total HR headcount	37	37	26
Number of layers in the HR organization	32	53	15
Number of company locations with at least 1 HR emp.	16	62	22

Structural Surprises

Changes don't always happen in the expected direction when transforming an HR organization. Headcount reductions did not happen in fully half of the companies that predicted reductions. The number of layers was expected to increase in very few companies but nearly 1/3 ended their transformation with more layers than when they started.

Number of Layers in HR		Average HR Headcount	
Expected to Increase Layers	**Actual that Increased Layers**	**Expected to Reduce Headcount**	**Actual that Reduced Headcount**
14%	**32%**	**52%**	**26%**

HR Effectiveness

One of the larger surprises in our HR Transformation study was the extent to which HR leaders overestimated the transformation's likely impact on the HR department. Respondents projected improvement in 80% to 95% of most areas, and only a fraction projected worse outcomes in any area.

In reality, outcomes improved in 60% – 70% of most areas and became worse or much worse in up to 1 in 4 companies. The largest shortfalls versus expectations were in Decision speed in HR (–32% below expectations) and Clarity in HR about roles and responsibilities (–31%).

Companies that predicted HR would function Better/Much Better after transformation	Companies that rated HR as functioning Better/Much Better after transformation
85%	**66%**

Actual improvements in HR effectiveness as a result of HR Transformation

	Better/Much Better	No change	Worse/Much Worse	+/- vs. Predicted Better/Much Better
The relationships among HR leaders	50%	28%	22%	**–15%**
Decision-making speed in HR	56%	22%	22%	**–32%**
Clarity in HR about roles and responsibilities	61%	22%	17%	**–31%**
Decision quality in HR	61%	21%	18%	**–27%**
HR engagement levels	66%	18%	16%	**–14%**
HR's reputation with senior executives	67%	16%	17%	**–16%**
HR's focus on strategic activities	68%	16%	16%	**–27%**
Company satisfaction with HR services	72%		28%	**–18%**
Use of people analytics data in decisions	74%	26%		**–19%**
HR's influence with senior executives	78%	17%	5%	**–5%**

Legend: Better/Much Better · No change · Worse/Much Worse

"28% of companies rated Company Satisfaction with HR services as Worse/Much Worse after HR transformation."
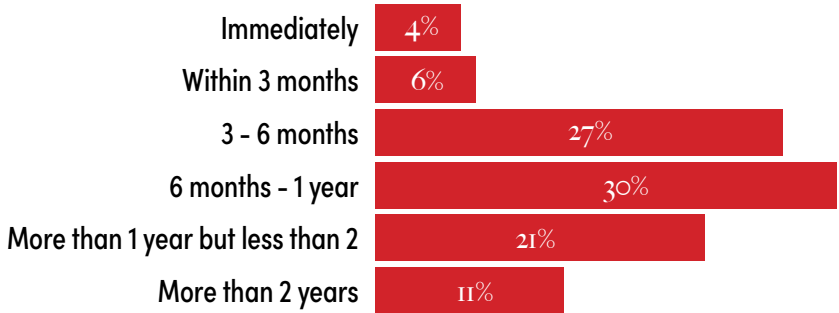
The HR Team

HR leaders took longer than predicted to perform in the new system; received minimal support

HR leaders came up to speed more slowly than expected in their transformed organizations, possibly due to a relatively light investment in building their capabilities. The average HR team took five months longer than expected to operate effectively in their new organization. HR departments often invested a day or less to develop their team's capabilities.

How long do you expect it will take the average HR leader to perform effectively in the transformed organization?

|	
Immediately	4%
Within 3 months	6%
3 - 6 months	27%
6 months - 1 year	30%
More than 1 year but less than 2	21%
More than 2 years	11%

Actual HR leader effectiveness took

5 months

longer than expected to achieve

Even the light expectations for training HR leaders to succeed in the transformed organization were not met

In total, how much live training do you plan to provide to HR leaders to help them excel in the transformed organization?

None	1 - 2 hours	A half day	A full day	Less than a week	More than a week
7%	9%	15%	11%	29%	29%
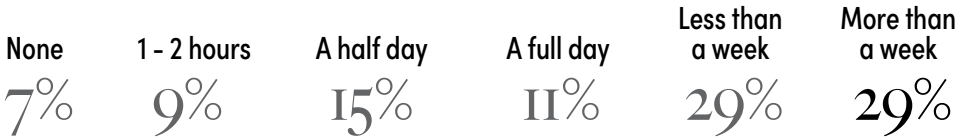
Prior to transformation, 42% of companies planned to invest 1 day or less in training their HR leaders to be effective in the transformed organization.

The actual time invested in training HR leaders by organizations that completed HR transformation
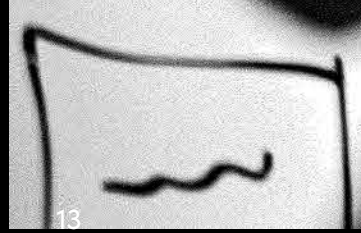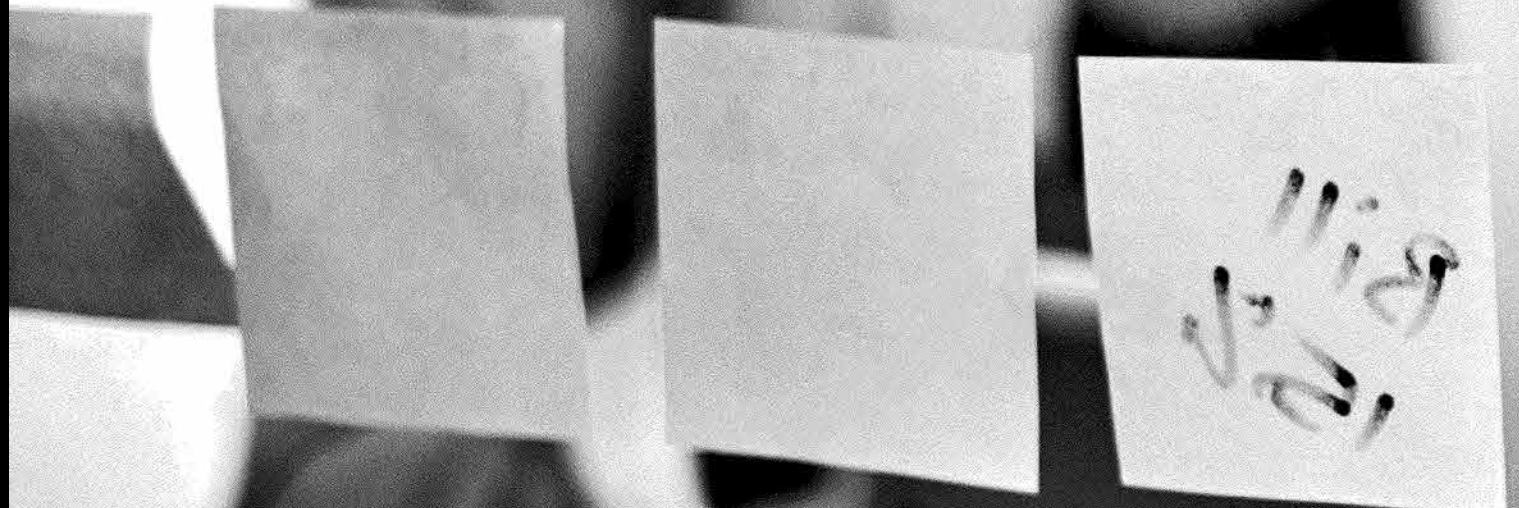
53% invested 1 day or less

Change Drivers & Direction

Firms coalesce around an "Ulrich" or "Ulrich-like" model as the best way to structure HR operations

A steady trend continues towards there being clear lines and divisions between HR business partners, centers of expertise and HR service centers. Organizations are already using the traditional Ulrich model and will continue to do so. Those companies that are not currently using it will largely shift to it or a hybrid version of it.
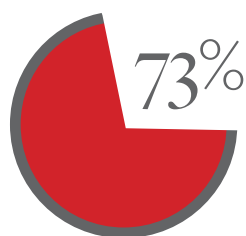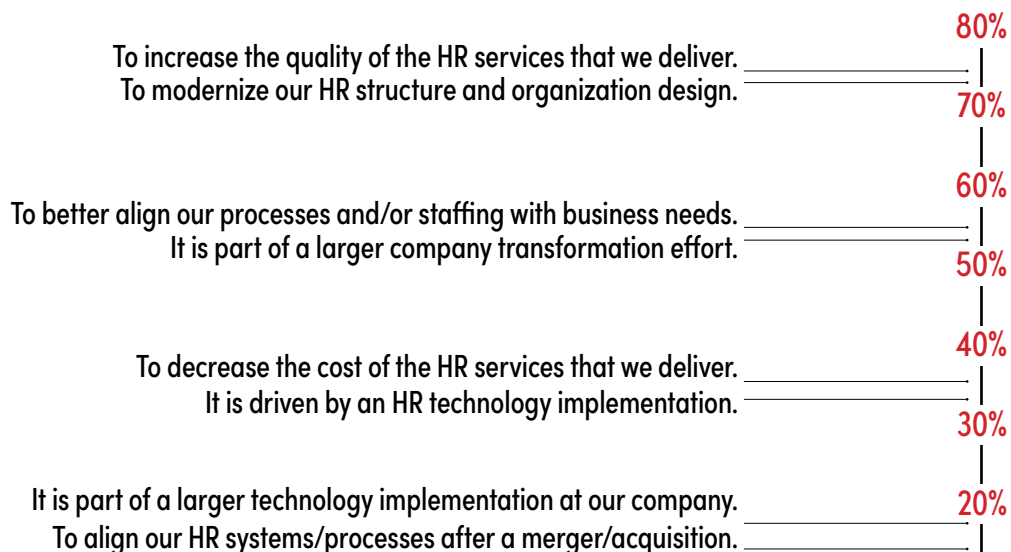
Did you put in place a new HR operating model as part of your transformation?

Yes: 95%

How many years was your CHRO in that role before the HR transformation started?

Less than 3 years: 72%

What are the primary reasons that your company is/was engaged in an HR transformation?

To increase the quality of the HR services that we deliver.
To modernize our HR structure and organization design.

To better align our processes and/or staffing with business needs.
It is part of a larger company transformation effort.

To decrease the cost of the HR services that we deliver.
It is driven by an HR technology implementation.

It is part of a larger technology implementation at our company.
To align our HR systems/processes after a merger/acquisition.

80%
70%
60%
50%
40%
30%
20%

73% Percentage of organizations offering a formal change management process to help HR leaders become effective in the transformed organization

Structure

Despite recent suggestions that novel organizational structures are required for a "new world of work," HR seems fully aligned around a traditional model of HR structure and operations.

Barely one in 10 organizations plans to use something other than the Ulrich model or a variation after their transformation.

Is your HR organization structure currently the traditional "Ulrich model" – clearly defined centers of excellence, HRBP's and service centers? After the HR transformation?

Model	Today*	After Transformation
The Ulrich model	31%	36%
A hybrid that is close to, but not exactly, the Ulrich model	37%	52%
Not the Ulrich model	31%	12%

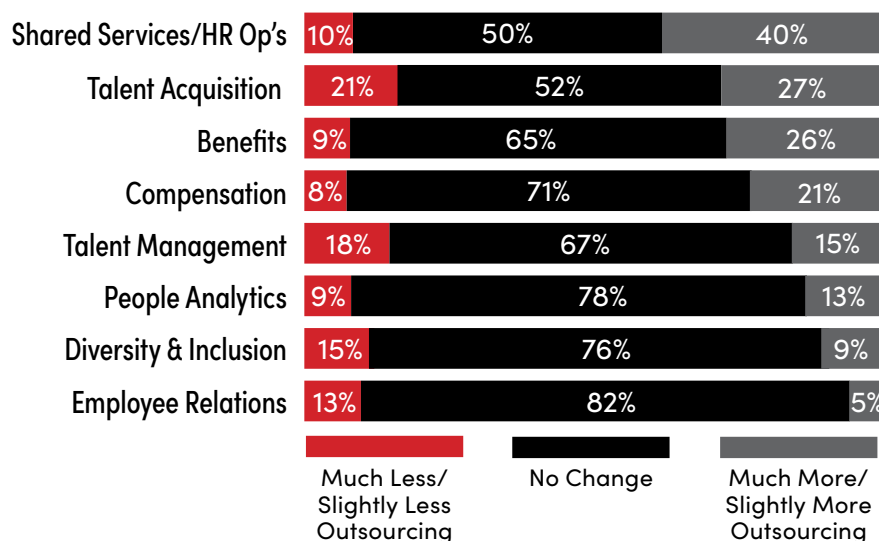* total is 99% due to rounding.

Outsourcing

Very few organizations meaningfully shifted HR responsibilities to outsource service providers, except in the expected areas of shared services and talent acquisition.

As many companies will be decreasing their outsourcing investment as increasing it in talent management, people analytics, diversity and inclusion and employee relations.

Results from companies that have completed their transformation shows that their outsourcing predictions were highly accurate.

In which areas do you expect the extent of outsourcing to change because of the HR transformation?

	Much Less/Slightly Less Outsourcing	No Change	Much More/Slightly More Outsourcing
Shared Services/HR Op's	10%	50%	40%
Talent Acquisition	21%	52%	27%
Benefits	9%	65%	26%
Compensation	8%	71%	21%
Talent Management	18%	67%	15%
People Analytics	9%	78%	13%
Diversity & Inclusion	15%	76%	9%
Employee Relations	13%	82%	5%

Metrics

Soft metrics (effectiveness) are more frequently used to evaluate the success of HR transformations than quantitative metrics like cost savings or HR headcount.

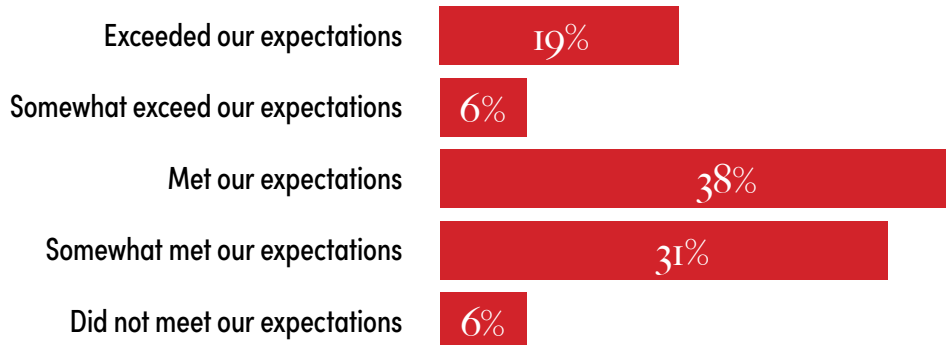This may help to explain the surprising rise in post-transformation headcounts that was noted earlier.

Which of the following metrics will you/do you formally measure to evaluate the success of your HR Transformation?

HR BP Effectiveness	COE Process Effectiveness	HR Cost Savings	HR Headcount	Other
71%	65%	55%	47%	16%

Does your company have a specific cost savings target as part of HR Transformation? No: 61%

HR Technology

Mixed messages as nearly 40% of technology implementations miss the target.

HR leaders remain underwhelmed by their HR technology more than 13 years after the first Workday system implementation, and with an abundant array of HR technology to choose from. While a majority of respondents felt that their changed HR technology met or exceeded their expectations, a sizable minority disagreed.

The open question is whether HR vendors are making promises that are difficult or im-possible for their technology to deliver, or if HR departments are not investing sufficient time to customize the software and train users.

How satisfied are you with your changes in HR technology?

Exceeded our expectations	19%
Somewhat exceed our expectations	6%
Met our expectations	38%
Somewhat met our expectations	31%
Did not meet our expectations	6%

How will your HR technology change in your HR Transformation?

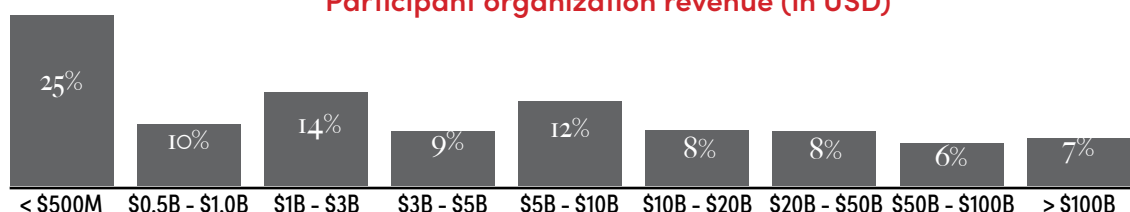|	
We will implement technology that replaces largely manual processes. We	55%
will upgrade our existing HR technology *suite* to a new technology suite or updated version.	53%
We will integrate various HR technology platform/systems into one platform.	45%
We will shift our technology from in-house to outsourced.	9%
We do not plan on making any significant changes to our HR technology.	12%
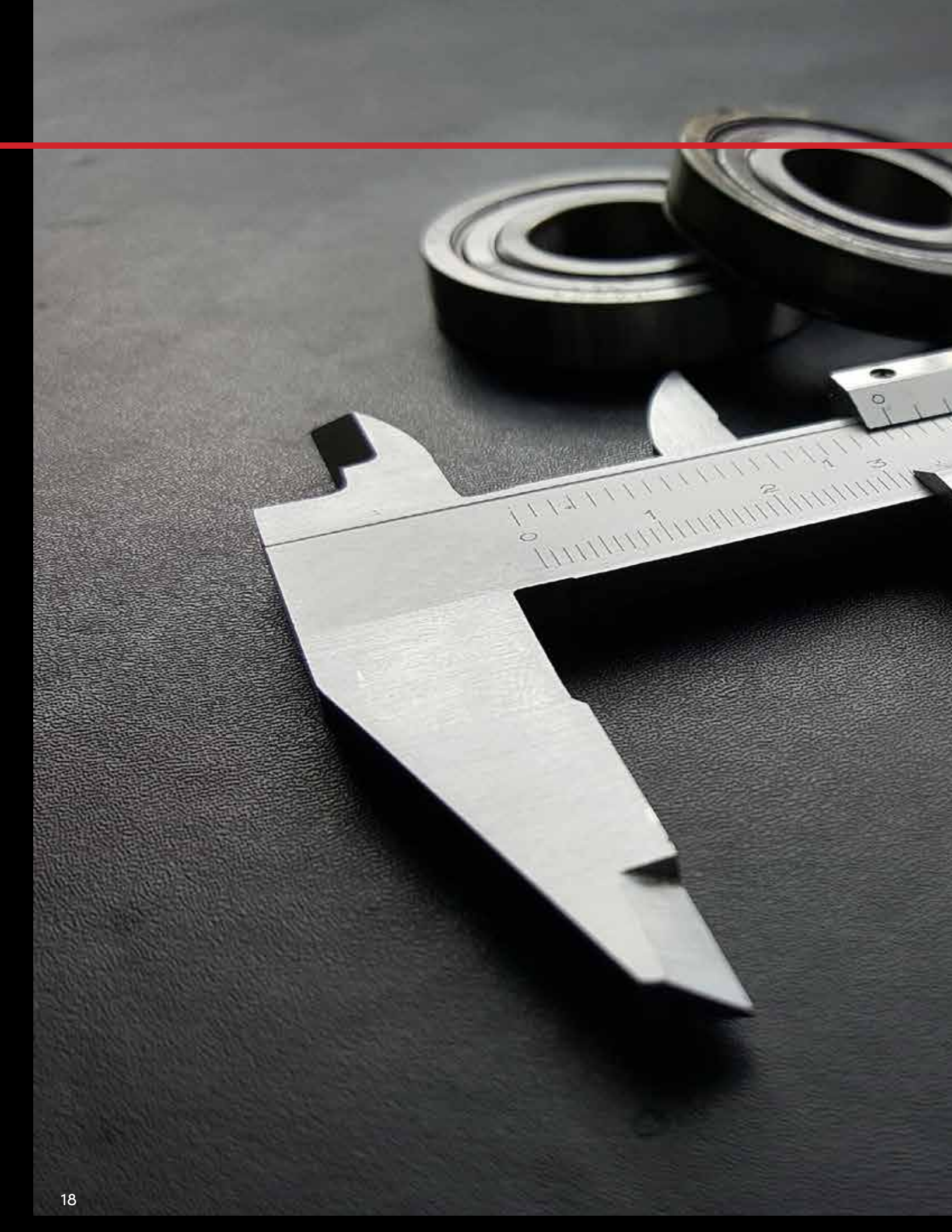
About This Report/Participants

About This Report

We conducted data gathering over a two month period in early 2021, soliciting partici-pation through direct mail and LinkedIn. We received 252 responses and eliminated 47 of them. Criteria for elimination were:
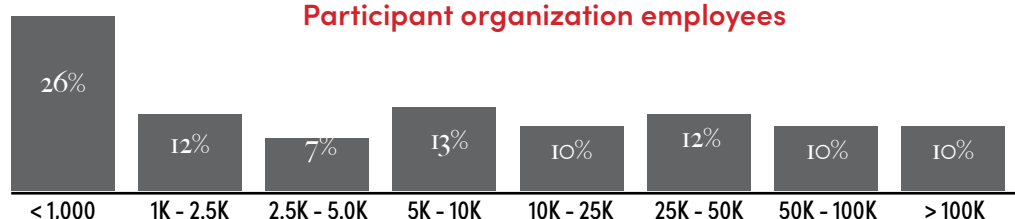
- Consultants
- Responses from consultants who tried to resubmit their data as a corporation after initial rejection because they were consultants (tracked by IP address)
- Duplicate IP addresses. When we found duplicate IP addresses, we selected the re-sponse with the most complete data.

The participant pool is subject to all of the typical research biases including convenience sampling, impression management, faulty recall, etc. We believe the participant pool size helps to reduce the potential impact of these factors but it certainly does not elimi-nate the risk of them.

Participant organization revenue (in USD)

25%	10%	14%	9%	12%	8%	8%	6%	7%
< $500M	$0.5B – $1.0B	$1B – $3B	$3B – $5B	$5B – $10B	$10B – $20B	$20B – $50B	$50B – $100B	> $100B

Participant organization employees

26%	12%	7%	13%	10%	12%	10%	10%
< 1,000	1K – 2.5K	2.5K – 5.0K	5K – 10K	10K – 25K	25K – 50K	50K – 100K	> 100K

Organization type	
Publicly owned	51%
Privately owned	40%
Not-for-profit	6%
Other	3%

Partially or wholly PE owned?	
Yes	18%
No	82%

Geographic Headquarters	
North America	65%
Asia	17%
Europe	13%
Middle East	4%
South America	2%