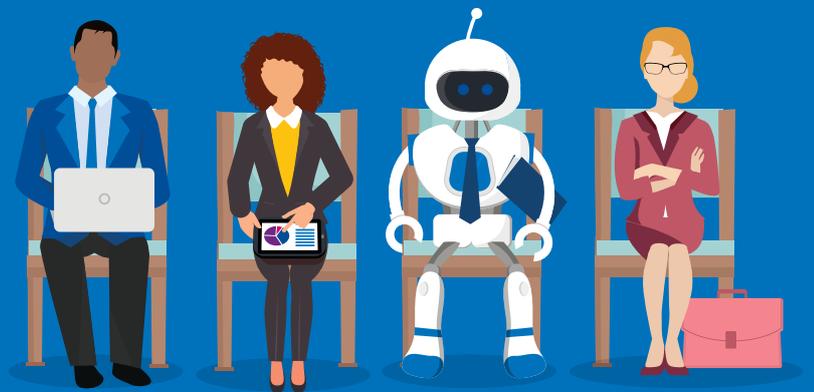




The future of HR 2019: In the Know or in the No

The gulf between action and inertia



KPMG International

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Introduction

Today's employers face a daunting array of historic challenges as they speed into a digital economy that's already transforming businesses and the traditional human resources (HR) functions that serve them. HR change is inevitable; KPMG International's new Future of HR global study reveals that HR leaders have conflicting attitudes and approaches to this change.

Our latest survey of 1,200 global HR executives exposes a clear gulf between action and inertia: Forward-looking HR leaders are confidently harnessing the resources and insights that will redefine the traditional HR model and its contribution to the enterprise. They are following strategic plans and implementing new technologies such as analytics, digital labor and artificial intelligence (AI). And they are pursuing the critical new skills needed to succeed.

But we also see a much larger segment of less-confident HR leaders who are demonstrating either a wait-and-see approach to change — or simply sitting idle on the sidelines.

These HR leaders are adopting a risky stance as the scope and pace of change accelerates. Those making limited strides could, in a few short years, see today's technology disrupt them out of existence, while the largely inactive face a much shorter timeline to extinction.

“Those that ‘get it’ are acting decisively, viewing HR as a new value driver and turning to data, predictive insights and AI. The rest are either limiting themselves to changes that show some progress, perhaps through data and analytics initiatives, or simply clinging to a static approach that's perilous,” says Robert Bolton, Head of People and Change Center of Excellence, Partner, KPMG in the UK.



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Robert Bolton

Head of People and Change
Center of Excellence
Partner
KPMG in the UK

Unique new skills are becoming critical to success, even survival, in the digital era — along with a new employee experience designed to attract and retain the best and the brightest, and meet the needs of our multigenerational workforce.

Dramatically realigning workforces to facilitate collaboration between employees and advanced robotics, automation and AI is also imperative — and coincides with a demographic trend bringing five generations together within a workforce that's more diverse than ever.

Beyond that, exploiting the full capabilities of data and analytics tools for informed decision-making and predictive insights will be indispensable.

Daunting challenges indeed. Yet, while our latest survey reveals a troubling level of uncertainty and inertia that could prove costly for some organizations, it also shows a lack of progress since we shone a spotlight on the HR transformation trail with our 2017 survey report — *HR Transformation: Which lens are you using*.

Uncertainty continues to prevail

"The dichotomy endures. We view that as troubling — particularly today as the pace of change accelerates relentlessly," Bolton notes. "Many businesses are exhibiting uncertainty and inertia. They apparently don't recognize what today's transformation trailblazers know and are clearly acting on: uncertainty in this era is today's new normal. The trailblazers are exploiting uncertainty and doubt as a critical opportunity to drive new competitive advantage and leap ahead of the pack."



Many businesses are exhibiting uncertainty and inertia. They apparently don't recognize what today's transformation trailblazers know and are clearly acting on: uncertainty in this era is today's new normal. ”

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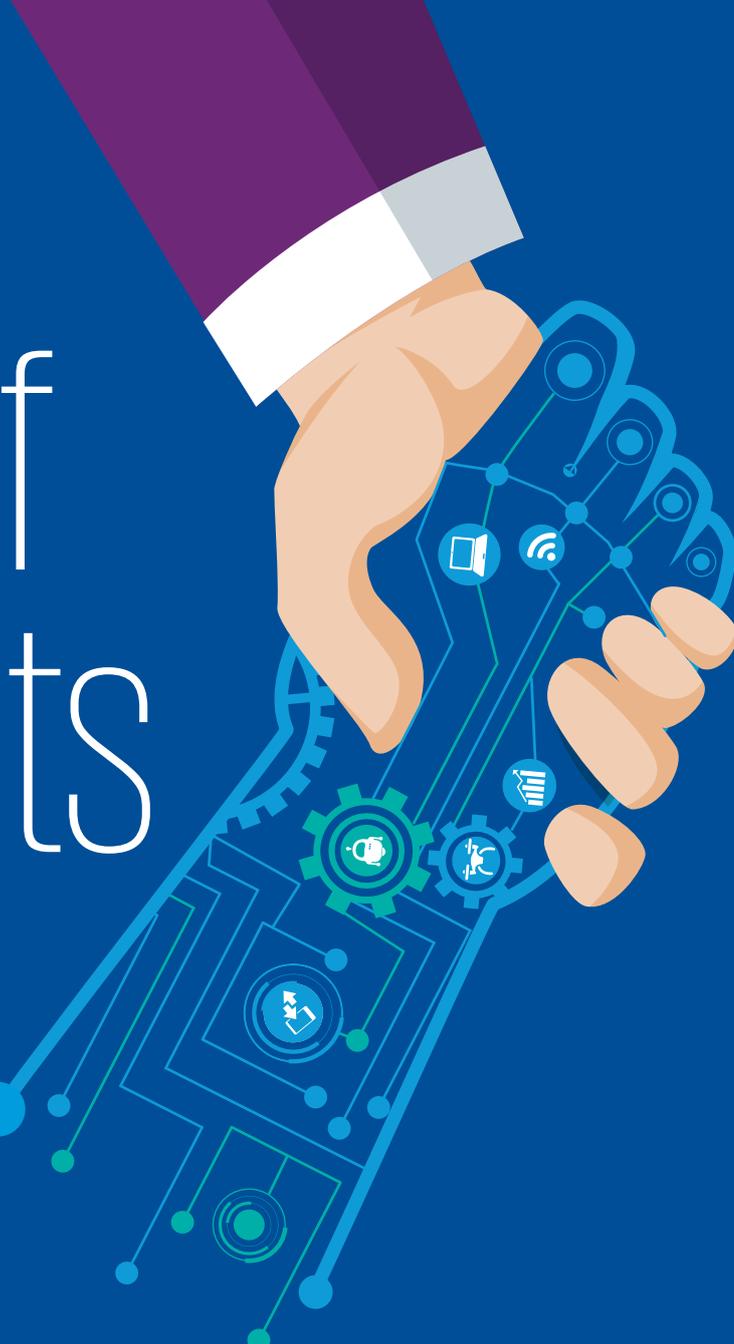
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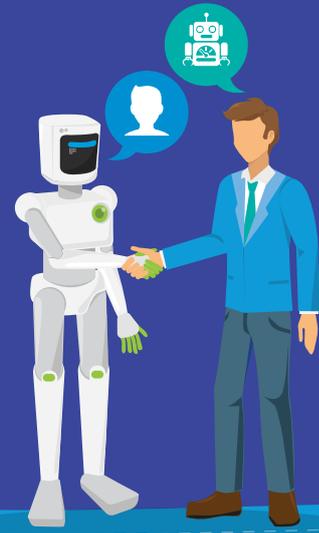


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How KPMG can help



Are
you

In the Know
or in the No...



Exist in
digital era

Respond to
change

39%
of HR Leaders are
confident in their
ability to transform
the workforce and
itself





Anticipate change

Thrive in digital era

37% of HR Leaders are very confident in HR's ability to transform the workforce and itself

Common characteristics:

-  delivering predictive insights
-  believing in, and driving, digital agenda
-  reshaping the workforce
-  enhancing the employee experience



Ignore change

Struggle to adapt to digital era

24% of HR Leaders are less or not confident in their ability to transform the workforce and itself

Common characteristics:

-  HR not seen as value driver
-  HR not using predictive insights
-  generally timid of AI
-  no digital plan in place (and not planning to)



HR extinction

Key findings

Here are the **key findings** of our survey involving more than 1,200 HR executives we surveyed across the globe.

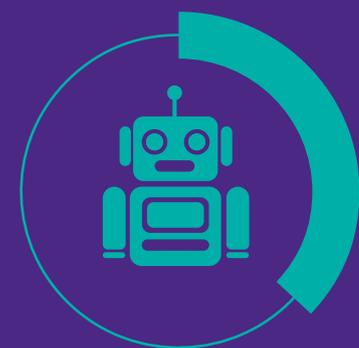
About **two-thirds** of HR executives agree that HR has undergone or is undergoing a digital transformation.

But only **40%** of HR leaders said they have a digital workplan in place at the enterprise or HR level.



Most HR executives — **70%** — recognize the need for workforce transformation.

Yet barely a third **37%** — feel “very confident” about HR’s actual ability to transform and move them forward via key capabilities like analytics and AI.





Workplace culture is considered a top barrier to digital transformation for

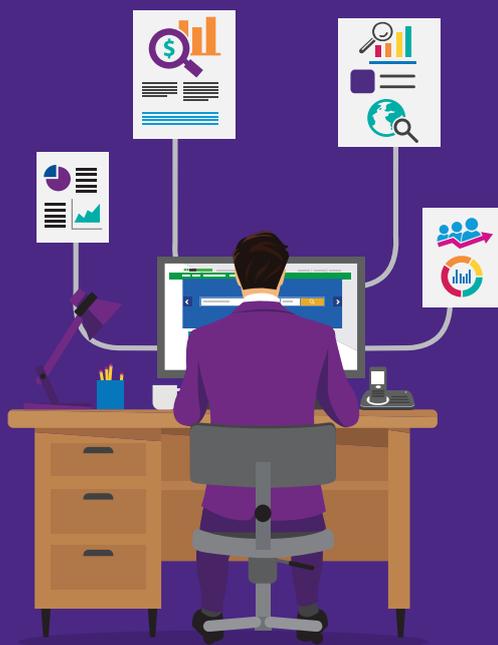
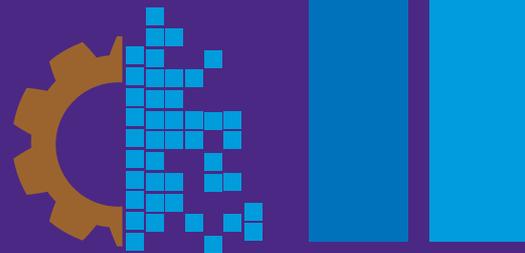
41% of respondents.

(35%) said their current culture is more task-oriented rather than innovative or experimental.

HR execs who believe HR has a strategic role in their business are more likely to be pursuing digital transformation

(67%) compared to 48% who view the HR role as unchanged.

67%
48%



Despite data's remarkable ability to deliver new insights and enhanced decision-making, barely one in five —

20% — of HR leaders believe analytics will be a primary HR initiative for them over the next one to two years.

Fewer still —

12% — cite analytics as a top management concern.

Recent and projected technology investment has been highest for cloud and human capital management software:

49% of HR executives invested in HCM over the past 2 years

32% in cloud capabilities.



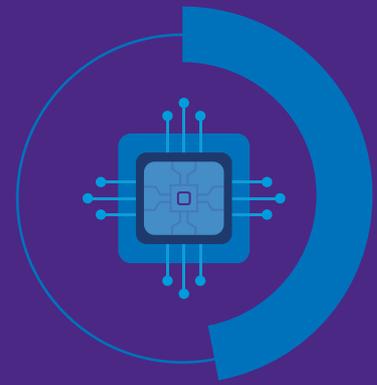
Over the next year or two, more are planning investments in areas such as:



predictive analytics
(60%)



enhanced process automation
(53%)



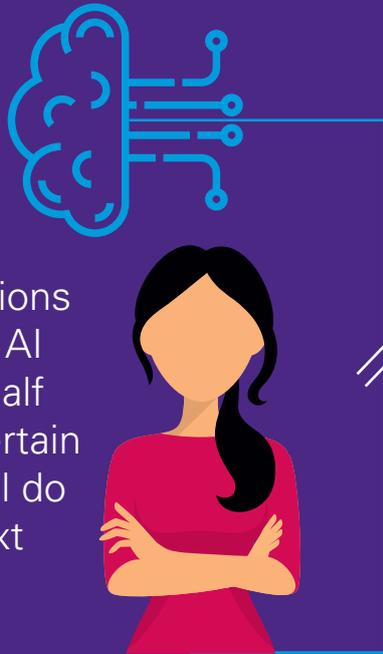
and AI
(47%)

Those leading the pack on transformation recognize how AI and machine learning can drive significant value for HR but they are in the minority by far.

Only 36% of HR functions have started to

introduce AI and just 14% have invested in AI over the past 2 years.





Of organizations yet to adopt AI within HR, half remain uncertain that they will do so in the next year or two.

50% admit to being “not at all prepared” to respond strategically as AI and machine learning emerge.

Among those who have invested in AI to date, the vast majority —

88% — call the investment worthwhile, with the focus primarily on learning

(35%) and analytics

(33%).



As you can see, the gulf between HR leaders pursuing transformation and those on the sidelines is real and significant.

“What’s worrisome is that as the paradigm shift we are in continually accelerates the pace of change, one or two years in this digital age might compare to a decade or two in the analog era. You can fall perilously behind before you realize what’s happening,” says Robert Bolton, Head of People and Change Center of Excellence, Partner, KPMG in the UK.

Workplace culture also remains a top barrier to digital transformation for about four in 10 HR leaders — with more than a third saying their current culture remains task-oriented rather than innovative. Half cite capability (skills) and slightly less capacity (resources) as a top barrier to moving these efforts to scale.

“We are seeing some companies starting to test their cultures and make changes to better align with today’s workforce climate and employee expectations,” says Rachna Mukherjee, CHRO of India Zone for Schneider Electric. She notes that her organization is shifting its culture to become more focused on building capabilities for innovation, and ability to act like owners — an organization where fear of failure is mitigated by an ability for positive disruption.



What is the level of alignment between HR and the C-suite?



With respect to AI and its impact on the workforce, the disparity among HR leaders and the C-suite is striking.

More than half of the HR executives surveyed — 60 percent — believe AI will *eliminate* more jobs than it creates. Conversely, our 2018 Global CEO Outlook study revealed about the same number of CEOs — 62 percent — believe AI will *create* more jobs than it eliminates.

Turning to workplace culture, as we noted in our key findings, HR leaders consider it a top barrier to digital transformation with about a third calling their current culture still more task-oriented than innovative or experimental.

A look at our Harvey Nash/KPMG CIO 2018 Survey, shows that 85 percent of CIOs view innovative or experimental culture as quite important or very important to success on the digital transformation front. Our message here is that only decisive action now by HR in close collaboration with the C-Suite will redefine yesterday's task-focused work team into tomorrow's innovative and futuristic workforce.

"The next-generation HR function has an essential role to play, replacing traditional 'best practices and cost-cutting' approaches with bold new strategies, structures, tools, processes and metrics," notes KPMG's Vishalli Dongrie, Head of People & Change in India. "The goal is to drive an ongoing solution in which HR reshapes itself and the organization's workforce to drive value and competitive advantage as never before."

According to the World Economic Forum, more than a third of the skills considered important today will change within a few short years amid the proliferation of digital processes and the integration of digital and human labor.¹ Future-focused

workforce shaping is a key component of tomorrow's successful workplace.

"Time is of the essence and today's HR leaders need to be initiating and sustaining "the right conversations" with business leaders," says Johanna Söderström, SVP HR at The Dow Chemical Company. "HR teams need to become "comfortable being uncomfortable" in today's disrupted environment."

"The key is to change the mindset of HR — to put ourselves in business managers' shoes," she adds, "to focus on how the HR function can play an unprecedented role unlocking new value for the organization."

We are also seeing an upward trend in how HR is valued by CEOs showing signs that the uphill battle to prove value is veering toward success.

Just how valuable is the HR function and its workforce management to the businesses they serve? Many HR executives we surveyed expressed confidence about HR's strategic value and performance — 40 percent agreeing the HR function is considered a core value driver by their senior leadership, and with 34 percent at least slightly agreeing. Data from KPMG's 2018 CEO Outlook Survey suggests CEOs are indeed increasingly viewing their workforce/HR capabilities as effective (47 percent agree).

Ideally, HR leaders will continue to step up amid the headwinds of change, particularly in areas such as automation and AI capabilities. Of course, time is of the essence.



Time is of the essence and today's HR leaders need to be initiating and sustaining "the right conversations" with business leaders.”

Johanna Söderström
SVP HR at The Dow Chemical Company

¹ World Economic Forum, *The Future of Jobs*, January 19, 2016



Moving employee experience to the top of C-suite agendas

HR's inevitable need to deliver critical new skills and redefine workforces should be obvious by now. Yet, while nearly three quarters of HR leaders recognize the *need* for workforce transformation, barely over a third feel "very confident" about HR's actual ability to transform and move them forward via key capabilities like analytics and AI.



HR leaders also tell us that creating a new employee experience (EX) — or defining the right employee value propositions (EVP) to match the needs of five generations in the workforce — still seem to be undervalued by senior management.

While 50 percent of HR leaders strongly believe EX is valuable to the organization at large, only 25 percent rank EX as a top initiative for the next year or two. And this is likely because only 16 percent of their senior management have communicated that EX should be a top focus area for HR.

Creating modern employee value propositions (EVP) fared not much better, with only 23 percent of HR executives calling it “very valued” by their enterprise. Indeed EVP is not deemed a top initiative by eight of 10 organizations. However many HR leaders themselves do see it as a critical area for the future, with 37 percent selecting it as among HR’s top three required capabilities.

The prevailing lack of focus on EVP may be explained by the simple fact that EVP remains misunderstood by the broader organization. According to KPMG’s 2018 CEO Outlook study, for example, almost half of the CEOs surveyed still struggle with understanding how millennials differ from other generations.

Further, 45 percent of CEOs said appointing senior leaders who can better relate to millennials is one of their biggest challenges. Perhaps EX and EVP have simply not received enough attention in the C-suite?

Encouragingly, interest appears to be growing — at least among some CEOs, with 38 percent acknowledging the need to reposition their business to better meet the needs of Millennials. Forward-looking organizations are already sharply focused on the employee experience and managing multiple generations of diverse workers. And ideally, the trend towards an increased C-suite focus on the people agenda will continue.

Schneider Electric, with more than 144,000 employees working in more than 100 countries, is one trail-blazing organization “working toward a 21st-century employee experience, something it considers critical for its journey of digital transformation,” says Rachna Mukherjee, CHRO of India Zone for Schneider Electric.

The global company’s forward-looking program is comprehensive, incorporating not only modern employee-development programs but close attention to employee well-being, ongoing communication and an ongoing desire to give more responsibility and accountability to younger employees using a modern, “bottom-up” approach and “reverse mentoring.”

These efforts are ongoing because the company realizes that today’s forces of change are continually expanding in scope and velocity.

“Catering to the changing expectations and demands of today’s and tomorrow’s skilled employees is not dramatically different from what organizations everywhere are already doing today to meet the expectations and demands of their customers,” says Sylvie Brisson, Chief Human Resources Officer with global hospitality giant Club Med. “There’s a clear symmetry that exists between what we want for the customer and what we want for our team members: a seamless and unique experience, notably thanks to digital tools, mobile capabilities and rapid, convenient access to information 24/7,” she adds.

With the stakes for attracting and developing millennial talent at Club Med particularly high, Brisson notes, Club Med is firmly focused on being a leader in delivering an employee experience that truly differentiates it as an employer.

Club Med has been tackling the challenge with the involvement of its C-suite from the outset. And a cross-functional team is in place to ensure “everyone is speaking the same language from the very beginning” as dramatic changes unfold. “We have a short window after hiring to demonstrate that we are agile, collaborative and able to earn their commitment.”

“In this digital age, with the emerging and increasingly fierce war for talent and skills, creating an employee experience that differentiates employers and actually retains talent will be critical,” cautions Claudia Saran, Leader, People & Change Practice, KPMG in the US. “Many HR leaders told us their traditional, task-focused workplace cultures are a significant barrier to true digital transformation. Addressing and quickly closing the employee experience gap needs to be a business priority for HR leaders today.”



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Sylvie Brisson
Chief Human Resources Officer
Club Med



Integrating human and digital labor in a collaborative workplace

Beyond the challenges involving redefined workforces and the application of new skills and a modern employee experience, today's HR leaders need to meet the arrival and proliferation of AI, robotics and machine learning (ML) head on.



But the extent to which these smart technologies will impact the workforce remains open to debate. As we've noted, about 60 percent of our HR survey respondents believe jobs will decline in number, while 62 percent of CEOs we surveyed expect AI and ML to drive up the number of jobs needing to be filled by humans.

Certainly, no one doubts AI and ML will have an immense, even historic, impact on workforces everywhere — with 42 percent in our HR survey agreeing it's the biggest challenge HR will face in the next five years. Of those HR leaders who are not planning to adopt any AI or ML anytime soon, half confirm they are not at all prepared and barely a third feel somewhat prepared. Fewer than one in 10 feel prepared or very prepared for the changes to come.

So what's holding HR back from taking the leap?

According to HR leaders, HR functions who are currently undergoing — or have recently completed — a digital transformation consider capability (51 percent) and capacity (43 percent) to be the key barriers to transcending the initial phases of transformation. Similarly, most CIOs view internal skills as a barrier, with 65 percent in our 2018 CIO Survey citing "a lack of people with the right skills" for preventing their IT organization from keeping up with the pace of change.

Leading HR organizations, however, are losing little time in both understanding the emerging role of digital labor and actively planning how best to integrate digital and human labor within their workforce.

Automating high-volume, repetitive, rules-based tasks using digital labor will free up employees to focus on work that's more strategic and of higher value to the overall business. And with machines needing less supervision and oversight, management will also be free to increase its focus on business efficiency, performance and competitiveness — including customer service.

"The key is to get people skilled so that they are digitally enabled to serve customers," says Natasha Adams, Chief People Officer at Tesco PLC, a British multinational grocery and general merchandise retailer. "People will always play a big part in retail."

HR leaders in the know are making sure their business leaders understand what lies ahead — and what the business will need to look like in the very near future to exploit the full potential of integrated workforces and the new division of labor.

"HR leaders are in the unique position of being able to lead the business conversation on how the world of work is taking shape in the 21st century. But you cannot occupy that space with other business leaders without a deep comprehension of the technology involved," says Susan Ferrier, Global Head of People for KPMG. She states that the positive business impact of digital transformation is magnified with a strong, digitally savvy and influential HR function.

"As a senior HR leader, you need a loud voice, both internal and in the external world, to help design this future. You need to work hard to build a reputation that is founded in generating insight and positive business impact so that you can advocate a position and influence others. That's hard to do if you are working behind the scenes and not always seen to be at the front line of business decision making," she adds.

Ferrier notes that a lack of a strong new HR voice for the ages may explain the slight disconnect involving HR's self-perception as a *core* value driver (40 percent) versus just 24 percent of CEOs viewing their workforce/HR capabilities as *highly effective*.

In today's digital world with its myriad of complex people challenges, HR needs to be seen as a function that is taking the lead on understanding what makes people tick and what culture helps people and organizations thrive so that we create places of work that are a true augmentation of human capability with technology.



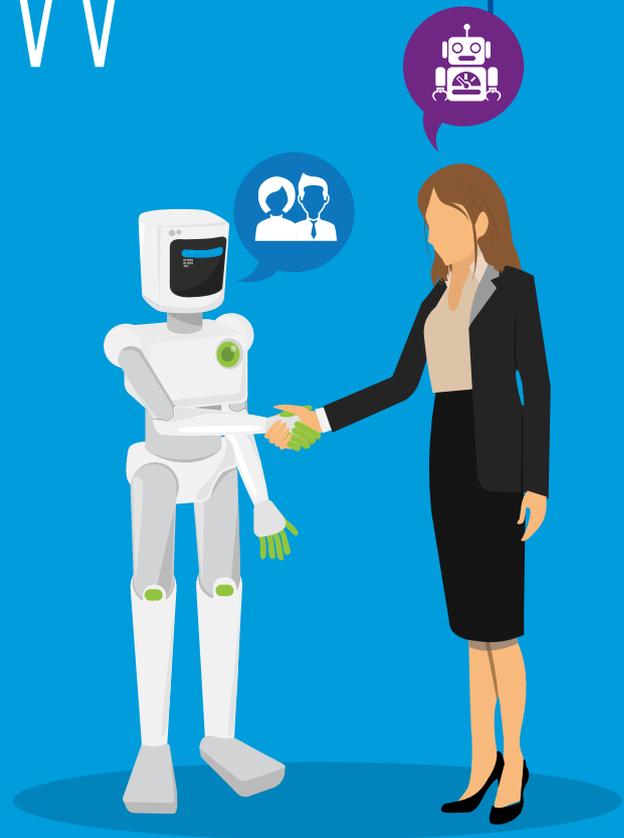
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Susan Ferrier
Global Head of People for KPMG



The Future of HR is now

It becomes plain to see the prevailing gap between those HR leaders confidently riding the wave of change engulfing businesses and those trailing in their wake. And it's worth noting as well the trend we are already seeing in which CIOs and CFOs are casting an eye on the 'people agenda' — until now the time-honored turf of the HR team.



“HR is at a crossroads, the likes of which we’ve never seen. In fact we are now seeing CFOs and CIOs making a play for HR’s territory,” warns Bolton. “CFOs are owning analytics and CIOs are owning total workforce learning and the insights agenda. HR leaders need to act now or they will be reduced to transactional and administrative tasks.”

Our advice to forward-looking leaders and businesses? Focus intently on:

- a new mindset that recognizes the accelerating speed of change in the digital era and how it is dramatically rewriting the rules for future success;
- reshaping the HR function — and its value to the business — using technology and new skills that can exploit the significant value and competitive advantage of data and analytics;
- recognizing and embracing workforce shaping as critical to success in creating and sustaining the workforce of the future;
- pursuing a deeper understanding of employee skills, strengths, goals and purpose while creating custom-made employee experiences. Recognize the immense value of EE and EVP to future success and competitiveness — and place it high on your change agenda (and convince the C-Suite);
- preparing for the advance of AI/ML and its integration into a collaborative future workforce that combines human and digital labor;
- valuing employees as ‘customers’ in the increasingly digital, global and agile world of work, embracing technology to increase connections and supporting an overarching people agenda as tasks and roles are redefined.

Suffice to say, HR teams leading the way — and, by extension, the organizations in which they work — recognize that the future of HR is now.

Data and analytics — a cornerstone in the future of HR

Data and analytics capabilities are critical to shaping and intelligently managing the workforce of the future. Forward-looking businesses are already exploiting data’s unprecedented capability to dramatically improve decision-making and predict behaviors and outcomes.

But as our survey revealed, analytics initiatives remain a low priority among HR leaders and their businesses — ranking next to last among 10 potential HR initiatives. And this despite more than half of respondents citing analytics as a key skill needed for optimizing the integration of AI/ML and over 80 percent agreeing that HR can provide value through analytics.

What are leaders in this area doing that other businesses should find instructive?

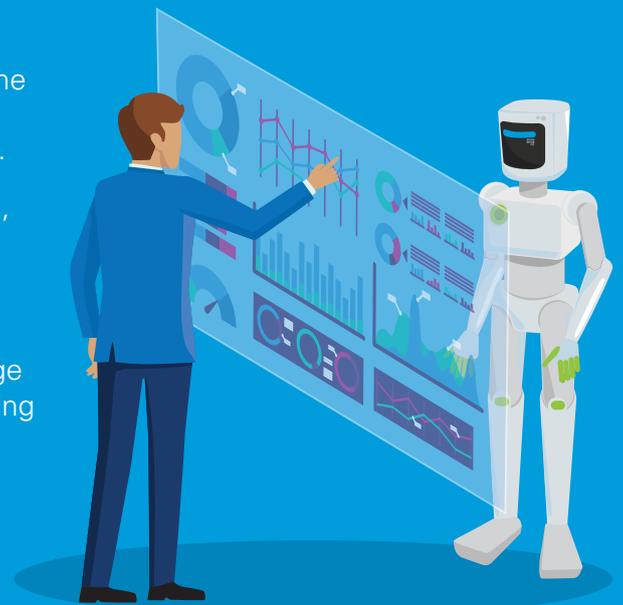
Club Med, for example, is tapping into data and analytics to better understand how each employee contributes to the organization, measuring performance while also enhancing workplace training to address gaps or improve service. Club Med is also digging deep into data for key insights on employee satisfaction, job turnover and retaining top talent.

“We try to understand the profile of those who stay and succeed, so we can do a better job recruiting and retaining the best people,” says Sylvie Brisson, CHRO, Club Med.

What’s clear is that leaders in HR transformation are making the best use of D&A both to improve HR’s value to the business and to increase the organization’s overall competitiveness in the race for the best and brightest employees.

Johanna Söderström, SVP HR at The Dow Chemical Company sums it up well:

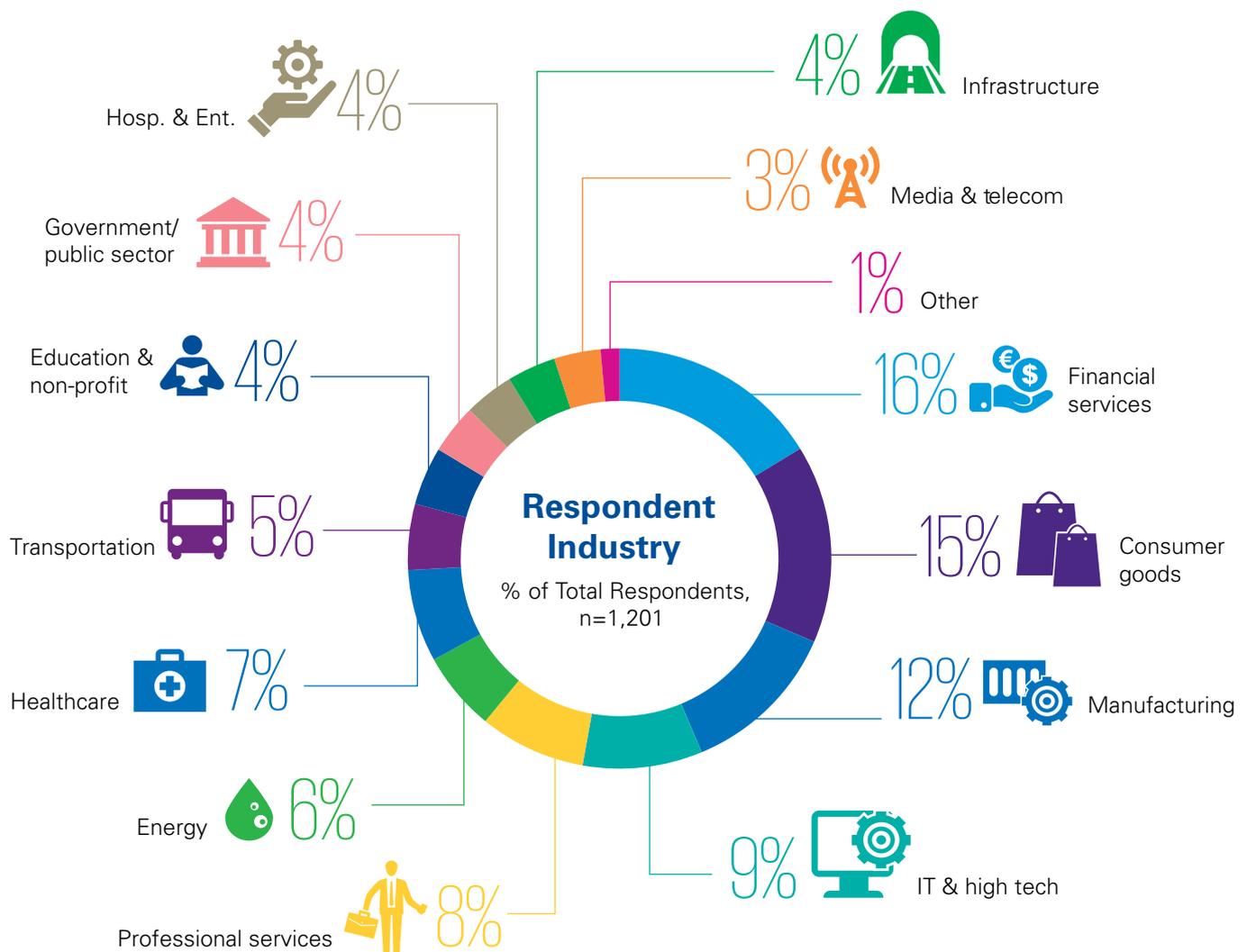
“HR is beyond the age of “trust me” and being the keeper of data.”



About the survey

During July and August of 2018, 1,201 senior HR executives from 64 countries participated in the Future of HR Survey, with representation from 31 industries across Asia Pacific, Europe, North America, Middle East/Africa and Latin America. Approximately half of the sample are companies with a headcount of 5,000 or more employees and 42 percent of participants are from organizations with revenue of 1 billion. This year's survey offers insights about the future of the HR function against a back-drop of digital disruption.

Demographics Industry



Company Footprint



Revenue (in USD)*

% of respondents
(excluding education/non-profit
industries), n=1,129



42%

\$1 billion or more



26%

\$500M — \$999M



31%

Less than \$500 million



Enterprise Headcount**

% of total respondents,
n=1,201



43%

5,000 or more



35%

500 to 4,999



20%

Less than 500



Human Resource Headcount**

% of total respondents,
n=1,201



31%

100 or more



21%

40 to 99



40%

Less than 40

*Not collected for education/non-profit industries

**Don't know/unsure not shown

How KPMG can help

Every market leader understands that talent unlocks competitive advantage. But workforces and workplaces are changing — along with employer-employee relationships. You may need to invest in disruptive technology, acquire critical new skills, introduce artificial intelligence, or reshape your employee experience and workplace culture. It's all about driving your business forward in new ways. At KPMG member firms, our HR consultants understand these challenges and opportunities and are working shoulder-to-shoulder with businesses like yours every day. We're delivering the experience, research and industry expertise organizations need to define the Future of HR — now. It's a digital world but people still make it turn. They will remain your most-important investment, your greatest asset and the secret sauce in your brand.

For more information, we encourage you to contact any of the contributors listed in the publication or your local KPMG member firm.



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