

2018 HR SHARED SERVICES STUDY

Driving a Digital Employee Experience Through HR Shared Services

KINCENTRIC A Spencer Stuart Company

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Executive Summary

About the Study

This study identifies the latest trends, thinking, and innovations in HR service delivery across numerous dimensions of design, operations, and enablement. It is a longitudinal extension and expansion of Kincentric's groundbreaking 2017 research report, *Driving a Customer-Centric Employee Experience Through HR Shared Services*, with additional emphasis on globalization, digitalization, and — in particular — artificial intelligence (AI) and robotics. Both this and the 2017 study were research partnerships between Kincentric's HR Effectiveness consulting practice and the HR Shared Services Institute (HRSSI).

KEY TRENDS

Although trending may be subtle over the span of just one year, some longitudinal insights are apparent in the areas of:

- Digitalization and consumerization
- Globalization
- HR shared services adoption and service scope

Below are a few insights gleaned from comparing our 2017 and 2018 findings.

Digitalization and Consumerization

The trend toward the digitalization of HR service delivery in the form of cloud-based HR applications remains strong. Notably, adoption of artificial intelligence (AI) and robotic applications increased this year, with indications of significant expansion over the next one to two years.

Employee experience platforms, which combine knowledge content, case management, and transaction tools in a single user interface, are seeing increased adoption in 2018. Newer releases, which include AI-enhanced digital assistants and chatbots to deliver a consumer-grade experience, are likely to drive even more adoption.

Cloud HCM (Human Capital Management) conversions remain on the rise. More than half of the 2018 survey population uses a cloud-based core HRMS platform, compared to a little less than half in 2017. Cloud HCM platforms have clearly passed the tipping point of adoption and will soon count most organizations as adoptees.

Finally, interest in digital assistants, chatbots, and robotic process automation (RPA) took a sharp turn upward in 2018. Although the number of organizations currently deploying these technologies remains relatively low, expectations for the next one to two years suggest that utilization will increase significantly in the near term. HR organizations must anticipate the impact this will have on their overall delivery models. In fact, if expectations are fulfilled, there will be a 250% increase in chatbot deployments over the next two years.

Globalization

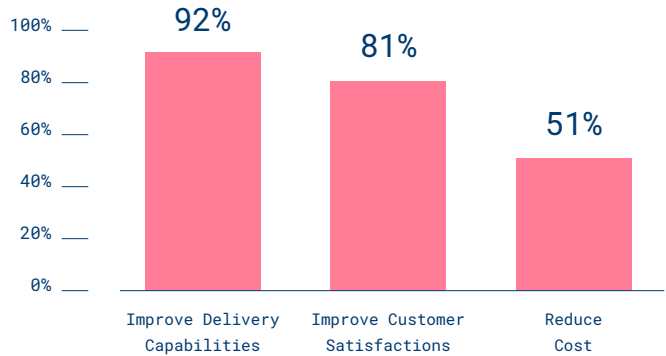
Globalization of HR service delivery continues to march forward, with nearly 8 out of 10 respondent organizations that have a global footprint operating a globalized HR service delivery model in one form or another. This closely mirrors the global nature of business organizations at large, as more and more organizations transition from a loosely connected multinational operation to a truly global operating model.

While there continues to be interest in the global business services (GBS) (i.e., multifunction shared services) concept, the aggregate adoption trend is relatively flat, composed of a combination of new adoptions and reversions of multifunction models back to stand-alone HR models. Last year’s study also showed a relatively flat trend; when coupled with the reversions, this could imply that organizations that initially included HR in a GBS model are experiencing mixed or even negative results.

HR Shared Services Adoption and Service Scope

Even though HR shared services models are already well-represented among the surveyed organizations, their adoption continues to grow. Respondents cite the pursuit of numerous business objectives, with increasing HR service capabilities and improving the employee experience again taking top priority. It should be noted, however, that while cost savings has fallen lower on the list of priorities, it remains an important objective for many organizations.

OBJECTIVES DRIVING HR SHARED SERVICES DEPLOYMENTS



	Very Important	Somewhat Important	Not Important
Improve Delivery Capabilities	92%	6%	2%
Improve Customer Satisfaction	81%	19%	0%
Reduce Cost	51%	47%	2%

A wide range of services can be found in shared services portfolios, but it is evident that a strategic blend of in-house and outsourced delivery channels dominates their delivery approach. As last year’s report highlighted, organizations have moved well beyond routine transactional activities in leveraging shared services.

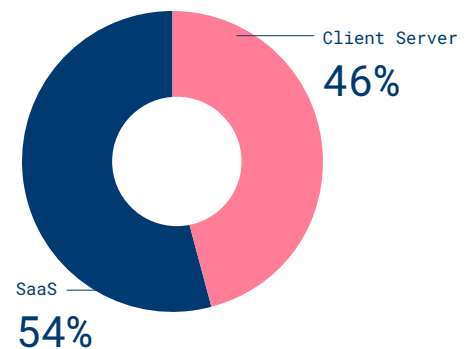
The remainder of this report will elaborate on these trends and related observations.

Embracing Digitalization

Cloud HCM Platforms Pass the Tipping Point

Cloud computing continues to disrupt the HR service delivery landscape, with artificial intelligence and process robotics playing key roles in driving employee experience. Among the survey respondents, at least half of the core HCM platforms in use are delivered via the cloud (aka SaaS), with Workday claiming more than 80% of cloud HRMS deployments and almost 40% of deployments across all platform types, including cloud, client server, and proprietary outsourcer platforms.

ADOPTION OF HCM TECHNOLOGY

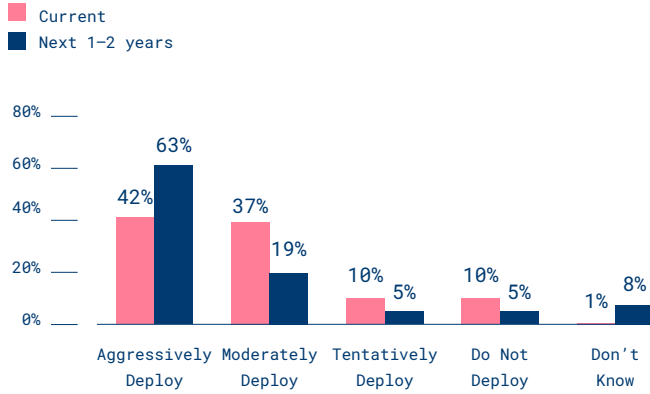


Self-Service is Becoming Widely Accepted

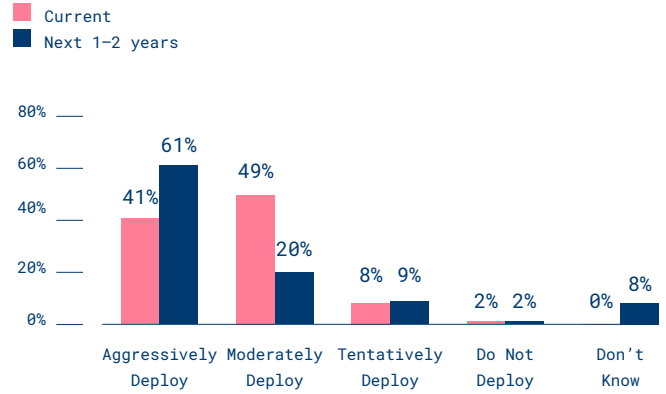
Within the data, an encouraging story regarding respondents' current approach to deploying self-service capabilities emerges, with approximately 90% and 80%, respectively, at least moderately deploying employee self-service (ESS) and manager self-service (MSS) capabilities through their HR service delivery platforms. When looking at future plans (next 1-2 years), a similar picture emerges. These findings demonstrate that self-service deployment is becoming widely accepted and suggest that very few organizations will not be featuring self-service capability in their service delivery models within two years.

For those organizations that reported being hesitant to adopt self-service, cultural resistance ranked as the top obstacle, with resource requirements to deploy following closely behind. Both of these issues can be addressed with a strong business case and a focus on change management.

APPROACH TO MANAGER SELF-SERVICE DEPLOYMENT



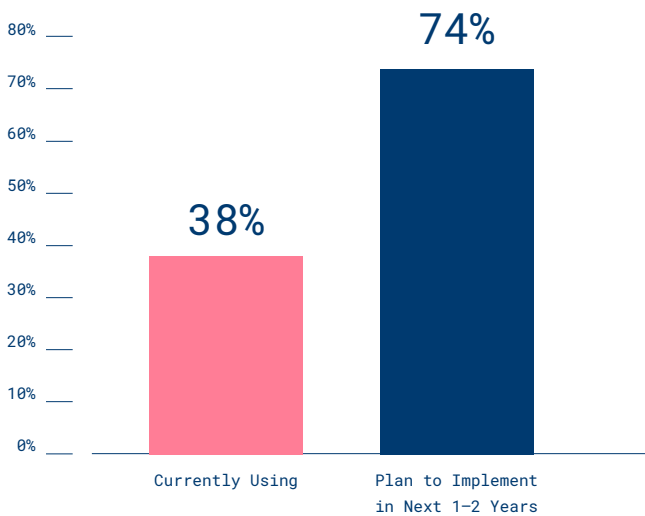
APPROACH TO EMPLOYEE SELF-SERVICE DEPLOYMENT



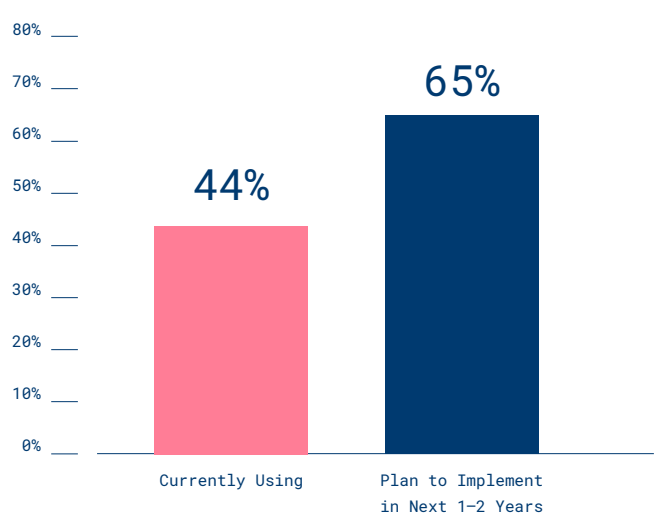
The Bots Are Coming!

The data shows a rapidly increasing acceptance and use of AI and robotics in HR service delivery, with 38% of surveyed respondents currently using AI and 44% using robotics. While current utilization levels remain relatively low compared to more traditional approaches, use of these tools in the next one to two years is expected to increase dramatically.

USAGE OF AI CHATBOTS

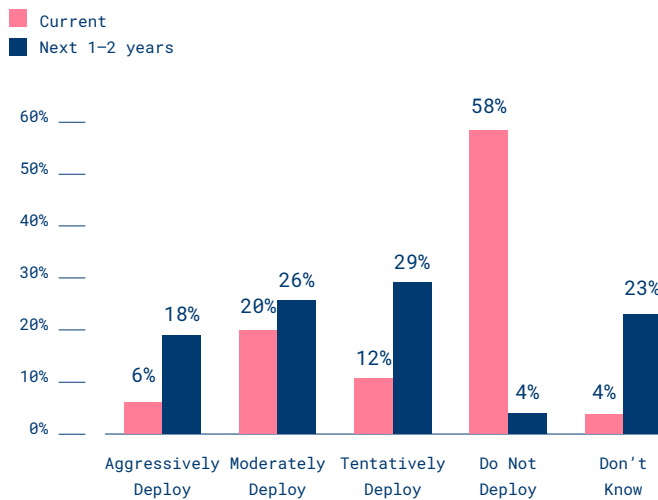


USAGE OF RPA

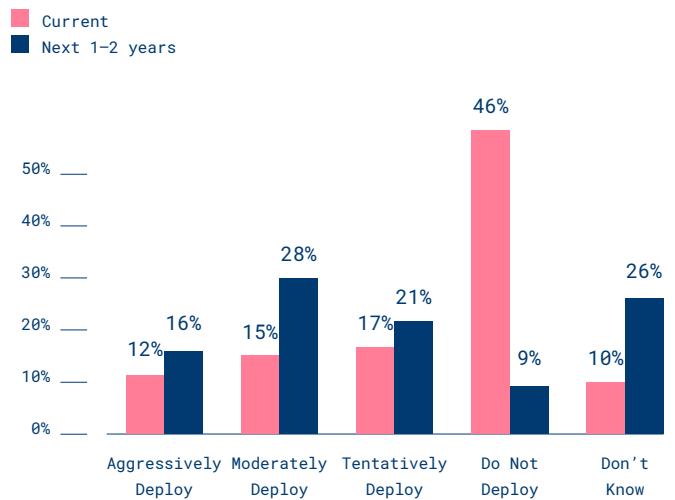


Fifty-eight percent of survey respondents do not deploy chatbots in HR delivery today, but only 4% expect this to hold true over the next two years. In other words, nearly 75% of respondents expect their organizations to deploy chatbots in the next one to two years. Similarly, while 46% of survey respondents do not currently use robotics in their HR service delivery, only 9% expect that to hold true in the next one to two years.

APPROACH TO AI CHATBOT DEPLOYMENT

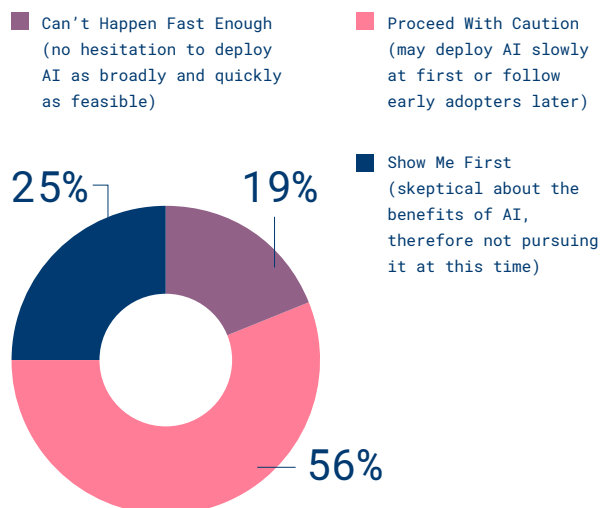


APPROACH TO RPA DEPLOYMENT



For this to occur, however, a shift in leadership acceptance will be required. When asked about their organization's current posture towards using chatbots, only about 20% had no hesitation in deploying AI, with more than half taking a cautious posture and one-quarter a skeptical one. This disconnect warrants further study, but it points to the need for organizations to be more intentional in developing their digital HR strategies. Otherwise, they may quickly be left behind by their peers and – perhaps more importantly – the expectations of their employees.

OUTLOOK TOWARD UTILIZING AI CHATBOTS



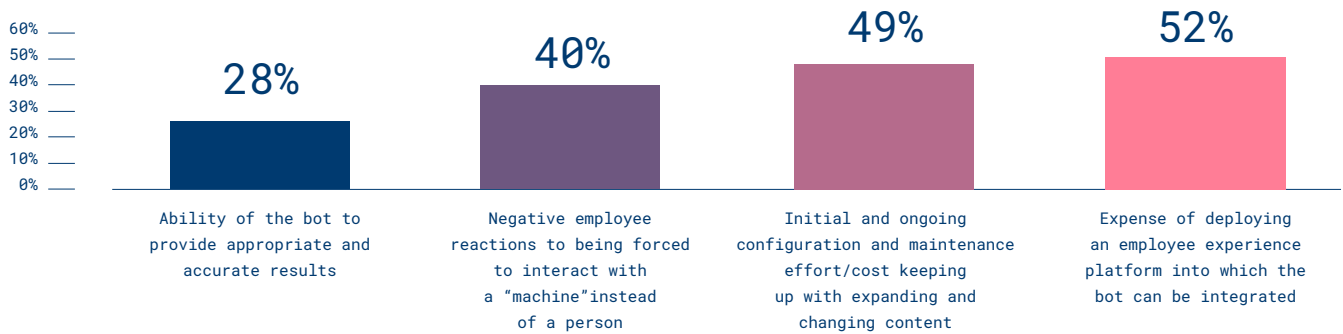
Shifting the Business Case Paradigm

The finding regarding chatbots begs the question of whether broader AI adoption will prove to be more hype than reality in the short-to-medium term. When asked to rate relative concerns about deploying a chatbot, respondents did not generally cite its ability to provide

appropriate and accurate responses. Of much greater concern were:

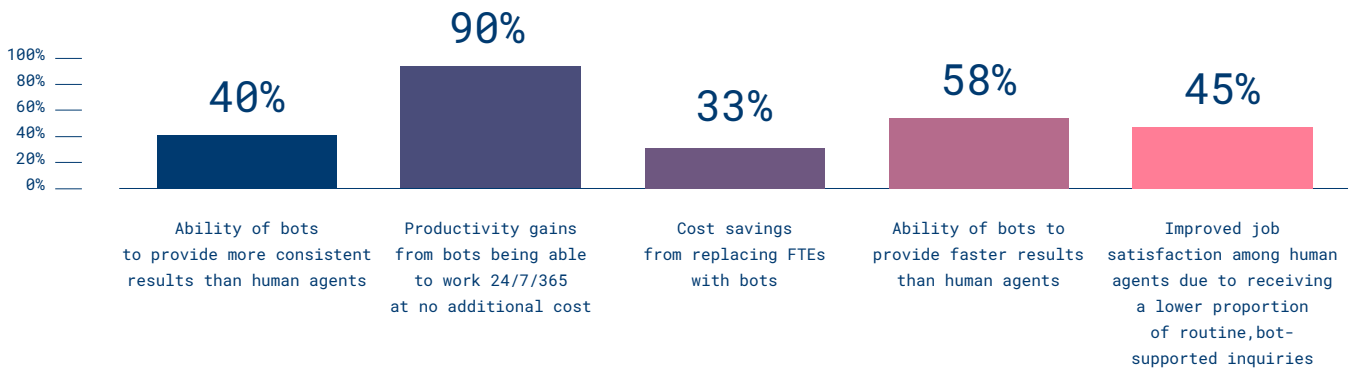
- The expense of deploying an employee experience platform that can support chatbots (52%)
- The initial and ongoing cost of maintaining resource content (49%)

PRIMARY CONCERNS ABOUT USING AI CHATBOTS



If primary concerns are cost-related, HR leaders may need to more clearly articulate and prove the business case with the benefits for deploying chatbots. For example, when asked about their anticipated benefits, respondents noted the ability to provide 24/7/365 service at no additional cost (90%) and providing faster-than-human results (58%) most often cited as major anticipated benefits.

ANTICIPATED BENEFITS OF USING AI CHATBOTS



Thus, the business case for deploying chatbots may rely more on “soft” experience-related benefits than hard-dollar savings on full-time employees. Given that deploying and maintaining bots will unavoidably require investment, for some organizations significant hard-dollar return on investment (ROI) may be more difficult to achieve. This leads us to a fundamental challenge in the experience-driven era of digital HR service delivery.

Historically, business cases for HR delivery initiatives have relied primarily on labor cost savings, typically in the form of FTE reductions, labor arbitrage, or both. Yet, as these findings once again confirm, cost savings are no longer the top concern when undertaking HR service delivery model changes. This leads to the next critical questions: Why do hard-dollar cost savings continue to dominate business cases? Which business drivers should be used instead?

In the digital age of HR, leaders and practitioners are challenged to put more focus on understanding, articulating, and quantifying the business benefits of enhancing the employee experience. These benefits may not be as directly observable as simple FTE reductions, and they may take longer to achieve. However, there is a strong link between employee experience and an organization’s financial outcomes.* Therefore, employee experience, while an indirect measure of performance, is impactful and relevant in the complex realm of organizational effectiveness. The most forward-looking organizations are already thinking in this way.

Robotic Process Automation (RPA)

Another form of technology, known as robotic process automation (RPA), is also poised for increased adoption. While current utilization of RPA is low, anticipated utilization is significantly higher.

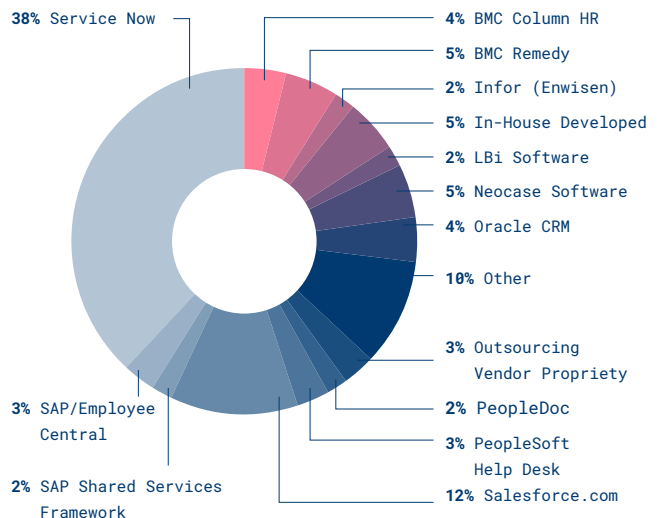
In the right situations – such as using it with natural language processing (NLU) or natural language understanding (NLU) to “read” incoming emails to a shared services function and assigning issues to a specific function, domain, or queue – RPA can be an efficient and effective solution. However, because RPA can also automate routine manual procedures, such as keying data from a spreadsheet

into a system of record, the more optimal solution is to eliminate that work through integration, process redesign, or self-service enablement. In other words, it is better to eliminate the work altogether than automate it. Where this is not an option, RPA is a favorable solution because RPA tools are relatively inexpensive to purchase, easy to master, and quick to deploy. Many organizations are already training individuals or teams to deploy RPA configuration as an in-house capability. Given the trend of increasing complexity in HR shared services scope, we expect to see RPA solution development emerge within the HR shared services portfolio as well.

The New Generation of Digital Employee Experience Platforms

Digital “employee experience platforms” combine state-of-market case management functionality with AI-enhanced portal capabilities to provide employees and managers with an integrated, seamless interface for fulfilling HR transactional and informational needs. Two such platforms, ServiceNow and Salesforce.com, have made significant inroads into the HR space – having expanded from their IT and CRM roots, respectively. These and other competitors are now offering chatbots and product road maps that include continued investment in AI capabilities, which will likely bolster further adoption and market share.

IMPLEMENTING CASE MANAGEMENT SOFTWARE



* “Positive Employee Experiences Boost Bottom Line.” *Human Resources Executive*. Positive Employee Experiences Boost Bottom Line | HRExecutive.com

In contrast, tools that do not integrate case management and portal functionality, such as those built on a Microsoft SharePoint platform, appear to be losing market share.

Is Digital the New Frontier?

Is the digital employee experience the “new frontier” in HR service delivery? As with AI, for some organizations the time and cost to deploy and maintain these solutions may be an obstacle to further adoption. Many are taking an incremental approach that begins with basic functionality—using platforms that allow for capability expansion over time and then waiting to see what ideas emerge by way of early adopters and the vendors themselves. The question they need to answer is whether they are willing to play catch-up with their most forward-looking peers. Ultimately, it will be critical for organizations to deploy digital employee experience platforms if they have serious aspirations to evolve toward employee-centric delivery.

Embracing Globalization

Today's HR Delivery Models are Global in Scope

It's Official! HR Is a Global Function

About 80% of organizations with operations in more than one country report that their HR delivery model has some type of multicountry configuration.

Among global delivery models, nearly two-thirds feature multiple regional service centers (e.g., North America, EMEA, LATAM, and APAC). These global footprints mirror the geographic footprints of the sample organizations at large, with 68% reporting at least a moderate global presence — confirming that global organizations now generally deploy global HR delivery models, a shift that has largely transpired over the past five or so years.

About half (53%) of responding organizations provide HR contact center services in more than one language, with the number of languages offered ranging widely from one (typically English) to more than 10. This is driven by the language needs of the specific populations being served and emphasizes that there is no one “right” answer, and that native language support is still an important factor to consider.

When deploying a global shared services model, a significant majority of organizations use a phased approach based on geographic location, service scope, or a combination thereof. Only 11% deploy with a “big bang” approach wherein all processes and geographies go live in unison. While it's evident that an organization's ability to deploy in a “big bang” is affected by numerous factors — including size, complexity, and global diversity — the most common characteristic among the “big bang” group is the overall number of business drivers cited as “very important.” One hypothesis is that organizations with many significant problems to solve are more likely to assume the risks associated with a “big bang” deployment.

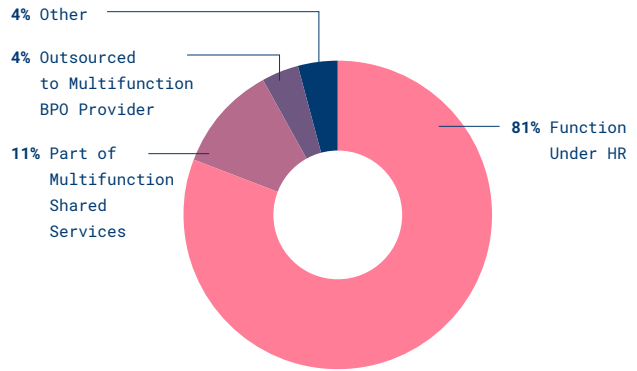
The State of HR in Global Business Services (GBS)

About 81% of global HR shared services models operate as functions under the HR umbrella, with 15% operating under an in-house or outsourced multifunction shared GBS model. This proportion has not changed significantly in recent years, a finding further addressed later in the study.

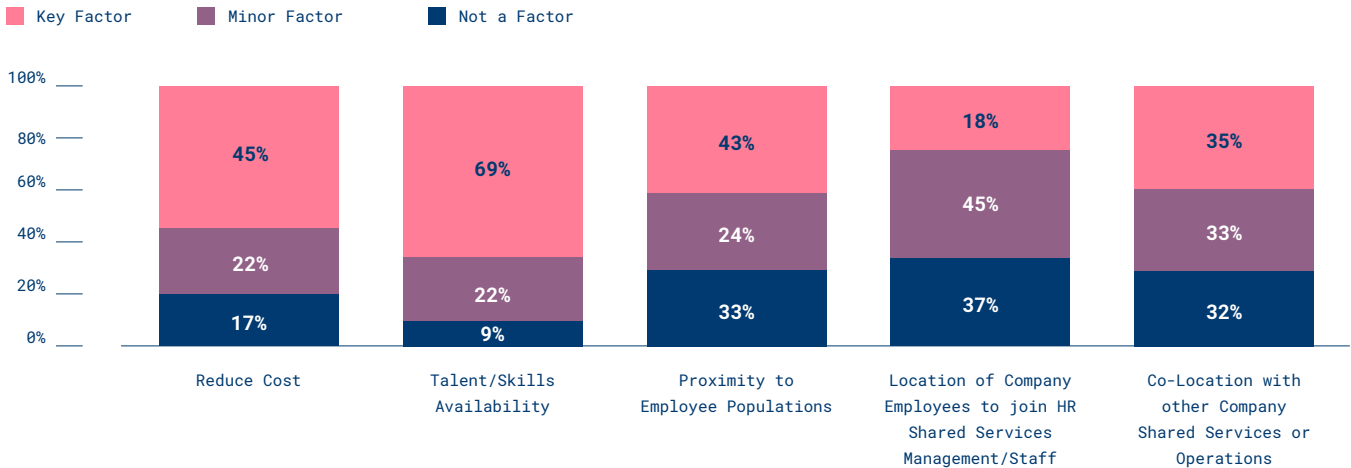
When implementing HR shared services as part of a global HR model and/or in a GBS model, organizations take different approaches to choosing the location and co-locating their staff.

- In terms of location selection, the availability and cost of talent rank highest among selection factors, with co-location with other shared services functions less frequently cited as a key factor.
- Less than one-third of organizations co-locate all or nearly all HRSS staff with other functional staff, while more than half co-locate less than 50% of HRSS staff with other functional staff.

HR SHARED SERVICES ALIGNMENT

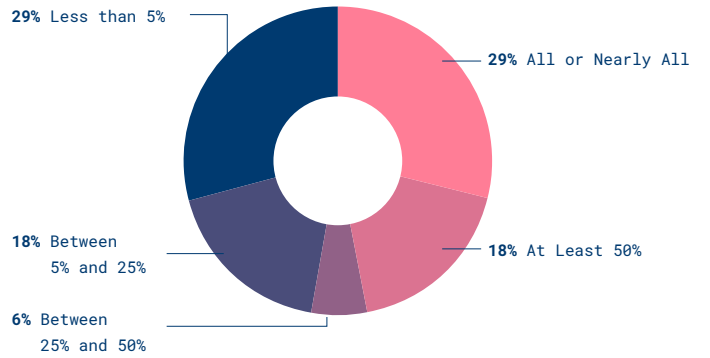


FACTORS IN CHOOSING A GBS/HRSS LOCATION



These observations are corroborated by the findings that organizations deploying a GBS model put significantly greater emphasis on leveraging technology across functions and achieving labor cost savings versus leveraging management and facilities across functions. Taken together, these findings support a generalization that while some synergies can be achieved by combining HR with other GBS functions, such opportunities are limited. For HR specifically, the benefits achieved as part of a GBS deployment are similarly attainable by globalizing HR shared services under a centralized HR umbrella.

CO-LOCATION OF HRSS STAFF WITH GBS STAFF



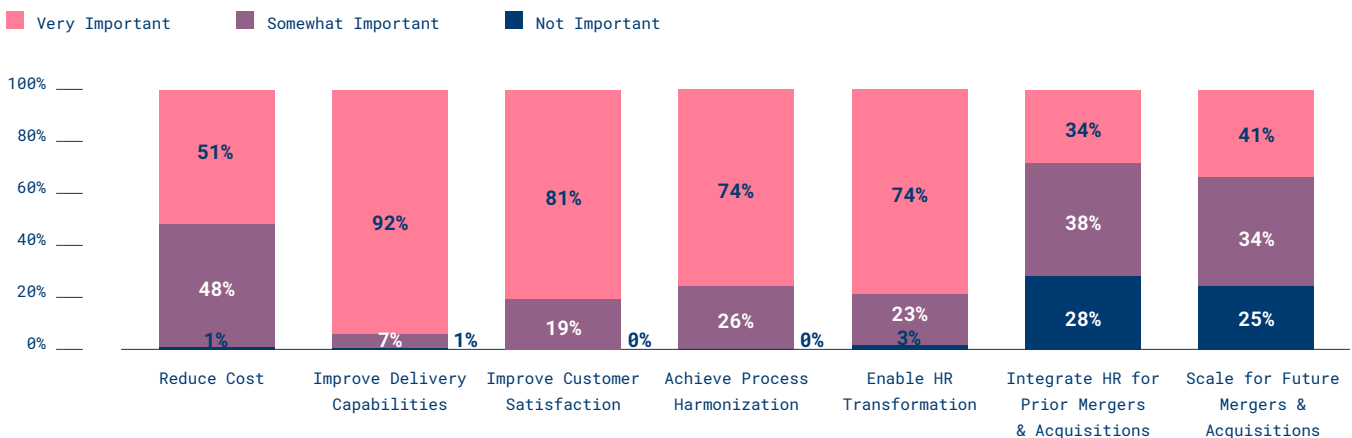
Business Drivers

Organizations Report Overall Success in Achieving Their Business Objectives for Deploying HR Shared Services

Which Business Objectives Are Most Important?

Regarding business objectives, this year’s findings are generally consistent with our previous study, with improving HR delivery capabilities and improving customer satisfaction most frequently rated as “very important.” One notable change is that in our previous study, 71% of respondents rated reducing cost as “very important,” but the percentage drops to 51% in this latest sample, implying a trend toward lower emphasis on cost savings.

OBJECTIVES DRIVING HRSS DEPLOYMENTS



It should be noted that except for scaling for future and prior acquisitions, all the other business objectives were almost universally ranked as at least somewhat important, implying that while certain business objectives are more important than others, organizations deploying a shared services model expect to achieve multiple business objectives.

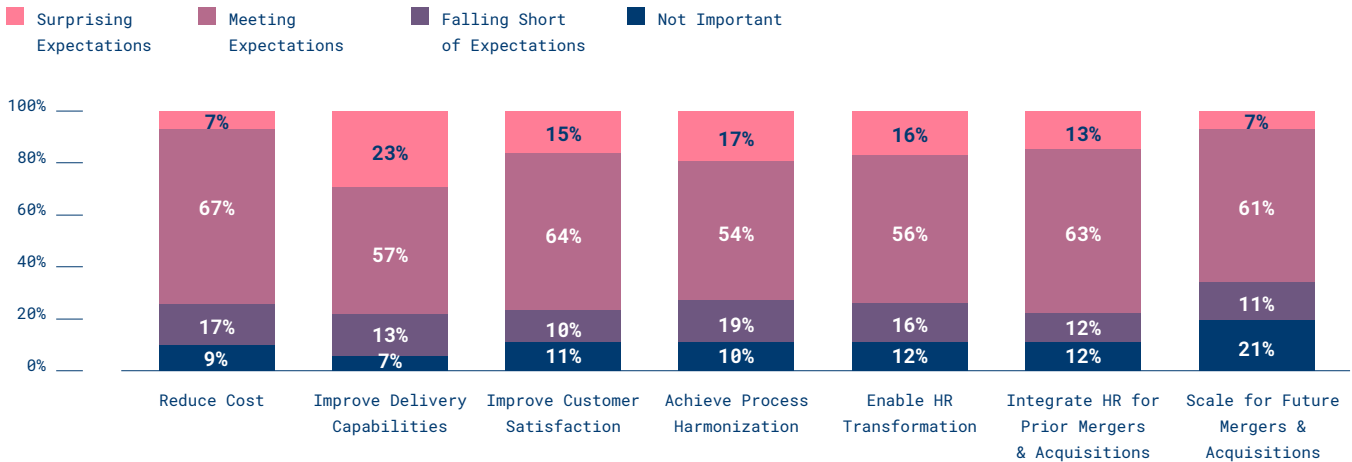
Are Business Objectives Being Achieved?

While most organizations say their objectives have been met or surpassed, this is not true for all stated objectives. For example, about one-fifth of respondents report process harmonization and cost reduction falling short of expectations. Meanwhile, true to their stated level of importance, improving delivery capabilities and customer satisfaction fell short of expectations in only 13% and 10% of cases, respectively.

However, reported instances of falling short of expectations were counterbalanced by other reports of surpassed expectations, illustrating the variation among organizations in terms of execution success and/or expectations.

While the message in these findings is generally positive, the fact that close to 20% of organizations may fall short on a given business objective should be cause for concern. Since shared services deployments are major change events requiring significant capital outlay, broad success is attainable only with the right mix of investment, project management, leadership buy-in, and change management. In short, how the model is deployed has as much to do with success as the design of the model itself.

ACHIEVEMENT OF HRSS DEPLOYMENT OBJECTIVES



Service Delivery Provider Mix

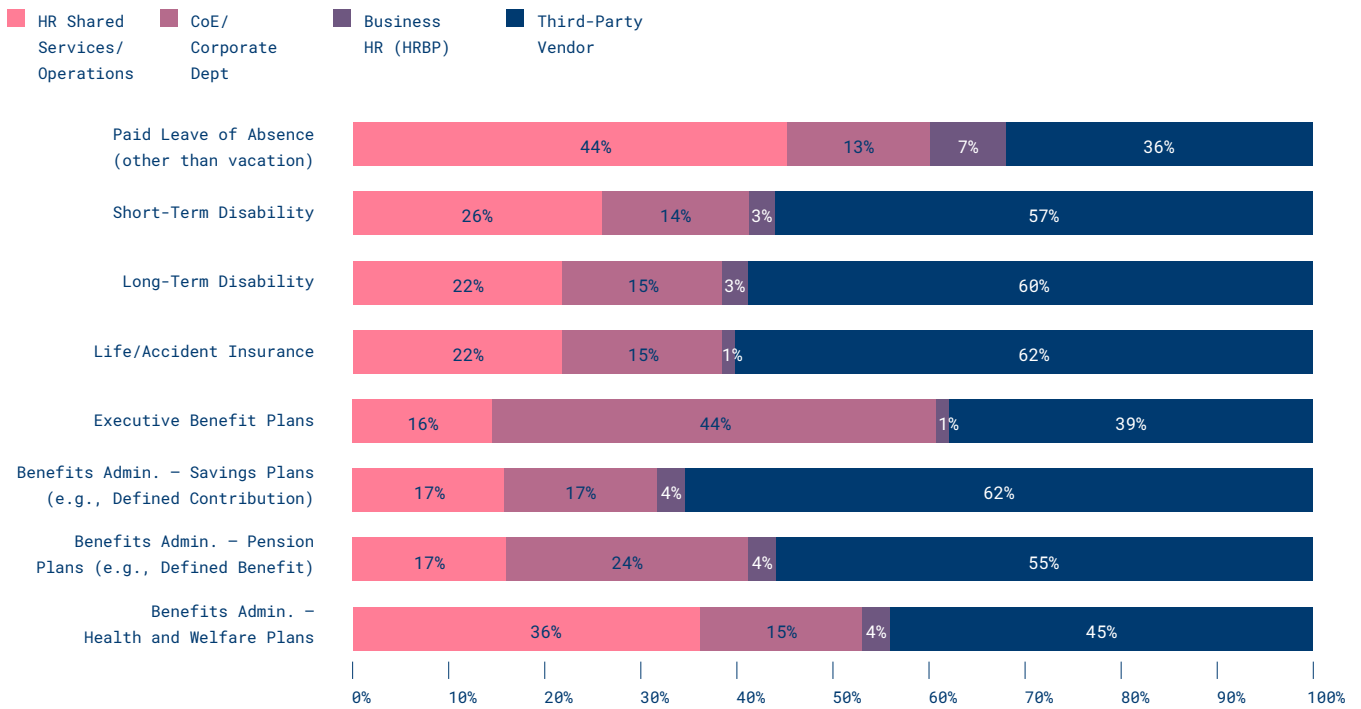
As the HR Shared Services Model Matures,
Scope Continues to Expand Well Beyond Routine
Transactional Activities

While organizations continue to aggressively leverage outsourcing and HR shared services to deliver HR administrative processes, the prioritization and mix of insourced and outsourced providers varies significantly across respondents. This research once again confirms that there is no one set formula or prioritization methodology that every organization should follow. To be sure, the service processes that fit best within a shared services model are those that can be harmonized and streamlined through process reengineering and technology enablement. But each organization must examine its own situation to define the optimal scope to meet its unique needs.

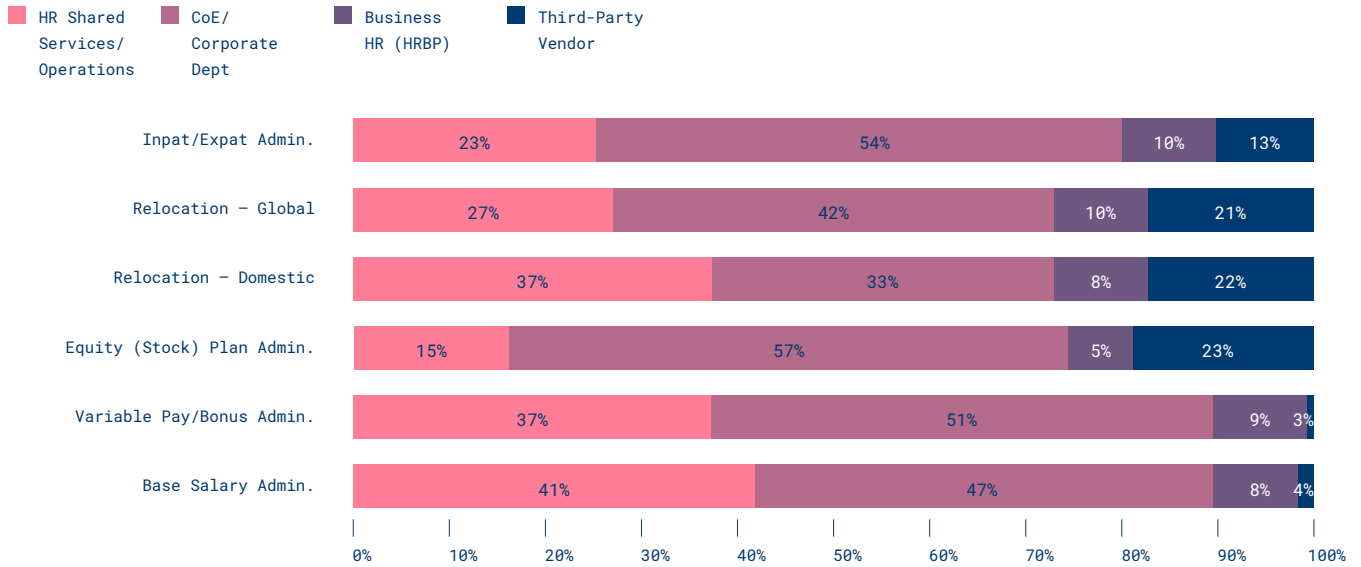
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- That said, some service areas have been especially interesting to track. For example:
 - Employee relations is now evenly divided between HR business partners/generalists and shared operations (HRSS and centers of expertise [COEs]). In terms of shared operations, stand-alone employee relations COEs are more prevalent than HR shared services centers with employee relations simply tucked into their scope. Yet there are still opportunities for organizations to leverage their shared services infrastructure and capabilities to better enable employee relations COEs through case management, reporting and analytics, continuous improvement, etc.
 - Outsourcing/third-party vendor is now the most prevalent provider for Family and Medical Leave Act (FMLA) administrative services in the U.S., apparently following the path of benefits administration services, while business leader-facing HR (HRBP) is almost entirely excluded from this type of work.

- HR shared services/operations is now the most common provider of new hire onboarding services, accounting for 65% of the survey population. This finding is consistent with numerous other trends, including the shift toward consumer-grade cloud technology solutions and the emphasis placed on enhanced employee experience. As organizations continue to struggle to make the new-hire onboarding process efficient and effective, they see shared services as part of the solution.

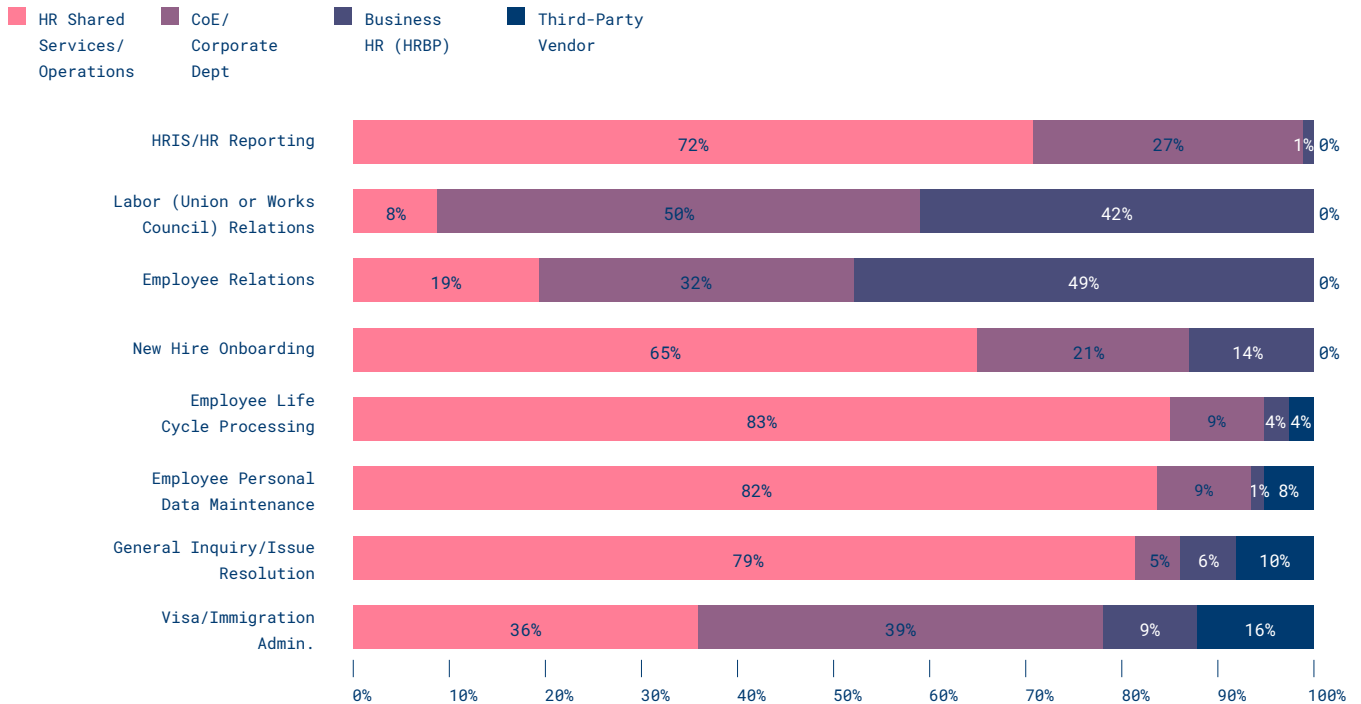
SERVICE DELIVERY PROVIDER—BENEFITS ADMINISTRATION



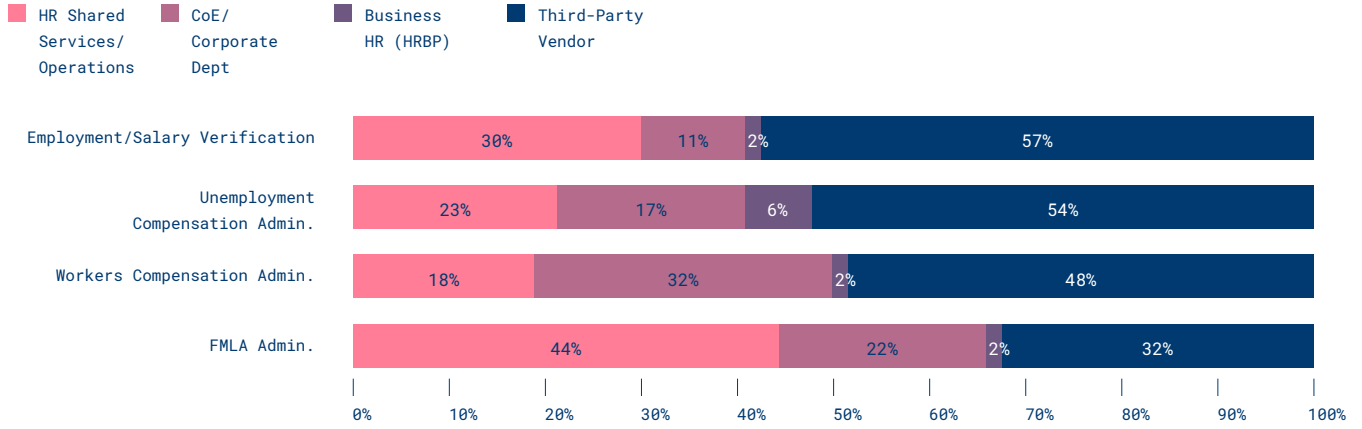
SERVICE DELIVERY PROVIDER – MOBILITY AND COMPENSATION



SERVICE DELIVERY PROVIDER – EMPLOYEE/LABOR RELATIONS AND DATA MANAGEMENT



SERVICE DELIVERY PROVIDER – COMPLIANCE



Closing Observations

Cloud and Digital are Changing HR Service Delivery

Cloud computing is gradually, but significantly, changing HR service delivery – making globalization of services more feasible and economical while driving consumerization of the service experience.

Although the human-delivered service channel remains an important feature of HR service delivery models, the digital employee experience is becoming more central. The opportunity – and challenge – is to make the human and digital channels more seamless for the employee.

Future-thinking organizations are headed in the direction of seamless HR delivery models that give employees and managers access to data, tools, digital assistants, and live support through a single, integrated interface that is accessible through both stationary and mobile devices.

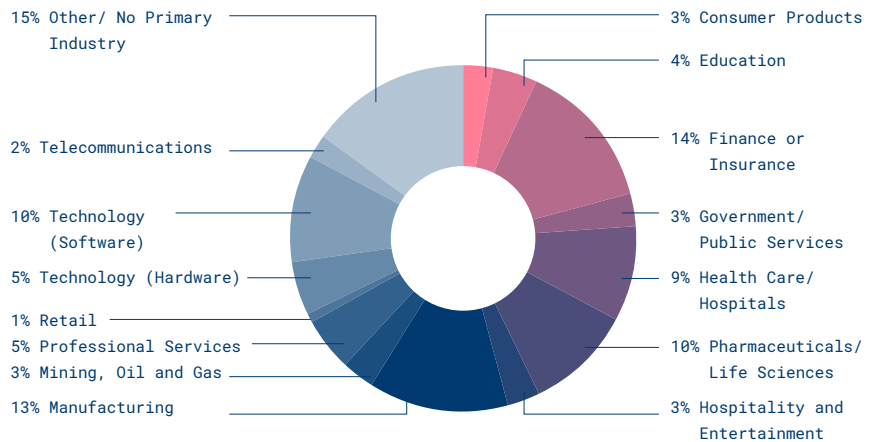
As the world of work becomes increasingly digital, these are exciting and challenging times for HR professionals and their organizations as they jointly work to articulate the business case and realize aspirations for a customer-centric employee experience.

Survey Demographics

Industry Representation

The sample population represents a broad range of industries.

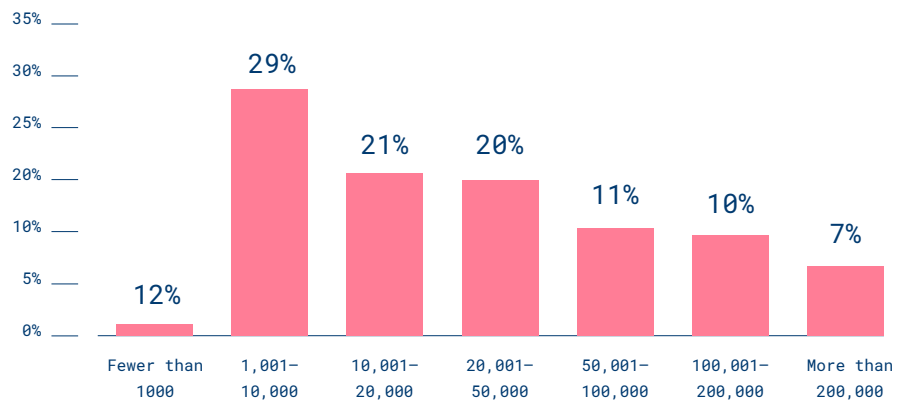
INDUSTRY REPRESENTATION



Number of Employees

The sample population represents organizations of varying sizes, ranging from under 1,000 to over 200,000.

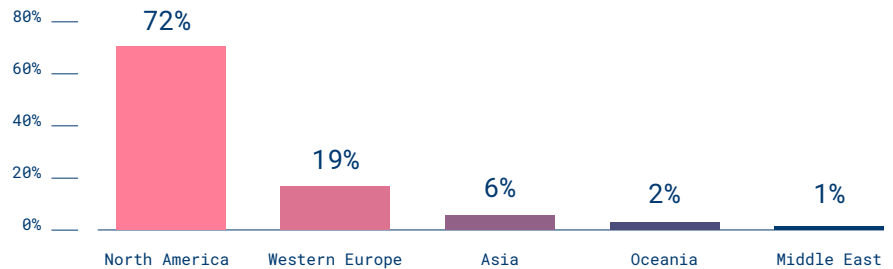
NUMBER OF EMPLOYEES



Headquarters Region

While most respondent organizations are based in the United States, organizations based in Western Europe are well represented, with Asia and the Middle East represented to a lesser degree.

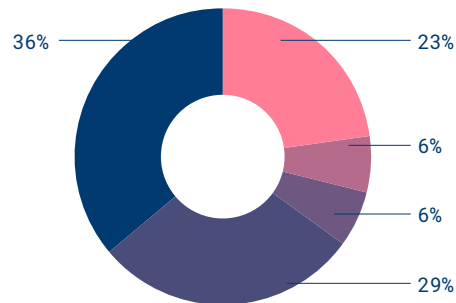
HEADQUARTERS REGION



Global Footprint

More than three-quarters of respondent organizations are global to some extent, with the majority being significantly globalized.

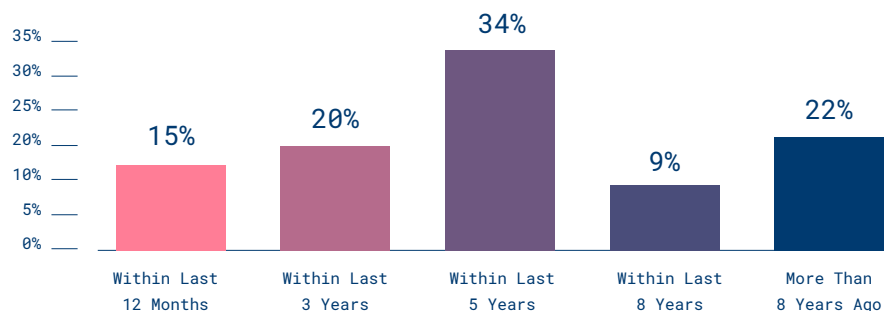
GLOBAL FOOTPRINT



Maturity of Shared Services

The maturity of respondents' shared services models ranged from less than a year to more than eight years, with the majority falling somewhere in between and representing a broad range of maturity levels.

MATURITY OF SHARED SERVICES



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About Kincentric

Kincentric, a Spencer Stuart company, approaches human capital differently – we help you identify what drives your people so they can drive your business. Formerly a part of Aon, our decades of expertise in culture and engagement, leadership assessment and development, and HR and talent advisory services enable us to help organizations change from the inside. And our global network of colleagues, our proven insights and our intuitive technologies give us new ways to help organizations unlock the power of people and teams – fostering change and accelerating success. For more information, please visit www.kincentric.com.

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