

# Roland Berger Focus

March 2017

## Between ambition and reality

Key findings from the Roland Berger HR Trends Survey 2017



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# Management summary

To discover the current state of play in human resources departments at companies across Europe, we carried out an in-depth survey of HR executives at more than 300 companies. The results form the basis of the Roland Berger HR Trends Survey 2017.

The survey respondents came from companies of all sizes, from small enterprises with a headcount of under 100 to major corporations with a headcount of more than 10,000. In total, the respondents represented the interests of around three million workers.

In the survey we asked HR executives in detail about the current maturity of their HR function and how it compared to the level that they would like it to have. The result? The survey revealed a sizeable gap between reality and aspiration. We examine this gap in detail.

In particular, we identify six key areas with an urgent need for improvement within HR, namely talent management, strategic workforce planning and people analytics, leadership, change management, culture and engagement, and the digitization of HR services and systems. We discuss each of these areas in turn.

**How can organizations begin to close the maturity gap? We pinpoint five steps that can help businesses take their HR organization to the next level: define a vision, identify the gap, collect insights, design and test initiatives, and implement the initiatives. By applying this systematic methodology, companies can master the challenges facing HR – and start bringing ambition and reality back into alignment.**

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Section 1:

# Approach and summarized findings

The survey reveals issues for businesses of all sizes.  
But the biggest companies report the biggest gap.

To gain a first-hand insight into the current situation in HR departments across Europe, we carried out a detailed survey of top HR executives. We received responses from more than 300 large, medium-sized and small firms in all industries. As well as analyzing these survey results, we conducted a series of interviews with Chief HR Officers, heads of HR and senior HR executives, testing our findings and validating our conclusions.

The companies we surveyed varied in size. They included 54 big players of more than 10,000 employees, 56 medium-sized companies of 1,000 to 10,000 employees, and 203 small enterprises of fewer than 1,000 employees. This differentiation allows us to further break down the results by size of company. In total, the participants in the survey represented the interests of around three million employees. This gives the findings a high degree of relevance.

In the survey we asked all companies the same set of questions. Specifically, we asked them what the current maturity of their HR function was and what level of maturity they aspired to. But we didn't just ask about the HR function in general, we also asked about specific HR capabilities: talent management, recruiting, compensation and benefits (C&B), and so on – some 15 different areas in total. Respondents rated their current maturity level and the aspired level of maturity on a scale of 1 to 5, with 1 representing the lowest level of maturity and 5 the highest level. We call the difference between current maturity and the level aspired to the "maturity gap".

What did the survey reveal? A significant maturity gap exists for firms of all sizes. The overall average gap was 0.9 points. That means that the level of maturity aspired to for HR is more than 27 percent higher than the perceived current level of maturity. Put another way, HR shows significant room for improvement.

Breaking down the results by company size, we identified a correlation between the number of employees and the perceived maturity gap: The larger the company, the bigger the gap. Thus, companies with more than 10,000

**Survey participants**

3 million employees represented

COMPANY SIZE	NO. OF EMPLOYEES
Large	> 10,000
Medium sized	1,000-9,999
Small	1-999
<b>Total</b>	<b>Approx. 3,000,000</b>

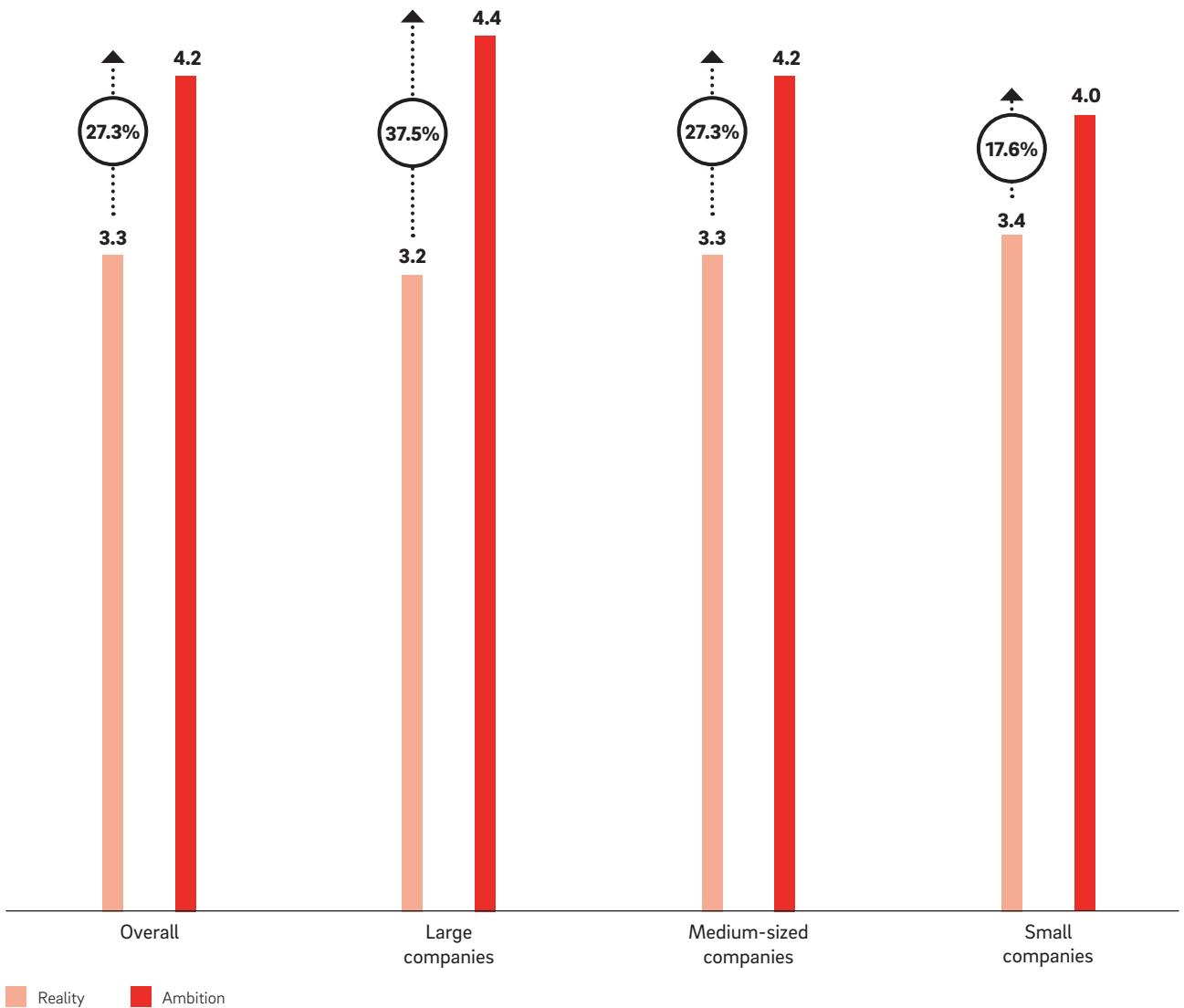
employees show a gap of 37.5 percent between ambition and reality, while companies with fewer than 1,000 employees show a much smaller gap of 17.6 percent.

How should we interpret this correlation? Increasing size of company inevitably leads to increasing complexity of the HR function. However, the survey results are based on self-evaluation by HR departments rather than outside-in analysis, so we prefer to phrase this result as follows: The strongest call for action to improve HR functions is coming from the biggest players. → **A**

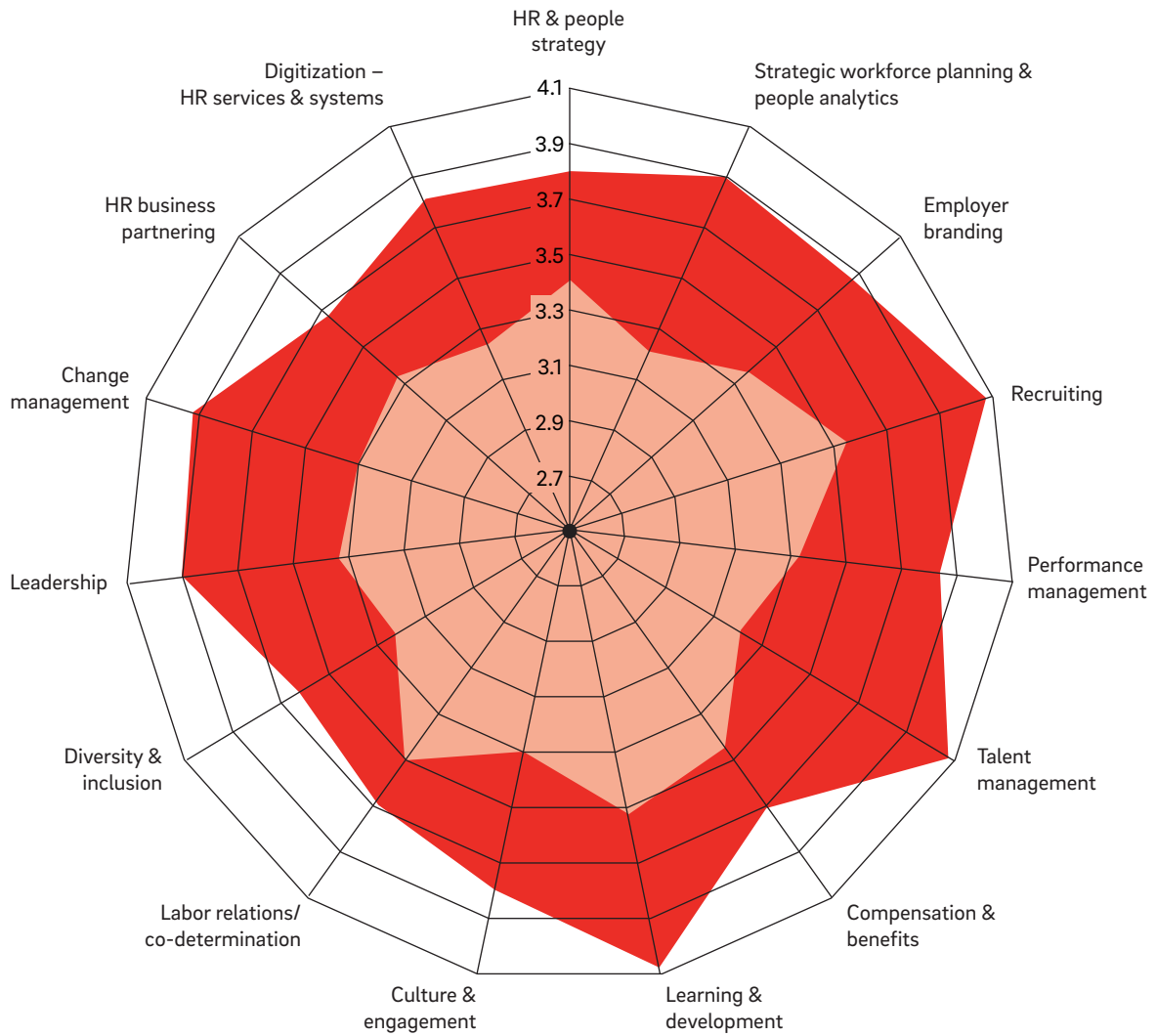
We also break down the survey results by area of HR. Plotting current and aspired levels of maturity on a radar chart reveals an interesting picture. For example, it is immediately obvious that the biggest gaps lie in talent management and strategic workforce planning and people analytics, for example, whereas areas such as labor relations and C&B show greater alignment between ambition and reality. → **B**

In the next section, we look in detail at six key areas where ambitions are highest but current levels of maturity are lowest. These are not areas that we or any other external analysts have plucked out of the air: They are the areas of HR that the very individuals responsible for these functions believe show a significant misalignment of aspiration and reality. These are the areas where the need for action is most pressing.

**A:** Firms of all sizes show a gap between ambition and reality.  
But big players feel they have the furthest to go.



**B:** HR departments are particularly worried about some areas.  
In others, they see less need for improvement.



Reality Ambition

Source: Roland Berger

## Section 2:

# Key findings in detail

Six areas show an urgent need for improvement within HR. They range from talent management and leadership to digitization of HR processes and services.



The respondents in the survey – all of them individuals involved in key decisions regarding human resources within firms – prioritized six key areas for improvement. In these areas the current level of maturity is low but the level of aspiration is high. They appear in the upper right-hand segment of the figure below. → [C](#)

The prioritized areas include topics that have been on the HR agenda for some time already but are still widely underdeveloped – areas such as talent management, strategic workforce planning and people analytics, leadership, and the digitization of HR processes and services. But they also include areas such as change management and culture and engagement – areas that reflect the growing importance of HR as an enabler and catalyst for enterprise-wide transformations. Below, we look at each of the six key topics for HR in detail.

## 1. TALENT MANAGEMENT: SUCCESSION PLANNING IS KEY

Over the last decade or so, talent management has developed from a niche subject mainly of interest to academics into a strategic business factor firmly on the top-management agenda.

HR executives have high aspirations for talent management. This is reflected in a score of 4.1 in our survey. However, companies evaluate their current maturity level in this area as just 3.2, revealing a significant gap between ambition and reality.

The key challenge for companies within their talent management system is how to retain top employees. This calls for strategic succession management. An effective succession management system prioritizes the skills and people that organizations wish to retain and the employment proposition best suited to retaining them.

Simply speaking, the goal of succession planning is to fill upcoming positions with the right person with the right skills at the right time. The succession plan should

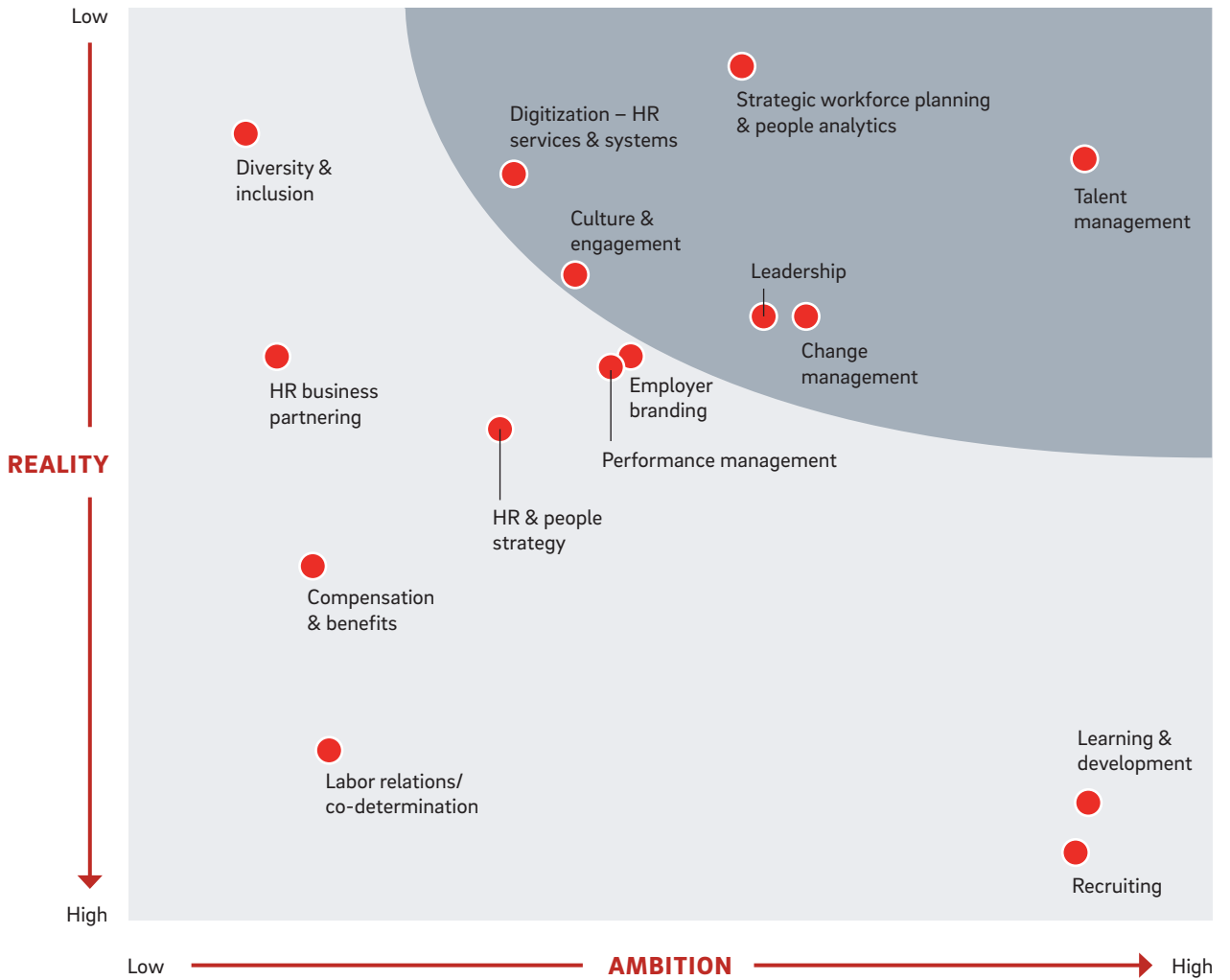
# Retention levels are higher when people are deployed in positions that match their skills and aspirations.

also formulate clear expectations of employees and be backed up with appropriate development opportunities, ensuring that employees have the necessary skills when they are needed. This has an additional benefit: Retention levels are higher when people are deployed in positions that match their skills and aspirations. Moreover, a structured approach such as this sends a message to employees that the organization cherishes them and wants to nurture them.

Implementing an effective system of succession planning is not as simple as it might appear. Succession planning is just one part of a comprehensive talent management strategy that should cover the identification, recruiting, deployment, learning, development, and performance management of employees. Critically, this requires the ongoing support of senior management.

The talent management system must cover all parts of the employee lifecycle. Companies should beware of focusing on one part of the strategy at the expense of others. For example, if you are not able to accurately identify potential leaders, diagnose development needs, or count on the support of senior management, your system is at risk of failure.

**C:** Six areas show particular room for improvement.  
Work in these areas is a priority for HR.



## 2. STRATEGIC WORKFORCE PLANNING AND PEOPLE ANALYTICS: FIND THE NECESSARY RESOURCES

Most companies are aware of the general direction of demographic change. However, implementing a system of strategic workforce planning and making use of the tools available remains a major challenge, especially for larger companies in the survey.

With the advent of Industry 4.0 – the new era of automation, seamlessly connecting the real and the virtual world – companies require new skills from their workforce. Workplaces and working hours must become more flexible in response to changing requirements. HR must check where the workforce is in relation to these requirements and what new skills and roles are needed. Internal and external mobility are increasingly important for companies. In the new digital age, resources will be available across jobs, careers, functions, geographies and business units. HR needs to manage this effectively to make sure resources are distributed according to demand.

Another important area, currently neglected by all but a few of the larger firms in the survey, is people analytics. People analytics means making use of the data available within companies to make predictions about people's behavior or characteristics. It can answer questions about performance ("What drives sales performance?"), recruiting ("What makes a successful hire?"), employee satisfaction ("What are the main drivers for satisfied employees?"), leadership ("Who are our best leaders and why?"), collaboration ("What determines successful teams?"), and reasons for fluctuation ("Why are people leaving?").

The reluctance of many HR departments to engage in people analytics is not due to IT-related issues: Most enterprise resource planning (ERP) and talent management systems are already able to deal with processing the data. Rather, companies hesitate to put this topic on

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**With the advent of Industry 4.0 – the new era of automation, seamlessly connecting the real and the virtual world – companies require new skills from their workforce.**

the agenda because of the sheer amount of data management required and the shortage of skilled employees to run the necessary analyses, derive actions and then implement them effectively. This is particularly difficult for small and medium-sized companies, which often lack the necessary resources.

## 3. LEADERSHIP: EMPOWERMENT AND LEADERSHIP 4.0

Developing and implementing a sustainable corporate leadership culture is the key step toward leadership excellence in large enterprises. A central theme for leadership development is empowerment: Empowered individuals and teams are motivated to perform well because they have the autonomy and capability to make decisions, share information, try out new things and perform meaningful work that can impact their organization.

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## Companies desperately need executives who are able to actively shape innovation, drive change processes and thereby affect their environment.

For leaders, empowering employees means encouraging and supporting the decision-making environment and giving people the tools and knowledge they need to make and act upon their own decisions. This approach is particularly beneficial in fast-changing environments where rigid top-down processes no longer work.

The HR executives we spoke to in the study brought up the important topic of Leadership 4.0. Leadership 4.0 refers to the future of communication and collaboration in a virtualized collaborative work environment that will change the traditional understanding of leadership. Companies desperately need executives who are able to actively shape innovation, drive change processes and in so doing affect their environment. The challenge for HR is to develop such leaders.

Organizations must identify which leadership model truly drives the company forward. They must then keep this model in mind when engaging in HR activities such as recruiting, management development and succession planning.

Companies need to give this issue the attention it deserves. Failure to invest in developing a common leadership understanding within the organization or applying leadership guidelines inconsistently will result in a lack of future leaders able to cope with the challenges of tomorrow. Current leaders must also be held accountable for building a strong, sustainable leadership culture. The traditional approach – a two-day leadership workshop offering off-the-shelf solutions – is simply not enough to develop successful and effective leaders.

#### 4. CHANGE MANAGEMENT: HR AS TRANSFORMATION PARTNER

The study reveals that change management is establishing itself as a new discipline within HR. This comes in response to a twofold challenge.

First, agile business, digitization, Industry 4.0 and today's volatile markets call for increased change management skills within organizations. Developing these skills is essential for successfully supporting restructuring, reorganization, PMI, digital transformation projects and new business models. HR must act as the "transformation partner" here, driving change within the business, particularly in larger and medium-sized companies.

Second, the HR function is itself subject to change. Change management is essential for driving the transformation toward an efficient HR organization, with global processes and digitized services.

To address this skill demand, HR should consider setting up centers of excellence or task forces specially dedicated to this topic. It should promote interdisciplinary and non-HR skills and foster change management knowledge by incorporating it into the company's leadership and competency models, as well as its functional or corporate strategy.

HR should also move away from ad hoc project-related change-management activities and maintain change-



Photo: iStockphoto / RichVintage

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The balance of power has shifted from employer to employee, forcing business leaders to learn how to build an organization with a powerful culture that engages employees. This demands new knowledge and competencies from HR.

management skills and capabilities as continuous professional business support. HR departments can also promote more flexible forms of work and introduce agile working and management methods, such as design thinking, lean startup and Scrum.

Developing change-management skills and the new structures required to provide them to the organization is a challenge for HR. It will need to train current HR business partners, managers and other HR staff for their new role or buy in the necessary expertise through external hires. HR must become proactive, improving its relationship with the corporate units and top management so it is viewed as the right partner. Especially in larger companies, it will need to introduce new structures and forms of working to respond to future demands within HR and from other units. HR must redefine its role, moving beyond its traditional function and adding value to the organization by directly supporting transformation.

## 5. CULTURE AND ENGAGEMENT: SUPPORT CULTURAL CHANGE

Large companies in the survey report a significant gap between their current level of organizational culture and engagement, and the level aspired to.

"Engagement" refers to how individuals are involved in, dedicated to, committed to and psychologically invested in their work, their job and their organization. In a certain sense, employee engagement is the result of a perfect fit between the individual and the organization.

Demographic change and the resulting shortage in the workforce has led to changes in the world of work. The balance of power has shifted from employer to employee, forcing business leaders to learn how to build an organization with a powerful culture that is capable of engaging employees. This new approach demands fresh knowledge and competencies from HR departments.

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## The new guiding principle in HR IT projects is designing tools and systems that concentrate on the needs of the employee – a truly "employee-centric" approach.

The challenge when it comes to changing organizational culture is that it is made up of deep-rooted collective values, beliefs and behaviors. These elements have been built up over years, if not decades, and are strongly reflected in the organizational structure and practices (e.g. organizational design, career paths, compensation systems) and group and social processes (e.g. accountability, decision-making). HR must identify which parts of this existing culture need to change to reinforce the organizational culture aspired to.

Interestingly, the medium-sized and smaller companies in the survey – unlike the larger companies – did not report a significant gap in the area of culture and engagement. It may be that larger companies have more difficulty building and preserving their organizational culture due to their size, complex organizational structures and multiple locations, which are frequently spread across different countries.

**Think:Act Booklet**  
**Reach for the cloud:**

The HR software market looks to 2020



The German HR software market is projected to be worth 1.7 billion euros by 2020—and 86% of this growth will be driven by the transition to cloud-based solutions. Yet, some remain uncertain about a cloud-based future. While some name specific concerns, such as data security, others are simply unaware of the advantages cloud-based solutions offer. To improve understanding and enable vendors and customers alike to make informed decisions, we conducted interviews with over 100 decision makers and HR experts and identified four key features of the HR software market: market size and growth, competitive environment, customer behavior, and market trends.

For medium-sized and smaller companies, the concerns were of a lesser order. Respondents reported carrying out smaller adjustments to corporate culture, such as increasing the possibilities for working from home or introducing flexible working hours. Changes such as these also make a valuable contribution to employee engagement.

**6. DIGITIZATION OF HR SERVICES AND SYSTEMS: MOVE WITH THE TIMES**

Digitization is impacting all aspects of HR delivery – as revealed by our 2015 study *Reach for the cloud: The HR software market looks to 2020*.

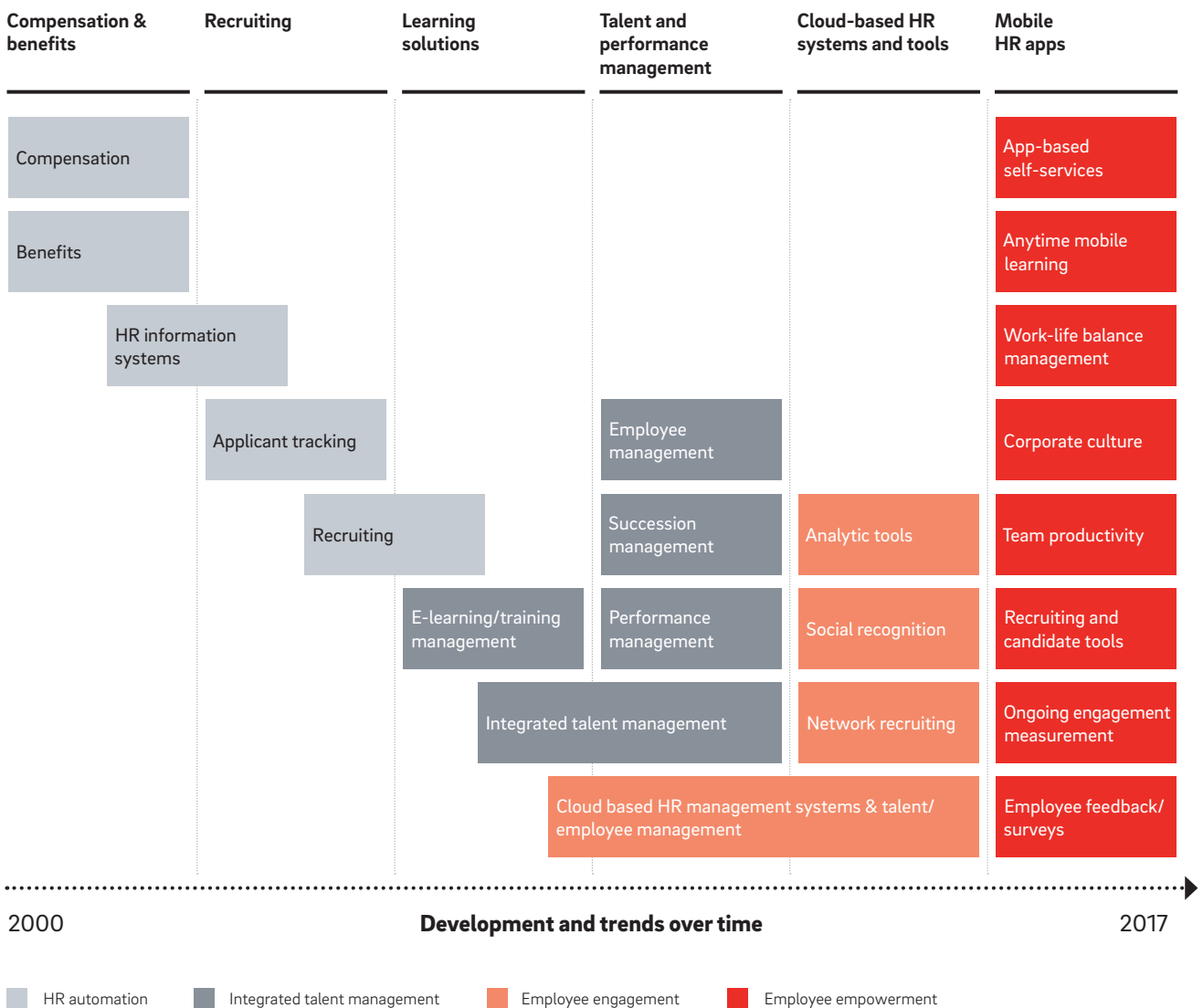
For example, traditional systems with Web-browser access are being replaced by cloud and app-based solutions geared toward mobile access. Service level agreements are being exchanged for real-time interactions in a "once and done" approach. Periodic HR reporting is giving way to interactive real-time dashboards. Printed forms are being swapped for digital versions.

At the same time, the focus of HR tools and systems is moving steadily away from processes and toward employees. In the past, the main goal of introducing new HR tools and systems was to automate HR processes; HR and the employees themselves were given a participating role. HR was concerned with creating standards for compensation and benefits, recruiting in line with legal requirements, evaluating performance fairly, and introducing integrated talent management – a novel idea in the 2000s but now little more than a hygiene factor.

The new guiding principle in HR IT projects is designing tools and systems that concentrate on the needs of the employee – a truly "employee-centric" approach. HR is focusing on employee engagement, with tools for aligning team goals, coaching, giving feedback, evaluating real-time engagement, enabling individual learning, implementing new ways of managing performance and ensuring a healthy work-life balance. These tools are increasingly app-based, mobile and user-friendly. → **D**



**D: New app-based HR tools are appearing every day.**  
Companies must move with the times.



## Section 3:

# Recommendations

Want to take your HR organization to the next level? Our five-step approach provides the framework and tools that you need.

What can companies do to take their HR organization to the next level? Below, we outline a five-step approach. The systematic steps begin with defining a vision of where HR should be in the future, identifying the gap between that ambition and reality, collecting insights, designing and testing initiatives, and finally implementing those initiatives across the company.

#### DEFINE A VISION

The first step is for HR to develop a clear vision of where it wants to be headed. This vision must be exciting – after all, it needs to engage both the HR function and the rest of the company. It also needs to be comprehensive: a holistic solution for the entire HR framework rather than fixes and repairs to individual areas of HR.

A core principle is that HR follows the business strategy, and so everything HR does should support the implementation of that strategy. With that in mind it is vital to listen to – and respect – the voice of the "customer" before and during the entire change process. To gather unbiased feedback from stakeholders, it can be useful to carry out a special survey designed for this purpose.

In our projects working with companies, we often begin the process with a one- or two-day workshop with senior HR managers from the company held in our digital hub *Spielfeld* in Berlin. Here, we combine creative methods with external input to accelerate innovation and start developing a new vision for HR. New ideas can be brought to life for testing and evaluation, applying rapid prototyping and crowd innovation methods. The purpose of the workshop is to allow the HR leadership to experience an innovative and agile working culture and get them excited about the "digital disruption" of the HR function. They also have an opportunity to hear success stories directly from other companies and learn about useful tools and key HR trends from startups and innovators.

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**The first step is for HR to develop a clear vision of where it wants to be headed: a holistic solution for the entire HR framework.**

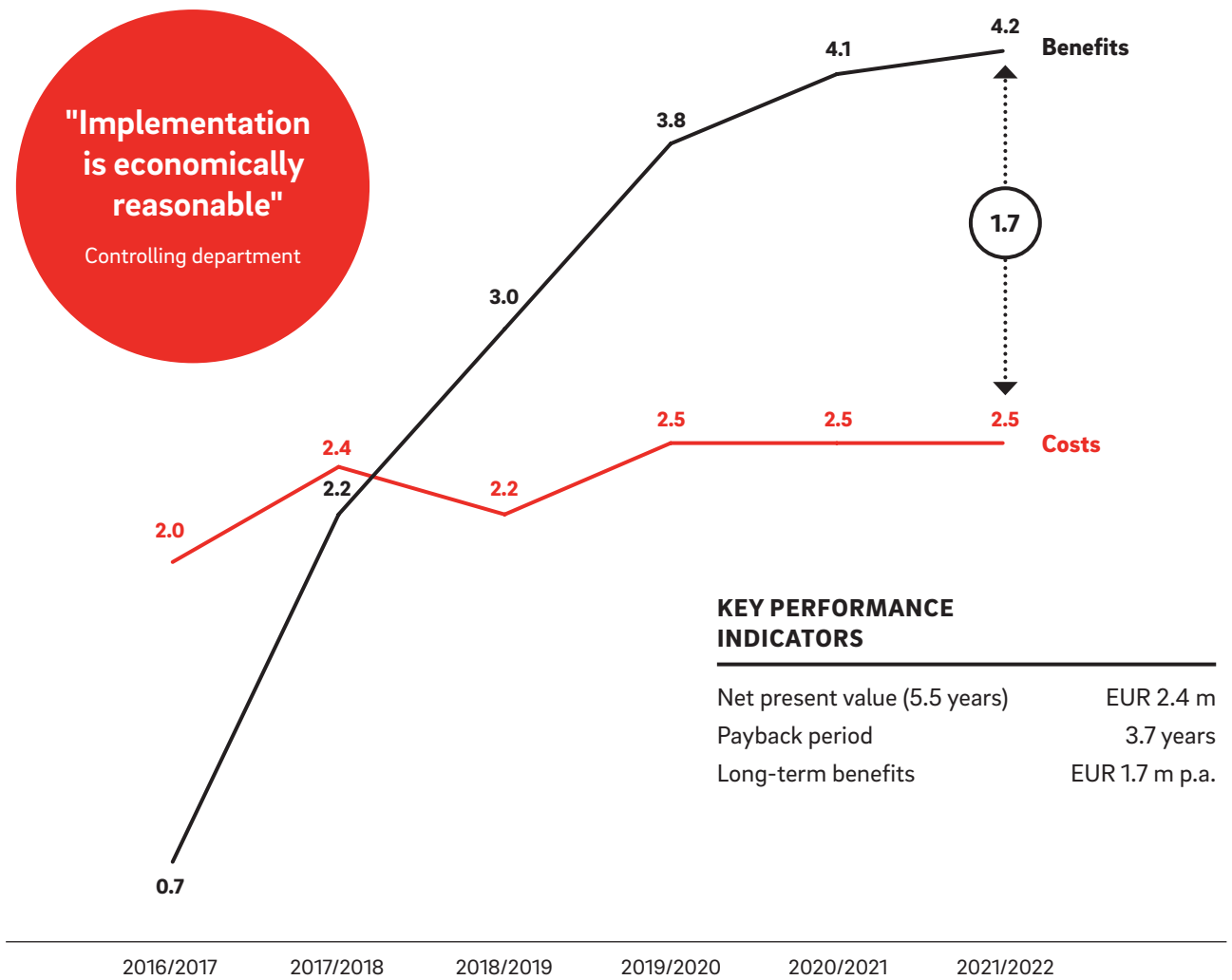
#### IDENTIFY THE GAP

The second step in the process is to create transparency about the current performance of the HR organization. Here, companies can use the same methodology internally as we did in our HR Trends Survey 2017. The result is a radar chart indicating the gap between ambition and reality in all relevant areas of HR (see → [02](#)).

Companies can use a similar approach to reveal where they are positioned in relation to their peers, in other words as a benchmarking tool. The peer group will generally consist of companies of comparable size in the same or similar industries. However, in some cases it will be worth comparing the company with digital firms that have outstanding HR functions.

Based on the results of this analysis, the company can then draw up a list of prioritized areas of HR for improvement. Typically, this will include the six areas for improvement identified earlier on in this study. However, depending on the specific vision for HR and the current performance of the HR organization, the company may wish to include other areas of competency.

**E: A solid business case ensures buy-in.**  
 Business case for a sample HR initiative [EUR m].



## COLLECT INSIGHTS

The third step is to carry out a "deep dive analysis" and start developing possible solutions. Typical methods for this analysis include benchmarking with peers (if not already done in the second step), best practice analysis, functional and process analysis, focus interviews and competitor interviews.

The value of gathering enough data and insights is hard to overstate. This is borne out repeatedly by what we discover when working with companies. For example, we found that one company that was trying to speed up its recruiting process had only asked HR about its pain points; it had failed to consult with senior managers on the business side. The solution implemented by the company – a new recruiting process and IT system – placed too much administrative burden on line managers. If the company had gathered fuller data and insights at the beginning of the process, it would have realized some two years earlier that the solution they devised would not fully solve the problem.

## DESIGN AND TEST INITIATIVES

The fourth step is to design specific, measurable HR initiatives based on the insights collected. The company should then prepare these initiatives for implementation. Drawing up a business case for each HR initiative is a good way to achieve the necessary buy-in from the business side and top management. Defining "quick wins" is also a catalyst for securing the support required for implementation. → **E**

Where initiatives are to be rolled out globally, it is important for companies to first check the robustness of the underlying assumptions and the feasibility of the execution. They should run a number of pilot studies before global rollout to make sure that they are not about to make an expensive mistake.

## IMPLEMENT INITIATIVES

When it comes to implementing HR initiatives, success and failure are next-door neighbors. Our research and experience working with companies reveals a number of key factors for successful execution:

- > **Effective governance:** Every HR project needs a steering committee comprising managers from the business side, solution providers and a sponsor at board level.
- > **A detailed implementation plan:** The implementation plan should give detailed information about resources, deadlines and responsibilities.
- > **A robust change and communications plan:** The change and communications plan should indicate how the company will engage the organization, inform the workforce about planned changes and the resulting benefits, and achieve buy-in from the HR function.

Where the initial analysis of the HR function reveals critical gaps, it can be useful for the company to set up a dedicated "local change team". The role of this team is to implement a phased change and communications plan up until the time the transformation goes live.

With the help of this systematic methodology, companies can take their HR organization to a higher plane. At the same time, they will ensure that HR is capable of helping the company as a whole master the challenges of digital disruption, continuous transformation and the ever-increasing demands from younger generations of employees regarding the workplace. And vitally, they will have started on the road toward closing the gap between reality and ambition within HR.

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# Imprint

## WE WELCOME YOUR QUESTIONS, COMMENTS AND SUGGESTIONS

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# About us

Roland Berger, founded in 1967, is the only leading global consultancy of German heritage and European origin. With 2,400 employees working from 34 countries, we have successful operations in all major international markets. Our 50 offices are located in the key global business hubs. The consultancy is an independent partnership owned exclusively by 220 Partners.

## Navigating Complexity

For the past 50 years, Roland Berger has helped its clients manage change. Looking at the coming 50 years, we are committed to supporting our clients conquer the next frontier. To us, this means facilitating navigating the complexities that define our times by providing clients with the responsive strategies essential to success that lasts.

## **Publisher**

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