

*ISG Market Lens™

HR Technology Study

State of HR Technology Today

HCM Transformation Is in Progress

- 2/3 of in-progress human capital management (HCM) transformation programs are expected to continue into 2027.
- The key motivations to transform beyond efficiency and cost benefits are improved data and insights, harmonizing HR operations globally and supporting organizational growth.

HCM Transformation is Not Yet Delivering

Savings Yes, Business Expectations Mixed

While costs savings of 10% in HR operations and 8% in IT are reported, **around half say business expectations are not being met**. HR functions describe challenges with budgets, legacy system complexity, and issues with data quality and integration. They also highlight organizational resistance to change and a need to align with business goals.

AI Activities Are Fragmented for HR

2026 AI Budget: \$1.61 Million

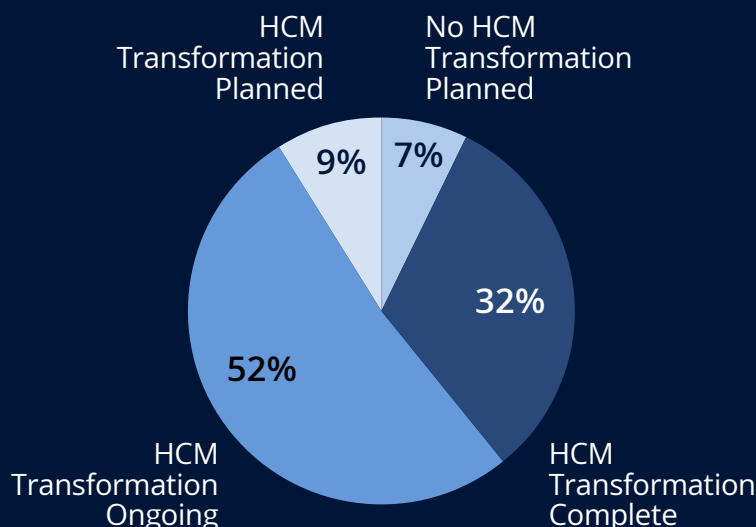
HR functions are trying out AI across all activities, from performance management and internal insights to external job postings and candidate chatbots. With limited budget across many activities, progress is slow. On average, enterprises are testing or evaluating 6 HR use cases, but **only 1 is in production**. Just 34% have a production use case today.

Sourcing Strategy: Everything is Changing

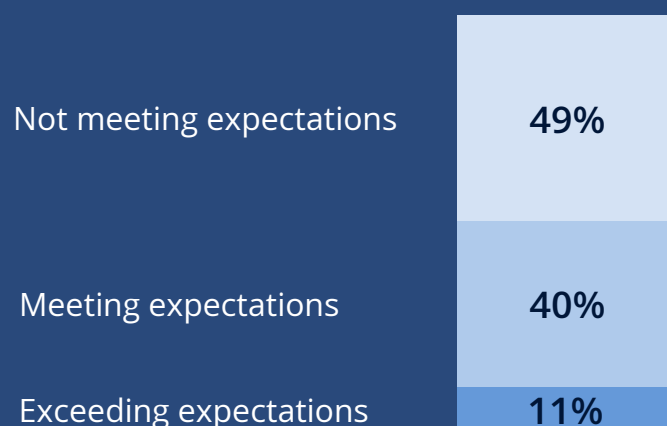
Sourcing Changes Are Multi-Directional

84% of enterprises reported that they expect to change sourcing approach for at least one HR function by year-end 2027. On average, 1/3 of HR functions will be impacted by these changes. Outsourcing is driven by the need to improve business results and cost, while AI opportunities drive internal shared service and global capability center options.

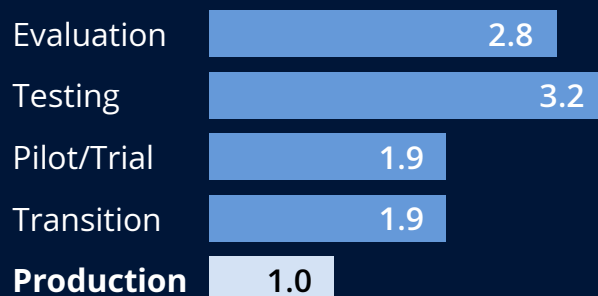
Current HCM Transformation Status



Has HCM Transformation Met Business Expectations?

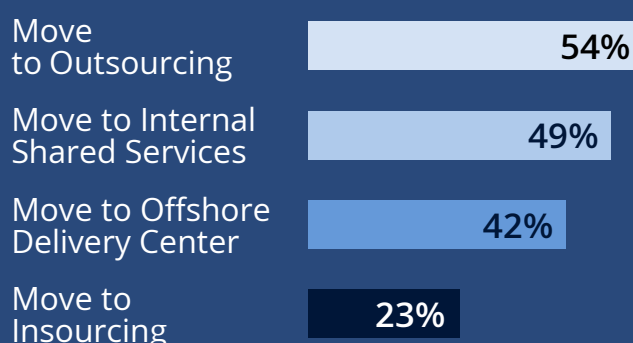


HR AI Initiatives



Note: Average # of use cases at each stage

Sourcing Changes Expected by Year-End 2027



200 executives in G2000 firms interviewed from N. America & Europe across industries.



68% board-level roles, 32% in HR, shared services or HR information systems.

Contact us to find out more about this study. If your organization needs help navigating the technologies, processes and culture needed to refocus your initiative, ISG can help.