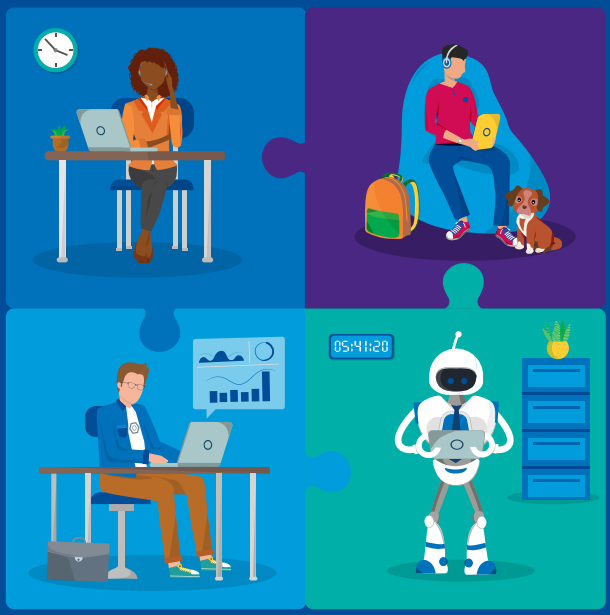
Future of HR 2020: Which path are you taking?

How HR organizations across the globe are shaping a workforce and people function fit for the future



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Foreword

By Mark Spears
Global Head of People & Change, KPMG International
Partner, KPMG in the UK

The HR function is dealing with a range of questions: How can it prove its relevance within its organization and bring strategic value? How can HR design an employee experience that responds to evolving demands? And how can it utilize technology to truly understand the needs and motivations of employees?

A particularly striking finding from our Future of HR 2020 survey — in which over 1,300 HR executives from across the globe participated — 3 in 5 HR leaders believe that the HR function will rapidly become irrelevant if it doesn't modernize its approach to understanding and planning for the future needs of the workforce. In short, organizations of all shapes and sizes across the globe generally agree that the HR function will cease to exist in its traditional form if it continues to operate or deliver in the same way.

> 3 in 5 HR leaders believe if the HR function doesn't modernize its approach, it may become irrelevant.

CEOs are similarly concerned about irrelevance. Two-thirds of the respondents to our 2019 Global CEO Outlook[1] agree that, if they don't adapt to the changing world, their business will become irrelevant. In such a scenario, the ambitions of the HR function become moot. This is why KPMG has invested heavily in a philosophy and approach designed to help our clients become *Connected Enterprises*.[2] These are organizations that not only survive in a digitally disrupted world — they thrive. They have eight common characteristics, such as *experience centricity by design, insight-driven strategies, digitally enabled technology architecture,* and *an aligned and empowered workforce.* The eight capabilities all work together and are mutually reinforcing. It's no good just having some of them. All eight create a revenue- and profit-driving "whole" that is greater than the sum of the parts and sets them apart from their competitors.

Our Future of HR survey reveals a very similar dynamic for a small subset of our global respondents. We have called this grouping *Pathfinding* HR organizations (approximately 10 percent of the survey sample). This confident group of HR executives are simultaneously focusing on four discrete capabilities to chart their course to the future in a disrupted world: shaping the workforce of the future, nurturing a purpose-driven culture, designing a "consumer grade" employee experience, and all through the use of evidence-based insights.

We recommend the report to anyone interested in the latest thinking from HR leadership around the globe about how the HR function is evolving and how they are reshaping their own future and those of their workforces.

Mark Spears

> **Pathfinding** (adj.): finding a new course or way, especially through or into unexplored areas

[1] 2019 Global CEO Outlook

[2] KPMG Connected Enterprise

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Introduction

By Robert Bolton
Global Head of People & Change Center of Excellence (CoE), KPMG International
Partner, KPMG in the UK

When we reviewed the first output of data from this year's survey, we were excited to see what we would find, as, indeed, we are every year. This year, at first glance, seemed to be a continuation of trends and themes that we have observed over the last three years, particularly the way in which the HR function seems to be dividing into various groupings. At one end are those that are fundamentally changing their focus and priorities in order to take on the challenges resulting from digital disruption; on the other, those preferring to stick with the "tried and true." But we quickly realized that, this year, the data has crystallized into something more definitive.

No matter where they're based, there is little doubt that HR functions are experiencing at least some level of adversity as they navigate through today's complex, ever-changing world. What is particularly interesting is how different HR groups are choosing to address these challenges. As Mark Spears mentions in the Foreword, we found that Pathfinding HR organizations seem to show a pattern of addressing four discrete areas of priority and actions in this respect. These HR executives seem to be universally confident in the strategic value their HR functions provide to their organizations. Their attitude epitomizes US founding father Benjamin Franklin's famous saying, "When you're finished changing, you're finished."

> "When you're finished changing, you're finished"
>
> **—Benjamin Franklin**

What are Pathfinding HR functions focusing on?

1. **Shaping the workforce for the future:** They recognize that existing workforce structures are being disrupted by new technology and business models, and they are seizing the opportunity to reshape the workforce and gain the full benefits of humans and machines working together.
2. **Shaping a purpose-led culture:** They understand that HR plays a vital role in shaping and maintaining a culture aligned with their business strategies and higher-level purpose.
3. **Shaping the employee experience:** They utilize techniques underpinned by design thinking to address the "moments that matter" to employees and understand that this mirrors the same core principles needed for customer centricity and experience design.
4. **Shaping decisions about people and the workforce by using insights from data:** They maximize the power of data science to generate predictive and actionable insights for the whole organization, and they are investing accordingly.

Any one of these things may not be unique and certainly not a defense against digital and economic disruption. What is unique is how they seem to work together for Pathfinding HR organizations — the four characteristics, in our view, mutually reinforce each other and are connected. This group is tackling them all, and we believe, this has an incredibly powerful and amplifying effect. How?

What we mean is, for example, one could argue that experience design without analytical insight could lead to self-indulgence. Workforce shaping and analytical insight without a purpose-driven culture may become an exercise in dehumanizing scientific management. Workforce shaping without analytical insight may lead to a continuation of the current workforce structures and an inability to see the "disruption iceberg" that is dead ahead.

Within this summary, we explore how these Pathfinding HR organizations are addressing their challenges and areas of focus and give our perspectives on why we feel they are charting a course toward a genuinely value-driving and connecting role in their organizations — shaping a workforce and people function fit for the future.

Robert Bolton

Which path are you on?

Pathfinding HR are the circa 10 percent of functions that our research suggests are value drivers in their organization and who have purposefully built capability in all four areas identified in this report in order to shape and prepare their workforce for the future.

There are other "types" of HR functions uncovered in analysis. Broadly, these fall into two categories as we read the results:

Searching HR are those functions who are building capability in mainly one or two of the capabilities in our report. They make up about 80 percent of our sample, and chiefly, it is experience design followed by culture that are their prominent areas of focus. This, of course, begs the question: how are they preparing for digital disruption and building, with evidence, their workforce of the future?

Disconnected HR are those who seem not to seek a strategic role for their function. They are administrative in nature and do not focus on any of the four identified capabilities. This may be appropriate in their organizational context, but we do not see this as a viable future for HR or a way to remain relevant.

Key findings

Shaping the workforce is HR's defining challenge

— Over half (56 percent) of HR respondents agree that **preparing the workforce** for Artificial Intelligence (AI) and related technologies will be the **biggest challenge** for the HR function.

— Three-quarters (76 percent) of Pathfinding HR organizations agree that HR needs **actively to challenge the future workforce composition** (who to buy, build, borrow, bot) in order to meet the future needs of their organizations.

— To manage the impact of AI (and related technologies) on the workforce, **2** in **3** (66 percent) HR executives are **prioritizing upskilling** of the workforce. For Pathfinding functions, it's even higher — close to 3 in 4 (74 percent).

Passing the "culture test"

— 61 percent of all respondents are in the process of **changing their organization's culture** to align with their organization's purpose.

— Pathfinding HR organizations were 6x more likely to "strongly agree" that they have a strategy in place to continuously **monitor and maintain the right culture** for their organizations.

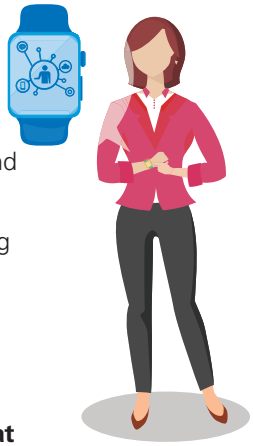
— 71 percent of Pathfinding HR organizations "strongly agree" that their organization is playing a **vital role** in establishing the right culture, and 5x more "strongly agree" that they have **dedicated roles** in HR that focus on purpose and culture.

Employees in the driving seat: The importance of employee experience by design

— 95 percent of respondents are prioritizing employee experience (EX) as a focus area, and Pathfinding HR organizations were almost 3x more likely to "strongly agree" that employee experience is a **strategic priority for the entire organization**.

— 75 percent of Pathfinding HR organizations have a strategy in place to design an **EX** that mirrors and supports the customer experience.

— Almost half (46 percent) of Pathfinding HR organizations identify **design thinking** as a top skill required by the HR function to add value to their organizations. This capability is used in the context of experience design efforts to address the **"moments that matter"** to different types of workers.

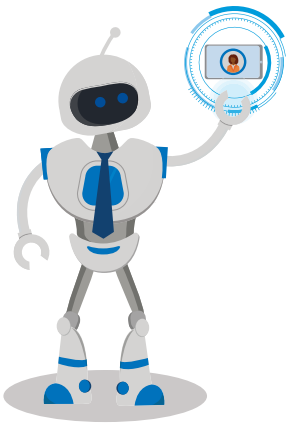


Breaking the cycle: How Pathfinding HR functions are cracking the data code through workforce insight

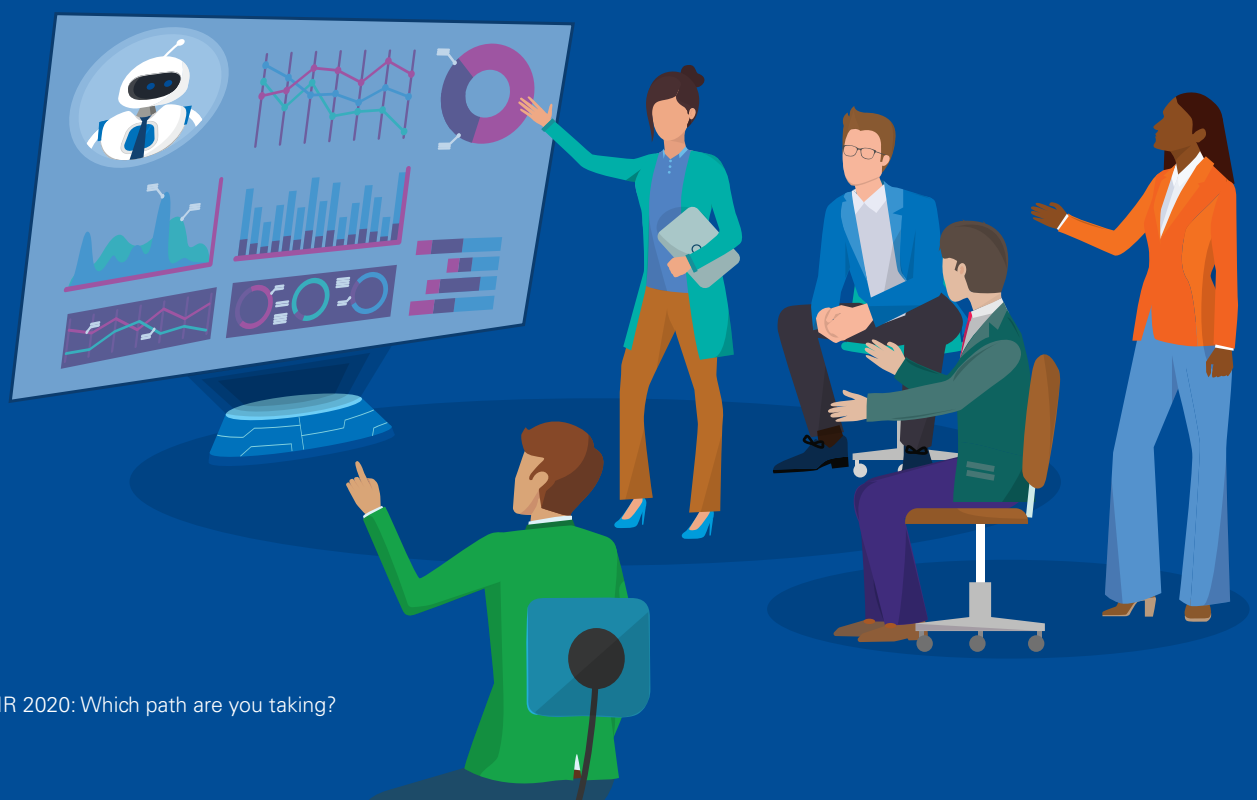
— 40 percent of all respondents identify **enhancing analytics capabilities** as among the top three reasons for their organizations' investment in HR technology. Pathfinding HR organizations highlighted HR analytics and HR automation (via Robotic Process Automation, or RPA) as their top two technology investment areas.

— Almost half (45 percent) of Pathfinding HR organizations ranked **data modeler/scientist** within their **top three roles** to invest in within the next 2–3 years; they are almost twice as likely to invest in this role compared to their peers.

— Pathfinding HR organizations are already investing in HR analytics and RPA, and 35 percent plan to **experiment** with new technologies like **AI** within 2–3 years.



Workforce shaping is HR's defining challenge



First, what do we mean by "workforce shaping?"

— It's taking a scenario-based approach to defining the required workforce in 5–8 years' time.

— It's understanding how digital disruption and AI will change the overall shape, size, composition, and skills in the workforce and how humans and machines will work together to drive business value and a high-performing workforce.

The impact of the Fourth Industrial Revolution — the term used to describe the convergence of AI, RPA, Machine Learning (ML), and cognitive platforms — is forcing teams to shape their workforces to consist of all worker types, including permanent, gig, contingent, and machine. To use the 4Bs vernacular: buy, build, borrow, and bot.

This Fourth Industrial Revolution has irreversibly altered the genetic make-up of the modern workforce. Indeed, the Big Innovation Centre estimated that 65 percent of our jobs will not exist or will be done in totally new ways within 10 years.[3] Three in five HR executives from our survey agree, as they did last year, that AI will eliminate more jobs than it creates. Yet, the 2019 Global CEO Outlook, in contrast, confirmed again that CEOs continue to be more optimistic on the matter, with close to 70 percent expressing that AI will create more jobs than it eliminates. Regardless of what might happen, we must prepare for it, one way or another.

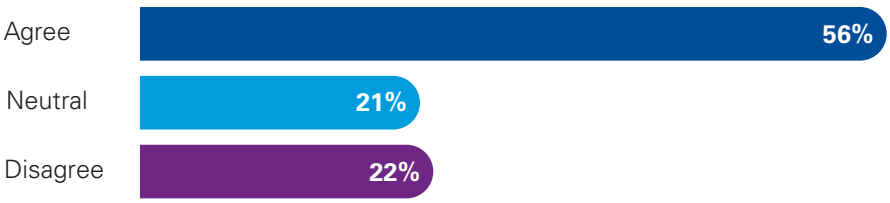
Over half (56 percent) of the respondents to our HR survey agree that preparing the workforce for AI and related technologies will be the biggest challenge for their function. And while most (87 percent) are prioritizing efforts around how to identify the future workforce composition (the 4Bs) HR leaders still seem uncertain about the best approach to do that. Some organizations have started replacing the debatable certainties of supply and demand forecasting of traditional workforce planning with workforce shaping to deal with the impacts of automation and AI.

Eugenio Soria, Vice President of HR at Siemens Mexico and Central America — a multinational conglomerate and the largest industrial manufacturing company in Europe — is experiencing this first-hand in his organization: "We are implementing more and more automation in our administrative processes. We are at a very early stage, yet this is gaining momentum. I envision that, during the next five years, we will see a really big jump in the number of tasks that will be automated, and we need to be prepared for this shift."

Did you know?

We found that respondents that expect their organizations to increase their reliance on contingent, temporary, and gig workers by 6–10 percent over the next 2–3 years are more likely to experience increased revenue growth year over year than those increasing reliance differently, in either direction.

Figure 1: Preparing the workforce for AI is HR's biggest challenge.



Note: Numbers may not add up to 100 percent due to rounding

[3] Big Innovation Centre

Committing to workforce shaping

The importance of using workforce shaping to break down and rethink traditional roles is largely understood by HR functions across the globe. For example, **Kristie Keast, Chief People Officer at steel-maker BlueScope**, confirms that the transformation is in full swing within her business and that it is a normal outcome of constantly challenging the status quo to do things better. "We are currently grappling with what the industrial revolution 4.0 means in terms of the displacement of the workforce, and the workforce planning we need to implement around this," she says. "While the automation of processes such as crane machinery within BlueScope has given us the opportunity to bring down costs and improve productivity, we do need to take into account the potential for the displacement of workforce or jobs. Workforce shaping is central to this aim, in order to accommodate new roles that might become apparent, and enabling employees to move seamlessly between vocations wherever possible," says Keast.

To meet the future needs of their organizations, HR needs to actively challenge who — or what — carries out the majority of traditional tasks. Ninety percent of Pathfinding HR organizations cite that identifying the future workforce composition is a strategic priority, and approximately 80 percent believe they are largely prepared to do so. However, over half of their counterparts report they are either not particularly, or not at all, prepared.

"Workforce shaping is not a case of doing traditional workforce planning harder and faster. In fact, workforce planning still has a role to play in many organizations. But from discussions with clients who are at the forefront of digital disruption, we find that workforce shaping should generally come first. It frames the more operational decisions and creates the context for action. It is, many clients argue, a new discipline for HR," elaborates **Paul Lipinski, Principal and Head of Human Capital Advisory at KPMG in the US**.

Where does upskilling fit into the equation? And how much?

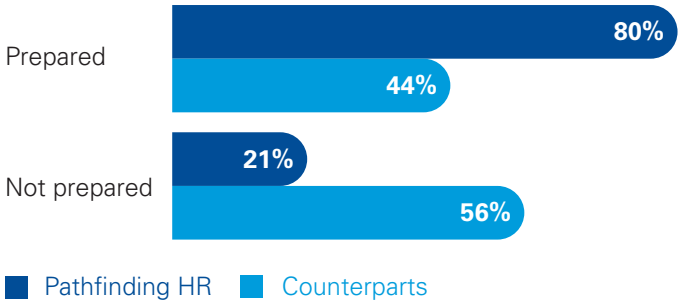
When we undertook a workforce shaping engagement at a global insurance company, it became clear that the quality of the outcomes was dependent on understanding a range of strategic choices with which the business was confronted. These choices had unique implications for not only the shape and size of the workforce but also the skills that would be required to execute successfully. One scenario, for example, emphasized digital and design thinking skills, but another emphasized supply chain and strategic supplier management skills. Alongside the need to understand fully the make-up and size of the future workforce, there's a critical need to understand how to upskill the current workforce (and how much of it) to meet those future needs.

Quick case study

A workforce shaping analysis enabled a global UK bank to identify that it needed to change its ratio of employees-to-contingent workers from 60:40 to 40:60, followed by a workforce reduction by 30 percent by the middle of the next decade. The key reasons are the evolving structure of the financial services industry and its impact on the value chain.

> "Workforce shaping is not a case of doing traditional workforce planning harder and faster."
>
> **—Paul Lipinski,**
> Principal, KPMG in the US

Figure 2: Most HR functions are not prepared to identify the future workforce composition.



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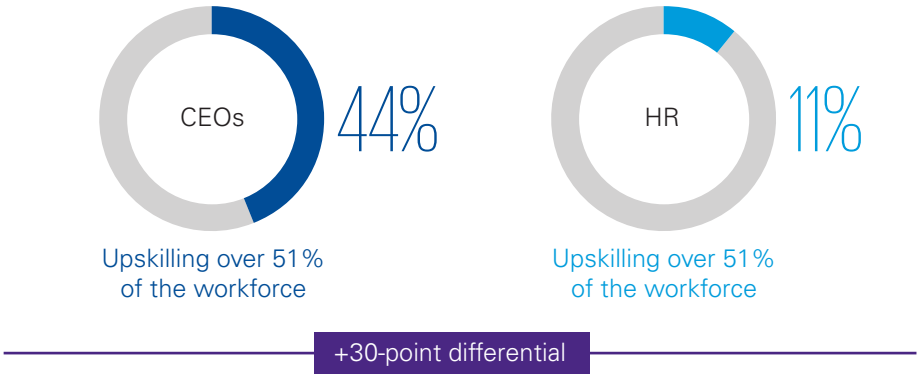
Marta Machicot, Chief People Officer at Telefonica, one of the largest telephone operators and mobile network providers in the world, discusses the need for upskilling at her organization. "We are moving from a traditional demographic approach to workforce planning to skill-based workforce planning," she says. "At Telefonica, we are committed to our people's growth and development. As our business has evolved from a traditional telco to a digital business, we have identified the need for new skills around big data, artificial intelligence, and cybersecurity, among others, to accommodate the changes taking place in the business around the workforce. We are working on massive reskilling programs as the answer to this challenge."

HR executives generally identify with the significant need to reskill the workforce. Two in three are prioritizing upskilling of the workforce to manage the impact of AI on the workforce, with 77 percent planning to upskill 1–30 percent of their workforce in digital capabilities over the next 2–3 years. CEOs seem to have a more aggressive agenda. According to the 2019 Global CEO Outlook, 44 percent of CEOs across major markets plan to upskill *more than half of their workforces* in new digital capabilities (such as advanced data visualization, ability to code, etc.) over the next three years (yet only 11 percent of HR executives plan to upskill that much of the workforce).

So, what's the verdict? Is there a magic number? While this is debatable and links back to the need to do proper workforce shaping, through our analysis, we found a very strong correlation between increased revenue over the last fiscal year and plans to upskill *11–30 percent* of the current workforce in new digital capabilities during the next 2–3 years. Organizations in this range are more likely to report increased revenue growth year over year than those upskilling a different proportion. While we estimate that, ultimately, the entire workforce will likely require some level of upskilling over the next several years, what this finding tells us is that companies with reported revenue growth are taking a well-thought-out and agile approach to upskilling. Any time upskilling occurs, a natural decline in performance follows, owing to the learning curve of adapting to the new work environment. Upskilling too many resources at one time may intensify the performance decline and, therefore, negatively impact revenue growth.

Figure 3: HR vs CEOs on upskilling need of majority of workforce.



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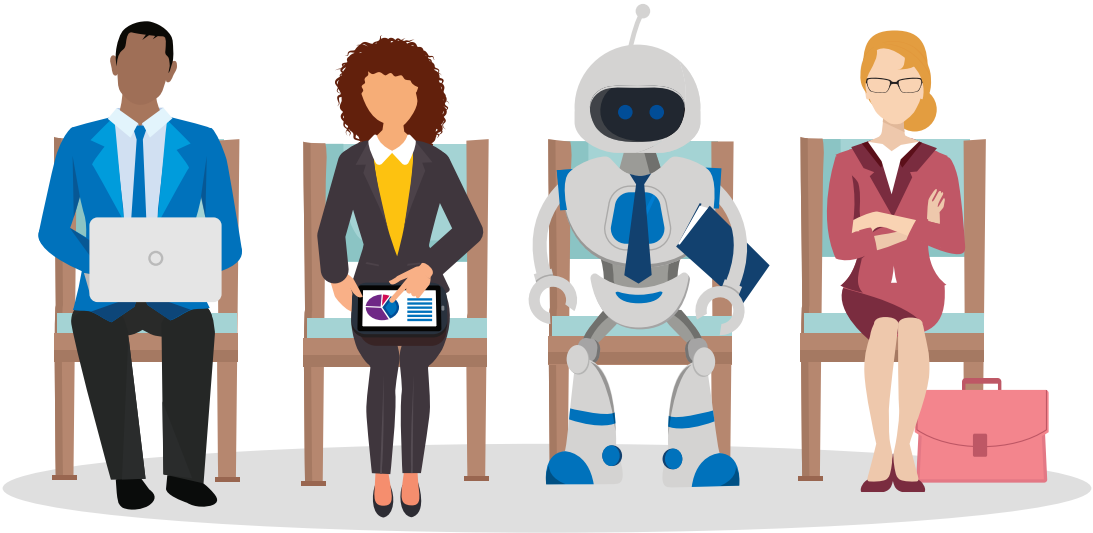


Quick case study

Take the world of healthcare. According to **Mark Britnell, Global Chairman, Healthcare, Government, and Infrastructure, KPMG International**,[4] health sector workers will need different skills within redefined roles that relate to each other in diverse new ways. For example, pharmacists may operate wellness centers, treatment and consultation will move to virtual interaction supported by AI, and care pathways will be completely redesigned via cognitive AI augmentation.

What does this all mean for future skills requirements in health? In a world with new clinical pathways, AI enablement, and evolving roles, diverse — and diversified — new skills will be in demand. We also suspect that there will be a greater need for generalists and traveling community workers, supported by cognitive assistance, AI, and robotics.

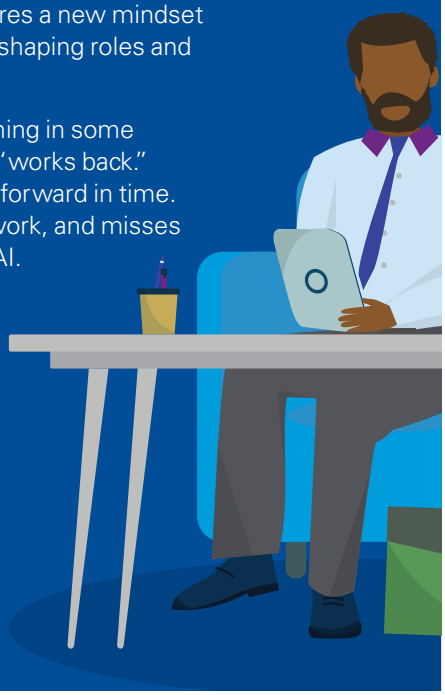
Interestingly, when our 2019 Global CEO Outlook asked about investment priority as it relates to upskilling, 68 percent of CEOs are still prioritizing investment in new technology versus 32 percent in workforce upskilling. If CEOs are to deliver on their desired (and aggressive) upskilling strategies, they need to provide the appropriate resources and funding for the learning and development of their workforces. What is clear is that CHROs and CEOs need to be connected and aligned on the workforce shaping agenda and strategies to support that agenda.

Carlos Morán, SVP of Human Resources and Organization at Cepsa, a Spanish multinational oil and gas company, couldn't agree more about the importance of C-suite engagement: "Strategy alone is not going to cause any change or transformation within an organization," he says. "Resources and efforts made to deploy an HR strategy will be useless if leadership is disengaged."

Jacqueline Welch, CHRO and Chief Diversity Officer (CDO) at Freddie Mac (Federal Home Loan Mortgage Corporation), a government-sponsored enterprise in the secondary mortgage industry, explains her organization's positive experience of reshaping the workforce. "At Freddie Mac, a lot of the work taking place in the modeling environment is being supplemented by machine learning. So, rather than an individual cross-checking someone's work, you now have machine capability that can do that." She adds, "We have not yet experienced what most people are concerned about, which is the idea of wholesale jobs being eliminated. What we are experiencing is minute tasks, specific tasks, being augmented by machine learning and other technological capabilities."

Five ways Pathfinding HR organizations are shaping the workforce of the future:

1. Devoting time and resources to workforce shaping as an entirely new discipline capable of responding to continuing disruption. The world of work is changing and requires a new mindset and actions. Pathfinding HR organizations are investing heavily in workforce shaping roles and believe this is one of the skills/capabilities needed by the HR function.
2. Understanding that, although they may still require strategic workforce planning in some capacity, workforce shaping starts from future business scenarios and then "works back." Traditional workforce planning starts with the existing workforce and moves forward in time. This tends to anchor the outcomes and "answers" in the present model of work, and misses the enormous levels of disruption and potential productivity gains driven by AI.
3. Focusing on upskilling the workforce and ensuring they have the right capabilities to work in the future-state environment. Upskilling goes hand in hand with workforce shaping, and the scale of learning and development effort should not be underestimated.
4. Maximizing the success of workforce shaping through collaboration with C-suite leadership, as they should be the ultimate owners of the outcomes and the actions arising.
5. Establishing regular refreshes of workforce shaping scenarios through considering what the organization and workforce could look like and could be capable of achieving in the future.



[4] Human: Solving the global workforce crisis in healthcare (Britnell, 2019)

Passing the "culture test"

If "culture trumps strategy every time," who is holding the winning hand?

"The conversation around culture is intensifying as senior leaders understand the need for culture change to drive business performance," explains **Kate Holt, Partner, KPMG in the UK**.

Culture can be described as the underlying behaviors and beliefs that define how work gets done. And a purpose-driven culture aligns this work with the organization's higher-level purpose. According to our research, over 61 percent of HR executives globally are currently in the process of changing their organizations' culture to align with their organizations' purpose. This could also explain why, for what seems to be the first time, culture has risen to the top of the C-suite agenda (per 2019 Global CEO Outlook).

"We know that people are our greatest asset, and our culture and values foster an environment that inspires them to innovate and deliver the very best for our clients," says **Darren H. Burton, Vice Chair, Human Resources, KPMG LLP, US**.

We are all striving toward the "perfect culture"

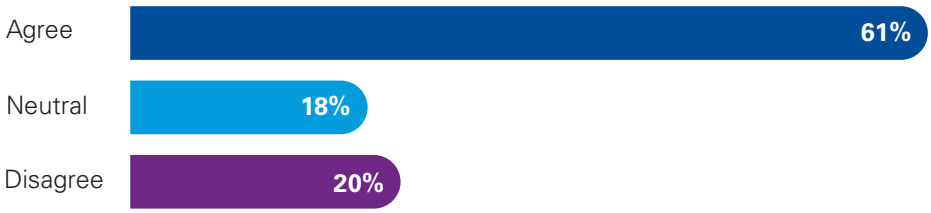
Says **Siemens' Soria**, "The 'right' culture allows all of those who are a part of an organization to unleash their whole potential towards the common goal of the business."

Eighty-four percent of CEOs[1] express wanting a culture where failure in pursuit of innovation is tolerated (only 56 percent confirmed that this culture is in place within their organizations). When we asked the same question of HR executives, the results came out a little different. Sixty percent believe their leadership want to support an innovative culture, but only 31 percent report their leaders are actively following through and doing what they say they would when it comes to culture. This conundrum seems to support the all-too-common disconnect between the words and actions of organizational leadership in many organizations.

But, consider the Pathfinding HR functions. Close to 90 percent believe that their CEOs want their employees to feel empowered to innovate without worrying about negative consequences if the initiative fails. Close to 6 in 10 also believe that their leaders appropriately model the behaviors of the organization's desired culture.

While an overtly innovative culture is not right for every organization, the concept of innovation and its characteristics — such as adequate funding for new ideas, stretch goals, design thinking, trust, autonomy, etc. — seem to have some bearing on the "right" culture recipe. Another key ingredient seems to be leadership, as there is an integral connection between the right culture and leadership's modeling of it.

Figure 4: HR teams are focusing on aligning their culture with their organization's higher-level purpose.



Note: Numbers may not add up to 100 percent due to rounding

But who owns the culture agenda? And who guards it?

Over two-thirds of respondents to our HR survey believe HR plays a vital role in establishing the right culture. That was an encouraging sign to **Kate Holt, KPMG in the UK**, who says, "While the business must own defining the organizational culture they want, HR is the key driver and influencer in making culture change stick."

One differentiating characteristic of Pathfinding HR organizations is their perceived level of ownership in driving culture change: 71 percent "strongly agree" that their HR function is playing a vital role in establishing the right culture, compared to only 15 percent of their counterparts.

"Culture is a living, breathing organism. HR should endeavor to position itself as a thought leader, a guardian of and enabler of culture," explains **Freddie Mac's Welch**. She elaborates, "Here at Freddie Mac, we use tools such as our intranet platform to democratize who owns the culture. We also look to ensure that inclusion and diversity are part and parcel of how we do business. These kinds of questions should never be owned by a critical few — they should always be democratized."

When it comes to monitoring and maintaining the right culture for their organizations, Pathfinding HR organizations are also 6x more likely than the rest of the respondents to "strongly agree" that they have a strategy in place to monitor and maintain their cultures. Not surprisingly, they are also 5x more likely to have dedicated roles in HR that focus solely on purpose and culture.

"An empowered team, focused on culture, can accelerate culture change and allows the team to influence on a broader scale, working across organizational lines and levels ," explains **Claudia Saran, Chief Culture Officer, KPMG LLP, US**. She adds, "Our stakeholders have varying strategies and priorities. We need to 'talk culture' in terms of how culture change will help them attain those strategies and priorities."

> "Culture is a living, breathing organism. HR should endeavor to position itself as a thought leader, a guardian of and enabler of culture."
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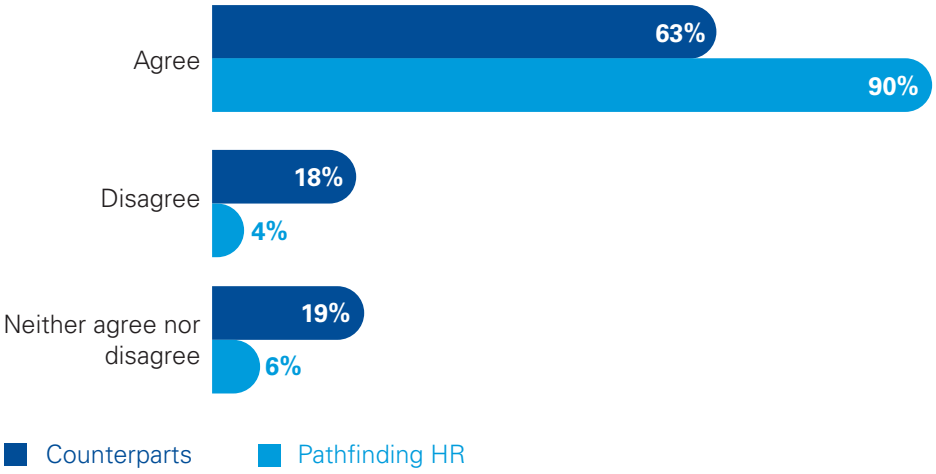
> **—Jacqueline Welch**
> CHRO and CDO, Freddie Mac

Figure 5: HR plays a vital role in establishing the "right" culture.



Note: Numbers may not add up to 100 percent due to rounding

A strong correlation also exists between dedicated culture roles and confidence in attracting talent. Approximately 70 percent of respondents with dedicated purpose and culture roles embedded within HR are also seen to be more confident in their ability to attract the right talent to meet their companies' growth objectives.

Yet the ownership of the culture agenda is somehow left undecided. The bigger question may be: "How do we actually evolve to the "right" culture? Changing to the right culture means altering the way the organization lives and breathes, as Jacqueline Welch from Freddie Mac eloquently describes previously. **Mike DiClaudio, Principal, KPMG in the US**, adds: "Culture shapes the way workers make decisions, do their work, and interact with colleagues, clients, and customers. Evolving culture starts with understanding the organizational purpose and then driving behavior change to match that purpose. This can only be truly effective when the C-suite takes accountability for shaping and nurturing the culture while leveraging HR as a shepherd, facilitating and driving that culture change."

Five ways Pathfinding HR organizations are passing the "culture test":

1. Identifying the right team to drive both the initial culture change and long-term sustainment; establishing dedicated culture change roles (they may not be housed within the HR function). These dedicated resources have the power to influence and create alignment across the business.
2. Understanding the current culture state and the areas requiring a shift and gaining clarity on the desired future state, including the business objectives the new culture will influence.
3. HR has many root-cause levers of influence that it can use to nudge and shape behaviors. But this has to be done in an orchestrated way. A culture that emphasizes team-based innovation but only uses individual-based performance and reward management is sending mixed messages to employees. Nudging behaviors is an exercise in systems thinking, and those seeking to enable culture must be skilled in identifying systemic interventions. The key is to pull these levers to configure patterns of behaviors in a joined-up way, including identifying the key influencers and defining who gets rewarded and promoted, which skills and capabilities are built, how teams are built, who becomes a leader, and how employee experiences are designed to emphasize priority values such as customer centricity and diversity and inclusion. And, as with anything that is systemic, thinking about and planning for unintended consequences.
4. Understanding that culture is specific, it is nuanced, and there is no one "right" culture for every organization. For example, a culture of regulatory compliance might be very relevant for some, but a culture of digital might be highly relevant for others. "Cultures of…" are not mutually exclusive. But they do require priority and focus when new patterns of behavior are sought in an organization.
5. As Mike DiClaudio mentions previously, shaping culture is a C-suite challenge. This is why having someone on the executive committee with a culture brief can be helpful, as long as the rest of the board accepts that it is their task to raise the culture implications of decisions in the spirit of a constructive challenge. Such a role does not remove the leadership's accountability for shaping culture, but such a role means that, as one client described: "I am not always racing to catch up with the culture implications of executive committee decisions."

A strong correlation exists between dedicated culture roles and confidence in attracting talent.

Employees in the driving seat: The importance of employee experience by design

What do we mean by "employee experience by design"?

— It's about taking a purposeful, organization-wide approach to employee experience design, not just a function-by-function approach with the aim to create a "consumer-grade," simple, and engaging experience for employees.

— There are different types of experience: the *digital experience*, which deals with the technology employees use to get their tasks completed; the *social experience*, the sense of collaboration and community; and the *environmental experience*, such as the design of the physical workplace.

— Simply put, employee experience can't be considered without looking at the work that a person does, the tools they are provided with, and the environment they are surrounded by.

Generations now entering the workplace expect a consumer-grade experience at work. We know through research by KPMG on Connected Enterprise that employee experience can directly influence customer experience and centricity. It's about "walking the customer talk." Aligning employee experience and customer experience strategy can lead to increased business profitability. Organizations that invest in employee experience have more than 4x the average profit, more than 2x the average revenue[5], and higher engagement levels lead to the organizations outperforming their peers by 147 percent in earnings per share.[6]

The employee as customer

HR executives are ranking employee experience design among their top three current initiatives and continuing over the next 2–3 years. Ninety-three percent of Pathfinding HR organizations believe that employee experience design is a strategic priority for the entire organization (and 64 percent of their counterparts). It's on everyone's agenda.

In many labor markets, demand for specialized skills exceeds supply. And with record low unemployment rates in many countries, workers have greater leverage than ever before. They want meaningful, rewarding work, on-demand customer service, simplified transactions, and instant access to information. "It's a 'buyers' market' in many industries. Organizations need to be deliberate about the design of their employee experience if they are to attract and retain the most talented. There's certainly no shortage of statistics around this concept," states **Jane Gunn, Partner and Head of People & Change at KPMG Australia**.

Consequently, talent retention has become one of HR's biggest challenges. While HR executives feel largely confident in their ability to attract talent (66 percent) and develop talent (62 percent), half admit to only being "somewhat confident" when it comes to holding onto their top talent. Only 16 percent of the entire population surveyed report being confident across all three areas — attract, retain, and develop.

Employee experience can't be considered without looking at **the work** that a person does, **the tools** they are provided with, and **the environment** they are surrounded by.

[5] Forbes, 2018

[6] Harvard Business Review, 2016

The growth of Enterprise Service Management

We are also seeing a rise in investment and prioritization of Enterprise Service Management (ESM) to better support the employee experience. When asked about the primary reasons for the recent investment in HR technology, 36 percent of Pathfinder organizations ranked ESM technology within their top three recent HR technology investment areas (20 percent for their counterparts), and 77 percent reported being satisfied with that investment.

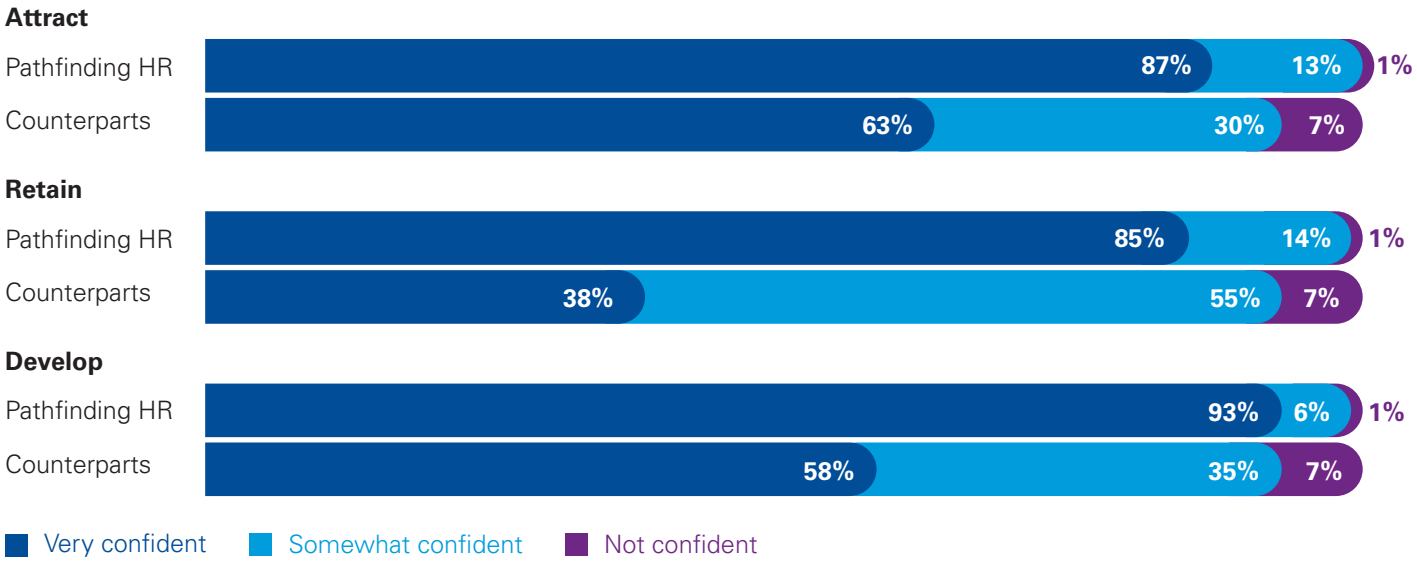
Pathfinder organizations are seeking to design the employee experience in a holistic, end-to-end, and connected way, and want to leverage technology to address the "moments that matter" within an employee's journey. We are used to seeing separate functions invest in service management technology solutions such as from ServiceNow. These help to define a process for finding knowledge through portals and raise cases for resolution such as through an HR service center.

What is clearly now emerging is the use of portals, workflow, process design, voice and chat bots, case management, "in-the-moment" prompts, and AI to be configured as a horizontal integration layer for all types of experience — to address employee moments that matter, regardless of function.

The US Bureau of Labor Statistics[7] recently reported that over 3 million US workers voluntarily quit their jobs every month. Consider the onboarding experience. Studies have shown that employees who experienced a negative onboarding experience were 2x more likely to switch jobs in the near future.[8] On average, the new employee has to complete over 50 activities within their onboarding lifecycle.[9] One client described the fact that the new employee has to act as "the integrator" for tasks to be done, not the HCM system, not the process configuration, and not the HR function or the line manager. This is not ideal from an employee experience perspective.

Uniquely, Pathfinding HR organizations are generally confident in their ability to attract (87 percent), retain (85 percent), and develop (93 percent) top talent — with 72 percent of this population reporting feeling confident across all three areas. We suspect that Pathfinding HR organizations have really grasped that, in order to create a positive customer experience, the employee experience must be equally on point. Seventy-five percent report they have a strategy in place where employee experience mirrors the customer experience they aim to deliver.

Figure 6: When it comes to Talent Management, HR is least confident in retention.



Note: Numbers may not add up to 100 percent due to rounding

[7] The US Bureau of Labor Statistics, 2019

[8] Digitate, 2018

[9] Sapling, 2019

Such an approach has been central to Telefonica's drive to improve its employee experience. "When designing our employee experience, we work very close to our customer experience team. By using the same approach and methodology used for designing customer experience, we are positioning the employee experience as an active driver not only of our people and business strategy but of our day-by-day product and services design," says **Telefonica's Machicot**.

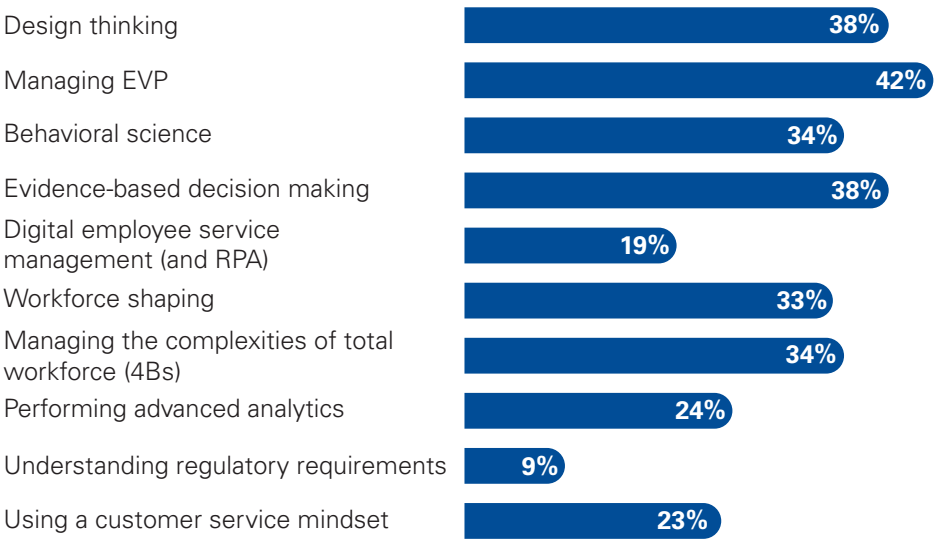
HR and design thinking

The need for a frictionless, connected employee experience (EX) and customer experience (CX) is increasingly driving HR organizations to focus on the capability of design thinking, a human-centric, structured, and creative approach to problem solving. Thirty-eight percent of HR executives cited design thinking within the top three skills required by the HR function to add value to their organizations. HR recognizes that, through a design thinking mentality, they are better equipped to design a wholesome and connected employee experience by understanding how to create the "moments that matter" throughout the employee lifecycle. Clients also report that a design thinking capability helps them configure an overall employee value proposition (EVP). And this, of course, is a high priority in creating an offer to existing and prospective employees that must then be followed through with the "lived experience."

A large part of design thinking is also about empathy, i.e., understanding employees from multiple perspectives. We have seen first-hand that, by adopting a more human-centric mindset, design thinking can lead to a more satisfied, efficient workplace wherein employees have access to the required resources, possess the right mindset, function within the right culture, and are able to give their best to the organization. This, in turn, could lead to improved employee retention and engagement.

Alastair Cooper, Head of People Strategy and Transformation at Arm Holdings — the largest tech company in Britain — confirms their focus on EX and EVP. He explains, "It's hard to compete with the biggest tech companies on pay alone so you have to look at how you can differentiate yourself through your Employee Value Proposition. For us at Arm, that tends to be thinking about how we treat people, and the kind of experiences we can give them. We think about employees as individuals, rather than resources. It's a stressful, demanding industry, but we treat you differently and try to understand you as a whole person with a life outside the office."

Figure 7: Design thinking is ranked among top skills required by the HR function.



Note: Respondents ranked top 3, thus data does not add up to 100%

Quick case study

We have seen the need for design thinking skills significantly pick up for member firm HR clients. For instance, one of the world's largest chemical manufacturers recently redesigned its entire HR organization to improve the way it delivers value and to create a best-in-class employee experience to attract and retain high performers, improve customer satisfaction, and accelerate business growth.

One of the key activities — and game changers — of this transformation started with extensive design thinking workshops with hundreds of participants from around the world.

Measuring the employee experience

"Having in place digital monitoring technologies enables HR teams to have a 360-degree view of the employee experience," says **Susan LaMonica, CHRO, Citizen's Financial Group**. "We have spent quite a bit of time in terms of investing in listening posts. As an example, we use a formal survey tool that measures organizational health. This provides us with a lot of insights in terms of whether we're effectively moving the needle on the culture. We also have more in-the-moment listening posts that we use selectively across the organization, so that we can get more of a real-time, day-to-day, week-to-week feel for how things are progressing."

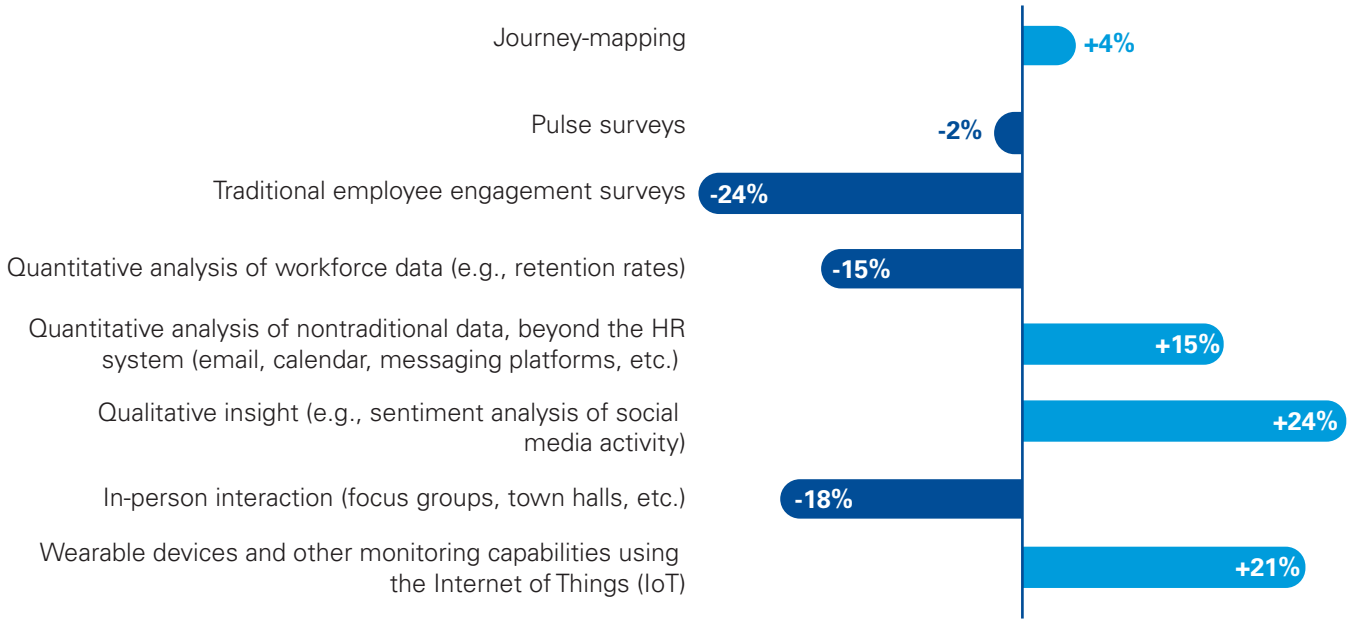
When it comes to understanding the drivers of employee engagement and employee experience pain points, the predominant measures among survey respondents continue to be traditional engagement surveys (65 percent), with a move toward pulse surveys (52 percent) and quantitative analysis of workforce data (such as retention rates) (50 percent) over the next 2–3 years.

And while our survey found that a comparatively small percentage of respondents rank advanced approaches — such as quantitative analysis of nontraditional data beyond the HR system, journey-mapping, sentiment analysis of social media activity, or wearable devices — as their primary methods, we do expect this number to increase, particularly in Pathfinding HR organizations. Pathfinding HR today are more focused on in-person interactions (focus groups and town halls) and quantitative analysis of workforce data to measure EX, and we are seeing an increase in applying more advanced methods over the next 2–3 years.

At **Freddie Mac**, such changes have already begun. Says **CHRO and CDO Jacqueline Welch**, "Over the past year, we have been focusing on our listening strategy. We've moved away from the annual survey, and instead we use a tool to crowdsource responses and reactions to changes we're contemplating. What has become evident is, once we get that information from our employees, they demonstrably respond. Not only do they hear us, but they did something with what we said."

Figure 8: Pathfinding HR are modernizing ways to measure EX.

% change in preferred method between today and 2–3 years ahead



Five ways Pathfinding HR organizations are redefining the EX:

1. Recognizing the role HR can play in clarifying and designing a unified EX/CX, including learning lessons from the customer organization on how to understand and design for the real-life experiences of all worker types.
2. Understanding that EX is not the same for all. Experience design extends across the total workforce, not just directly employed people. The growing gig economy means that employees are just one type of user, as a company's talent also includes consultants, contractors, and other contingent workers who range in age from their 20s to their 80s. All these workers need to feel connected to the platform — with a shared experience that meets their expectations and aligns with their motivations.
3. Understanding that EX is composed of more than just the digital experience. It embraces environmental, social, and leadership dimensions.
4. Building a design thinking capability into the HR function. Doing so enables the HR function to explore employee expectations, personalize experiences, and unearth and positively expand upon the drivers that motivate employees to engage — the true return on investment.
5. Taking the lead in defining the requirements for the overall EX design, regardless of which function owns a stage in the process.

Breaking the cycle: How HR functions are cracking the data code through workforce insights

What do we mean by workforce insights?

— Using data from different sources to address business challenges relating to the workforce, including forestalling unwanted attrition, boosting productivity, enabling teams to "jump their performance" to the upper quartile, understanding trends and emerging issues in workforce sentiment, etc.

— Generating insights about what *may* happen as well as the *actions* needed to address emerging and predicted issues.

— Technology enables this activity but is unlikely to be based solely on out-of-the-box Human Capital Management (HCM) system capabilities. Other attributes are also needed, including: evidence-based decision making within HR, storytelling leveraging insights, and driving a narrative in the organization that turns the insight into action. It's also about thinking purposefully about who gets to see what information and designing the decision-making protocols for leaders.

The power of data

"In the absence of an explicit model of how it brings value, HR has often rushed to the latest fads and fashions (i.e., the 'war for talent' or 9-box talent grids) and has limited itself by doing so. The way to break out of this vicious cycle is to bring predictive insight and evidence to the people issues of an organization," says **KPMG's Bolton**. "It's time to understand the business in a more scientifically sophisticated way — one that enables HR to operate as an equal member of the leadership team and to bring as much evidence about what will happen as the chief marketing and finance officers."

Fifty-six percent of Pathfinding HR organizations (and 38 percent of the rest) identified enhancing analytics capabilities as among the top three reasons for their investment in HR technology. Similar to EX, analytics is on the agenda of most HR leaders today.

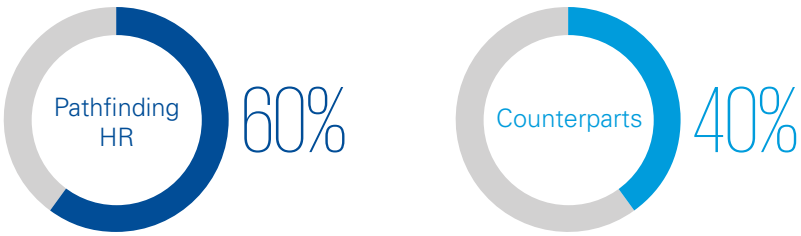
Pathfinder HR organizations plan to invest specifically in HR technology that enhances HR analytics and allows for further HR automation (such as RPA) over the next two to three years. Sixty percent also agree that embracing these new technologies will require a *significant* change to roles within HR.

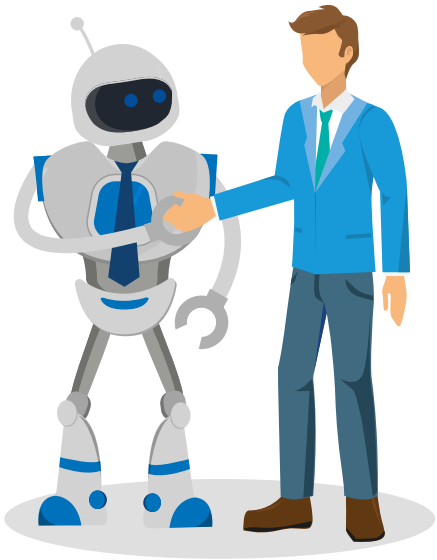
As a result of the investments, they are zeroing in on the importance of needing dedicated, skilled analytics resources, either within HR or at least dedicated to HR. Almost half ranked data modeler/scientist within their top three roles to invest in within the next 2–3 years. Pathfinding HR organizations are almost twice as likely to invest in this role compared with their peers.

When it comes to analytics, from what we have seen first-hand, there is often a misperception about implementing cloud/HCM technology and the ability to quickly and accurately leverage the analytical insight derived from those systems. A multinational utilities company described the challenge and opportunity of analytical insight as follows: "It's not enough to simply move one's system of record to the cloud. The HCM vendors paint a picture of predictive analytics at the touch of a button. There is no button, there are a lot of hard yards involved in designing processes and building people's skills to generate hypotheses for testing and then applying the insights so that action follows. The technology does not do this for you. But if you make the effort, it's worth it."

Figure 9: HR executives believe new HR technologies will require a significant change to HR roles.

% that believe significant role changes are required





KPMG's DiClaudio adds, "We tend not to use data science analysis but instead turn to the 'out-of-the box' analysis from the system of record. There are often big promises from vendors about that type of analytics capability. But, in reality, this quickly becomes an exercise in reactively describing what has already happened, versus what could happen. True analytics capability simply requires more effort."

We have found that, for HR to extract real value from data analytics, multiple aspects need to be factored in, including:

— Configuring information flows and deciding who sees what information for which purpose

— Designing decision-making processes, roles, and governance

— Working out how rare data science skills can be accessed across organizational boundaries and applied to maximum effect

— Building business partners' skills so they can tell relevant stories that contextualize the data to drive action; that's also likely why Pathfinding HR organizations ranked this as one of the top roles to invest in over the next 2–3 years

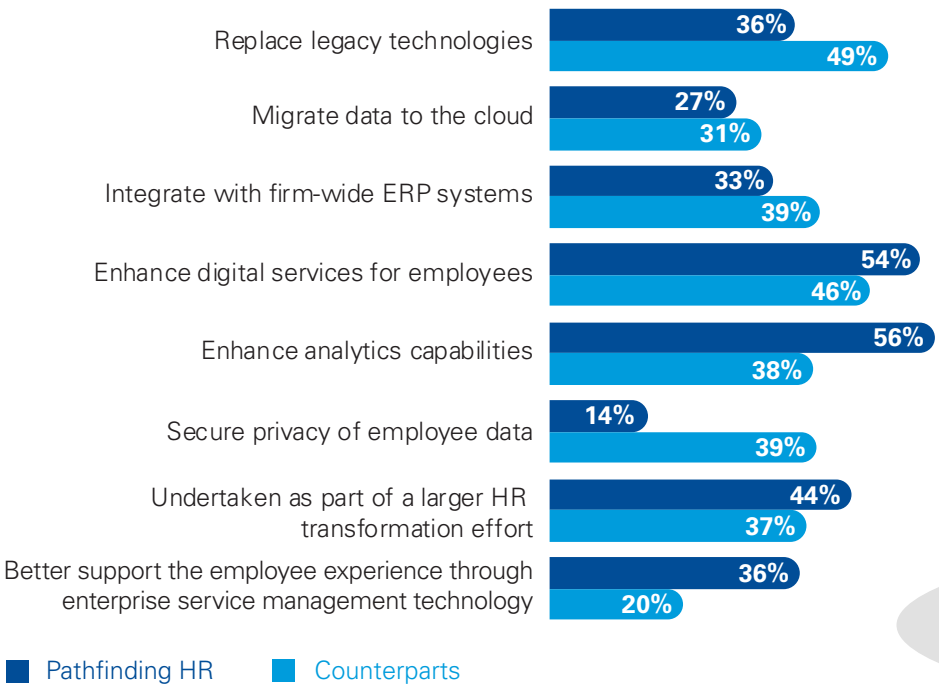
— Designing data visualization solutions so that data consumers can easily understand the most pressing issues

To that point, **Citizen's Financial Group's LaMonica** highlights the level of effort and focus on data and analytics. She says, "We have spent a lot of time creating an infrastructure to support our data analytics capability. We now have a single repository of all employee data that is connected to other key data sources, from which we are able to extract performance data. By performance data, I just don't mean performance review data, but productivity data, sales data, financial data together in one dashboard."

> There is no "easy" button when it comes to evidence-based workforce insights.

Figure 10: Enhancing analytics capabilities is a growing investment priority.

Ranking of top 3 reasons for tech investments



Note: Respondents ranked top 3, thus data does not add up to 100%

Digital dexterity: HR's next frontier

In order to realize the true value of data analytics, HR teams also need to experiment with new technologies and integrate them into their day-to-day practices. Yet, HR is still far from achieving this goal, argues KPMG's Bolton: "Compared with other functions, HR is probably the furthest from being digitally dexterous — from being switched on and rising to this challenge. So much so that you've got CIOs saying, 'Well, I'm going to take over the workforce-of-the-future agenda because HR's doing nothing.'"

When it comes to utilizing data analytics within the workplace, the Pathfinding HR organizations are ahead of the game. They reported higher proficiency levels in the use of advanced data and analytics. On average, they were 5x more likely to rank their use of more advanced analytics as "very proficient," such as:

— Identifying root causes of attrition in specific populations

— Differentiating behaviors of high versus low performers

— Spotting burn-out and disengagement

— Tracking data beyond the traditional HR system to understand patterns of behavior via email, chat, calendar, social media, etc.

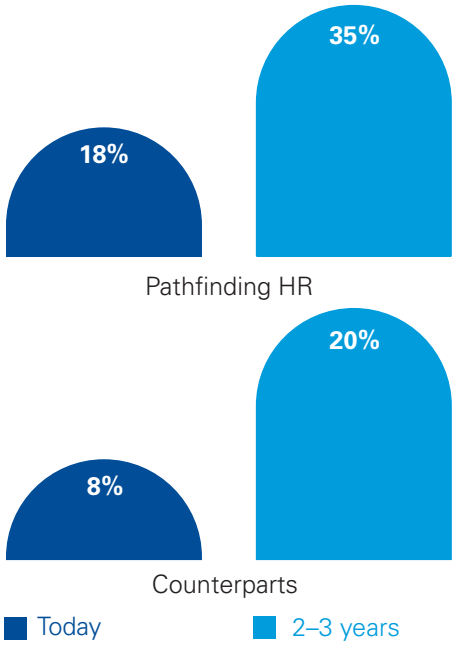
LaMonica confirms **Citizen's Financial Group** has used data analytics specifically to identify employees more prone to turnover: "We are using data analytics to identify which colleagues are at risk of attrition, and making targeted interventions accordingly — particularly for highest-performing colleagues — in order to mitigate potential turnover," she says. "We've identified a number of factors that would make a colleague more apt to turnover, and we've actually seen some very positive results in that regard."

Four ways Pathfinding HR functions are using analytical insights to drive people performance:

1. Investing in both technology and capability within the HR function. This extends beyond the basic out-of-the-box technology functionality from cloud HCM vendors to include thinking about data visualization, sophisticated analytics, and integration of HCM data with business metrics such as customer experience, productivity, and collaboration.
2. Building insights from integrating and analyzing data in real time across different data sources to understand the signals that point to emerging issues and opportunities. This includes combining data from the HR function, from the broader organization and from external data sources.
3. Taking a hypothesis-driven approach by working with the leadership team to use data to answer critical business issues and questions such as: which capabilities will drive competitive advantage? Which teams create sustainable performance along with team member wellbeing? What leadership factors drive innovation in our business?
4. Adopting an evidence-based mind-set so that common and best practices are subject to a rigorous evaluation of validity and relevance.

Figure 11: Experimentation with AI and related technologies will increase for HR within the next 2 to 3 years.

% change in HR experimentation with AI in near future



Conclusion

"This is all very interesting, but what should I do?" As we have evolved this research over 20 plus years, we are consistently asked this question by HR leaders. In 2020, we can see a path forward for HR that requires some fundamentally new thinking about what HR does and how it is built to deliver. The way forward may start with discrete adoption of workforce shaping or piloting a more digital experience in one of their business units. In our view, these interim steps are only going to be helpful if they catalyze a more thorough rebuilding of HR capabilities.

Some HR organizations are indeed using the disruption they are facing to justify a multiyear roadmap that integrates changes to service delivery, people capabilities, technology, process, and data to create a more worker-centric HR function. They are also seeking to stimulate similar changes in their peer functions, changing traditional ways of working to better align to the future of work.

The power of the next generation of HR isn't in pursuing disconnected capabilities; rather, it is in creating a holistic and mutually reinforcing "whole system" approach to building the workforce (and organization) of the future. It lies in an organization's ability to integrate new capabilities, taking a worker-centric view while addressing cultural shifts and embracing an increasingly digital workforce.

How KPMG can help?

At KPMG member firms, our HR consultants understand these challenges and opportunities and are working shoulder-to-shoulder with businesses like yours every day. We're delivering the experience, research, and industry know-how organizations need to define the Future of HR — now. For more information, we encourage you to contact any of the contributors listed in the publication or your local KPMG member firm. More information about this research can be found at home.kpmg/futureofhr.

Acknowledgments and demographics

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- Marta Machicot — Chief People Officer, Telefonica, Spain
- Susan LaMonica — CHRO, Citizen's Financial Group, US

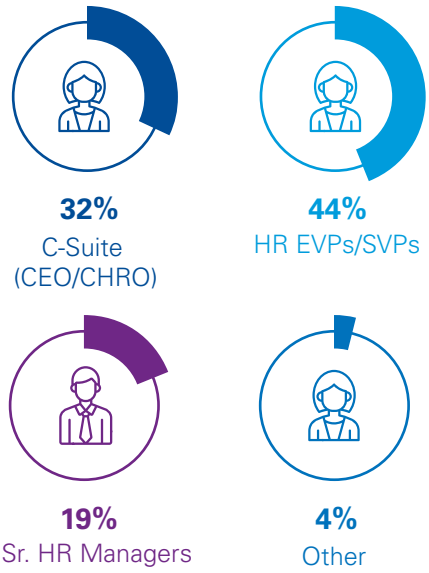
Demographics

The survey data published in this report is based on a survey of 1,362 HR executives from 55 countries with majority representation from the largest economies in the world.

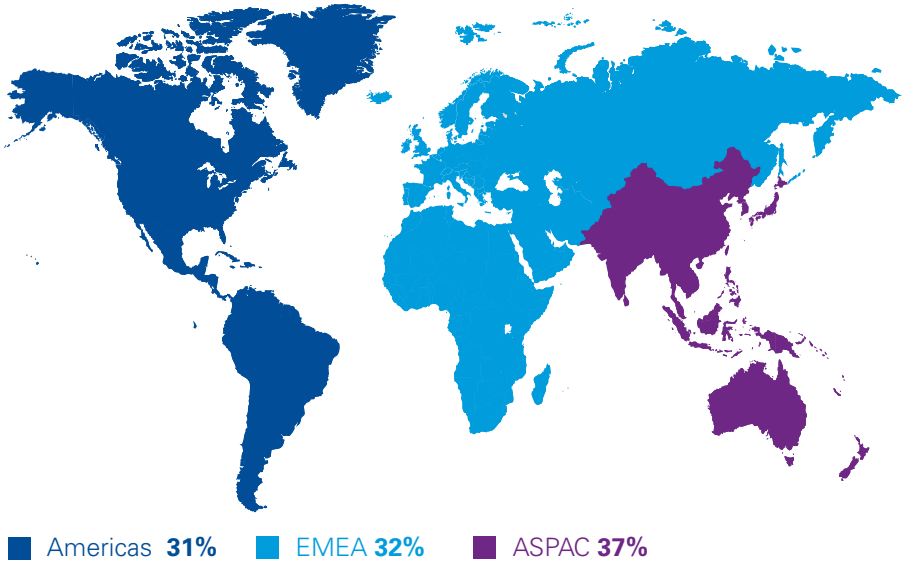
The survey was conducted between 27 June and 4 August 2019. The HR executives operate in 31 industries including asset management, automotive, banking, consumer and retail, energy, healthcare, insurance, life sciences, manufacturing, technology, and telecommunications.

Of the 1,362 HR executives surveyed, approximately 40 percent are from organizations with revenue of 1B+ and 30 percent are from companies with headcount >5000, and 50 percent with over 1000.

Respondents by title



Respondents by region



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