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# HUMAN RESOURCES TECHNOLOGY AND SERVICE DELIVERY TRENDS IN 2014

## Executive Summary Research Report

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This survey co-sponsored by



## WHAT THE 2014 SURVEY FINDINGS MEAN TO YOU: IMPROVING THE USER EXPERIENCE

Information Services Group (ISG) conducted an Industry Trends in Human Resources Technology and Service Delivery Survey in February 2014 that explored the changing landscape of HR technology and service delivery. **The key theme from this year's survey is that an improved "User Experience" tops the list of expected benefits from implementing both new HR technologies, such as Workday or SuccessFactors, as well as new HR delivery models, such as HR outsourcing or shared services.**

For the past two years the sourcing advisory practice at ISG has been increasingly focused on helping human resource technology buyers select and contract for human capital management (HCM) software-as-a-service (SaaS) solutions. The expanding marketplace pits Workday against Oracle HCM Cloud and SuccessFactors, and Ultimate against Ceridian DayForce and ADP Vantage.

ISG's experience has found that the software platforms competing in the large-client market (Workday, Oracle HCM Cloud and SuccessFactors) or the midmarket (Ultimate, Ceridian DayForce and ADP Vantage) generally have similar functionality. The way different user groups "experience" the competing SaaS HCM solutions heavily influences a client's HCM decision, which is why ISG recommends that companies conduct back-to-back scripted software demonstrations with their short listed providers to solidify their software decision.

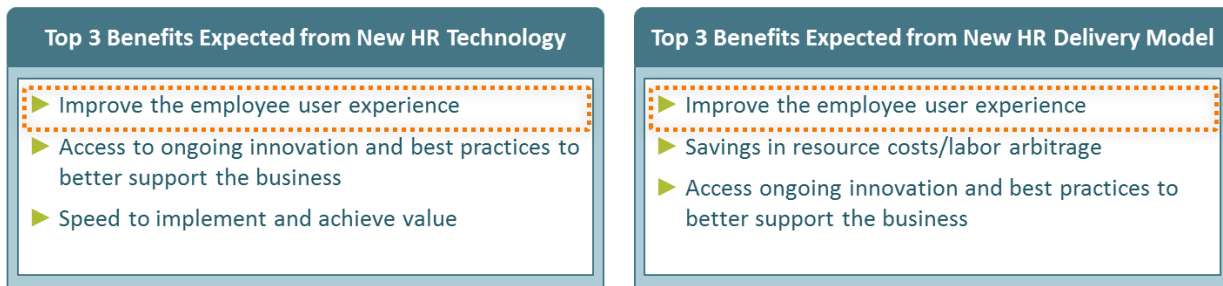
So what do companies such as Workday do to deliver an enhanced user experience? They provide a simpler, faster and smarter user interface for users. They partner with leading social and consumer Internet brands to enhance their user interfaces. They highlight search in their Internet design to ease navigation. They change the underpinnings of the application to an HTML5 foundation and they go into each individual transaction and redesign it with simplicity in mind, taking out extra clicks, extra icons and extra colors to make the user experience more intuitive.

The latest innovations in human resource technology and service delivery present organizations with the opportunity to reimagine the employee, manager and executive experience in ways that increase user productivity, engagement and adoption.

Organizations that are looking to transform their HR service delivery should begin planning now to replace their traditional ERP and human resource (HR) point solutions with a unified, cloud-based human capital management (HCM) solution supported by a contemporary HR service delivery model that is designed to deliver a consistent global employee experience. However, ISG does not believe organizations should make this journey for cost savings alone. The real value lies in:

- Advances in cloud technology that create massive economies of scale and allow customers to benefit from SaaS HCM providers' continuous innovation investments;
- Business process frameworks offering process workflows that can be configured by functional business resources, thereby reducing reliance on IT;
- Real-time workforce visibility and flexibility that enable organizations to respond to changing market conditions, emerging markets and growth objectives;
- User interfaces that deliver a consumer-like experience, including mobile and social capabilities, driving usability and user adoption;
- Service delivery models that extend the user experience through wraparound portals, inquiry support through chat and call center, and integration to surrounding business processes;
- Service delivery models that deploy new shared services operating approaches that reflect a strategic approach to outsourcing and position the HR function to make a greater contribution to the organization's strategic and reputational objectives.

**Figure 1: Top Expected Benefits from New HR Technology and Delivery Models**



Source: ISG 2014 Industry Trends in Human Resources Technology and Service Delivery Survey

While an improved user experience topped the list of expected benefits from implementing new HR technology and HR delivery models, another expected benefit was access to ongoing innovation and best practices to better support the business. The shared, multi-tenant nature of SaaS HCM solutions allows SaaS and HR outsourcing service providers to focus their improvement dollars, which in turn dramatically increases the pace of innovation they pass along to their customers.

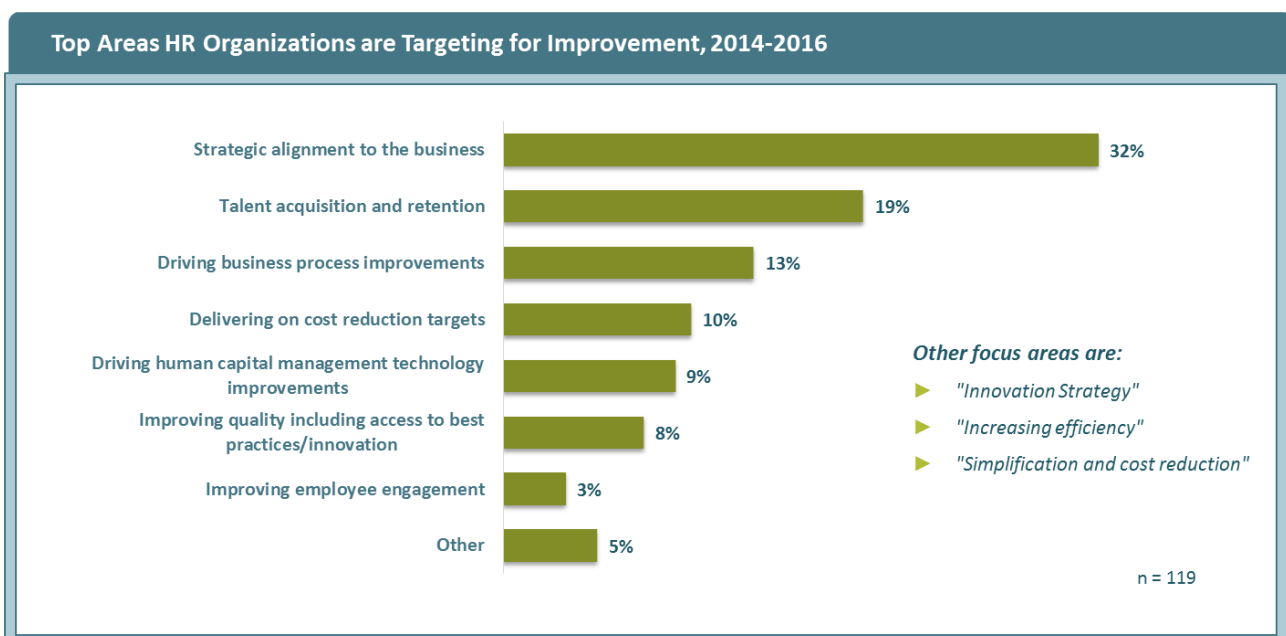
The key findings from ISG's 2014 Industry Trends in Human Resources Technology and Service Delivery Survey are explored in more detail in the following section of this report.

## KEY SURVEY FINDINGS

### Top Improvement Areas for 2014-2016

Improving strategic alignment with the business is the leading area that HR organizations are focusing improvement efforts on for 2014 to 2016, according to the ISG survey (see Figure 2). Nearly a third of respondents (32 percent) cited strategic alignment as their top improvement area, placing it comfortably ahead of second-ranked talent acquisition and improvement, which was cited by 19 percent of respondents. Improving business processes followed with 13 percent, and delivering on cost reduction targets ranked fourth, as 10 percent of respondents cited it as their key focus area for improvement. Driving Human Capital Management technology improvements (9 percent) completed the top five. Organizations are looking at a rich mix of solutions to help achieve their improvement goals, including adopting new technology, building shared services organizations and outsourcing.

**Figure 2: Top Areas HR Organizations are Targeting for Improvement, 2014-2016**



Source: ISG 2014 Industry Trends in Human Resources Technology and Service Delivery Survey. Responses do not total 100 percent because of rounding.

## Software as a Service (SaaS) is the Future for Human Capital Management

While licensed, on-premise software is still the predominant deployment method for HR systems, the survey found HRMS systems are being replaced by SaaS HCM solutions nearly as often as upgrades. ISG Emerging Technology Analyst Stanton Jones reports that [demand for software-as-a-service \(SaaS\) is surging](#) as enterprise SaaS providers are increasing revenues by double digits and are making significant inroads into large organizations, while simultaneously taking market share from their on-premise competitors.

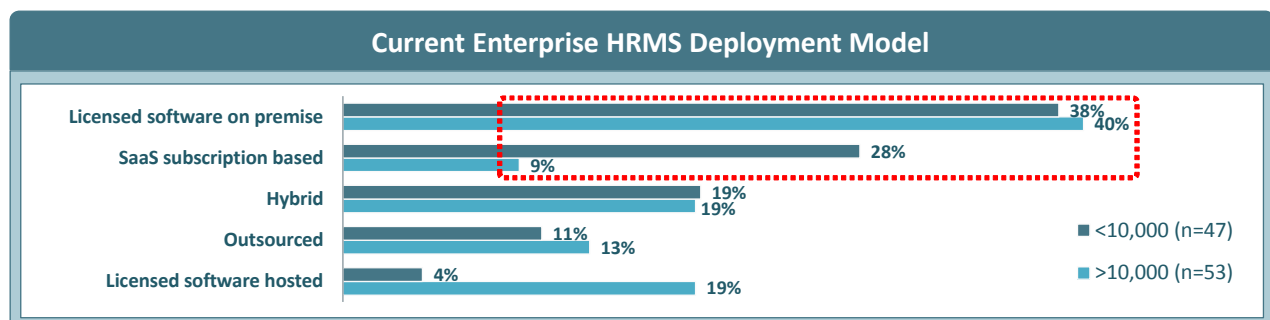
Shared, multi-tenant platforms create strategic advantages for CHROs looking to transform their business models and ensure that they will continue to reap the benefit of technology improvements delivered through regular releases. Based on ISG's client experience, the most common objectives companies are looking to achieve when contemplating an SaaS HCM solution are:

- A globally consistent and improved user experience;
- Scalable, end-to-end processes that deliver better functionality;
- Improved talent management, and better decision making through workforce insights;
- Highly configurable solutions that are fast to deploy, provide continuous innovation and reduce dependence on IT.

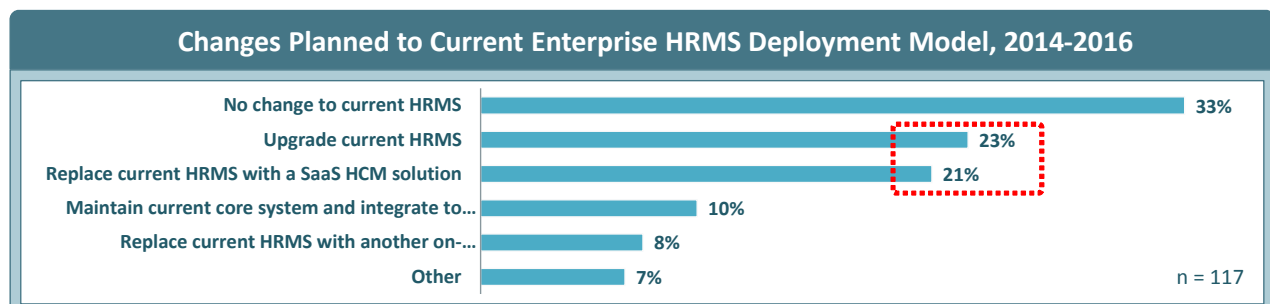
Since 2012 there has been significant consolidation in the HCM landscape. IBM purchased Kenexa on the heels of [SAP acquiring SuccessFactors](#) and [Oracle acquiring Taleo](#). These acquisitions reinforce that cloud has become the dominant delivery model for human capital management solutions. Leading HCM software providers have generally acknowledged that cloud is their preferred delivery model by directing current and future investments primarily to the cloud.

However, not all client organizations are ready to jump on this fast-moving train; more than one third plan to “do nothing” with their current HRMS in the short-term as they wait and see how the market develops. Figures 3 and 4 show how enterprises currently have HRMS deployed and how they plan to change it (if at all) by 2016. A third of respondents are not planning any changes to their current HRMS and 23 percent expect to upgrade the current version. These totals each exceed the 21 percent of respondents that plan to replace their current HRMS with an SaaS solution.

**Figure 3: Current Enterprise HRMS Deployment Model**



**Figure 4: Changes Planned to Current Enterprise HRMS Deployment Model, 2014-2016**



Source: ISG 2014 Industry Trends in Human Resources Technology and Service Delivery Survey

The top concerns about moving to an SaaS HCM delivery model include security and data privacy, inability to customize, and the ability to retain configuration resources in a hot market for experienced talent.

Security is a persistent concern with any SaaS and cloud services and it can be difficult for clients to compare and assess the security competency of prospective solution providers. ISG observes that in the world of multi-tenant services, providers identify industry standards and frameworks they choose to audit themselves against (e.g. SOC1, SOC2, ISO 27001, PCI) and hire external auditors to provide an attestation or certification against said standards and frameworks. The provider then shares these results with clients, usually under nondisclosure agreements, at prescribed intervals. This is an epic shift for enterprise IT buyers who are accustomed to dictating security requirements and auditing those requirements themselves. This [ISG blog post](#) provides additional insight on this topic.

Companies can get comfortable with this shift by researching the aforementioned standards and certifications and implementing risk mitigation strategies such as subscribing to an optional Customer Audit Program. Figure 5 below provides an overview of a security audit model clients can use to verify multi-tenant cloud vendors.

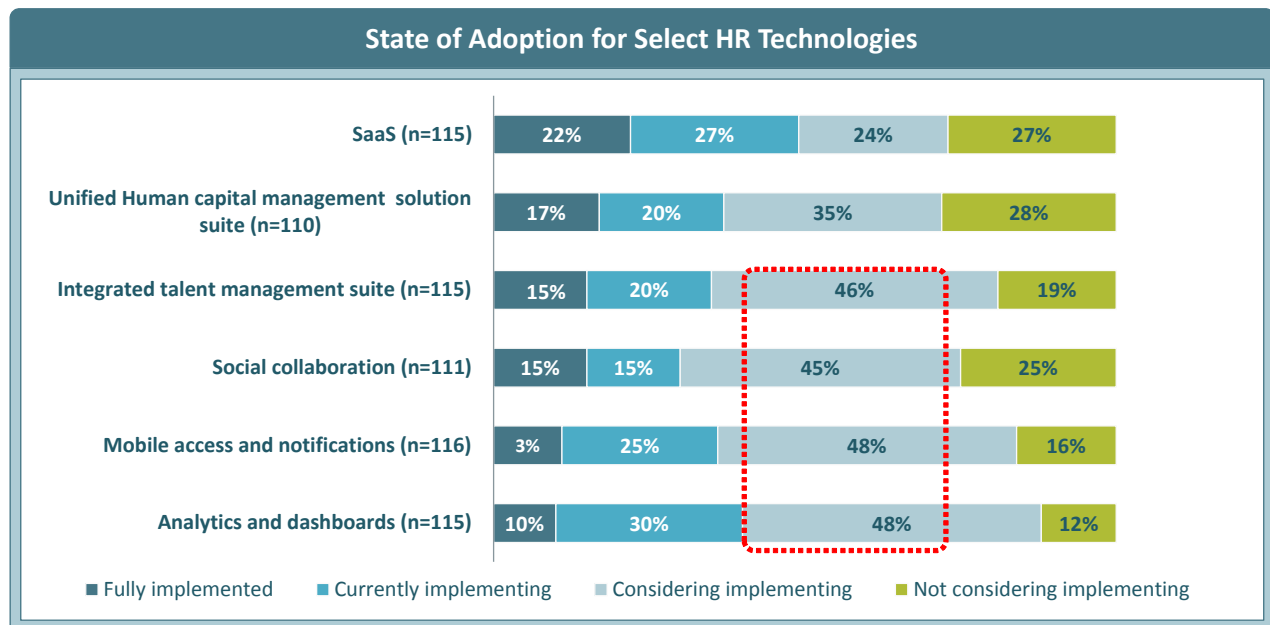
**Figure 5: Client Audit Model for Vendor Security in a Multi-Tenant Cloud**



### Mobile, Social, Analytics and Integrated Talent Management are Top Priorities

Mobile, social, analytics and integrated talent management are top priorities for future technology investment. While only 3 percent of respondents have already deployed mobile HCM solutions in their enterprises, 25 percent are currently in the process of doing so, suggesting a huge short-term uptick (see Figure 6).

**Figure 6: State of Adoption for Select HR Technologies**



Source: ISG 2014 Industry Trends in Human Resources Technology and Service Delivery Survey

HCM solutions that leverage mobile devices to radically change the user experience are gaining significant traction. Employees have become accustomed to an unprecedented convenience for accessing information online, whether through mobile phones, tablets or personal computers. They expect HR applications to be as simple, intuitive and task-oriented as participating in social media, banking online or securing a flight. SaaS HCM providers have responded by adopting a “mobile first” design philosophy that has improved the mobile user experience and dramatically expanded the tasks users can perform on their mobile devices. This increases self-service adoption, especially with populations that do not have access to PCs or other traditional delivery channels.

Transformation is not driven by social, mobile, analytics and cloud (SMAC) technologies alone. Because SaaS HCM solutions are delivered using a shared, multi-tenant architecture, providers can focus on innovation rather than supporting old code and hardware. When providers are allowed to put their focus on the windshield, rather than the rear-view mirror, the pace of innovation accelerates.

Dedicated, single-tenant platforms have limited ability to take advantage of innovation and productivity improvements. These assets are typically refreshed every three to five years, and assuming a five-year cycle, 15 new releases and two doublings in processing power will take place while the dedicated assets sit idly by. So, rather than simply implementing SMAC technology to drive transformation, ISG advises clients to use multi-tenant architecture to improve the user experience through continuous improvement.

This assertion is supported by [research from CedarCrestone](#) that found HR organizations are achieving significant value from social, mobile, and analytics solutions. CedarCrestone predicts mobile-enabled processes will almost double by 2014. ISG concurs with this prediction based on our experience helping clients select their technology for the future, and on our own survey results.

**Figure 7: Current and Planned Technology Enablement of HR Processes**

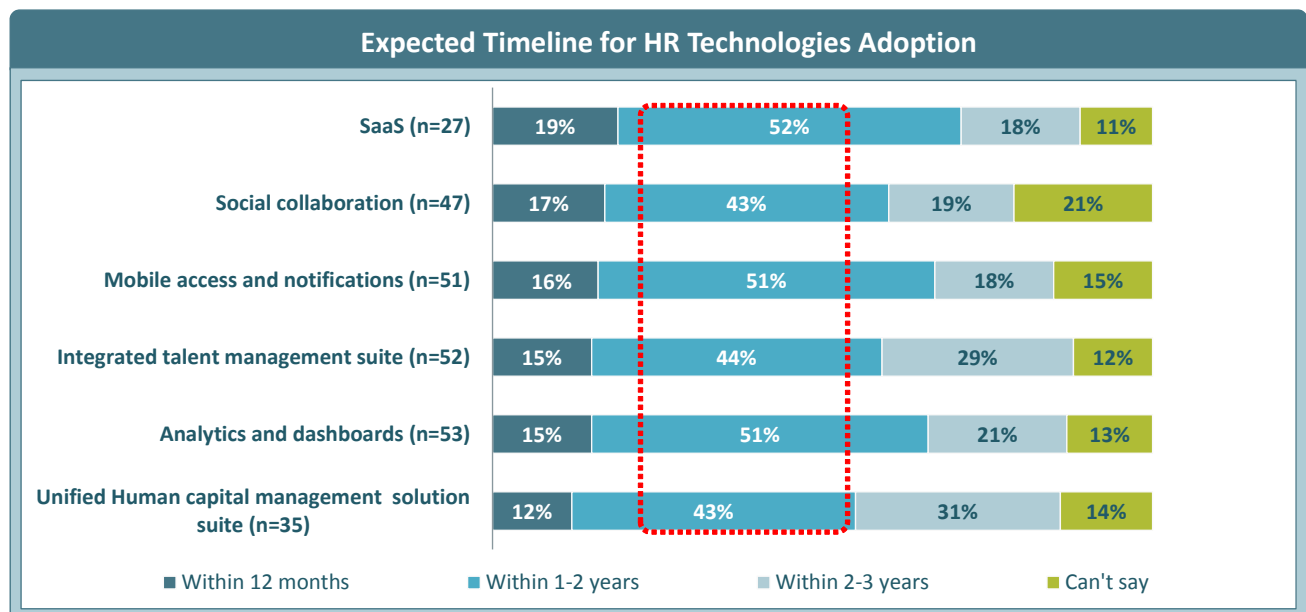
	Today	In 12 Months
Recruiting (all workforce)	15%	21%
Learning and development	12%	19%
Performance management/Goal management	10%	16%
HR management/record keeping	9%	16%
Time and labor/time and attendance	7%	10%
Business intelligence/workforce analytics	6%	11%
Compensation	5%	9%
Succession planning/management	5%	9%
<b>Average workforce adoption across all social-enabled applications</b>	<b>9%</b>	<b>14%</b>
Recruiting (recruiting staff)	48%	55%
Recruiting (hiring managers)	17%	25%

Source: CedarCrestone 2013–2014 HR Systems Survey

### Many Companies Plan to Implement New Technology Within Two Years

Savvy companies are investing in technologies that provide the greatest near-term innovation and advances in service delivery, and are exploring the potential of newer offerings on the horizon. However, companies are no longer waiting on the sidelines to see if these new technologies will deliver on their promises. More than half of respondents plan to implement SaaS, social, mobile, analytics, unified HCM and other HR technology solutions within the next two years, as shown in Figure 8.

**Figure 8: Expected Timeline for HR Technologies Adoption**



Source: ISG 2014 Industry Trends in Human Resources Technology and Service Delivery Survey

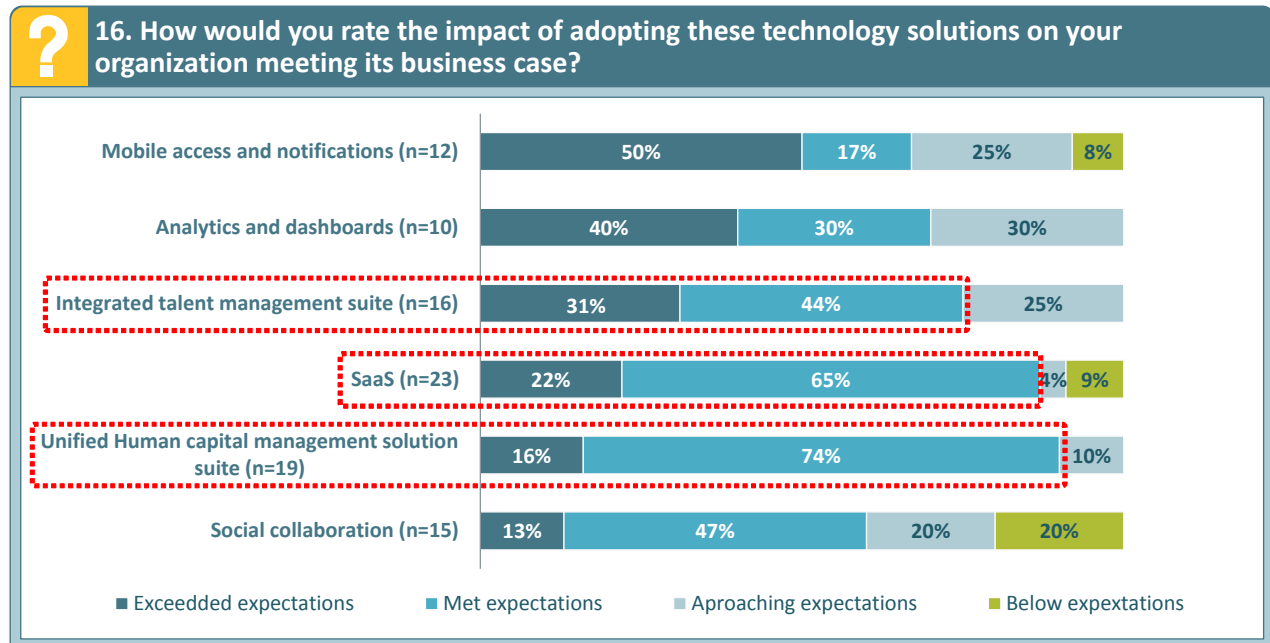
### Companies believe that Unified HCM, SaaS and Integrated Talent Management Deliver Business Case Benefits

Organizations that have already adopted these technologies have generally been satisfied with the results. Ninety percent of unified human capital management system users said the implementation met or exceeded expectations, which was the top satisfaction rating for any technology solution (see Figure 9). SaaS and integrated talent



management were the next-highest rated solutions. Interestingly, no users of analytics and dashboards or integrated talent management systems said implementation results were below expectations.

Figure 9: Satisfaction with HR Technologies Adoption



Source: ISG 2014 Industry Trends in Human Resources Technology and Service Delivery Survey

ISG observes there can be a dissonance between the financial business case benefits customers expect and the financial benefits that may be delivered, especially for organizations that are contemplating a move to an SaaS HCM solution. Prior to performing a financial business case, customers expect:

- SaaS will be cheaper to implement
- SaaS will be cheaper to run
- They will only have to pay for what they use

ISG finds that one or more of these assumptions are not always true. Here's why:

**Implementation costs are not always less** – Although SaaS platform implementations for human resources can typically be completed much faster than on-premise licensed software because of the lack of customization, the overall implementation cost is not always significantly lower. Multiple factors affect implementation cost, including the client's current hosting environment, its ability to sunset existing enterprise resource planning (ERP) systems and any associated hosting, the number of interfaces, and — importantly — the client resources available to assist in the service configuration.

**Financial terms are usually heavily weighted to the supplier** – Most SaaS HCM providers ask for a significant amount of cash up front, as much as 50 percent of the SaaS contract. Payment is also expected to begin when the contract is signed, not when the solution is implemented. Terms generally cannot be canceled and subscription fees cannot be reduced over the course of the term because of volume reductions. ISG is also seeing SaaS HCM providers ask for prices to increase, in the form of CPI index or a fixed amount, in the out years of the subscription. Up-front fees, rate increases and payment schedules are the most common issues that delay or derail SaaS HCM contract negotiations.

**The engagement needs to cover a sufficient period to avoid at least one upgrade** – Clients generally should not expect a significant savings when comparing monthly subscription fees for SaaS to the all-in cost of traditional ERP, which includes the amortized license cost, the software maintenance fees and the hosting and support costs. In fact, ISG is finding that in a short-term business case (say three years) where an upgrade may not occur in a traditional model, SaaS may actually be slightly more expensive. The real savings from SaaS come from avoiding upgrades. Therefore, to be cost effective an SaaS engagement needs to extend long enough to account for at least one traditional ERP upgrade, and that could mean at least five to seven years. At that length of time, the SaaS model becomes *significantly* more cost effective due to the cost avoidance from a large-scale upgrade.



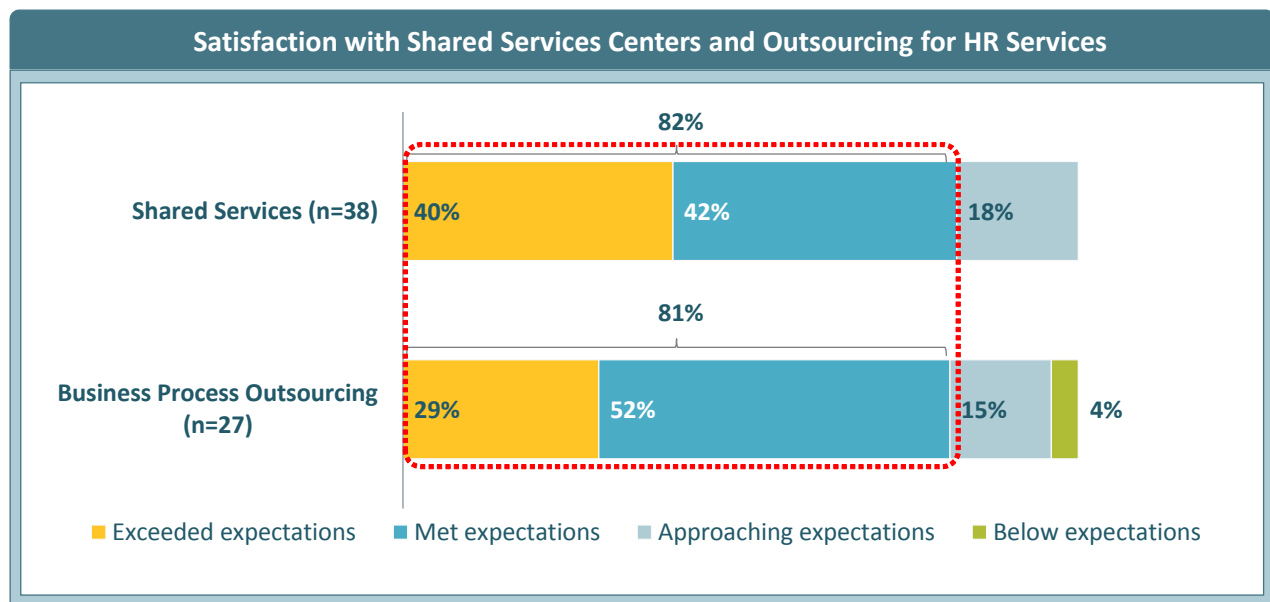
Unlike a traditional ERP model where the client typically procures the licenses and hardware up front and depreciates the cost over the useful life of the assets, SaaS monthly subscription fees are expensed as incurred. Depending on how a company looks at the business case (P&L versus cash), this accounting treatment change, coupled with the size of the investment, can have a significant impact on the financials.

To mitigate the risk of unanticipated contract negotiation or implementation delays, ISG recommends that organizations develop a strategy that produces financial business case options modeled over a five-to-seven-year horizon before they go to market for new HR software. The business case should focus on investments, savings and implications to the organization's broader HR service delivery model. Other factors that affect employee engagement and how quickly the business can respond to change should also be factored in. These include the qualitative benefits associated with flexibility, scalability and an improved user experience.

### SaaS HCM Triggers the Need to Reevaluate a Company's HR Service Delivery Model

Two thirds of respondents have either implemented or are in the process of implementing an internal or external HR shared service center (SSC). Shared service centers have proven successful for HR operations, as 82 percent of respondents that have implemented them said the effort met or exceeded their business case expectations (Figure 10). A nearly identical percentage (81 percent) said HR outsourcing met or exceeded business case expectations.

**Figure 10: Satisfaction with Shared Services Centers and Outsourcing for HR Services**



Source: ISG 2014 Industry Trends in Human Resources Technology and Service Delivery Survey

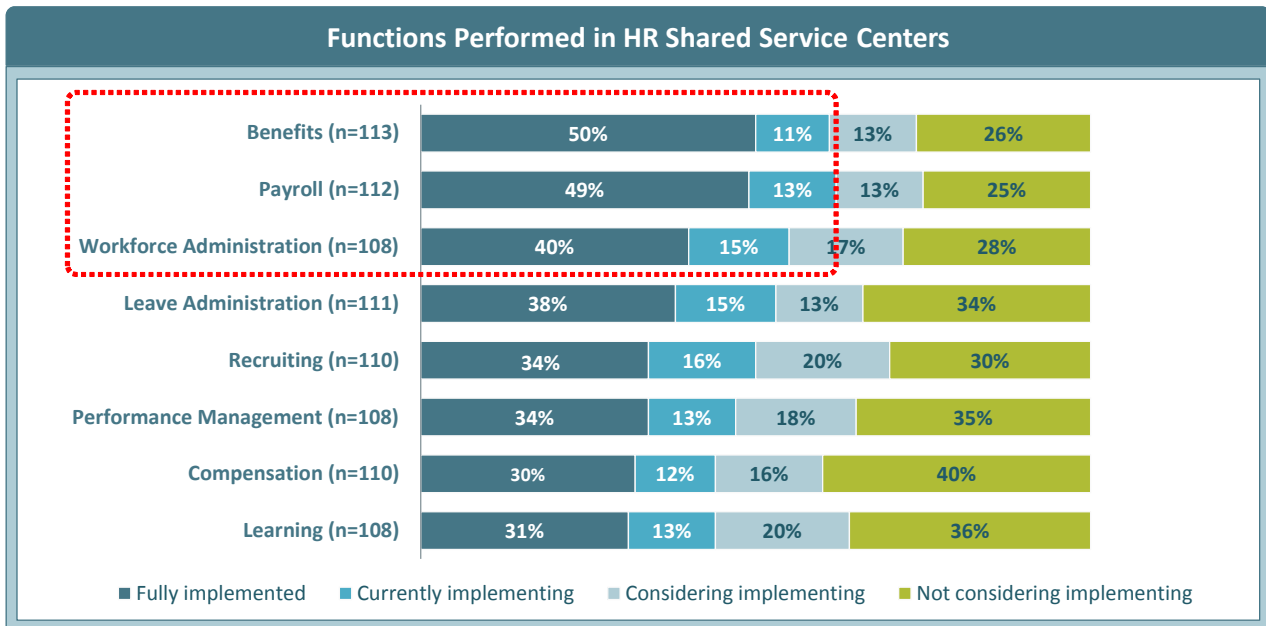
ISG believes that when organizations are considering HR software decisions they should also revisit past service delivery decisions. ISG observes the companies that “get it” when it comes to improving service delivery recognize that delivering a consistent global user experience is not about technology alone. It is also critical to have end-to-end processes built around redesigned roles and responsibilities supported by service level agreements and solid governance.

Companies that do this successfully begin their transformational journey first and foremost by defining their desired business outcomes. Next they establish guiding principles that they use to anchor their technology, process, structure and sourcing decisions. To capitalize on the lessons of others, most select a transformation partner to guide them on their journey.

### Benefits, Payroll and Core HR are the Predominant Functions in HR SSCs

HR shared service centers are most commonly used for benefits, payroll, workforce administration and leave administration functions, as shown in Figure 11. Half the respondent organizations with HR shared service centers also use them for recruiting services or are currently implementing recruiting capabilities.

**Figure 11: Functions Performed in HR Shared Service Centers**



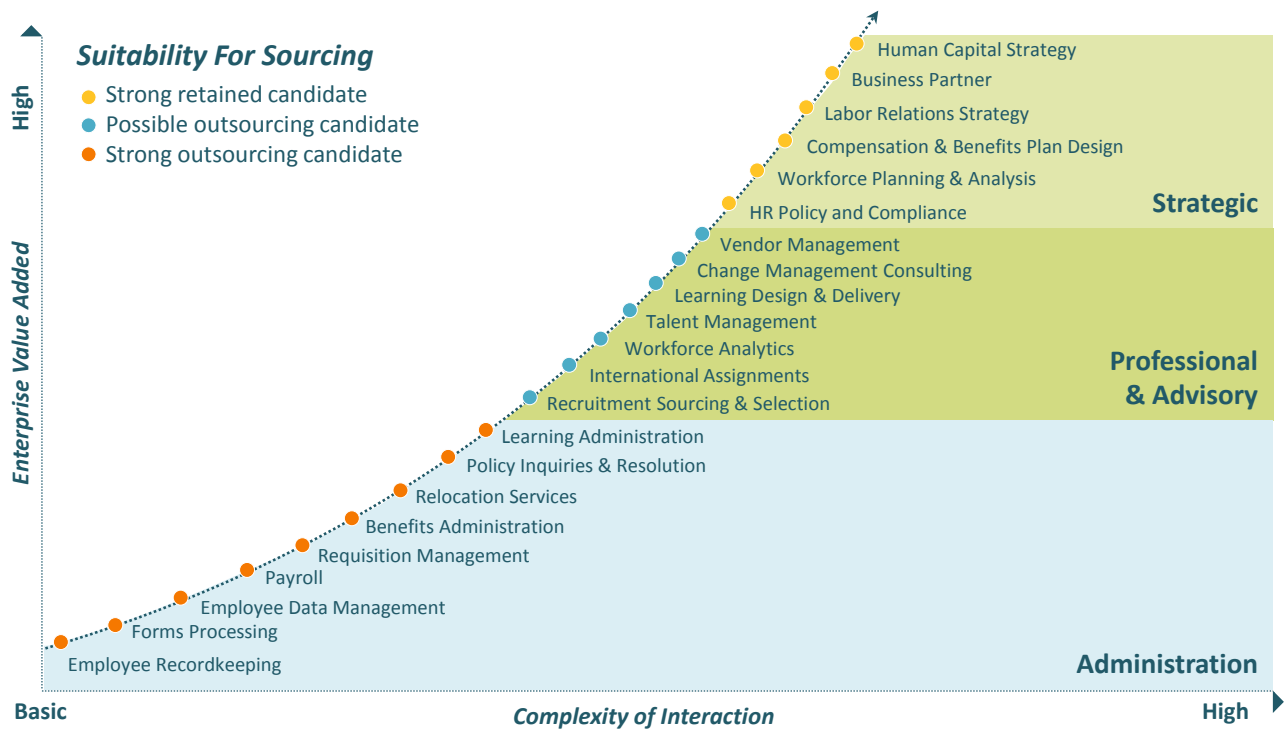
Source: ISG 2014 Industry Trends in Human Resources Technology and Service Delivery Survey

The SSC utilization is consistent with the ISG Process Level Perspective on HR Services (see Figure 12), but raises the question of what is a “leading practice” approach to sourcing HR functions? ISG has helped many large and mid-sized companies use “sourcing” (insourcing, outsourcing or hybrid) to realize the future state of HR service delivery. More mature organizations go beyond sourcing administrative functions and source professional and advisory activities that drive talent identification, attraction, development and movement across the enterprise to support rapid execution of corporate transactions.

ISG observes that leading companies:

- Deploy new shared services operating approaches
- Implement improved technology and tools
- Outsource strategically

Figure 12: Suitability for Sourcing Specific HR Functions



Source: ISG Process Level Perspective on HR Services

## CONCLUSION

ISG believes organizations can take advantage of emerging human resource technology and service delivery models to improve efficiency, responsiveness and support organizational transformation. Enterprise clients seem to agree, based on ISG data on technology adoption plans and satisfaction with previous initiatives. The time is now to capitalize on these innovations and accelerate realization of tangible business benefits.

## LOOKING FORWARD

### Key Considerations

Organizations that are considering implementing new HR technology or service delivery models should be prepared to answer these questions:

- Do you have stakeholder alignment on the objectives and desired outcomes from the new platform or model?
- Have you modelled the financial impact of making this change, both investments and savings, over a 5 - 7 year time horizon?
- Have you clearly documented and prioritized your requirements and reached an understanding of which you are willing to forego in a standardized model?
- Do you have a full understanding of the market alternatives that match your requirements (considering size, scope, geographies, etc.)?
- Does your organization fully comprehend the impact your technology decisions will have on your current HR service delivery model and existing sourcing decisions?
- Does your service delivery model extend the user experience through wraparound portals, inquiry support through chat and call center, and integration to surrounding business processes?
- Does your service delivery model deploy new shared services operating approaches, implement improved technology and tools, and reflect a strategic approach to outsourcing?

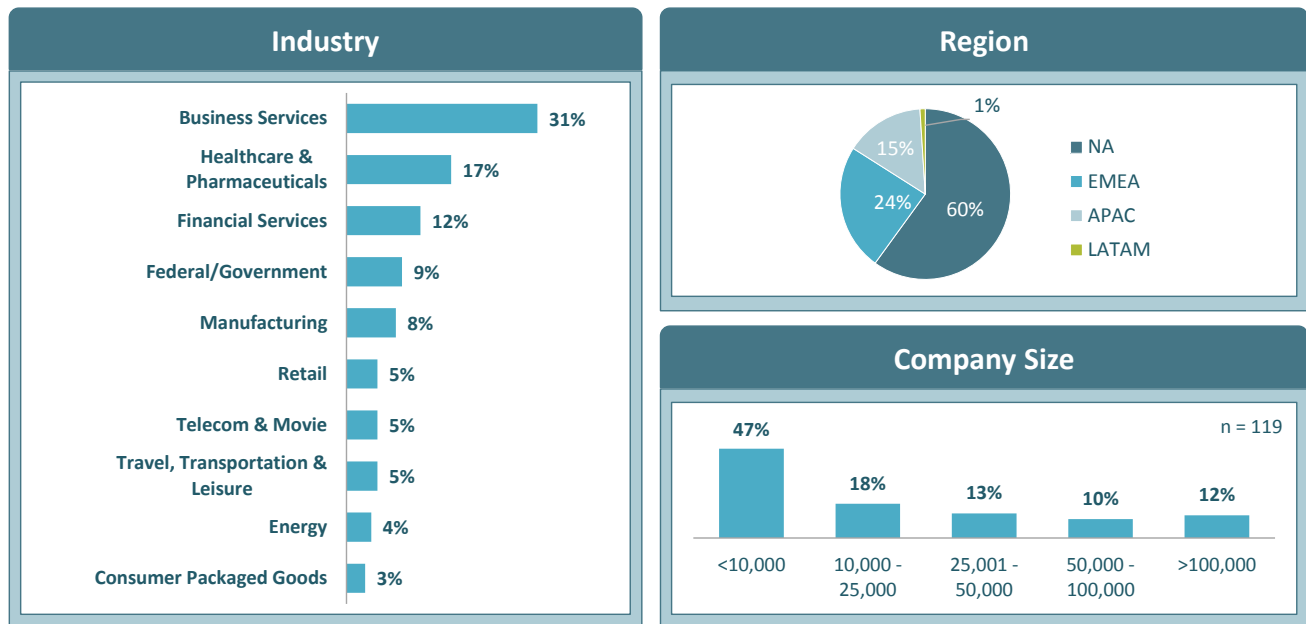
## APPENDIX

### About the Survey

ISG's 2014 Industry Trends in Human Resources Technology and Service Delivery Survey was conducted during February 2014. In total, 119 respondents participated.

- Approximately 40 percent of the survey sample was from companies operating primarily outside of the North American region.
- About half of the responses came from organizations with more than 10,000 employees.
- The survey responses came from a broad range of industries, with the largest number concentrated in Business Services, Healthcare & Pharmaceuticals and Financial Services.

**Figure 13: Respondent Demographics by Region, Company Size and Industry**



Source: ISG 2014 Industry Trends in Human Resources Technology and Service Delivery Survey



For a deeper discussion on these topics,

Contact **Debbie Card** at [debora.card@isg-one.com](mailto:debora.card@isg-one.com) or **Maribeth Sivak** at [maribeth.sivak@isg-one.com](mailto:maribeth.sivak@isg-one.com)

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