

Future of HR in Strategy, Sustainability, and Technology

A report by Boston Consulting Group
(BCG) and the German Society for
Human Resource Management (DGFP)

Introduction

HR management will face ever greater challenges in the coming years. The working environment will continue to change dramatically as a result of ongoing digitalization. Additionally, the next wave of transformation is rising, focusing stringently on sustainable business models and process. Demographic change is intensifying the ongoing competition for the best talent and employees. As a result, employees in all industries and business segments are being sought after in the context of the key forward-thinking topics of *sustainability* and ongoing *digitalization*.

The COVID-19 pandemic jump-started digitalization. Necessitated by the dynamic situation, digital collaboration tools became imperative, particularly in HR functions, but also far beyond, giving way to new accepted forms of collaboration. Shaping the future of work is an acute challenge for HR, requiring the right preparation and setup. With that in mind, advanced technologies could offer ways to equip organizations and HR for the future. *The Creating People Advantage* study by Boston Consulting Group and WFPMA¹ has already identified four of the 12 most important topics for HR in which companies feel significant pressure to act: strategic workforce planning, people analytics, and HR IT, as well as digital, AI, and cloud-based HR processes. Many other studies, too, emphasize the importance of HR investing in IT and software and making good use of them.

In order to better understand what HR management is already doing in this regard and what the biggest areas of development are, Boston Consulting Group, together with the German Society for Human Resource Management (DGFP), conducted a comprehensive study. The aim of the report was to learn what role HR, its activities, and the technology it uses play in corporate strategy and sustainability initiatives. At the same time, the joint report of BCG and DGFP was intended to document the correlation of the answers to these questions with company size.

Over 260 HR professionals participated in the study, representing a good average of the German corporate landscape (see exhibit 1). Of the companies participating in the survey, 60 were small companies (less than 500 employees), 111 were medium-sized companies (between 500 and 5,000 employees), and 95 were large companies (more than 5,000 employees). The companies surveyed represent a cross-section across different industry sectors (e.g., 28 in the service sector, 38 in the industrial goods sector, and 30 in the public sector). The global presence of German companies is also evident from their recruiting activities far beyond their nucleus in the DACH region.

1. World Federation of People Management Association is the global umbrella organization of all national HR organizations. The DGFP in Germany is also part of the WFPMA and was instrumental in the *Creating People Advantage* report.

Executive Summary

Overall, the data shows that stakeholders are aware of many of the important issues, from the strategic role of people topics to the necessity of digitalization and data-driven HR processes to using different technologies. In contrast, however, implementation is often unsatisfactory or not yet sufficiently stringent.

- HR management is not necessarily involved in developing corporate strategy, currently in the case of 60% of the HR professionals surveyed. Nevertheless the top HR people generally report to the CEO, or there is a CHRO on the board. This situation is countered by the fact that people topics are playing an increasingly significant role in corporate strategy, whether due to the labor market, digitalization, or sustainability. These are all topics with which HR management can actively expand its strategic relevance—Across all of them it will be data that's decisive.
- ESG—environment, social, and governance—is seen as strategically highly relevant. However, only a fraction of the surveyed companies have a clear definition of their corresponding role in HR, have initiated activities, or have relevant data.
- HR management is not yet taking advantage of modern or alternative organizational forms across the board—however, satisfaction with HR work is increasing with elements such as agile, cross-functional collaboration, or a focus on so-called employee journeys. The organizational forms exhibit differences depending on company sizes, for example, the use of agile forms or shared service centers.
- HR is experimenting with different HR IT and technological setups—a more stringent implementation would support the strategic positioning. The majority of companies are not yet sufficiently prepared for data analytics or other digitalization topics at this point in time.
- The challenge for companies with regard to new technologies and data analytics can also be seen in the systems they use. For example, only a few of the companies surveyed pursue a holistic data platform strategy that brings together all relevant sources of people data, thus enabling targeted strategic analyses and supporting the implementation of the HR strategy.
- The importance of technology for the HR function is clearly recognized—but the willingness to change and the necessary investments in change are not yet sufficient. In particular, HR needs to build competencies in employing IT and software.
- The potential offered by launching comprehensive digital solutions and the backlog that has built up in recent years has been recognized by companies, but it is only reflected in budgets to a limited extent.

This presentation of the core findings represents only a portion of the results of the study. For more information, see the end of the documentation about contacting the authors.

COMPANIES FROM A WIDE RANGE OF SECTORS REPRESENTED IN “THE FUTURE OF HR” SURVEY

EXHIBIT 1



COMPANY SIZE

60

< 500 employees

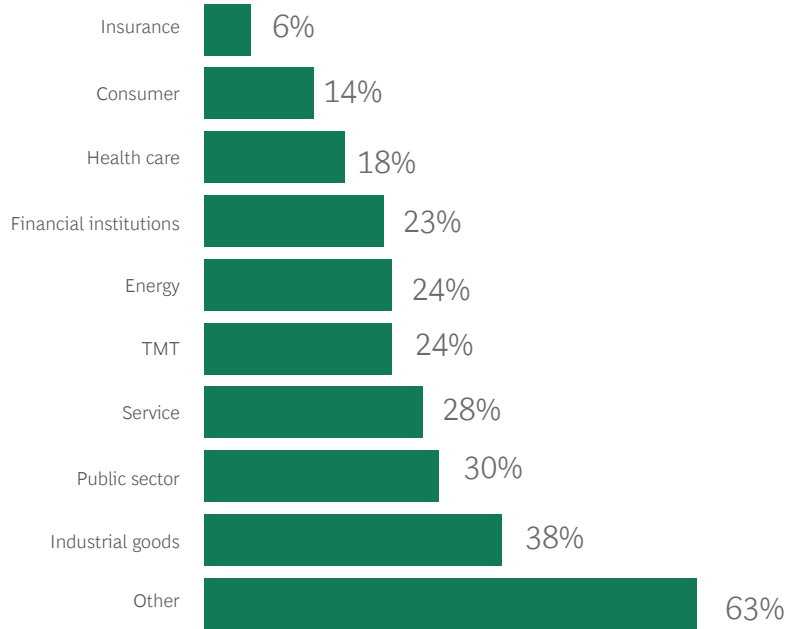
111

500–5,000 employees

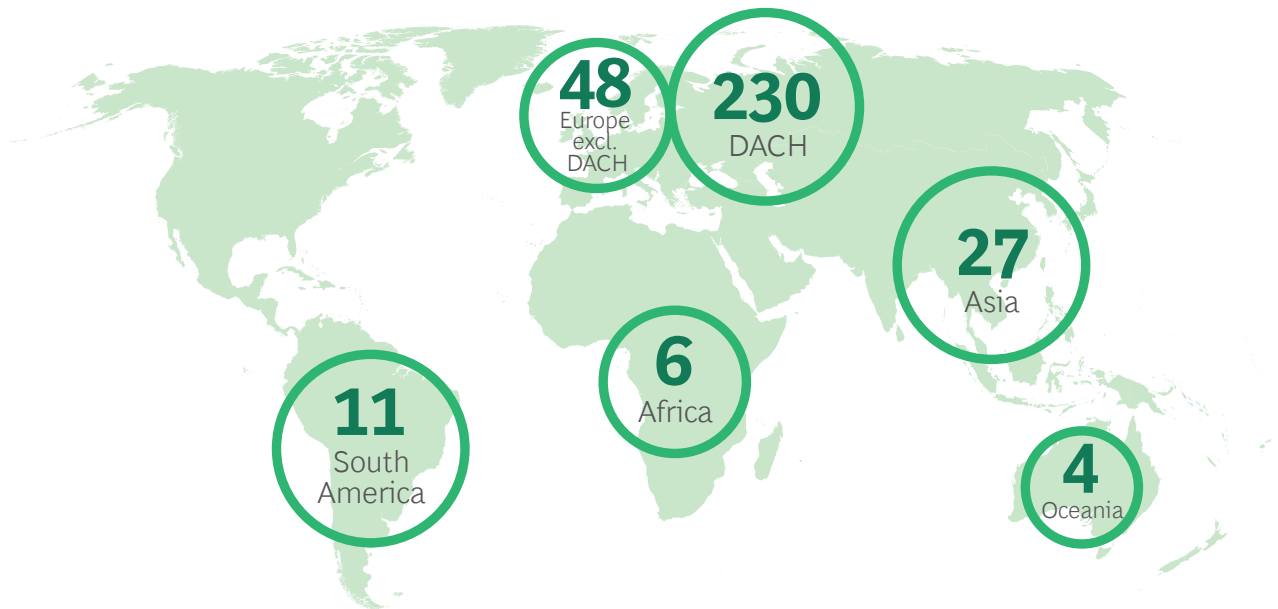
95

> 5,000 employees

BREAKDOWN BY INDUSTRY



REGIONS IN WHICH COMPANIES RECRUIT STAFF



COMPANIES WITH EMPLOYEES IN SEVERAL COUNTRIES

160
in 5 countries

40
in 6–15 countries

34
in 16–50 countries

27
in > 50 countries

HR management is not necessarily involved in developing the corporate strategy

Only 19% of the companies involved consider their circumstances to be steady. All others are strongly encouraged to drive business change and, in many cases, engage in fundamental business transformation—with just under half of the companies surveyed currently undergoing transformation/restructuring (exhibit 2). Given these considerable challenges and the fact that

talent is, or will be, the limited resource in almost all areas, it is surprising that only 60% of HR functions are actively involved in developing and implementing business strategies. Organizationally, too, only 34% of HR managers/CHROs are part of the board or executive management team, giving them a seat at the table (see exhibit 2 for details).

ROLE OF THE HR DEPARTMENT FOR THE CORPORATE STRATEGY

EXHIBIT 2

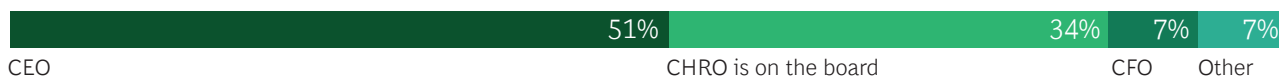
COMPANY SITUATION



IS THE HR DEPARTMENT INVOLVED IN DEVELOPING THE CORPORATE STRATEGY?



WHO DOES THE CHRO/HIGHEST-RANKING HR MANAGER REPORT TO?



**ESG—
environment,
social, and
governance—
is seen
as highly
relevant**

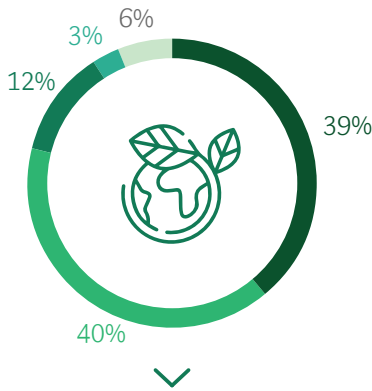
An additional challenge is the increased focus and stringent implementation of sustainability issues. For many companies and industries, this topic represents the next big business transformation. The process of digitally transforming business models is still incomplete in many areas and has often not been recognized as the talent issue it is. Actively shaping the new sustainability transformation and addressing it early on as a people issue offers great opportunities. The need to focus on ESG is already unanimously accepted at 78% of the companies surveyed (exhibit 3). HR is involved in

ESG issues in 80% of companies, although only 4% of HR professionals surveyed lead ESG topics. While most companies see the need, the necessary capabilities still have to be implemented, particularly tools and processes to collect, analyze, and report data to implement upcoming national and European regulations. Here, only 4% of the companies stated that they had all processes in place and 38% had at least some relevant processes. So overall we see that the majority of companies are not yet prepared for ESG.

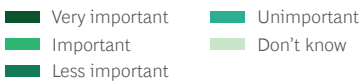
ESG RECOGNIZED AS AN IMPORTANT ISSUE, BUT ONLY 4% ARE FULLY PREPARED FOR ESG REGULATIONS

EXHIBIT 3

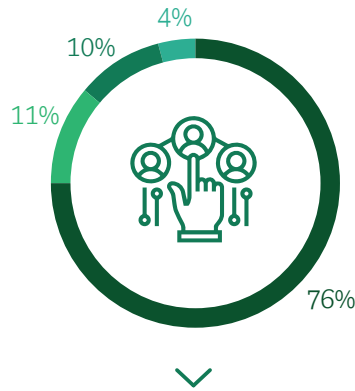
HOW IMPORTANT IS ESG FOR THE ENTIRE COMPANY?



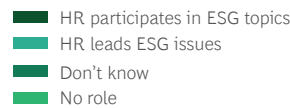
ESG is important for **79%** of companies



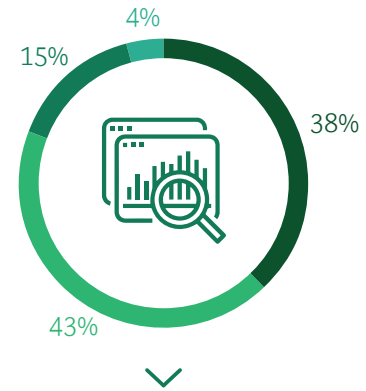
WHAT ROLE DOES THE HR DEPARTMENT PLAY IN ADVANCING ESG ISSUES?



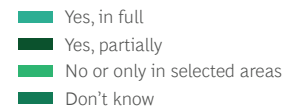
in **80%** of the companies, HR gives attention to ESG issues



ARE THERE PROCESSES IN PLACE TO COLLECT AND REPORT NECESSARY DATA TO MEET UPCOMING REGULATIONS?



Only **4%** of companies are fully prepared for ESG regulations



HR management is not yet taking advantage of modern or alternative organizational forms across the board

Depending on the size of the company, differences can be seen in the organizational setup. Overall they tend to be traditional in character though. While operational HR partners are present in 84% of the large companies and in 77% of the medium-sized companies surveyed, this is only the case in just over half of the small companies (exhibit 4). As expected, centers of excellence, strategic HR business partners, and shared service centers (SSCs) are more widespread in large companies than in small and medium-sized ones. In administrative tasks (especially in the area of payroll), internal SSCs and outsourcing to service providers are in active competition with each other. Large companies prefer an SSC to outsourcing (43% versus 29%), while no clear preference prevails in medium-sized companies and the opposite does in small ones. According to the survey, large companies tend to have a higher level of automation and therefore have good reasons, in addition to economies of scale, for building on an SSC and thus

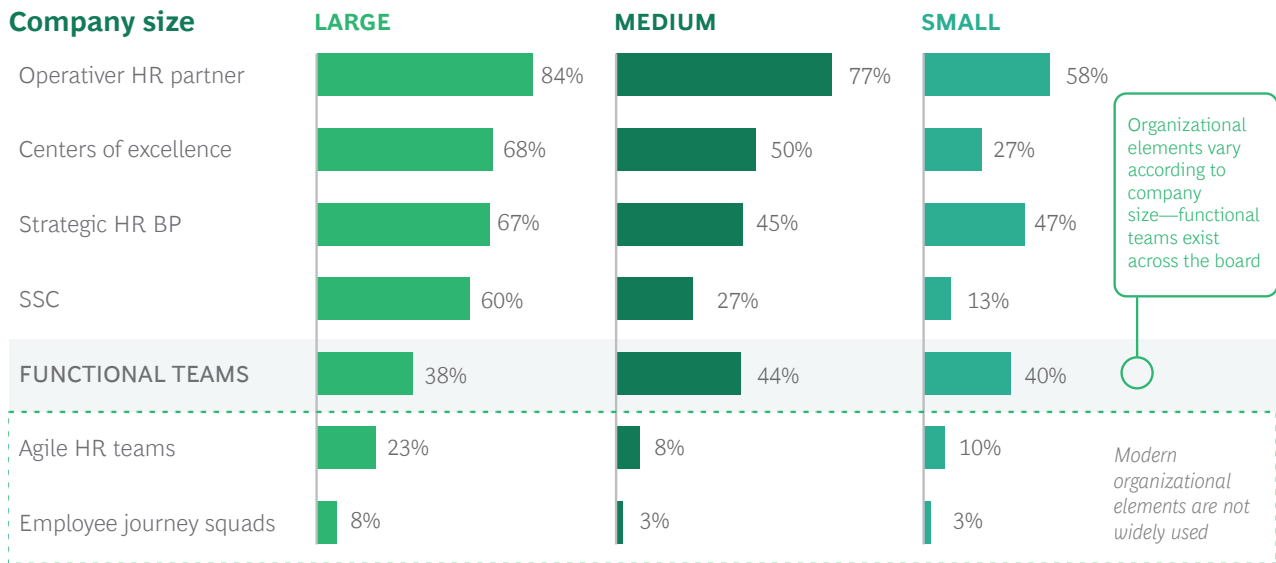
avoiding additional interfaces. With SSCs, investments in proprietary technology also lead to a direct increase in performance.

Functional teams, however, are present in about 40% of companies, almost regardless of company size. The traditional character is particularly evident in the low spread of modern and agile organizational elements—agile HR teams are still present in 23% of large companies but only in 8–10% of small and medium-sized companies. Cross-functional employee journey squads are the least prevalent as a modern organizational element, present in only 8% of large companies and 3% of small and midsize companies. More widely applying modern structural elements in these organizations could have enormous potential.

OVERVIEW OF THE ORGANIZATIONAL ELEMENTS OF HR DEPARTMENTS

EXHIBIT 4

WHICH OF THE FOLLOWING ORGANIZATIONAL ELEMENTS DOES HR EXHIBIT?



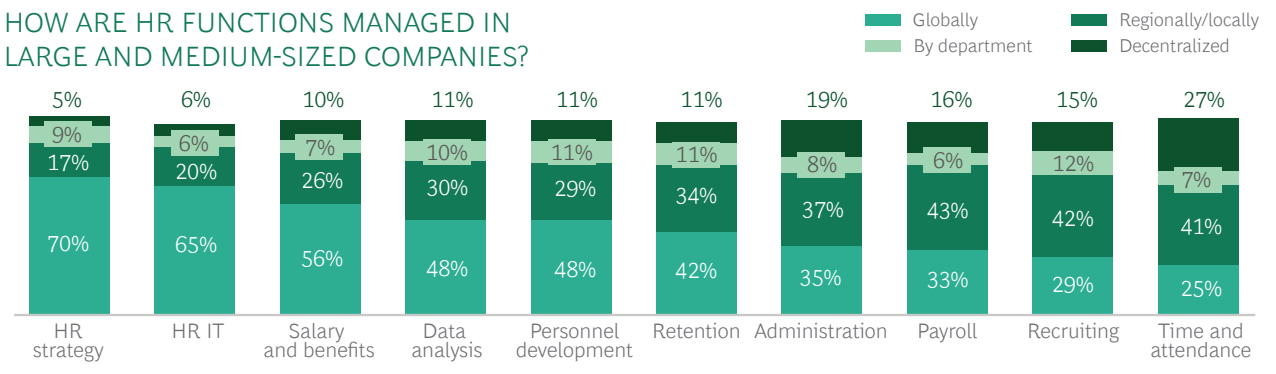
In medium-sized and large companies (small companies were not analyzed here), HR strategy and IT are managed globally in 60% of companies (exhibit 5). However, only a small number of companies realize the value of global leadership in the areas of administra-

tion, payroll, recruiting, and time and attendance (22–31%), as these areas are managed regionally in up to 47% of companies—centralized design can lay important groundwork for digital and data-driven HR, especially in administrative areas.

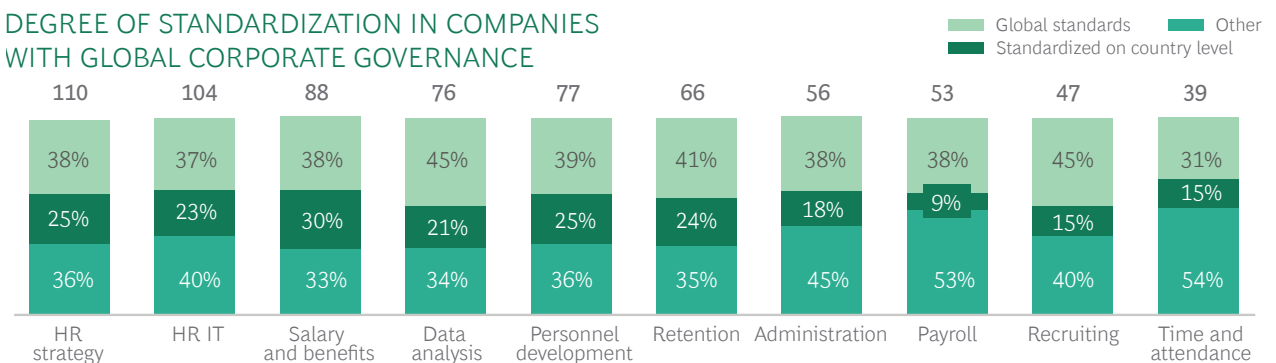
OVERVIEW OF CONTROL LOGIC AND STANDARDIZATION FOR KEY PERSONNEL PROCESSES

EXHIBIT 5

HOW ARE HR FUNCTIONS MANAGED IN LARGE AND MEDIUM-SIZED COMPANIES?



DEGREE OF STANDARDIZATION IN COMPANIES WITH GLOBAL CORPORATE GOVERNANCE



HR departments don't have a clear strategy for HR IT and technology setups—consistent design and implementation would better support strategic setups

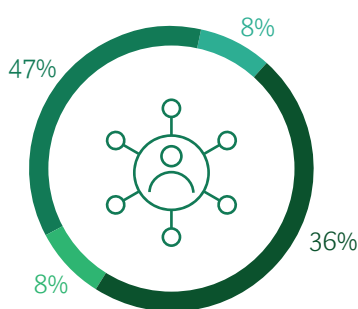
The majority of companies are not yet prepared for data analytics or other digitalization topics at this point in time. For example, only 8% of companies have so-called full-suite² IT architecture—a central HCM system covering all HR functions most effectively and supporting the HR strategy in 87% of cases, according to the analysis of the survey's results (exhibit 6). At the same time, 36% of the companies surveyed use a so-called best-of-breed/best-of-suite³ architecture—a selection of the most suitable individual solutions that adequately supports the HR strategy in only around two-thirds of cases. Furthermore, almost half of the companies use a highly heterogeneous architecture⁴

that cannot sufficiently support the strategy. While the full-suite architecture features the best results in terms of satisfaction and data quality, the best-of-breed/best-of-suite architecture lacks consistent data and process integration. This result is also reflected in data quality—almost two-fifths complain of poor data quality, which is particularly problematic for successfully employing analytics applications. In summary, the survey results demonstrate that the HR analytics applications are not used effectively across the board and that HR functions have much more potential for ramping up their digitalization than is currently being realized.

OVERVIEW OF EXISTING HR IT ARCHITECTURE AND DATA QUALITY FOR THE HR STRATEGY

EXHIBIT 6

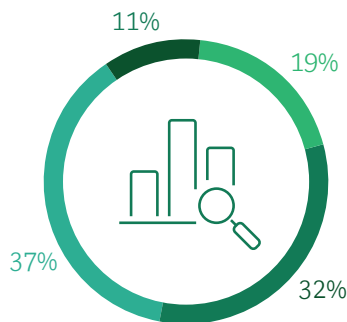
WHAT IS THE HR IT ARCHITECTURE LIKE?



8% of the companies have full-suite¹ architecture



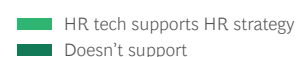
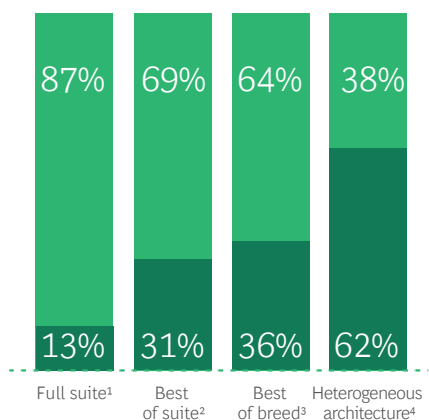
WHAT IS THE OVERALL DATA QUALITY, ESPECIALLY FOR ANALYTICS APPLICATIONS?



in **80%** of the companies, HR gives attention to ESG issues



CAN HR TECH SUFFICIENTLY SUPPORT THE HR STRATEGY?



1. "Full suite": Central cloud HCM system, ideally covers all HR functions 2. "Best of suite": Central system covers core functions-dedicated systems for other functions 3. "Best of breed": Dedicated systems for functional units with central data platform 4. Heterogeneous architecture: Possibly with customized solutions

2. Full suite: Central HCM system in the cloud ideally covers all HR functions
 3. Best of breed: Dedicated systems for functional areas with central data platform
 4. Heterogeneous architecture: Potentially with customized solutions

The challenge for companies with regard to new technologies and data analytics can also be seen in the systems they use.

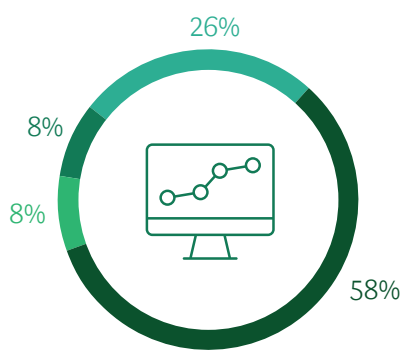
For example, only 8% of the companies surveyed pursue a holistic data platform strategy that brings together all relevant sources of people data, thus enabling targeted strategic analyses and supporting the implementation of the HR strategy in 82% of cases (exhibit 7). Currently, more than half of the companies surveyed still require manual Excel workarounds for complex analyses, although their results do not sufficiently support the implementation of the HR strategy in half of the cases. Only 8% of participating companies use con-

temporary solutions to analyze people data as a complement to core HCM systems (such as the data platform solutions of major cloud HCM providers SAP Analytics Cloud or Workday Prism). There is enormous potential here, because applying such solutions supports the HR strategy in 91% of cases, according to respondents. The potential of modern start-up/HR tech solutions, as a complement to core HR systems, also remains untapped at 43% of companies.

OVERVIEW OF DATA ANALYSIS CAPABILITIES FOR SUPPORTING THE HR STRATEGY

EXHIBIT 7

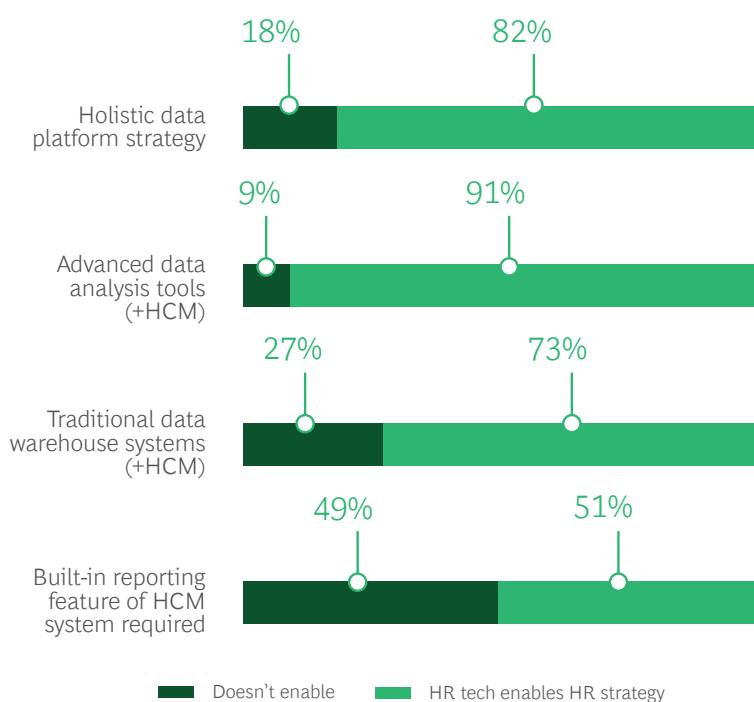
HOW IS THE GENERAL DATA QUALITY, IN PARTICULAR FOR ANALYTICS APPLICATIONS?



58% of companies require manual workarounds in Excel

- Holistic data platform strategy
- Using advanced data analysis tools in addition to the core HCM system
- Using traditional data warehouse systems to the core HCM system
- Using the HCM system and manual Excel workarounds where necessary

ABILITY OF HR TECH TO ENABLE THE HR STRATEGY ACCORDING TO EXISTING DATA ANALYTICS CAPABILITIES



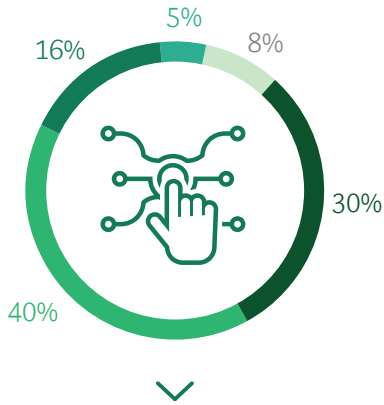
The insufficient implementation of new analytics methods could be related to the lack of integration of technological competencies into the HR organization. For example, only 16% of companies have a dedicated tech unit within the HR function, even though in 79% of cases it supports in successfully pursuing the HR strategy.

About 40% of the companies have at least one responsible product owner in the HR function. However, 30% of companies still lack technical skills in the HR function, which hinders the expansion of data analytics solutions and digitalization in the medium term.

OVERVIEW OF TECHNOLOGICAL CAPABILITIES OF HR DEPARTMENTS

EXHIBIT 8

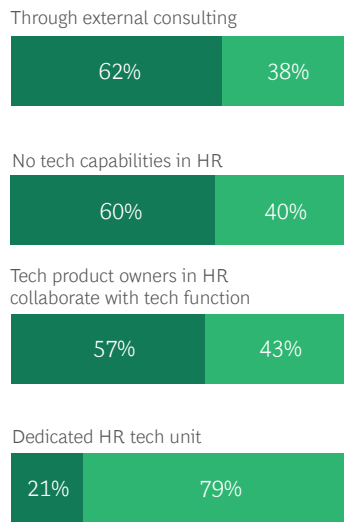
HOW ARE TECHNOLOGICAL CAPABILITIES INTEGRATED INTO THE HR ORGANIZATION?



30% of the companies have no technical skills in HR

- No tech skills in HR
- Other
- Through external consulting
- Dedicated HR tech unit
- Tech product owners in HR work together with tech function

CAN HR TECH FUNCTIONS SUPPORT THE PERSONNEL STRATEGY?



- HR tech supports HR strategy
- Doesn't enable

HOW DO EMPLOYEES CONTACT HR?



1/3 of the employees used ESS/MSS, but only **26%** are satisfied with ESS/MSS

- Directly
- ESS/MSS (employee self-service/manager self-service)
- First-level support (hotline, chat, tickets)
- Chatbot

The importance of technology for the HR function is clearly recognized—but the willingness to change and the necessary investments in change are not yet sufficient

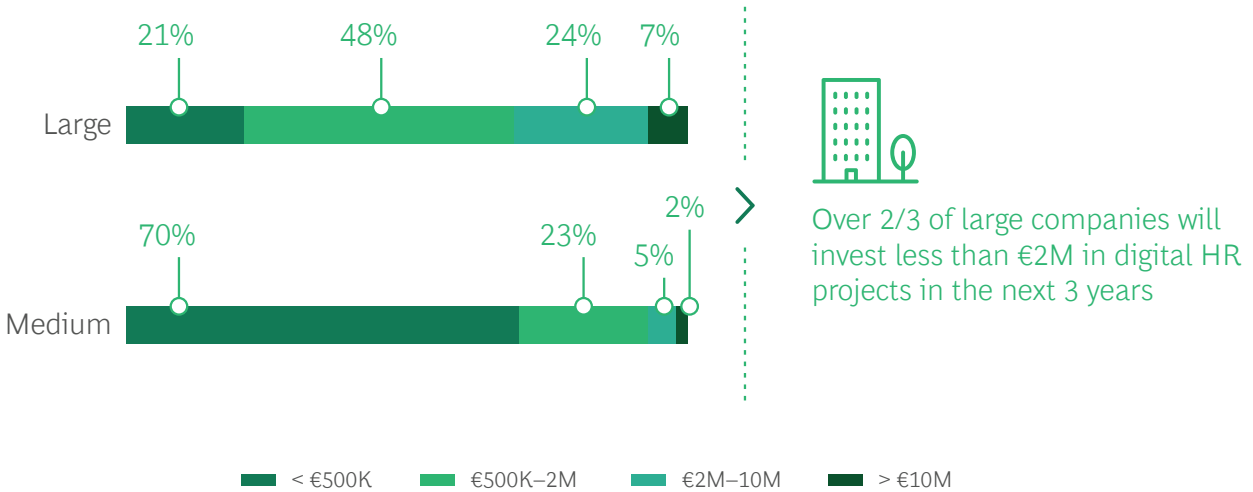
The potential offered by launching comprehensive digital solutions and the modernization bottleneck that has emerged in recent years has been recognized by companies, but it is not sufficiently reflected in budgets yet. In particular it should be emphasized that 53% of the large companies surveyed still use SAP HCM as their core system, for which the manufacturer SAP will discontinue standard maintenance starting in 2027 or 2030. In this respect, considerable investments for digital HR projects are to be expected at least at large companies in the next three years. Currently, however, only 7% are planning an investment of more than €10 million (exhibit 9). For medium-sized companies, even low-

er investments are planned: 70% of companies state they intend to invest less than €0.5 million in digital HR projects. In light of the strategic ambitions and the current situation of the companies, this is much too little. Process standardization is seen by 19% of the companies surveyed as the greatest challenge for launching IT systems, while the implementation and mindset change are seen as a challenge by only 2–6% of respondents. The implementation a uniform system with few interfaces, ease of use, and sufficient training and learning are cited as success factors by more than one-fifth of respondents.

OVERVIEW OF INVESTMENT AMBITIONS AND SUCCESS FACTORS FOR HR IT TRANSFORMATION

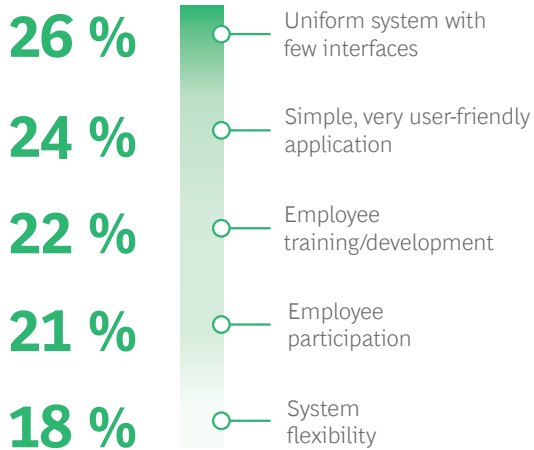
EXHIBIT 9

HOW HIGH IS THE PLANNED BUDGET FOR DIGITAL HR PROJECTS IN THE NEXT 3 YEARS (IN TOTAL)?



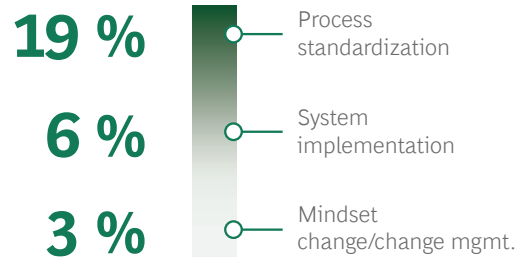
WHAT ARE THE KEY SUCCESS FACTORS AND CHALLENGES WHEN LAUNCHING HR IT SYSTEMS?

SUCCESS FACTORS



Step by step: Introduce large solutions gradually instead of all at once

CHALLENGES



Inadequate integration with existing IT systems is less efficient than manual workarounds

What needs to be done?

Areas for action in HR management

The study reveals a state of many HR functions that is not commensurate with the challenges the future holds and provides clear indications of areas for action and opportunities:

- 1. Seize the opportunity ESG provides:** As one of the big future topics, ESG offers HR management the chance to help shape a people-oriented corporate strategy. To do so, companies and HR management must provide the necessary analyses to convince investors and other stakeholders.
- 2. Data-driven HR for a brighter future:** Data is HR gold and should inform decision-making more intensively. Data-based decisions are evident, more sustainable, and credible, and they add value for companies and employees. Data-driven HR management also underpins HR's strategic role.
- 3. Invest in people analytics functions and capabilities:** The role of technology in HR management is critical to data-driven activities. Significant development of corresponding competencies with a focus on HR technology and data analytics is essential.
- 4. Everything starts with technology:** Tech solutions in HR departments should be planned consistently and integratively as a management task based on an architecture concept. The maintenance of a data model must be integrated as a component of HR management in order to achieve the data quality (availability, standardization, and integrity) required for data-driven HR activities.
- 5. Match technology and organizational model:** As technology advances and solutions move more to the cloud, a review of organizational structures within HR management is key. Both must harmonize in order to take account of the interdependencies of organization, technology, and processes.
- 6. Investing in HR IT and software:** Data-driven decisions require the appropriate IT and software landscape and willingness to invest.

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About BCG

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we help clients with total transformation—inspiring complex change, enabling organizations to grow, building competitive advantage, and driving bottom-line impact.

To succeed, organizations must blend digital and human capabilities. Our diverse, global teams bring deep industry and functional expertise and a range of perspectives to spark change. BCG delivers solutions through leading-edge management consulting along with technology and design, corporate and digital ventures—and business purpose. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, generating results that allow our clients to thrive.

About DGFP

Since 1952, the German Association for Human Resource Management (DGFP) has been the competence and career network for HR enthusiasts in Germany. The DGFP is a registered non-profit organization. The DGFP network involves the active participation of DAX-listed corporations as well as small and mid-sized companies, renowned scientific organizations and consultation entities. The DGFP assists HR professionals in their careers and lobby the political world and society at large on behalf of HR management issues. This enables it to have a strong voice on corporate HR work when it engages with the general public and policymakers.

The DGFP work centers around the personal exchange of knowledge and experience, with some 4.000 HR decision-makers and HR professionals from Germany and abroad collaborating in roughly 100 experience exchange groups (ERFA). It additionally offers accredited educational and advanced training programs on national and international HR management issues. The collective HR knowledge is bundled into our studies and publications.