

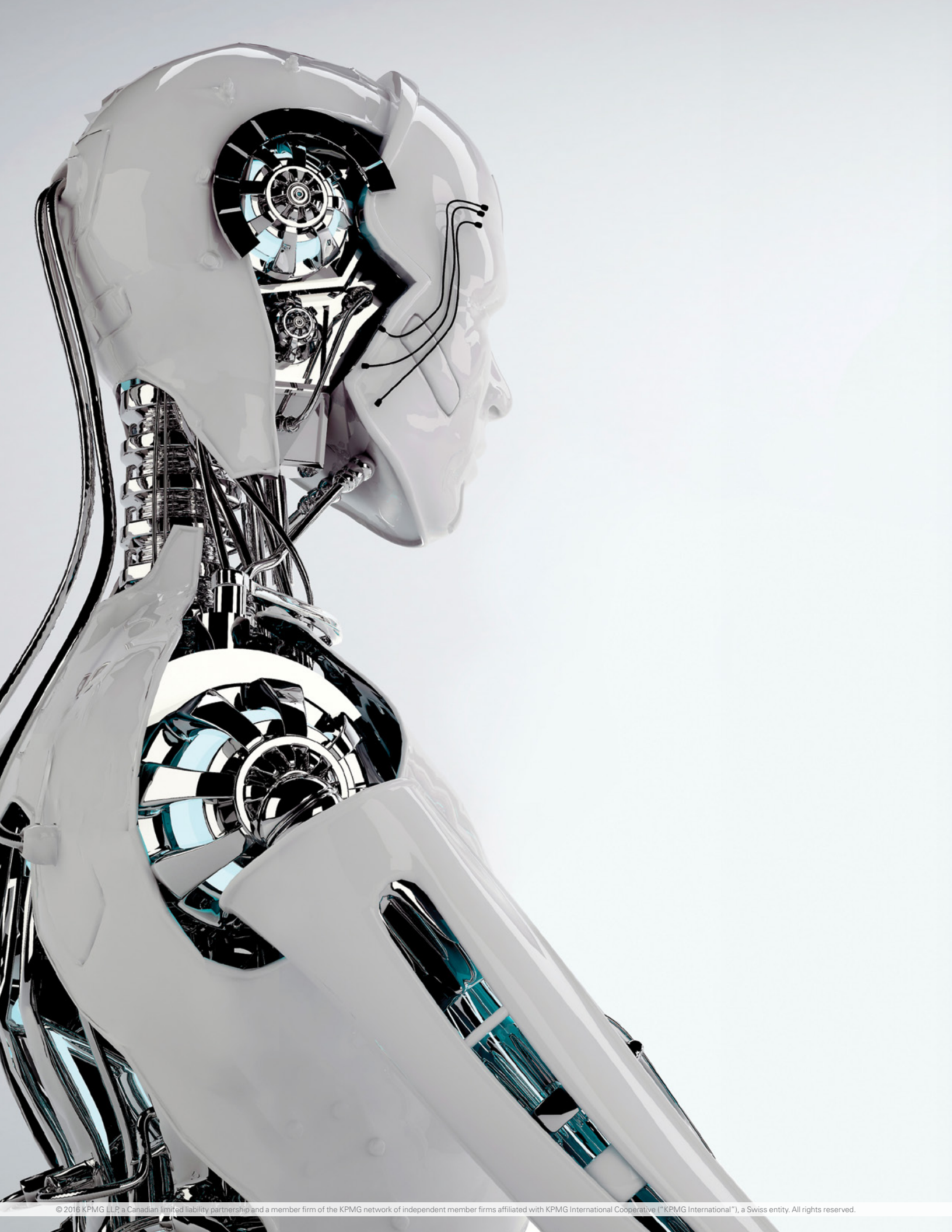


The Evolution of HR

Canada's HR Transformation

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Introduction

It's a brave, evolving world for Human Resources (HR). Roles are changing, expectations are rising, boundaries are blurring, and organizations are charting new and more complex territory. These factors are transforming the HR function and positioning HR professionals as strategy partners at the leaders' table.

The HR transformation has been a long time in the making. In recent years, it has been accelerated by workforce trends (e.g. telecommuting and mobile workforces) and generational challenges. It has also incorporated the rapid advancement of automation, cognitive processing and artificial intelligence (AI). The impact of increasing regulatory burdens along with their security, fraud, and risk implications has also been felt.

At the same time, HR is being challenged to attract more informed and sophisticated talent who are, in turn, assessing employers on their social, economic, and corporate values.

Balancing these objectives is nothing new. Yet while HR professionals are ready to assume a more integrated role, almost two-thirds of Canadian executives say they have no plans to make changes to their HR operating or service delivery model in the near future¹. Surely, capable leadership and a 9-to-5 workforce might be enough to survive in the short-term, but ignoring the advantages of a more integrated HR department means capping an organization's potential.

The next years will be transformative for all company players. However, it's an exciting journey ahead for HR professionals who have the support and tools to go the distance.

¹ KPMG's 2016 CEO Outlook Survey

Table of contents

04

**The next
generation of HR**

12

**When the
good go bad**

06

Embedding D&A

13

**Managing
digital labour**

08

**Technology:
the ultimate
integrator**

14

**Transformation
fatigue**

11

**Culture
club**

16

**The next steps to
HR transformation**

The next generation of HR

The next generation of HR is here. Growing in today's business environment demands recognition of the importance of the HR function, and enabling HR professionals with the people, processes, technologies, and latitude to become the vital integrators and *instigators* of much-needed change.

That said, building the right team has never been more challenging. The competition is fiercer, the demographics more complex, and talent with the right capabilities and mindset are in scarce supply.

According to KPMG's 2016 *CEO Outlook Survey*, 43 percent of Canadian CEOs rank the acquisition of talent as one of their top three growth strategies, and one-in-five plan to make talent development and management a strategic priority. Moreover, virtually all Canadian executives are planning to increase their headcount by more than 3 percent over the next three years, and many of those will be relying on stronger workforce cultures and capabilities to achieve their growth objectives.²

HR departments have a role to play in all of these objectives. First they must emerge from their traditional silos as business drivers and leaders.

However, but even before that, they must be given the chance.

Many Canadian CEOs are on board with HR transformation, but they do not represent the majority. In *KPMG International's HR Transformation Survey*, only 48 percent of HR leaders in Canadian organizations say they plan to change their HR structure to achieve benefits such as greater efficiencies, quality improvements, and cost savings. Just over one-half (51 percent) of organizations also reported having a single HR function for their entire enterprise, while 26 percent aligned HR functions by business with corporate or central oversight, and 23 percent split their HR functions geographically.

The will to transform HR is there, but it can be stronger. HR can therefore turn the tide by demonstrating their value as integrated business drivers. To do so, they must focus on capabilities that allow them to better understand how the business

works, and what it hopes to achieve. Moreover, they must understand how those objectives can be enabled through a stronger culture and employee experience, more relevant performance management, more streamlined and agile processes, and effective and responsive leadership.

The core of a company's potential is its people. As such, HR's role is crucial in shaping the organization's culture, focusing its vision, and defining its path.

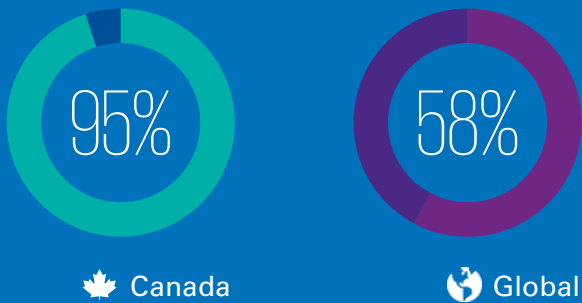
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² KPMG's 2016 CEO Outlook Survey

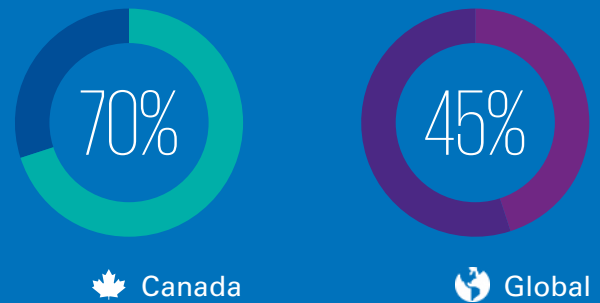
This generation of HR isn't so much about structure, but about the capabilities, mindsets, and influences HR can bring to business leaders that will really help to shape the success of their organization.

Why organizations are changing their HR structures

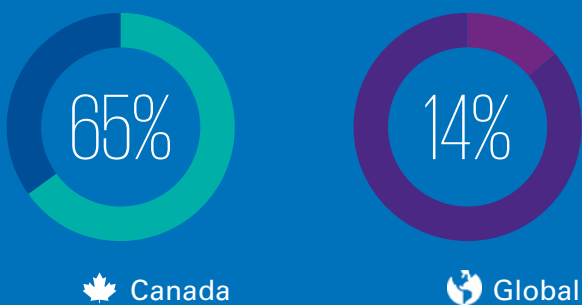
Realize further efficiency



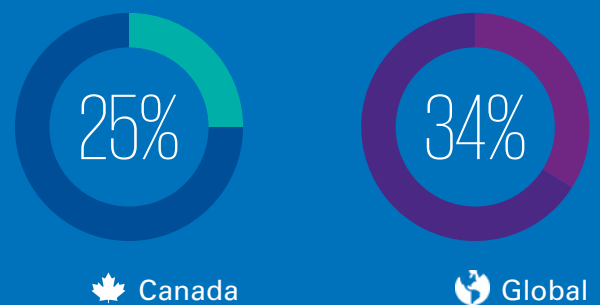
Quality improvements



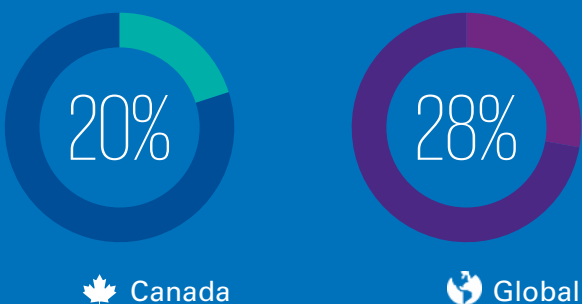
Cost savings



Change of business strategy



Business reorganization



Embedding D&A

Data & Analytics (D&A) can reveal fundamental truths about what makes a company and its people tick. It can reveal connections between organizational dimensions – many of which may seem unrelated – to insights in order to shape new practices, make better talent decisions, influence customer satisfaction, and encourage desired leadership behaviours.

Whether it's uncovering a link between poor leadership performance and staff attrition, the effects of a negative workplace culture on staff productivity, or the meeting point between performance ratings and client satisfaction, the strategic use of D&A breeds a more connected and evidence-based HR department.

Effective D&A relies on solid data. The good news is many organizations are already well-supplied with consumer and workforce data through existing channels (e.g. evaluations, productivity trackers, business reports) and consumer touch-points (e.g. apps, surveys, purchase tracking).

The data generated through these channels is instrumental in enabling HR to understand “what’s really going on” within the organization, while getting to the “so what” of the truths D&A can unearth. Here again HR can influence capabilities by recruiting data scientists who can best determine what those data points really mean, and how they can best be applied.

Investing in D&A can be a leap of faith depending on how much (or little) a company has already invested in its data management and analysis capabilities. Nonetheless, Canadian executives say “becoming data driven” is among their top three strategies for the future. However, their usage of D&A largely centers on customer acquisition and retention, leaving room for a more internal focus.³

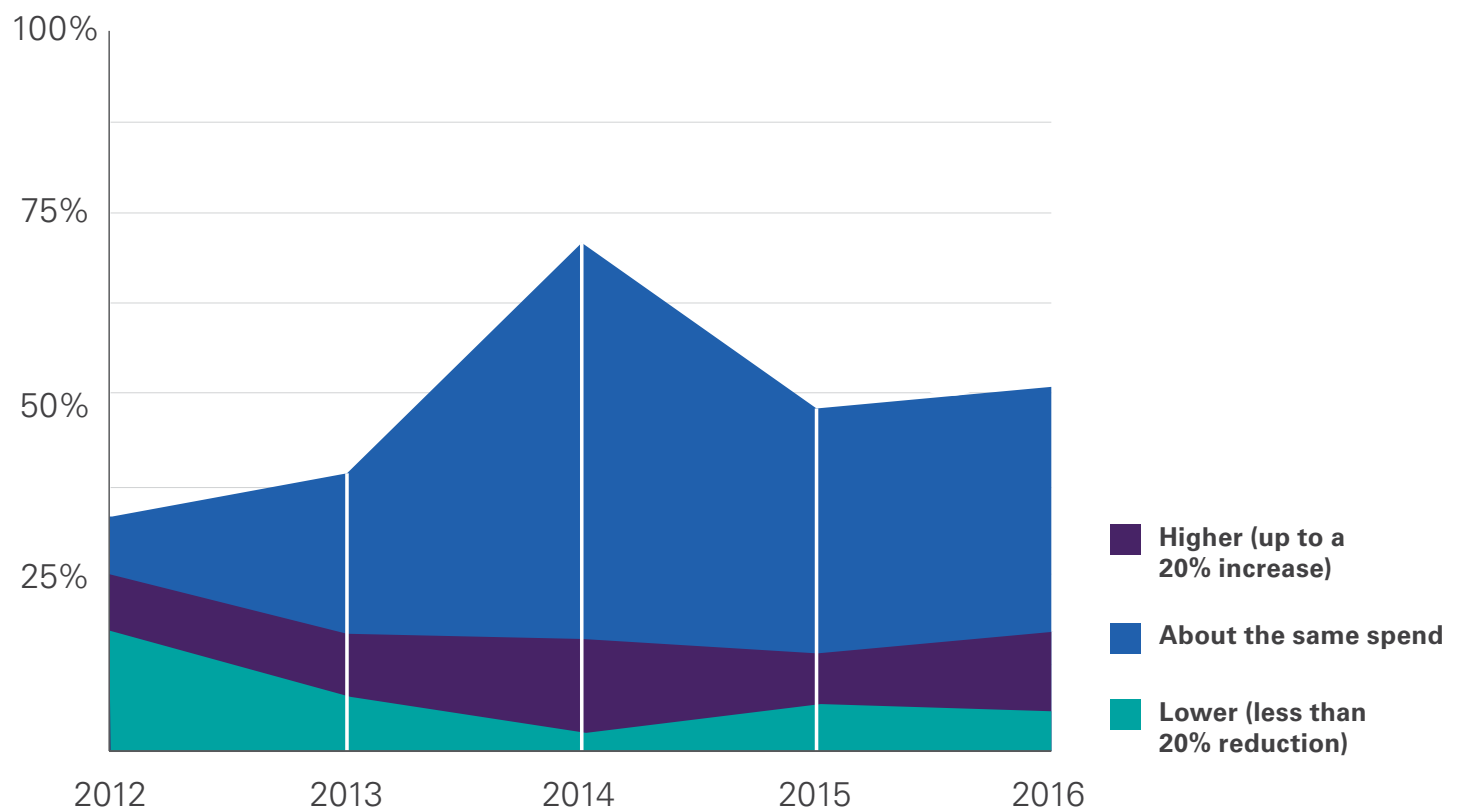
Ultimately, there are real advantages in embedding D&A into the core of the HR function. In so doing, HR can foster a more positive and efficient workplace, while bringing evidence-based insights to the organization in the process.

There's no shortage of access to technologies that can enhance the HR function and integrate it across all aspects of an organization. Cloud-based HRMS systems can create greater efficiencies and enhance the value of HR to the business, while mobile apps and online tools can give employees more control while freeing HR professionals to focus on the big picture. So the tools are there; now, it's up to organizations to make and maintain those investments.

³ KPMG's 2016 CEO Outlook Survey

We are close to seeing HR calculate P&L at an individual employee level, much like we already experience for sales positions. This will enable HR professionals to become adept in monitoring performance metrics, and using predictive analytics and machine learning to study specific behavioural patterns, ultimately distinguishing – and predicting – a company's top performers.

Expected spend on HR technology – 5 year trend



Technology: the ultimate integrator

For operational excellence to occur, HR professionals must become adept in the tools that not only measure the employee experience, but streamline the processes by which they and the business grow. Here's where the combination of D&A and human resource management systems (HRMS) are changing the game by equipping HR with the means to track, adapt, and implement its services throughout the organization.

This is especially true for the next generation of cloud-based HRMS which are affording HR professionals the means to unite their efforts seamlessly across the organization in real time.

The value of HRMS is already being realized by many. In *KPMG International's HR Transformation Survey*, 40 percent of Canadian organizations say they've benefited from an improved availability of management information and an increased usage of manager and employee self-service options. Additional advantages include easier system maintenance, greater integration with other applications, and a stronger ability to integrate the HR function to drive greater value in the business.⁴

With the adoption of advanced HRMS systems comes the opportunity to streamline and improve the ways in which HR

delivers its services. Thanks to cloud-based tools, HR functions can now be more easily automated, incorporate advanced analytics, conduct predictive modelling, and provide more direct means of service delivery – all in service of delivering a more positive employee and client experience.

The value of shared services is recognized by one-quarter of Canadian executives who plan to move to a shared services

environment, with another 19 percent expect to bring in additional services into their current structure.⁵

It can also pay to invest in technologies that offset HR functions to the employees themselves. In fact, 43 percent of Canadian executives are planning to leverage mobile applications within the next 12 to 18 months.

Of the nearly one-quarter of executives who have already implemented usage of mobile applications, 84 percent say it was effective or very effective, and 69 percent indicated they were satisfied or very satisfied with the results.⁶

Technology has a large role to play in streamlining the HR function. And as the role of HR continues to grow, so too will the need to fuel that evolution with the right investments.

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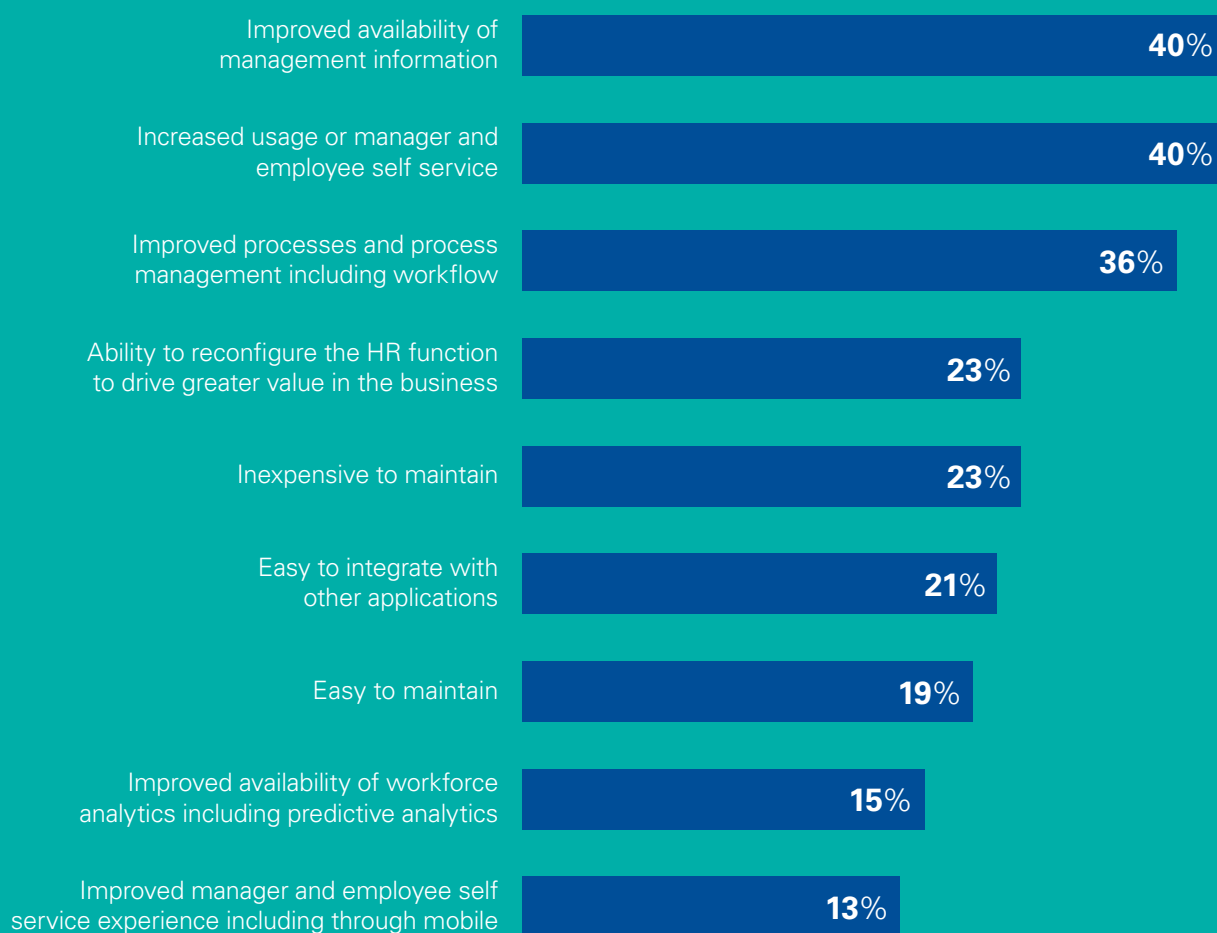
⁴ KPMG International's HR Transformation Survey

⁵ KPMG International's HR Transformation Survey

⁶ KPMG International's HR Transformation Survey

Every process has multiple steps and touch-points, so the more HR can do to streamline those through outsourcing or automation, the more it can ensure that those retained functions are a lot more strategic and bring greater value to the organization. It frees up focus, so the HR function can move from being tactical and operational to something more strategic – and that's what operational excellence is about.

Benefits organizations get from their HRMS investments





Culture club

Nomadic. Restless. Tech-savvy and hyper-mobile. Describe them how you may, but “talent” is today’s hottest commodity, and attracting and retaining them to your team comes down to workplace culture and perception of opportunity.

Developing that culture can be difficult with a workforce as diverse as it is today. Millennial attitudes are rubbing up against old traditions, and technology is changing the rules as to where, how, and for how long people work. What hasn’t changed, however, is employees’ needs to feel engaged, valued, and in control of their professional development.

After all, culture is about how people behave. It’s how employees act when bosses aren’t listening, and how they genuinely feel when they come to work. Are they driven to perform or just going through the motions? Do they feel encouraged to innovate or scared to fail? Are they growing as professionals or checking the job boards?

Answering these questions requires an awareness of the factors that shape an employee’s experience. It’s an experience that begins the moment they apply to the day they take their leave. It’s also one in which HR holds the greatest sway,

whether through fine-tuning a company’s on-boarding process, offering education and training opportunities, or maintaining a clear and constant line of communication.

Done right, a positive workplace culture will attract the right talent and reduce turnover, which left unchecked can cost a company money and can damage its reputation. Moreover, it will attract the right kind of clients who want to be aligned with companies who can make that culture work.

There is no template for building the right culture. However, through D&A, HR leadership and meaningful workforce engagement, an effective strategy can be reached. It’s also important to approach talent retention on an individual level, empowering employees to define what it will take to keep them engaged. It might be working from home, taking an extended leave of absence, career development opportunities, or new resources that will help them do their job better.

It takes more than corporate perks and a trendy brand to build a solid team. It takes the right culture – and a commitment to maintaining that culture at all levels – to make all the pieces come together.

People spend so much time on the job away from other interests; it is important to feel as if they belong and that they’re making a difference. They need to be able to answer the question “Why am I here? And why should I stay here?” If an organization isn’t answering these questions by giving people the chance to flourish, learn, and make meaningful contributions with their teams, they’re going to walk.



When the good go bad

Corporate security tends to focus on threats from outside the office walls. However, internal risks exist that unfortunately can enable “good employees to go bad.”

According to KPMG International’s *Global Profiles of the Fraudster*, today’s fraudsters fall into three major categories; those acting purely internal (35 percent), those acting purely external (18 percent), and groups made up of both parties (45 percent).

Interestingly, it’s the internal fraudsters that cause the most damage. Of frauds resulting in a loss of \$1 million or more, 42 percent of cases were perpetrated by internal fraudsters, 32 percent by external, and 25 percent by a combination.

Disgruntled and disengaged staff are often the cause of information security leaks. These breaches can take the form of internet-enabled devices (smart phones, tablets, gaming devices), failing – or forgetting – to follow security protocols (logging out, changing passwords) or accessing unauthorized websites.

Whatever the action, a company’s ability to protect itself against damaging employee behaviours pivots on having a culture of engagement and accountability. HR must play a greater role in building that culture and in placing the controls to prevent data vulnerabilities.

Managing digital labour

Welcome to the era of “Digital Labour”, where automation and Artificial Intelligence (AI) are redefining – and in many cases, replacing – jobs across all industries. Although filled with promise, this technological revolution presents many challenges for HR departments, not the least of which is the need to modify workforce strategies, adopt new systems and processes, refresh recruitment and branding strategies, and manage the potential displacement of labour – all while keeping employee and client privacy in mind.

Managing digital labour means taking automation to its next natural step and understanding what that means for the company and staff, including for talent strategies, labour relations, and the leadership who will need to lead and manage these new efficiencies with likely less staff. It’s about HR leading the business through this transition, and that’s going to be exciting and challenging.

The advance of machine learning means HR professionals must not only manage current implications, but know where the technology is taking the company.



Transformation fatigue

Today's companies face unprecedented volumes of change and transformation. It's not uncommon for business leaders and employees to experience a form of 'burnout'. When transformation fatigue sets in, organizations lose focus, priorities become unclear, and talent slips through the cracks. In comes a culture of ineffectiveness and out goes the energy and drive to keep the business engine running.

HR is key to helping leaders understand and prepare for the pace and magnitude of change. HR can also mitigate decision and change fatigue by helping to determine how much transformation an organization can handle, and putting the right 'release valves' in place.

Managing change is a key value-add role and capability of a progressive HR function with its pulse on the organization. This entails working with leaders to understand their priorities and where they want to go, advising them to slow down if necessary, or putting the mechanisms in place to make things easier.





The next steps to HR transformation

The path to HR Transformation is one an entire organization must walk. It requires a broad set of resources, skills, disciplines, experiences, and – perhaps more importantly – a commitment from leadership.

Ultimately, the goal is to build the HR function seamlessly into an organization's operations to both drive scalable and sustainable value. And it begins with taking these critical steps:

1 Configure your HR model to serve a more strategic purpose

HR Transformation begins by asking these core questions:

- What is the business strategy?
- How will value be created through people?
- What does the people agenda need to look like and what are the implications?
- How can HR drive and enable this value?

The answers to these questions are crucial to translating your organization's business strategy into the 'people agenda', which in turn informs the configuration of the HR function.

Additionally, it's important to engage your business leaders in understanding their expectations of HR and how to evolve as a partner. Viewing your business as a key stakeholder and 'customer' will change the conversation to one that is outwardly and 'front office' focused, as opposed to being relegated to the background.

2 Evaluate your organization's culture

Get up close and personal with your organization's culture and determine whether or not it's serving the business goals and objectives. Taking an intentional look at the behaviours the culture is promoting through conscious or unconscious means will set the stage for raising important but difficult conversations with executives and leaders about what needs to change.

3 Take a holistic approach to your HR technology investments and evolution

Become tech savvy and hungry when it comes to the HR domain. HRIS and HCM capabilities are a hot topic thanks to the ongoing advancement and integration of software, technology solutions, analytics, IoT and other elements related to risk, privacy, security, fraud, and evolving capabilities. The integrated data and analytics generated from well integrated systems should produce information and outputs that benefit the entire organization.

4 Take your organization's risk temperature

Gauge the tolerance for risk during a transformation. This can help shape the tactics necessary to mitigate issues related to operational, regulatory, talent and brand risk. It can also help set realistic goals within leadership as to how HR can anticipate and address issues.

5 Manage your transformation process by building in checkpoints and release valves

Master the art and science of leading and managing 'transformation'. This brings great clarity to gauging the implications of talent, leadership, culture, governance, decision-making, and pace on the success of any transformation initiative. Whenever you are transforming HR or enabling a broader organizational transformation, mitigate transformation fatigue by engaging stakeholders throughout the process. If some areas aren't yet prepared or equipped for transformational change, it is better to know earlier so as to avoid larger failures down the road, thus jeopardizing the entire success of the transformation.

Enjoy the journey

Transforming the HR function is not an end in and of itself, but rather a means to enabling a greater purpose for the broader organization. This evolution can be a springboard for new capabilities, value-added services, and development opportunities for HR, business leaders and employees. It's not always an easy journey to take, but with the right insights and commitments, it's one that can lead your organization to reach its goals and beyond.

To learn more how KPMG in Canada can help your organization with its HR Transformation, visit kpmg.ca/peopleandchange

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