



HR Technology Market Report 2023



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EXECUTIVE SUMMARY

Where are we with HR tech in 2023?

The HR function continues to transform, as people strategies are forced to keep adapting to macro-economic and global shifts.

- A strong labor market combined with high inflation created a difficult spell for hiring. That is now contrasted with industry-specific lay-offs, the spiralling cost of living and a threat of recession – HR is faced with needing to harness talent while balancing the books.
- It's time to move beyond crisis-driven, reactive uses of HR technology and plan more strategically about how to address the business critical challenges we face.



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Madeline Laurano
Founder and Chief Analyst, Aptitude Research

The Big Picture

Three years ago, as we entered into the pandemic, HR leaders and practitioners donned their superhero capes and helped to ‘keep the lights on’ in organizations the world over. From ensuring people could work from home, to introducing new methods of workforce planning, through to repurposing roles and skills, and making sure everyone still got paid; HR became a more strategically vital function almost overnight. Much of that capability was powered by the platforms and technology which our industry always knew had the potential to prioritize the people agenda.

Fast forward through the pandemic and the Great Resignation, and HR now finds itself facing a fresh set of challenges.



Evolving Economic and Global Dynamics

Driven by a number of factors ranging from global conflicts, to soaring energy prices, and through to supply chain issues, prices have risen at the fastest rate in decades (at their worst point, up 9.1% from the previous year) and impacted every area of the economy¹.

This has led some organizations to take remedial action, with well-publicized rounds of layoffs in certain sectors, alongside hiring freezes or pauses as leaders try to predict what’s coming next. Meanwhile, many people who opted out of work as a result of the reset sparked by the Great Resignation, have subsequently rejoined the labor market as they contend with the prospect of surviving during a period of economic uncertainty.

At the same time however, there are shrinking populations globally, an aging workforce and greater mobility in younger generations which is creating a fascinating paradox, particularly for everyone involved in HR; we have a labor (or skills) shortage at the same time as an economic slowdown.

“Despite elevated inflation and slowing growth, labor markets remain tight, by which we mean there is a large ratio of unfilled job vacancies to unemployed people.”

Andrew Flowers, Labor Economist

In the US, for example, unemployment fell to 3.4% in January 2023, which is the lowest level seen in 53 years and ends a five month streak of slowing employment growth.² This is, undoubtedly, helping to sustain higher than ever levels of mobility.

As Daniella Pye, senior manager at recruitment experts Sellick Partnership, recently told UNLEASH:

“This market is still candidate-led, meaning that most of the candidates that we represent have been put forward for at least three to four roles at any given time.”

All of this combined means that pressure is not just on recruiters, but every function of HR. An organization’s employer brand and employee experience can make the difference between both hiring and retaining the right people during a challenging time in the labor market.

¹2023 Recruitment Marketing Benchmark Report, Appcast
²Wall Street Journal, 2023

Skills

Research shows that skills has become the #1 challenge for HR leaders, with 2023 priorities realigning to address skills shortages.³ One of the upsides of the recent redundancies in the technology sector in particular, is the software industry relinquishing some of the talent and skills it has hoarded in recent years. This sudden availability of technology, and data driven skills in particular, is music to the ears of other industries that have been crying out for them, such as manufacturing and automotive for example. We could now see something of a long overdue democratization of talent across the workforce globally.

In the last seven years alone, research shows that 80% of the top skills required for each job have changed, while one in five skills is an *entirely new requirement* for that job.⁴ Let that sink in. It's HR's job to be ahead of this curve but when the playing field is changing this rapidly and profoundly, that's no easy task. Job descriptions can fast become obsolete – and as we've already explored, candidates have choice when it comes to the roles they accept. Companies trying to hire their way through the skills shortage are likely to struggle. The reskilling, upskilling and development of existing employees therefore increases further importance.

AI, Automation and Decarbonization

While AI as a concept is not new, its resurgence in the headlines with the release of ChatGPT will drive some intriguing trends and decision making across the people function. The automation of jobs generally, and certainly administrative tasks and processes, is still in its relative infancy, with the jury still largely out on the longer-term impact that AI will have on cannibalizing jobs versus augmenting them.

Also, to ensure a human-centric and ethical development of Artificial Intelligence (AI) in Europe, there will be new transparency and risk-management

rules for AI systems entering into legislation towards the end of this year, so the next six months will be extremely busy for solution providers getting up to speed – and ensuring they are compliant with this.

Efforts by organizations and entire industries to decarbonize or reduce their carbon footprint and improve ESG ratings are also shifting ways of working – and in some cases, accelerating levels of automation and digital transformation too.⁵ This cause also demands new and shifting skills sets, bringing us full circle to the current pressures HR is facing on all sides.

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Our latest research data is showing that organizations still need to spend money on solving business problems such as skills and talent – particularly when it comes to technology budgets.

Automation and digital maturity was a huge part of HR's ability to respond positively during the pandemic, and when it comes to continuing the digital transformation of HR there's still a pretty big shopping list for most organizations.

So, there's more money for HR tech, there's more money to upskill the HR function but a more variable forecast when it comes to the size of the HR function and the number of people involved.”

David Wilson
CEO & Founder, Fosway Group

³HR Realities Research, Fosway Group, 2022

⁴Shifting Skills, Moving Targets and Remaking the Workforce, BCG, 2022

⁵Unlocking a Sustainable Future: Why Digital Solutions are Key to Sustainable Business Transformation, Schneider Electric and CNBC Catalyst, 2022



The Closer-To-Home Picture: What's Happening in the HR Market?

With all this said, what does it mean for your HR investments and priorities this year and beyond? The mix of these macro factors in the big picture of work is causing uncertainty when it comes to planning and spend, something that has been borne out by HR leaders, technology vendors, investors and industry analysts alike.

The underlying financial forecast however, remains positive. In 2021, post-pandemic, the investment by venture capital and private equity firms in the HR technology market more than trebled for its biggest year ever with \$49.1bn. And although this predictably dropped in 2022 (to \$19.3bn), that is still the second highest investment year to date with the forecast upbeat for a 'speedy rebound'.

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70% of companies have told us that their investment in HR tech is set to stay the same or even increase in 2023.

Ultimately, the pandemic changed how we think about the importance of HR technology regardless of the economy. What will probably change is where that investment goes. A lot in the last three years has gone into 'band-aid' solutions but now there is a greater desire to invest more strategically and think longer term.”

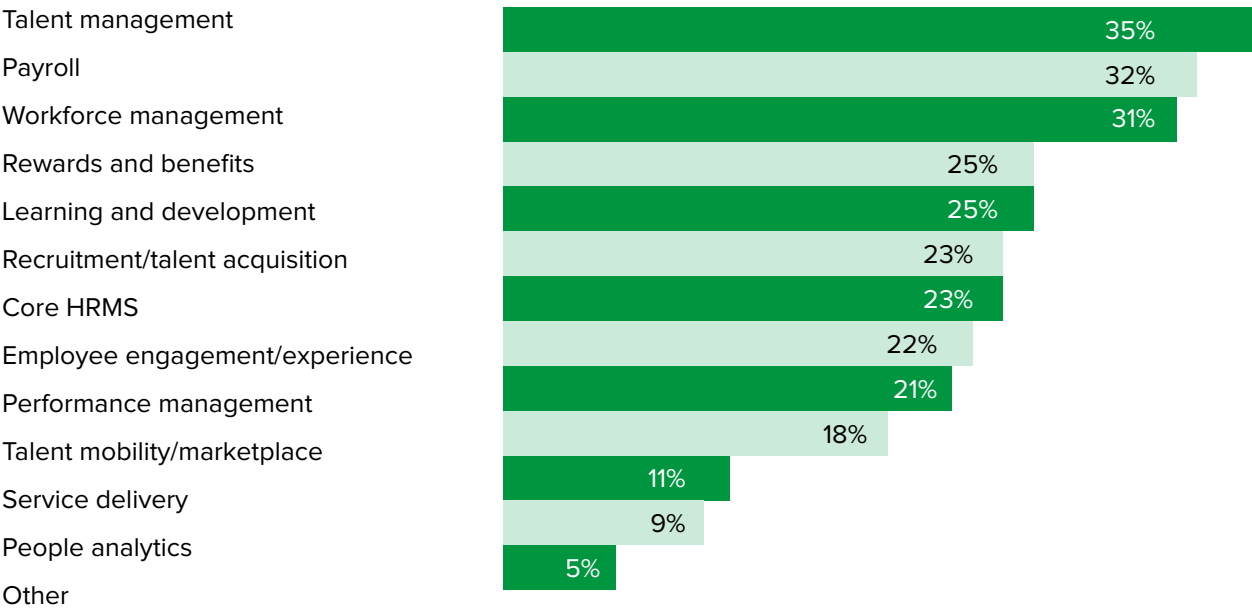
Madeline Laurano
Founder and Chief Analyst, Aptitude Research

Predictions at the start of this year still leaned heavily towards talent acquisition as the top area of spend in HR. This might well be on pause, at least for some organizations, but research shows that recruiting spend is still the #1 area where companies in every segment expect to increase their technology investment in 2023.⁶

Multiple sources are consistently showing both strategic workforce management and employee experience as two of the top areas of investment, alongside talent management, skills or learning and development, and payroll.



What was your new HR technology for?



Why HR Projects Succeed, UNLEASH, 2022

What does this mean for you?

It's all very well to discuss these topics at a high level but what does it all mean for you and your team in the years ahead? The reality translates into challenges including:

- How to balance hiring in some areas of your business, whilst also reducing headcount in others due to variations in growth and changing demand.
- Upskilling and reskilling to respond to fluctuations in business growth and demand, plus meeting requirements for new skills that are emerging into jobs with increasing rapidity.
- Talent mobility strategies so the organization can tap into newly skilled people, ensuring it is in the right place at the right time for maximum impact.
- Building business cases to hire – there are still acute shortages in some areas, but if recruitment budgets are frozen or cut, HR will need to lead the charge on unlocking investment here.
- Redesigning job architectures, finding adjacent job roles, fixing and improving models for succession as organizations become more dispersed, flattened, and changed by industry disruption.

⁶Annual HR Systems Whitepaper, Sapient Insights, 2022-23

“Not to be dramatic, but when was the last time you witnessed an economic downturn, an unprecedented demand for talent, and industry disruption caused by war, global warming, new energy policy, and economic inequity all at once?”

This year, coming out of the pandemic with a vengeance, we see enormous new opportunity in the business community. And Human Resources leaders, for the first time in my career, are going to be asked to take the lead.

We face some epic changes in the demographics and commitment of workers. Industries are merging. And the pressure on CEOs and CFOs to improve productivity means companies must focus on organization design, upskilling, and new models of pay, performance management, and rewards.

All these things are core to our role as HR leaders. So, 2023, building on what we did during the pandemic, throws new responsibilities at HR. And these are pretty interesting challenges.” –
Josh Bersin, CEO, The Bersin Academy

Not all of these challenges will apply to every organization or its people, and everyone will have their own unique context. Consequently, it is key to talk to the business and plug into conversations that inform your understanding of the strategic goals and priorities. This will inform your thinking, your planning and your execution and ensure you are laser focused on what really matters.

“Business outcomes. Everything we’re doing is about enabling the business to drive the outcomes it needs. So that’s driving performance and value for customers, shareholders and employees, which means it’s our job to really understand what those outcomes need to be and create the capability and the capacity to deliver them for the business.” –

Gemma Paterson, Head of Development Experiences and Innovation, Legal & General

The money is there but greater justification is required, and deals are slower to get over the line. What they spend it on needs to be seen as mission critical.”

What can you do about it?

Despite being at the mercy of so many global forces and situations, HR has plenty of levers that can positively impact the challenges identified here for 2023, including:

- Employee experience
- Talent mobility
- Skills development

An area often overlooked is that of the impact of line managers on all three areas and, ultimately, the impact on their people’s productivity and performance. This is not to mention their propensity to stay – the old adage that people don’t leave bad jobs, they leave bad managers is still very much alive and well. In fact, research shows that 70% of any individual’s personal satisfaction in their job is dependent on their direct leader, how they interacted with them (or don’t) or how they support them (or don’t).

Research finds that managers play an ‘outsized role’ in an individual’s satisfaction, mental health and sense of connectedness at work. Employees with good managers are 2.5x more likely to have improved wellbeing, 4x more likely to stay in their job and a staggering 800+% more likely to feel respected at work.⁷

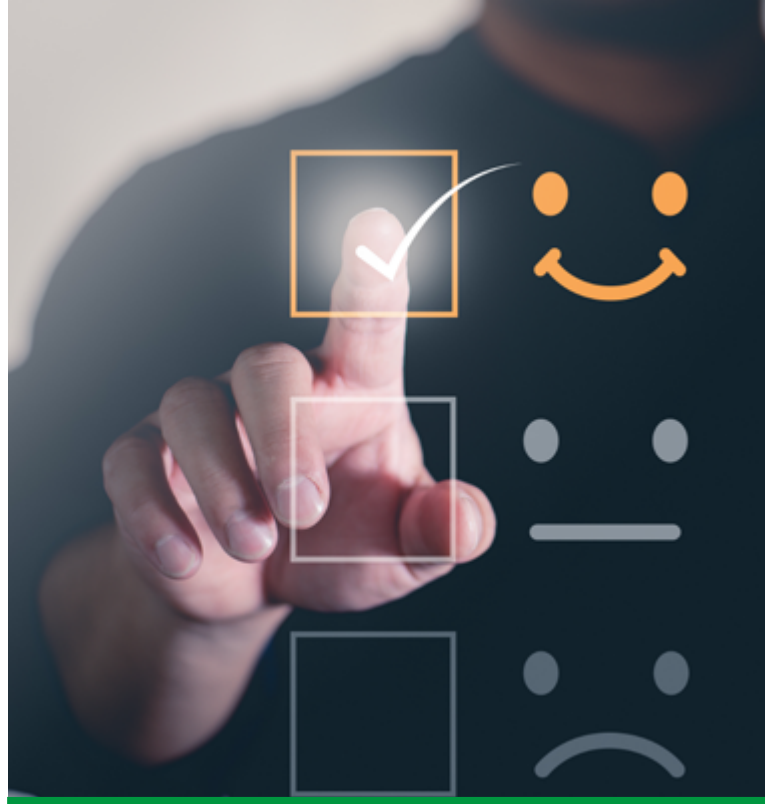


⁷What Frontline Workers Care About in 2023, Lighthouse Research & Advisory, 2023

“The big focus is going to be around how we can enable managers to be key players in employees’ experience overall at work. In many cases, we hear from the managers themselves that they don’t feel like they have the right tools, the right training, the right technology at their fingertips to be able to lead their teams well.” –

Ben Eubanks, Chief Research Officer, Lighthouse Research & Advisory

The bottom line is that with the world of work having been so disrupted in recent years, leadership and management are also in a state of flux. The 2023 Global Human Capital Trends research from Deloitte explores ‘leading in a boundary-less world’ and shows that many leaders aren’t equipped with what they need to lead effectively today.



Leadership capabilities and effectiveness in a disrupted world are important or very important to my organization’s success

94%

Leaders in my organization are very ready to lead effectively in a disrupted world

23%

Source: Deloitte 2023 Global Human Capital Trends survey

Through all the trends we have examined here, organizations need to ‘avoid looking at work and workers through yesterday’s lens – based on yesterday’s definitions and boundaries’.⁸ HR has changed forever but understanding how we can link tools, technology and training to the right people at the right time is a fundamental that remains. There’s perhaps just never been a more pivotal opportunity - during this time of ongoing change and disruption – to get it right and reap the benefits of creating an optimum employee experience for everyone in your organization.



Find out more at www.unleash.ai



⁸2023 Global Human Capital Trends, Deloitte, 2023