



Cloud HR: the future belongs to the bold

**Hoping for transformational
benefits from Cloud HR will
not deliver them**



KPMG International

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Survey insights
provide a timely

tale of caution

Digital disruption. Globalization. Redefined business models. Changing demographics. Growing talent wars. Regulatory compliance.

Businesses today are battling an array of complex and often unprecedented challenges, and cloud computing has unleashed game-changing new capabilities to respond competitively.

But many organizations looking to the cloud's immense capability to transform the HR function are discovering a stark new reality, according to KPMG's 2016 Global HR Transformation Survey. Optimism over the cloud's game-changing potential is receding as many HR leaders realize that simply plugging into cloud systems will not deliver data-based insights, smarter decision-making, real value for the bottom line or anything resembling true HR transformation.

This report on KPMG's HR Transformation Survey provides today's HR decision-makers with a timely tale of caution that illustrates an uneven change landscape, one dominated largely by unmet expectations among organizations pursuing cloud computing's revolutionary capabilities to redefine HR.

At the same time, this survey also reveals that some firms are indeed meeting expectations to redefine HR by relying on a strategic approach to change management that generates a broader and deeper range of transformational benefits.

Investment in cloud HR continues to grow at an exponential rate and the survey shows that a growing number of HR executives who have selected new HRMS technology are opting for cloud-based solutions, while others say they are studying options and could opt for cloud. That's good news for businesses being engulfed by advances that are reshaping markets, business models, workplaces and skills requirements at a pace that often overwhelms traditional HR systems and operating models. Properly implemented and managed, cloud HR can propel organizations toward next-level savings, efficiency and decision-making while providing unmatched agility to respond to new needs as they emerge.

Cloud computing offers tremendous opportunities to revolutionize the traditional HR function by further automating transactional activities and processes, driving smarter decisions via data and analytics, supporting talent management activities and repositioning HR overall to contribute to business strategy and the bottom line.

Strategic, cloud-based change programs are already helping many businesses forge formidable new competitive advantages.

Benefits of Cloud

Connecting people, processes and technology is creating competitive advantages for organizations that are well down the road to revolutionary change in their HR function. Cloud-based HR delivers game-changing new capabilities that include:



Fast and affordable deployment compared to legacy HRMS



An intuitive user experience



New levels of accessibility to enable greater workforce mobility



Smarter decision-making via data and analytics and cognitive computing



Scalability, flexibility and continuous functionality upgrades



Cost and workforce efficiencies



Overall, a more strategic HR function delivering new value to the bottom line

“Cloud is just a tool”

“The incredible pace of change requires us to do much more to anticipate what’s ahead and to respond with a sense of urgency so that we stay ahead of the change curve as workforce and business trends continually evolve,” says Fiona Cicconi, executive vice president, HR, at biopharmaceutical company AstraZeneca, with operations in 100 countries and a workforce of about 60,000 people. “Our implementation of cloud technology has brought great value, but at the end of the day, cloud is just a tool. You need the right processes, skills, culture and behaviors in place for successful change.”

Many businesses, however, are mistakenly relying on a transformation approach that, while exceptionally quick and relatively cheap, is also destined to under-deliver. What’s missing is a clear vision for the future of HR combined with innovative change management that will bring that vision to life by integrating people, processes and technology. Lacking these critical elements for success, many firms have

embarked on a transformation journey that could be long, costly and ultimately unfulfilling.

“HR leaders and enterprises have big plans to spend money on new technology, but there’s a ‘so what’ quality to their approach that’s raising significant questions about who the winners and losers will be in a game that has high stakes for the future,” says Robert Bolton, Partner, Global HR Center of Excellence, KPMG in the UK. “It’s a choice: How purposeful about transformational benefits do you want to be?”

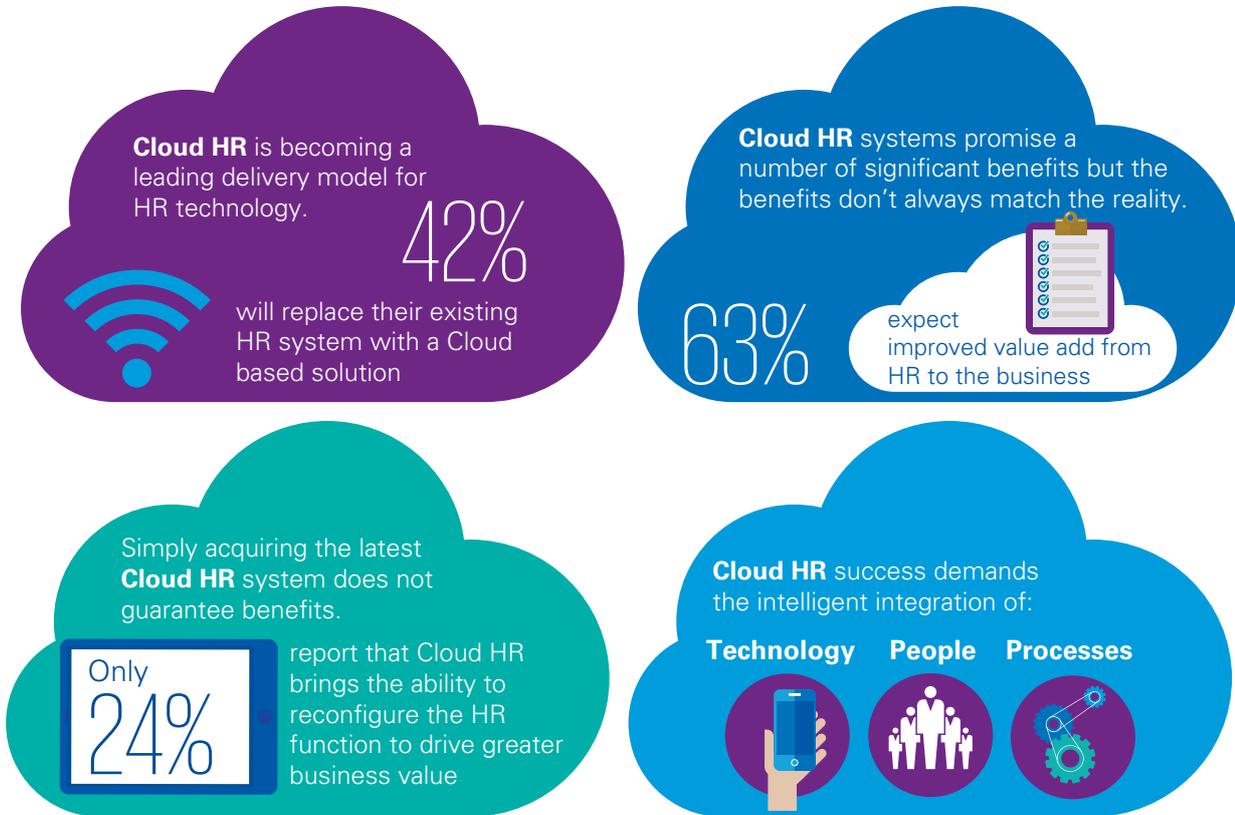
Today’s HR function can continue on as a cost center that relies on outdated practices — or it can break into the 21st century delivering data-driven insights, smarter decision-making and significant new value for the bottom line. Such progress will require businesses to transcend the gap between knowing what’s needed and doing what’s needed for real progress.



From the outset, we’ve established that our **HR transformation journey** is about **policy, process and people**,” says Karen Rusby, Head of HR Executive Office and Group Head of HR Capability for integrated oil and gas giant BP. “Those are our three key areas of focus and we have been very rigorous in how we are managing each stage of our **HR modernization agenda**. That includes paying very close attention to cultural change, to consider not only the impact of changing technology and delivery methods and processes, but also cultural change in terms of how people will work and use **new technology to operate differently and more effectively**. We have gone as far as setting up a culture change program team that aligns with our overall HR modernization program.



Cloud HR: the future belongs to the bold



To achieve the greatest benefits from Cloud HR systems, leading organizations successfully integrate people, processes and technology to create a value-driving HR function.



Source: *Cloud HR: the future belongs to the bold* report, KPMG International, 2016. During February and March of 2016, 854 executives from 52 countries participated in the HR Transformation Survey (formerly the Towers Watson HR Service Delivery and Technology Survey).

The journey to success will cover some ‘hard yards’

Businesses need to overcome the common impulse of simply plugging into new technology while avoiding what Bolton calls the ‘hard yards’ of reimagining what HR should deliver to the business and how it should go about doing so.

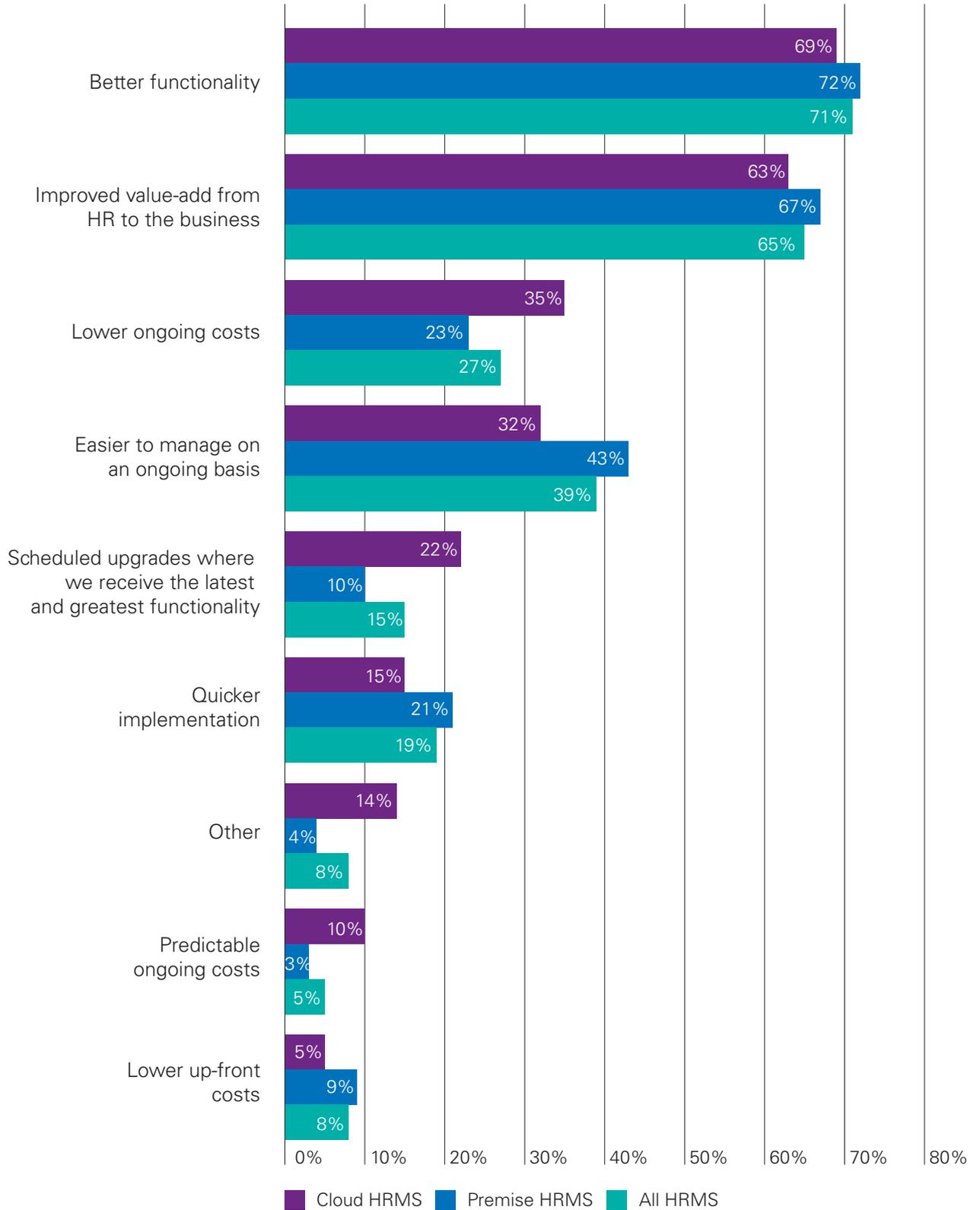
“Our HR transformation has been very positive to date, but it certainly has not been a matter of simply plugging into new cloud technology — far from it,” says Julie Scott, COO of group HR at global insurance and asset management firm AXA, which operates in 64 countries with 166,000 employees serving 103 million clients. AXA’s staged rollout of Oracle Fusion involves a comprehensive four-year strategy that began in 2014. “Our adoption of cloud was initially an IT project — today, it’s a very thorough change-management exercise. We are looking at a much broader HR transformation project today because the

business absolutely needs the HR function to be much more strategic in the future.”

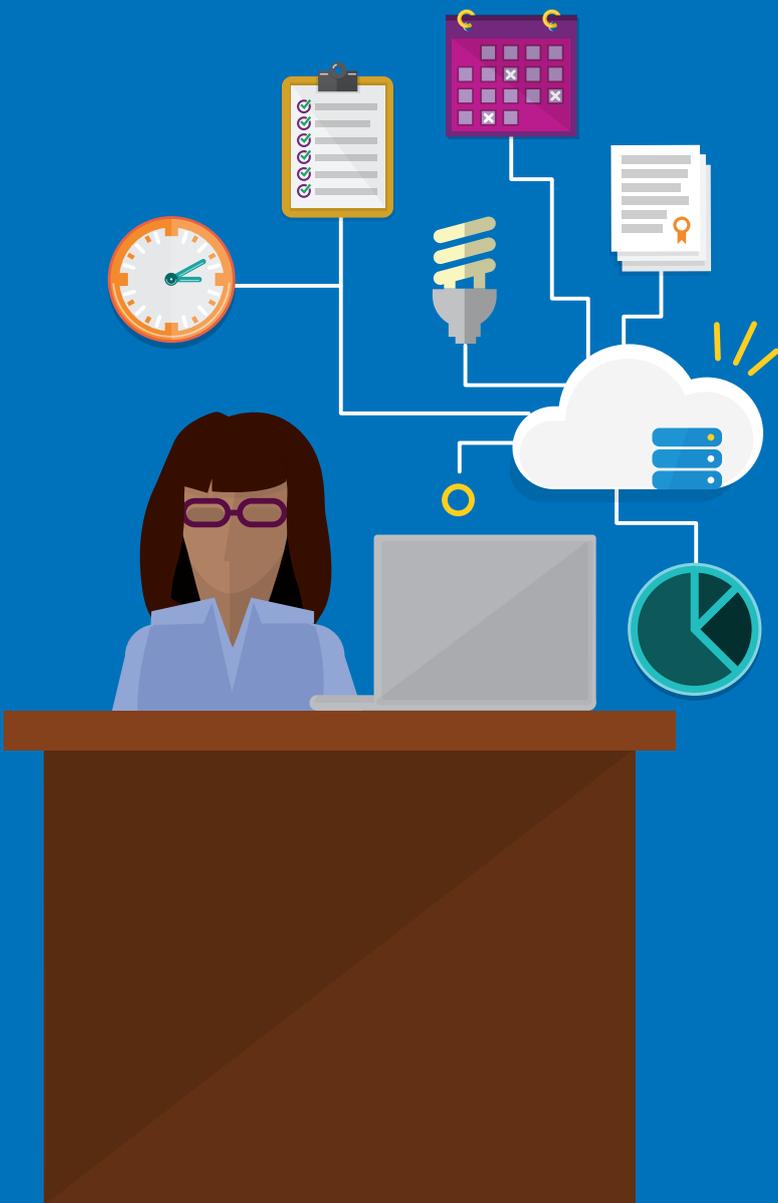
Investing in cloud technology, along with improved data and analytics programs, are the most common HR initiatives among organizations, the survey shows. Organizations often seek ‘tangible’ benefits — such as improved talent management and HR processes — in top technology investment areas.

Among the benefits anticipated from cloud-based HR, 69 percent of organizations said they looked forward to better functionality and 63 percent expected a greater ‘value-add’ to their business from HR.

Benefits from new HRMS



Source: *Cloud HR: the future belongs to the bold* report, KPMG International, 2016.

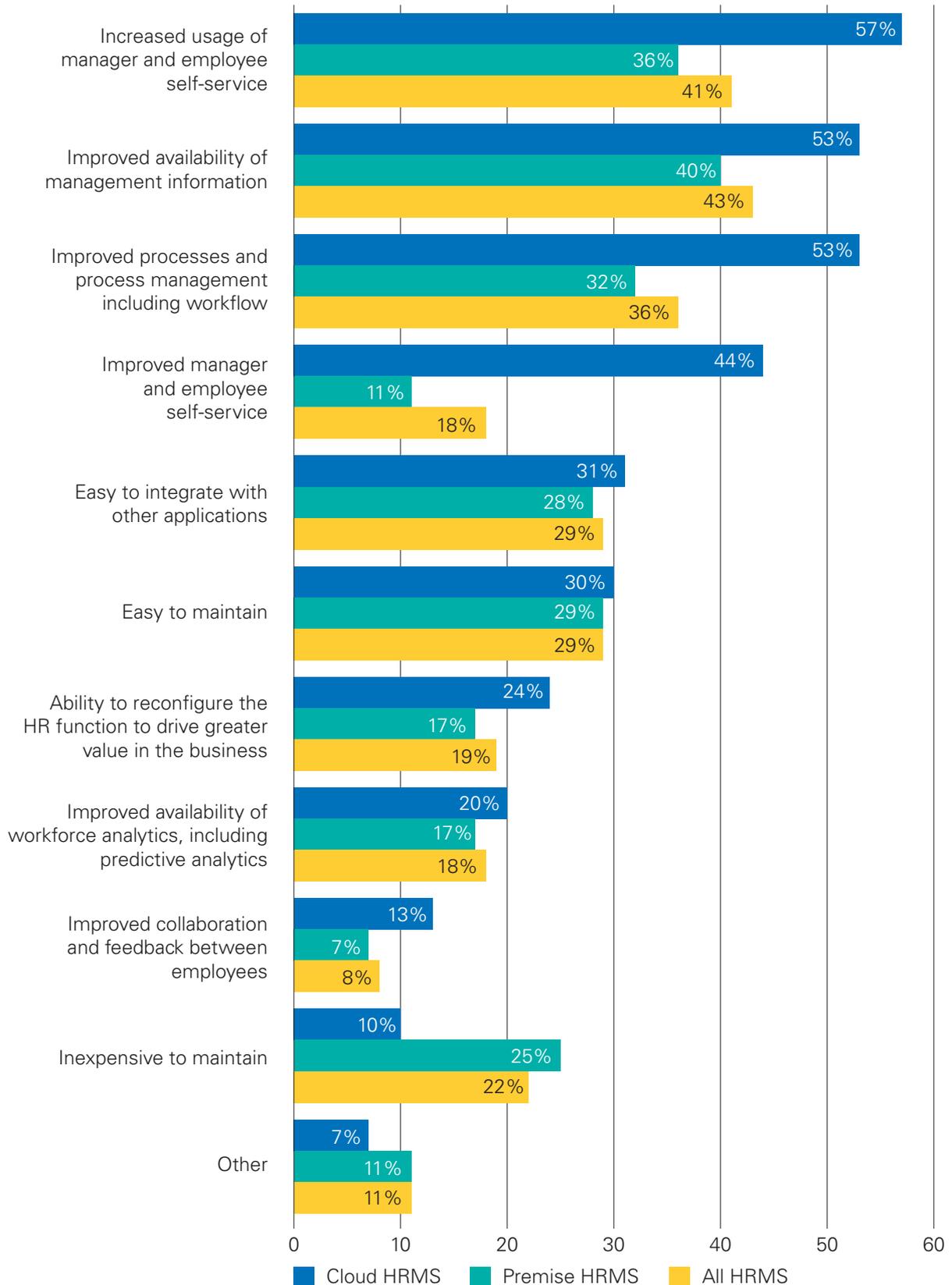


Strategic transformation takes HR from

'steward' to 'strategist'

Despite expectations for cloud HR to deliver new value to the bottom line, the majority of benefits being realized with existing cloud HRMS implementations are more tactical in nature. That includes increased use of manager and employee self-service (57 percent) and improved processes and process management including workflow (53 percent). Somewhat more strategic is improved access to management information (53 percent). It is important to note, however, that for each of these three benefits, respondents using cloud-based HRMS scored them between 14 and 21 percent higher than those using legacy, on-premise HRMS systems. Fewer than one-third of respondents using cloud and on-premise HRMS cited easier integration with other applications or the easier system maintenance that they expected as a benefit.

Benefits – existing HRMS



Source: *Cloud HR: the future belongs to the bold* report, KPMG International, 2016.

Less visible improvements, that add real value to businesses, are largely failing to materialize, such as becoming more evidence-based and using data and analytics for smarter decision-making; or moving beyond the generic Ulrich model to highly strategically aligned HR structures. Only 24 percent reported that cloud HR is delivering an ability to reconfigure the HR function to drive greater value, while only 20 percent reported the HR function becoming more evidence-based via workforce analytics. Meanwhile, merely 13 percent reported improved collaboration and feedback between employees.

However, 44 percent of cloud HRMS users cited improved manager and employee self-service versus 11 percent for on-premise HRMS.

The survey shows that firms struggling to generate effective change appear too focused on investing *only* in HR technology. The mind-set is to procure only the technology solution and deploy it with minimal impact on the business. Meanwhile, companies dedicating the time and resources to planning and deploying strategic change programs aimed at transforming HR to deliver real value say they are deriving success and satisfaction. Their level of satisfaction as reported in our survey is also higher than that of organizations with little or no investment in change-management capability.

“We’ve changed what HR was about — shifting the emphasis from ‘steward and operator’ to ‘strategist and catalyst’ — and we are now focused on building a more agile organization that can anticipate and respond quickly to changes driven by customers, markets, competitors, regulators and technology,” says Paul Tarlinton, director of

People Solutions & Change at Australia’s AMP, a leading specialist wealth management company. “The organization today is engaged in an ongoing shift in the HR function, from personnel management to business enablement, giving HR a more strategic, commercial and general management role at the group leadership table.”

Firms surveyed said that real-time, reliable human capital information was essential in turning data into information and knowledge. New cloud-based technologies that can integrate analytics with the core HCM functionality certainly provide critical management information at the touch of a button — if the organization has spent the time to cleanse and transform their data.

But today’s remarkably capable systems won’t automatically connect the ‘people data’ to other useful business data. Only by connecting people data to other types of key data — for example, employee engagement, customer sales or customer satisfaction data — can HR begin to generate productive business insights, predictive capabilities and real value. And even with the most connected of databases, HR still needs the skills to translate the information into actionable insight, and to engage stakeholders such that they want to do something about it.

Many HR teams today, often with the collusion of IT and procurement, appear content to follow the path of least resistance, plugging into the cloud and hoping for the best. Reality typically strikes within months of deployment as anticipated new benefits fail to materialize.

‘Paint a clear picture’ of what your future will look like

“Without understanding the business outcomes you are trying to achieve, cloud technology projects can turn into an expensive exercise delivering very little value,” says Patrick Fenton, head of KPMG’s Cloud Transformation Practice, KPMG in the UK. “You need to paint a clear picture of what the future should look like and then address the diverse elements that need to be in place to generate the effective change you are seeking.”

Banking giant Mizuho Financial Group, one of Japan’s largest financial services companies with more than 750 branches and offices in Japan and about 120 in other countries, is preparing to embark on a particularly complex and challenging transformation journey. The Japanese financial group (bank, securities company, trust bank, asset management and think tanks) currently operates a ‘multi-system’ approach for HR and talent across the globe.

“Our HR transformation requires us, to some extent, to integrate our legacy systems, as well as harmonizing our different approaches to HR and talent across all of our

operations in different countries and different businesses,” says Debra Hazelton, General Manager at Mizuho’s Global Talent Acquisition and Development department in Tokyo. The Japanese banking giant currently operates one centralized HR system in Japan, while HR in the rest of its global network consists of a multi-system environment of disparate HR operations scattered among 120 offices and branches.

“Creating a new way of managing and developing talent globally will involve the very complex challenge of changing the embedded cultural and behavioral ways of working across our different businesses and countries. Linking our people strategy to our business strategy and proactively managing the change throughout the journey will be absolutely critical to our success. We are in the early planning stages and, ideally, a cloud-based HR system will best enable our transformation and provide greater speed, flexibility and analytical capability. Creating a less siloed approach that drives collaboration and global connectedness and helps us better serve our customers and employees will be a breakthrough for us.”



Intelligent change
management is not

optional

for success

Why are some enterprises failing to take a strategic approach that will help them meet expectations for improvement and progress?

The reasons vary and include the common impulse to implement technology as quickly, easily and cheaply as possible, while dismissing as optional to success the critical need for well-planned change management.

Experts also cite a wariness — or outright fear — of the ‘T’ word itself — *transformation* — and all that it implies in terms of time, costs, planning and, ultimately, dramatic change for people and processes.

The result? ‘Transformation’ creeps cautiously forward, more as an evolutionary or incremental process that’s less likely to disrupt existing HR cultures and their long-held practices and policies.

“Technology itself, as we know, is a tool and an enabler. The desired outcomes of a transformation require as much attention on the people, processes and structure, as well as the technology,” says Girish Ganesan, Vice President and Head of Global HR Client Services for Manulife, which launched Workday five years ago to enable HR transformation and support the company’s focus on global growth and the need to leverage a global talent pool.

“While our transformation had a broad agenda, the fundamentals remained the same: delivering high-quality HR

service that is aligned with the needs of the business; doing it in a way that most efficiently leverages internal and external capabilities; and measuring results to ensure we were moving in the right direction.”

Contributing to the ‘plug-and-play’ trend is the relative ease of adopting cloud technology. It’s quick to fire up, it’s intuitive to use, and HR departments can launch cloud services without the usual hands-on intervention or support of the IT team. But this simplistic approach is failing to deliver a full range of value-driving results and, as some businesses lose ground, they’ll need to demonstrate a greater sense of urgency to catch up — or risk being left far behind by the competition.

Moreover, we are seeing a number of clients who have taken this low-key approach to cloud HCM deployment and have then needed to initiate a second wave of more fundamental, value-driving change as initial expectations about what the technology would deliver are not realized.

Some HR functions are ‘hitting the wall’

“Unfortunately, in the ‘marathon race’ of cloud-based HR transformation, HR functions are ‘hitting the wall’ and getting stopped in their tracks by an inability to move forward competitively,” says Michael DiClaudio, Principal, Advisory, KPMG in the US. “HR functions typically are finding themselves with technology that can provide data but are unable to translate that into insights. Strategic transformation can deliver a much-needed shot of energy and focus as organizations seek to make complex issues manageable — and there’s no time to waste.”

A highly strategic approach to transformation has helped Swiss Re Group establish a solid foundation for progress. “Over the last years, we defined a new strategy for our HR function and we now have the clarity needed to bring this strategy to life,” says Nigel Fretwell, Chief Human

Resources Officer at Swiss Re Group, a global wholesale provider of reinsurance and insurance services with offices in 25 countries. “We have a strong foundation to build on, which allows us to focus on creating true value for the business and preparing Swiss Re for the ‘Future of Work.’ We’ve moved HR beyond managing costs, client satisfaction, risk control and employee engagement to look to the future.”

AXA’s HR transformation leader Scott says taking a careful, detailed, strategic approach has been critical to that HR transformation success to date. AXA’s change program has included new governance across HR to drive transformation.

“That has made a huge difference in making decisions effectively and moving forward quickly,” Scott says.

“We expect HR transformation to provide tremendous value to AXA’s business and in meeting our business objectives.”

AXA expects its entire organization to be fully cloud-based by 2020, with key functions that include strategic workforce planning, performance, talent and compensation reviews and predictive analytics.

AXA’s extensive change-management program includes ‘change champions’, a network of employees who are trained to use new processes and tools and then share their new skills with other employees. AXA has also created a comprehensive staff tool kit of intuitive templates, methodologies, instructional videos and information resources for each stage of its change process.

“It’s still early days, but we are seeing very significant benefits in our HR transformation,” Scott says. Simple tasks are being accelerated by the implementation of Fusion. For example, the approval of leave could take a manager three or four minutes in the past but now takes a few seconds. For a call center manager with hundreds of employees to manage, that level of convenience and speed will provide huge benefits.

AstraZeneca’s expectations for effective transformation have also been realized since rolling out Workday about one year ago, and the company credits that success to its overarching strategy.

“Our expectations have definitely been met and in some ways exceeded in terms of streamlining processes,” says AstraZeneca’s HR leader Cicconi. “The technology and data are remarkably user-friendly and intuitive. We’ve increased the accessibility of data and have far greater mobility as a workforce. Every decision we make is now backed by really solid data that supports it.”

AstraZeneca’s approach included a very strong steering committee and involvement throughout by leadership and stakeholders who had a strong sense of urgency to get it right. Taking a very strategic approach to what was viewed as a major change project proved instrumental to success.

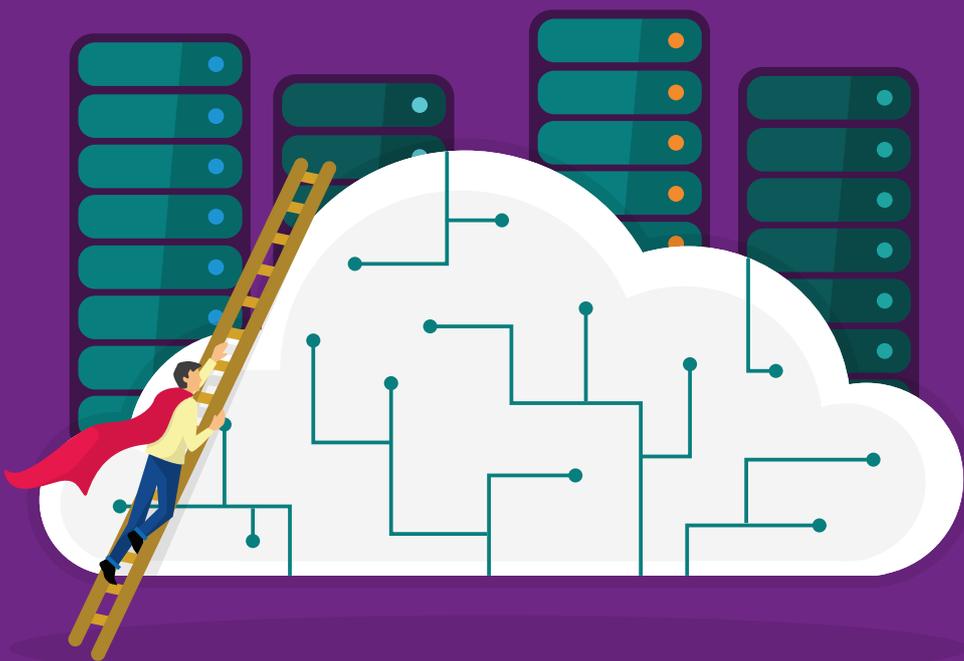
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”

— **Girish Ganesan**

Vice President & Global HR Client Services Head, Manulife



'You need to be bold'

to complete the
journey

What can we learn from this survey?

It's clear that organizations embarking on transformation need to map out an ambitious and comprehensive picture of their destination and the road that will get them there.

“

Taking a change-management view that went far beyond simply plugging into new technology, in order to consider future processes and roles and skills, was crucial to our success, and I can say that our entire HR function and business are in a much better place today as a result.

”

— **Fiona Cicconi**
Executive Vice President, HR,
AstraZeneca

Firms need to ask themselves searching questions that will demand honest answers if real progress is to be made. What is the best target operating model to execute the ‘people’ agenda? What is the transformation strategy? How do people drive competitive advantage in our business? What is HR’s role in driving competitive advantage? How will we exploit workforce analytics? What new skills and capabilities will be needed in HR? How will they be acquired and integrated? What will the redefined role of employees and managers look like? How will success be measured? Answers to these questions and many others will be crucial to reshaping HR for the future.

“Taking a change-management view that went far beyond simply plugging into new technology, in order to consider future processes and roles and skills, was crucial to our success, and I can say that our entire HR function and business are in a much better place today as a result,” says Cicconi at AstraZeneca. BP’s Rusby says the participation of company leadership has been a key to success during BP’s five-year HR initiative extending to 2020 and covering more than 70 countries and 80,000 employees. “A decision we took initially was to include BP’s HR and business leaders in creating the new world that we would all eventually be operating in. BP’s executive leadership team has been fully behind what we are doing, and that has been critical to our success in modernizing HR for the future.”

Manulife’s Ganesan stresses the wisdom of treating HR transformation as an ongoing pursuit. “Don’t assume that your transformation journey is over just because you have an operating model in place. HR transformation is not an end state. The destination is constantly shifting as business requirements and market conditions change, and as the expectations and capabilities for HR transformation continue to grow. At Manulife, the focus for HR continues to be what is next, and what can be done to define the future. From the change-management perspective, transformation is a marathon, not a sprint, and it continues.”

Swiss Re’s Fretwell shares the insight that HR transformation is “hard work” and there is no “silver bullet” for instant success. Swiss Re is using a new cloud-based human capital management system to significantly improve financial performance, risk mitigation and client experience. This has required time, energy, vision and an unwavering determination to execute according to plan.

“You need to stay strong because the business understandably wants everything to happen tomorrow,” Fretwell suggests. “HR transformation and building for the future takes time and, along the way, you need to be delivering tangible steps. That’s not always easy and it puts a massive strain on the HR function. We have pushed the organization but if we hadn’t gone at that pace, we would not be ahead of our competitors — which I believe we are today. You need to be bold.”

KPMG offers the following suggested best practices for successful HR transformation

- 1** Start with a solid vision: The HR transformation journey needs to begin with a very clear vision of your desired destination. Never build out from the current state, or you will never achieve a significantly different level of value-add to the business from HR.
- 2** Success is not automatic: Don't expect the HCM technology, no matter how new or leading-edge, to automatically deliver the transformational benefits you are pursuing. Realizing those benefits requires precise planning, resources, energy and time.
- 3** Change management is crucial: The need for strategic change management is more critical with cloud HCM solutions than with traditional ERP programs because changes via cloud can be surprisingly fast and far-reaching.
- 4** Data insights demand expertise: Even with embedded workforce analytics available at the touch of a button, delivering analytical insights that businesses can act upon requires new processes, roles and skills. This is particularly true in relation to the role of the HR business partner.
- 5** Don't ignore HR skills: Rethinking the operating model of HR often requires new skills and roles. The learning and development agenda for the HR function is too often overlooked. Again, the role and skills of HR business partners should also be a key focus here.
- 6** Collaboration is key: Don't expect line managers to immediately adopt an enhanced role in relation to people management using the HCM solution. It requires strategic change management if they are to become advocates for a new way of working.
- 7** Challenge the status quo: Alignment to a standardized, simplified and global HR process model requires challenging the status quo. Except in cases involving regulatory, business revenue, profit or legislative considerations, differences to a standard process model must be vigorously challenged.
- 8** Be bold: Businesses typically want change to happen quickly, but effective transformation takes time and puts a strain on the HR function along the way. Stay the course and deliver tangible improvements that will keep the change process moving toward success. Effective transformation is not a sprint; it's a marathon.

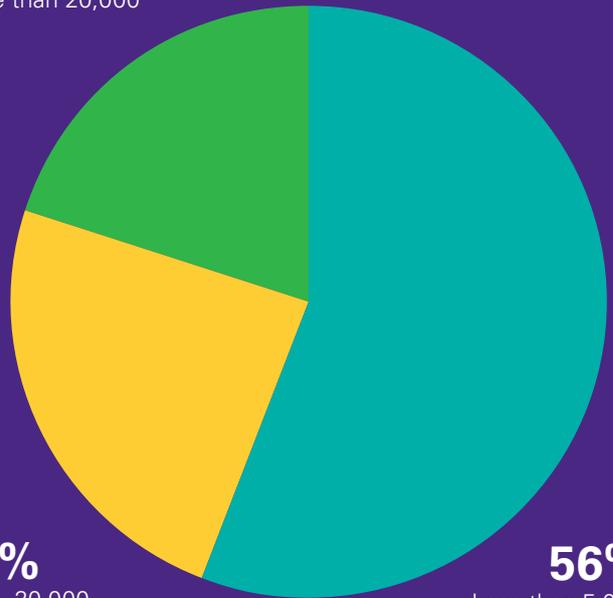
About this Survey

During February
and March of 2016,
854 executives
from
52 countries
participated in the
survey.

Survey respondents by organization size

20%

More than 20,000



24%

5,001–20,000

56%

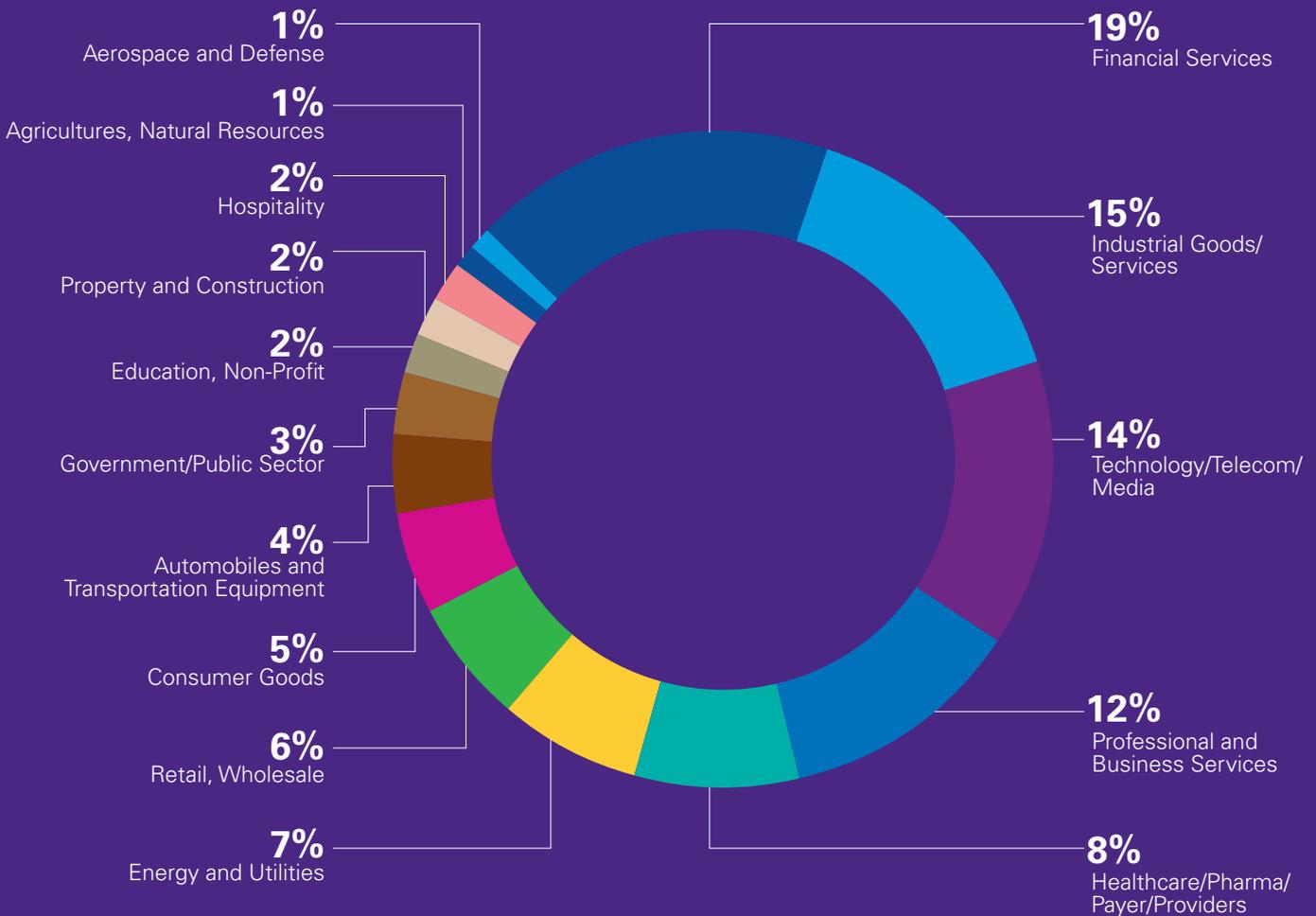
Less than 5,000

Source: *Cloud HR: the future belongs to the bold* report, KPMG International, 2016.

During February and March of 2016, 854 executives from 52 countries participated in the survey. One-half of respondents were from companies that operated at a global level. Respondents represented a wide cross-section of industry sectors, led by Financial Services (19 percent), Industrial Goods and Services (15 percent), Technology and

Telecom, Media (14 percent) and Professional and Business Services (12 percent). Forty-four percent of respondents were from organizations with more than 5,000 employees and 40 percent were vice presidents and/or heads of their organization's HR function. This marks the 19th consecutive year that this market study has been conducted.

Survey respondents by industry



Note: Percentages may not equal 100% due to rounding.
 Source: *Cloud HR: the future belongs to the bold* report, KPMG International, 2016.

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