The Talent Strategy Group

SCIENCE + SIMPLICITY

2026 HR OPERATING MODEL REPORT

THE HR GROWTH ERA IS OVER.

WHAT TO DO NOW?

Large employers are cutting.

HR struggles to work as one team.

HR's operating model isn't broken, just not executed.

AI is fully expected soon but hardly implemented now

The growth era has ended. The hard work starts now.

HR is getting smaller as client demands increase. We haven't fixed the core problems that limit HR team performance.

In 2023, HR organizations were adding people across every COE. That era is over. In the 10 COEs surveyed, the gap between the organizations who are adding staff and those who are cutting staff shrank from +21% to just +3%.

Large employers are already shrinking. More than half of HR leaders expect the HR employee to company employee ratio to decline. The ratios are already increasing.

HR also has not solved how to work as one team. Only 22% describe extremely strong HRBP-COE partnership, while 36% cooperate without a disciplined way of working. More COEs are going directly to the business rather than through HRBPs – a shift from our 2023 report.

The ability to flawlessly execute the HR operating model remains weak. Only 15% say HR roles, responsibilities and decision rights are very clear. 41% don't measure if their operating model works.

AI is projected to fundamentally shift work, but the savings remain anticipated. Most COEs are dabbling, not wading, into AI.

I hope you use this data to build a higher-performing, talent-building, business-driving HR team. We're happy to help you do that.

Marc Effron
President
Talent Strategy Group

THE SHORT VERSION

Plan how your smaller HR organization will deliver results. Fix HR's internal hand offs and make the operating model seamless. Measure whether the model works. Better plan your AI future.

THE STORY IN 10 WORDS

Same model. Fewer people.

It's still not working well enough.

51%

of companies expect higher HR employee to company employee ratios

Only 15%

have very clear decision rights in their HR operating model

Only 27%

rate their own model very or extremely effective

Forget the noise about fancy new operating models. HR still relies on HRBPs, COEs and shared services. But the function is getting smaller and COEs are working differently with the business.

What has not improved enough is how clearly HR assigns the work, works across boundaries and measures whether HR delivers. AI is changing small parts of HR work, but extensive use is still uncommon in late 2026.

Source: TSG 2026 survey. Percentages rounded.

EXECUTIVE SUMMARY

Five findings that should guide CHROs and HR strategy

The familiar "Ulrich" model stands. Weak role clarity, unclear decision rights and sketchy measurement block the effective of HR operating models. AI looms as a productivity enhancer, with little productivity enhanced so far.

01 The HR growth era is over. Large employers are cutting.

COE growth has nearly stopped. In 2023, staff increases exceeded cuts by 21%. In 2026, the difference was just 3%. Large employers' cuts beat increases by 3 points.

02 HR still doesn't work well together

Only 22% report extremely strong HRBP-COE partnership. Another 36% cooperate without a disciplined way of working.

03 The problem is execution, not the model

The largest barriers to effectiveness are manual work, technology, HRBP capability and unclear accountability.

04 HR barely uses AI to do its work or serve employees

Extensive use peaks at 26% in People Analytics. L&D follows at 19%; every other function is at 15% or below. AI supports only 8% of Tier 2 work and 4% of Tier 3.

05 Effective models run differently

Clear roles, strong HRBP-COE partnership and quantitative results measurement sharply separate those who consider their HR operating model to be effective.

Source: TSG surveys, 2023 and 2026. Percentages rounded.

CHRO RECOMMENDATIONS

What CHROs should do now

It's time. You're being forced to address how work is done, so use this opportunity to redesign, clarify and optimize your HR operating model. Based on this report's data and our extensive consulting experience, our advice to CHROs is straightforward. Your organization and your team will thank you.

01

Get serious about optimizing your HR operating model.

While our findings say that 62% of organizations adjusted their model, the statistics on effectiveness haven't changed. We find too many HR operating model changes play around the edges and don't address the core issues. Commit to making the changes we describe below in 2027. Completely.

02

Set your “True North” and HR governance.

A "True North" is your clear, concise and specific statement about how HR will operate in the organization. How do you believe HR should serve the business? What is the role of the HRBP? COEs? Service Center? How will these parts play together (at a high level)? How will you measure the effectiveness of your HR operating model?

03

Create process and role clarity.

One reason the difficult changes haven't been made is because they're the difficult changes. Take the painful but necessary steps of mapping exactly who does what in your key HR processes (NOT RACI!). This defines role clarity and decision rights that do not exist today. This is the "wiring" of your operating model.

04

Recontract with the business and HR.

Discuss with the ELT how HR will serve them going forward - HRBPs, self-service, etc. What are the services and the service level they should expect. Get alignment on that plan or get more budget if they prefer another plan. Recontract with your HR team about what it means to be in HR going forward - performance, careers, experience, etc.

01

THEME 1 | THE LEANER FUNCTION

HR is shrinking. How you are adjusting the work & your team?

HR's broad expansion has ended. Across comparable COEs, the balance of organizations adding versus cutting staff fell from +21% to +3%. Large employers are already shrinking. The typical HRBP now supports nearly 300 employees, up from 225. **This is the first change we've noted in this metric.**

Talent Acquisition and DE&I moved sharply from growth to cuts. Learning and Development also declined.

Are more effective HR groups flatter? Effective organizations report 4.7 CHRO direct-report COEs versus 2.9. We don't yet know whether that's correlation or causation.

+3 pts

balance of comparable COEs adding versus cutting staff

-3 pts

balance among employers with 25K+ employees

4.7 vs 2.9

CHRO direct-report COEs in effective versus ineffective HR operating models

Source: TSG surveys, 2023 and 2026. Percentages rounded.

THEME 1 | WHAT CHANGED SINCE 2023

The HR growth era is over (in many, not all, areas)

Across comparable COEs, the balance of areas adding versus cutting headcount fell from +21% to +3%. Talent Acquisition and DE&I reversed most sharply. L&D went negative.

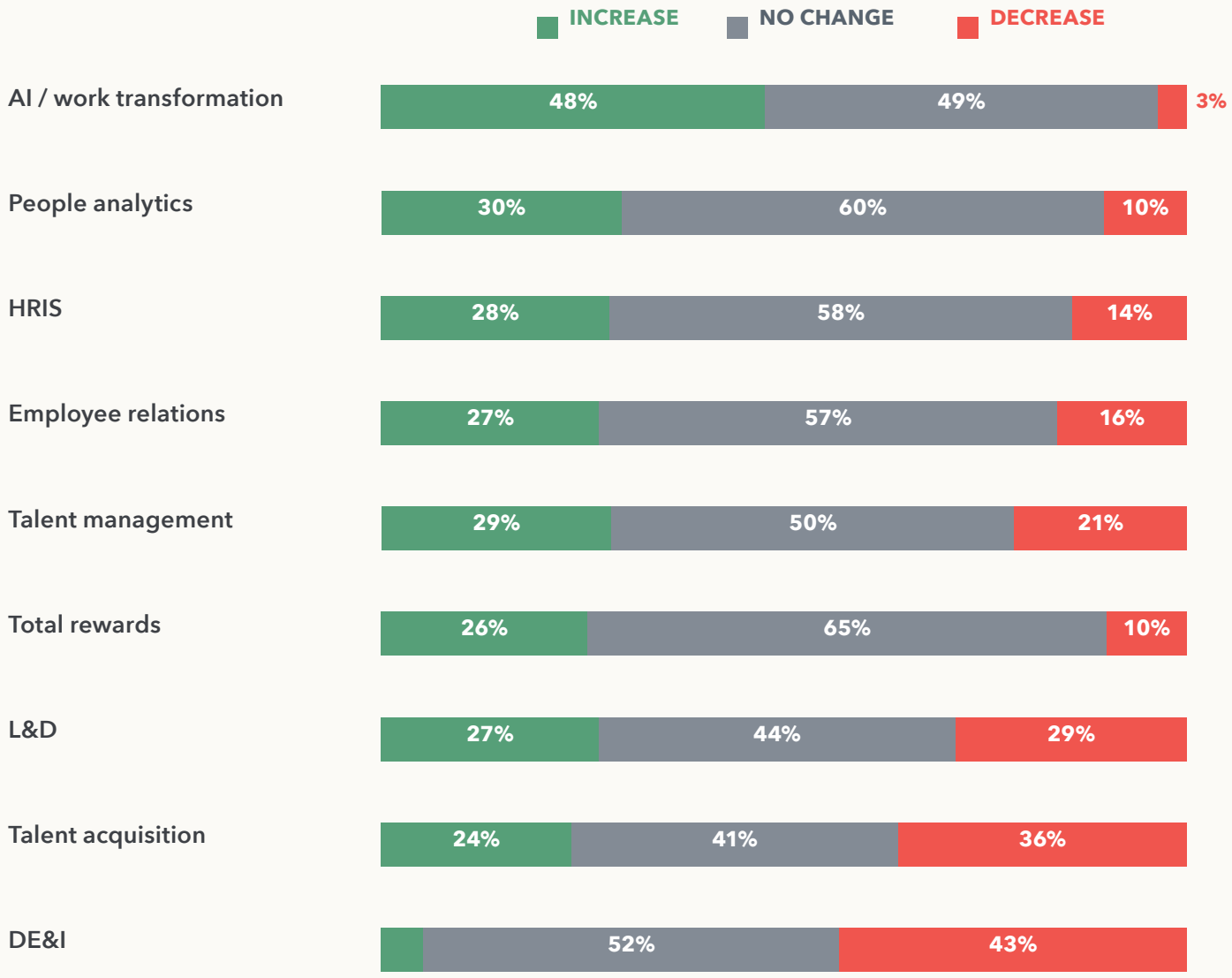


Source: TSG surveys, 2023 and 2026. Net points = % increasing minus % decreasing.

INSIDE THE 2026 RESULT

Most COEs are steady but slowing. DE&I, Talent Acquisition & L&D are shrinking.

AI/work transformation is the only area where adding staff is nearly as common as holding steady.

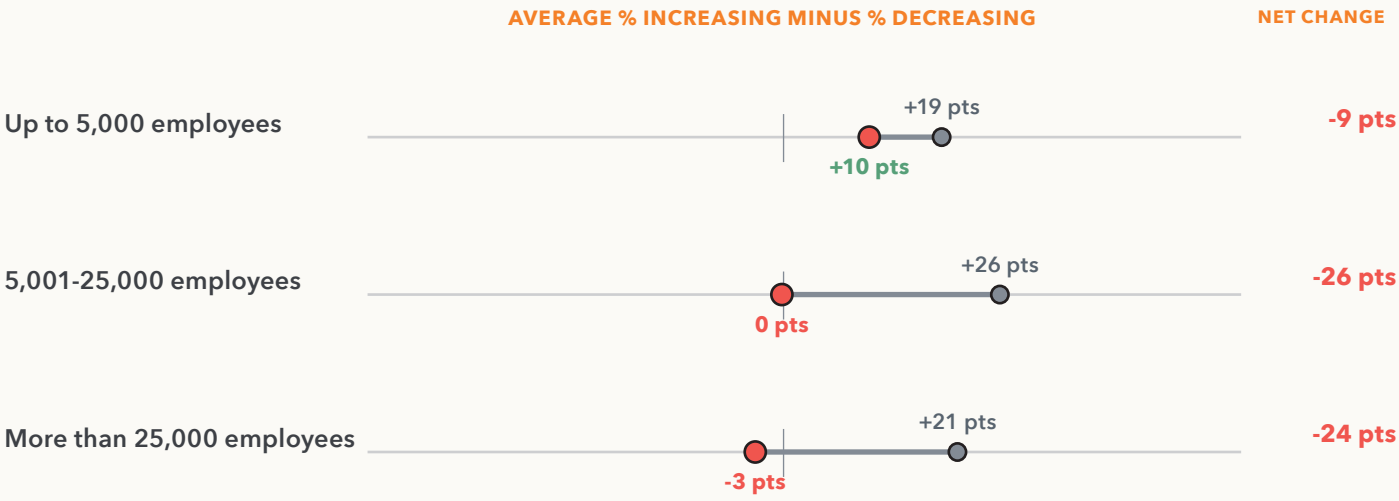


Source: TSG 2026 survey. Increase/decrease categories combined; percentages rounded.

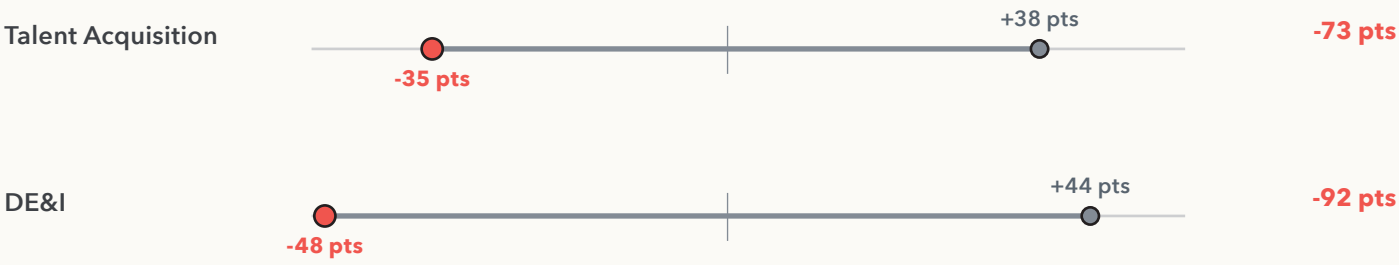
THE SCALE EFFECT

Large organizations move from strong hiring to selective reduction

Smaller organizations slowed but remained positive on average. Mid-sized organizations are flat. The negative shifts in Talent Acquisition and DE&I occurred at unprecedented levels.



THE LARGE ORGANIZATION - MASSIVE REVERSALS



Source: TSG surveys, 2023 and 2026. Average balance of increases minus decreases across the same 10 COEs; percentages rounded.

STAFFING RATIOS

The ratios are finally changing. Fewer HR staff per employee. Fewer HRBPs per employee.

The typical HRBP now covers 300 employees, up from 225 in 2023. Every comparable staffing measure became leaner. Most HR leaders expect the shift to continue.

2023 TO 2026

2023		2026
1:70	->	1:80

total HR employees to company employees

2023		2026
1:225	->	1:300

HRBPs to company employees

2023		2026
21%	->	26%

have one HRBP for 500 or more employees

51%

2026 respondents are expecting fewer HR employees per employee

CHRO QUESTIONS

How will the work get done? AI is a tool not a solution. Many HR staff aren't skilled in the strategic, consultative work remaining when AI takes away the administrative work. What's your True North for your HR Operating Model?

Source: TSG surveys, 2023 and 2026. Ratios combine precise and estimated responses; percentages rounded.

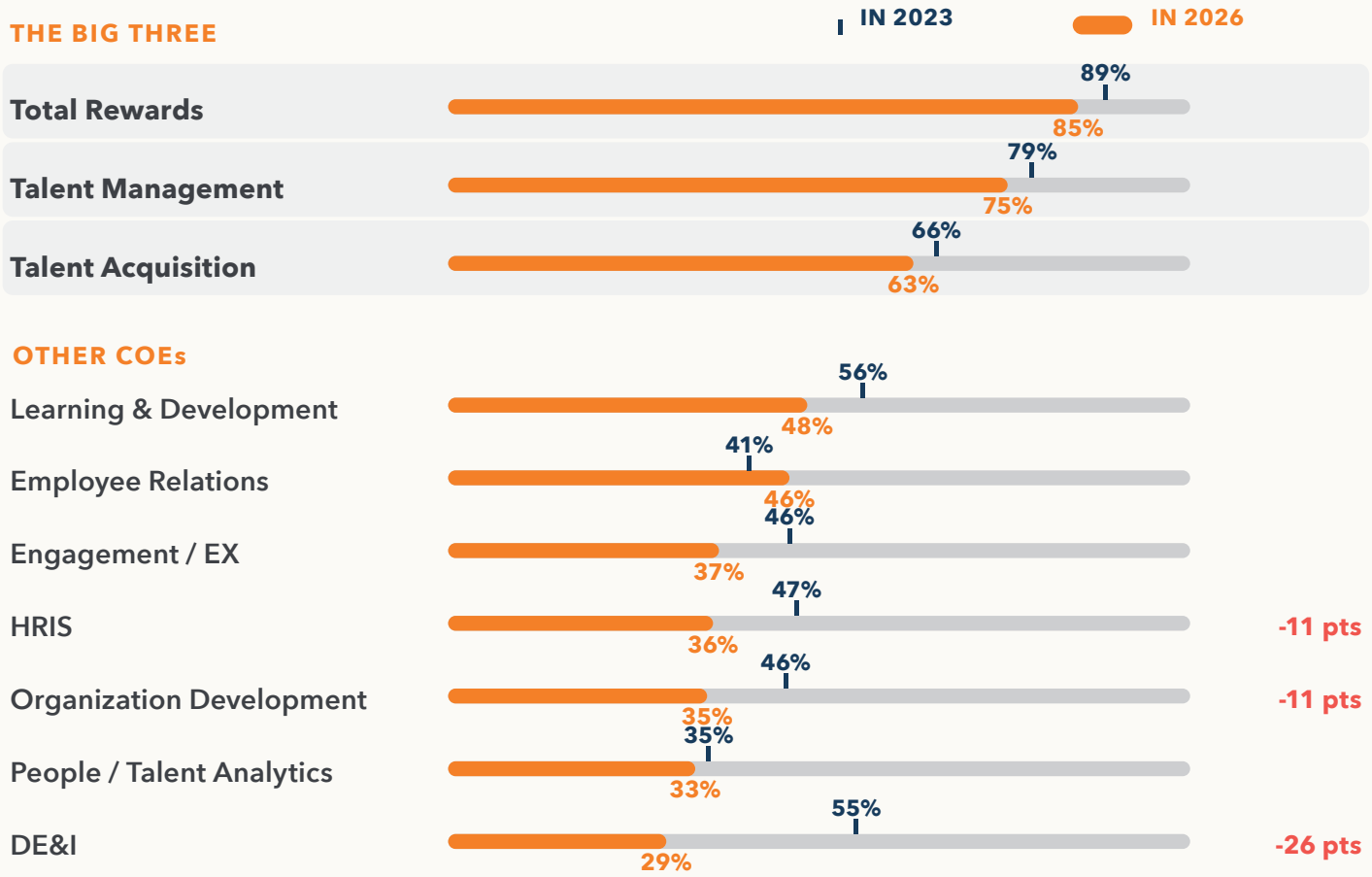
WHICH COES MATTER MOST?

The "big three" COEs dominate CHRO direct reports.

Total Rewards and Talent Management are the COEs CHROs most often keep close. Given the 13-point gap to Talent Acquisition - and that many TA groups report into Talent Management - there may really be a "big two." Organizations with more COEs reporting to the CHRO rate their operating model as more effective.

56% -> **49%** average share of comparable COEs reporting directly to the CHRO

QUESTION: WHICH COEs ARE DIRECT REPORTS OF THE CHRO?



NOT TRENDED: AI / work transformation was new in 2026 at 23%; Assessment was asked only in 2023 at 22%.

Source: TSG surveys, 2023 and 2026. Ten comparable COEs; percentages rounded.

02

THEME 2 | THE BUSINESS RELATIONSHIP

More COEs are interacting directly with the business. Who owns the relationship?

Organizations that say HRBPs own the primary relationship with the business fell from 74% in 2023 to 53% in 2026. The data cannot tell us why relationship ownership shifted. It does show that fewer organizations position the HRBP as the sole owner at the same time the HRBP-COE partnership has not improved.

This feels like a challenging situation – low agreement within HR on role clarity with more independent connections to the client.

It's unfortunate that the HRBP-COE partnership has not improved in three years: only 22% of organizations describe extremely strong trust and cooperation, while more than a third interact with no disciplined way of working together.

74% -> 53%

say the HRBP owns the primary relationship with the business

22% (unchanged)

report extremely strong HRBP-COE partnership

36%

interact without a disciplined way of working

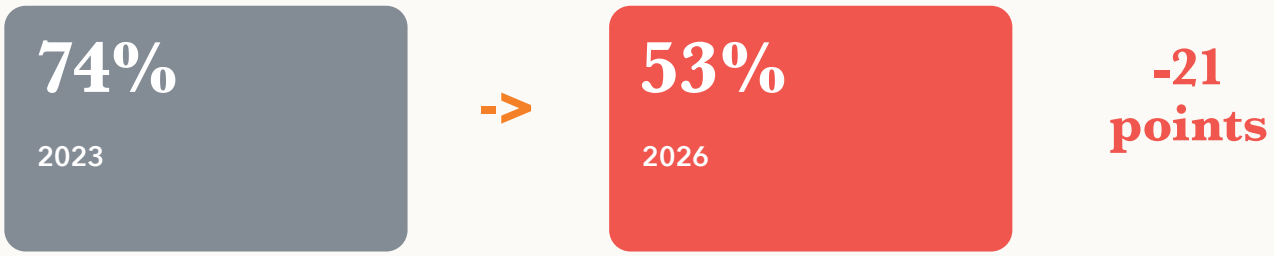
Source: TSG surveys, 2023 and 2026. Percentages rounded.

WHO OWNS THE RELATIONSHIP?

More COEs are going directly to the business; role clarity remains low.

Fewer respondents say the HRBP owns the primary relationship with the business, although new answer choices in 2026 make the change interesting but not conclusive.

HRBP OWNS THE PRIMARY RELATIONSHIP



The answer may not be to channel every interaction through the HRBP. It may be to define ways of working in HR and clarify, specifically, how we serve the client.

2023 ANSWER CHOICES

1. HRBP owns the relationship; brings in COEs.
2. COEs work independently without coordinating with the HRBP.
3. Other.

2026 ANSWER CHOICES

1. HRBP owns the relationship; brings in COEs.
2. HRBP is one resource; COEs may work directly with the business.
3. Other.

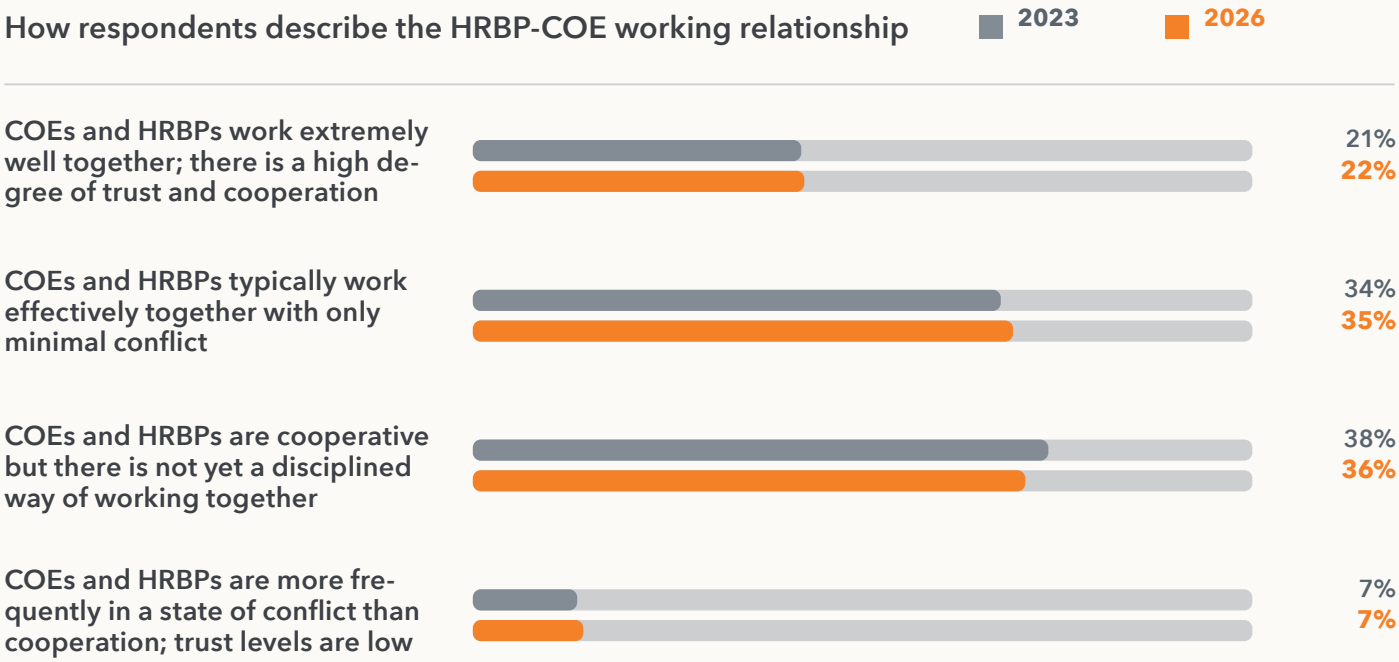
Answer choices shortened for display. Because they changed, the direction is more reliable than the exact size of the shift.

Source: TSG surveys, 2023 and 2026. Percentages rounded.

HRBP + COE PARTNERSHIP

There's been no improvement in how we work together in 3 years. Why?

The relationship is stable but not strong, and it's not getting better. We challenge CHROs to assess how strong this relationship is in their organization and what their plan is to improve it.



57%

work well or extremely well together. Is that enough? Why is this not improving?

43%, MORE THAN 4 IN 10, DON'T WORK WELL

The numbers are essentially stagnant from 3 years ago. How to work together well is a solvable problem that many companies don't seem to want to solve.

Source: TSG surveys, 2023 and 2026. Percentages rounded.

03

THEME 3 | OPERATING DISCIPLINE

The Ulrich model still dominates. Execution is the problem.

Any corporate function is going to feature specialists, generalists and an efficiency organization. So it's no surprise that HR continues with the classic Ulrich model, bolstered by even more companies having shared services in 2026, but likely shrinking in size. **Despite pundits' arguments against it and consulting firms' attempts to define new models, Ulrich dominates.**

The challenge is not the model, but how effectively organizations execute that three-pillar model. Only 27% of organizations rate their HR operating model as very or extremely effective. Just 15% report very clear responsibilities and decision rights within it. 41% do not actively measure whether that model works.

AI – the obvious new element – only shows up as a minor supporting character in 2026. It's somewhat integrated into Tier 0 and 1 but largely non-existent in Tier 2 or 3. This is sure to change, but as of now the rhetoric on AI is leading the results.

Source: TSG surveys, 2023 and 2026. Percentages rounded.

THE MODEL ENDURES

The three-pillar model remains the standard

The evidence is the continued existence of HRBPs, COEs and shared services. Service-center growth from 2023 to 2026 helps strengthen that conclusion.

BUSINESS PARTNERS REMAIN THE BROKER IN THE MAJORITY OF ORGANIZATIONS

53%

place the HRBP in the business-facing relationship role

43% say the HRBP is one resource and COEs may work directly with the business.

A FEW COES ARE THE ANCHOR SPECIALTY GROUPS

85%

Total Rewards

75%

Talent Management

63%

Talent Acquisition

THERE'S CONTINUED GROWTH IN SHARED SERVICE CENTERS

70%

have an HR service center

+3% from 2023

87% of employers with more than 25,000 employees have one.

THE UNDERLYING TRUTH

Service-center growth cements an already dominant model. Consulting firms' variants of, and social media slights against the, Ulrich model have done nothing to challenge its dominance.

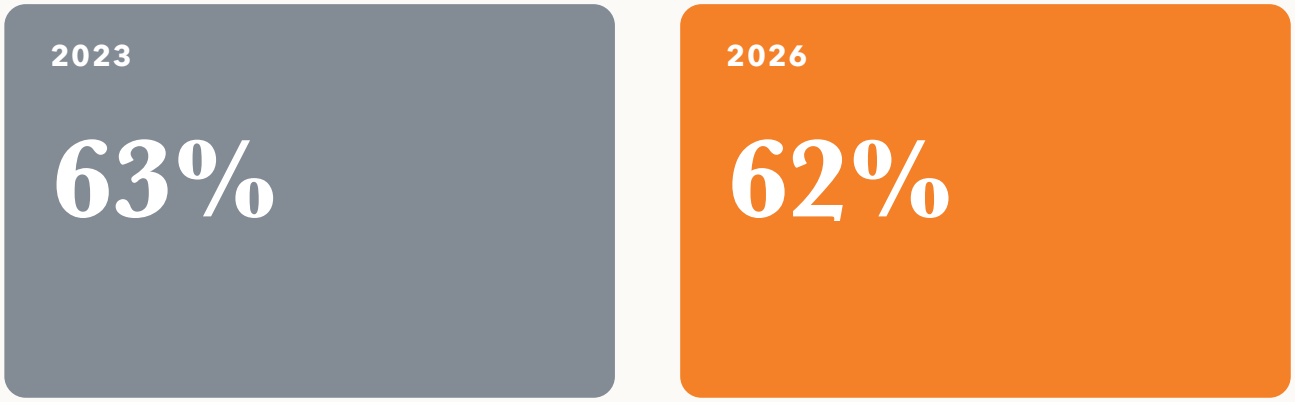
Source: TSG surveys, 2023 and 2026. Percentages rounded.

THE REDESIGN CYCLE

Redesign is common. Better performance is not.

In 2023, 63% of organizations reported changing their HR organization design or operating model within the past two years. In 2026, a nearly identical 62% said the same thing.

CHANGED THE MODEL WITHIN THE PAST TWO YEARS



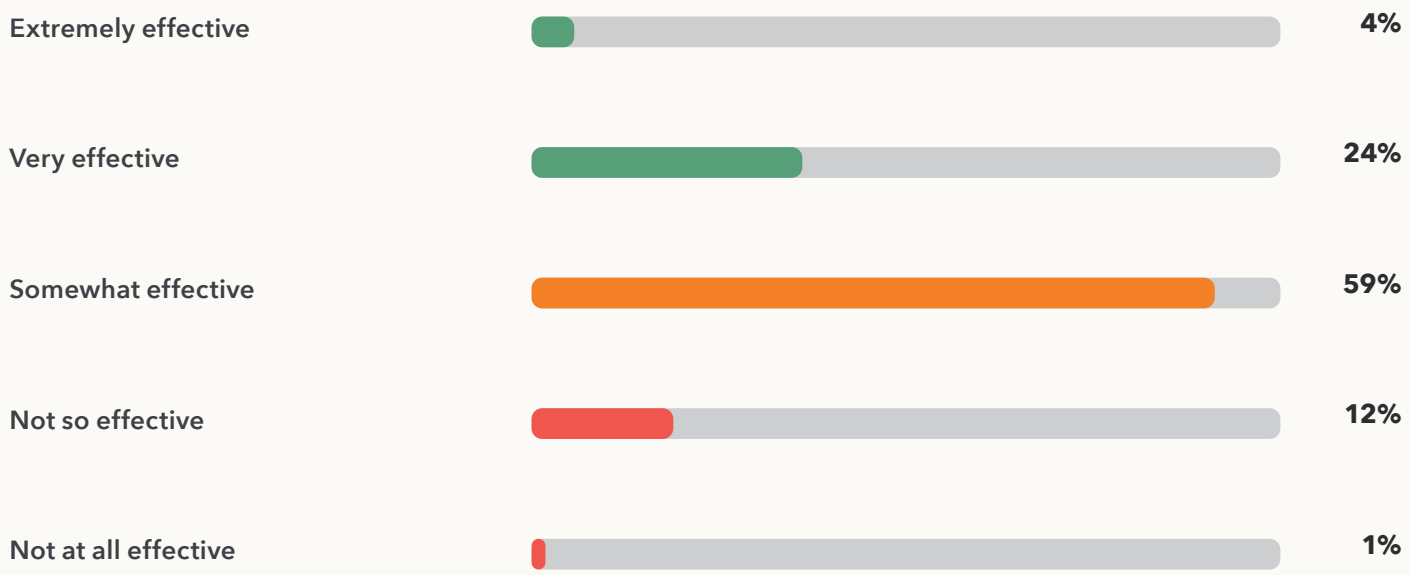
Redesign has become a recurring management activity, not a one-time transformation. But the poor effectiveness numbers beg the question of why these changes are not typically translating into improved self-rated effectiveness.

Source: TSG surveys, 2023 and 2026. Percentages rounded.

OVERALL EFFECTIVENESS OF THE HR OPERATING MODEL

Somewhat Effective = Not Effective

Only 27% rate their HR operating model as very or extremely effective. An operating model that is merely somewhat effective is not delivering the standard HR leaders should accept or that business leaders need.



Bigger isn't better

Company size made no difference in effectiveness

CHRO-COE direct report numbers matter

More COE directs mean higher rated effectiveness

Standardization counts

53% of orgs with standardized models rate themselves effective vs. 23%

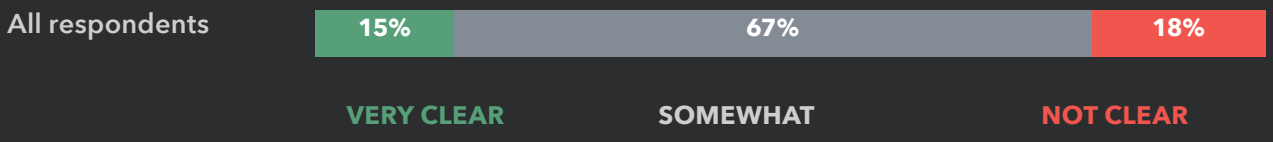
WHAT IT MEANS More than seven in ten rate their operating model as only somewhat effective or worse. Many factors drive these numbers but the overall score is disappointing.

Source: TSG 2026 survey. Percentages rounded.

DECISION RIGHTS

Only 15% say HRBP, COE and service center roles are very clear.

How clear are HRBPs, COEs and the Service Center about their respective responsibilities and decision rights?



WHAT'S GETTING IN THE WAY?

45% cite unclear roles and responsibilities as a top-three barrier to increased operating model effectiveness, and 35% cite poor coordination across HR. These are selected items from the full listing shown later in this theme.

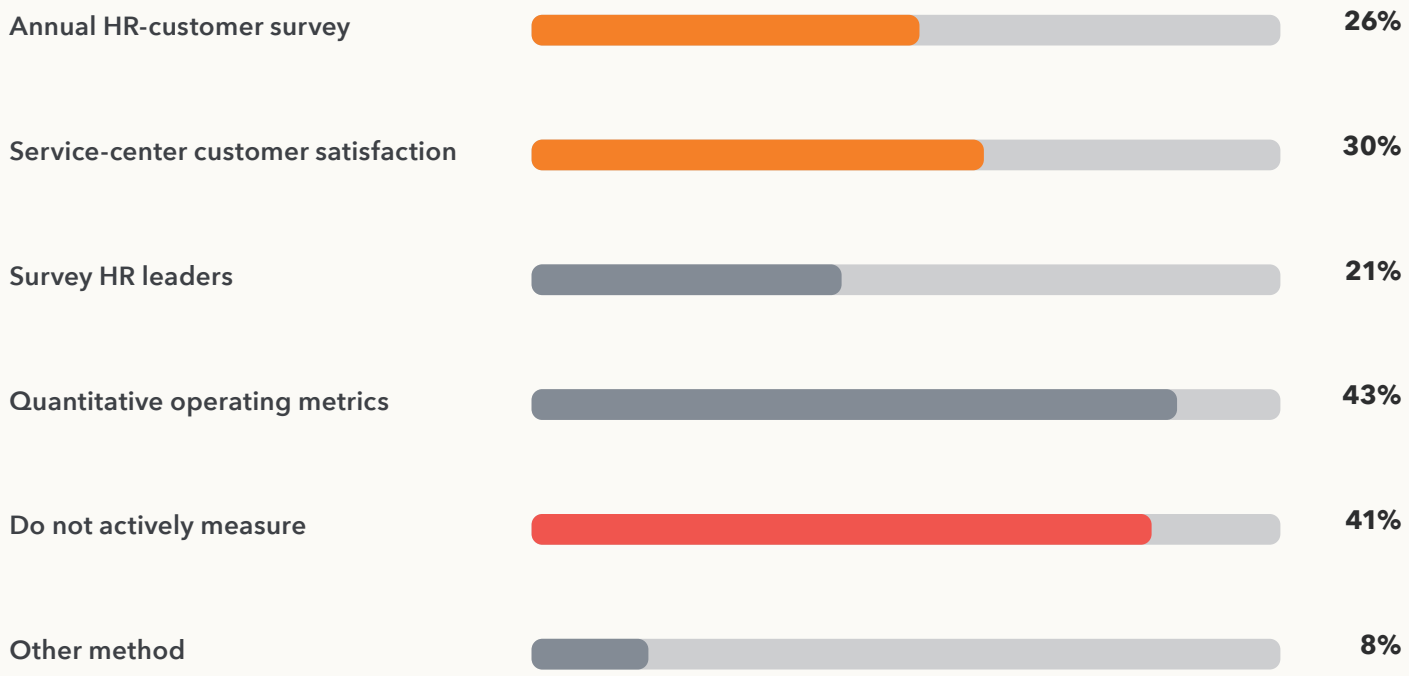
The problem is not simply where roles sit on the organization chart. HRBPs, COEs and service centers lack the decision rights and handoff rules needed to work well together as one team.

Source: TSG 2026 survey. Percentages rounded.

MEASUREMENT

HR sometimes asks customers if the model works. But 41% never measure it.

How does your organization regularly measure the effectiveness of HR's operating model? Select all that apply.



THE CUSTOMER GAP

Most HR functions do not regularly ask their customers whether the model is easy to use, responsive or solving the right problems.

WHAT IS MISSING

Cost and speed measures cannot show whether HR is easy to use, responsive or solving the right business and workforce problems.

Source: TSG 2026 survey. Multiple responses allowed; percentages rounded.

WHAT BLOCKS PERFORMANCE

Execution - not structure - is the constraint

What are the three largest barriers to a more effective HR operating model? (select up to three)

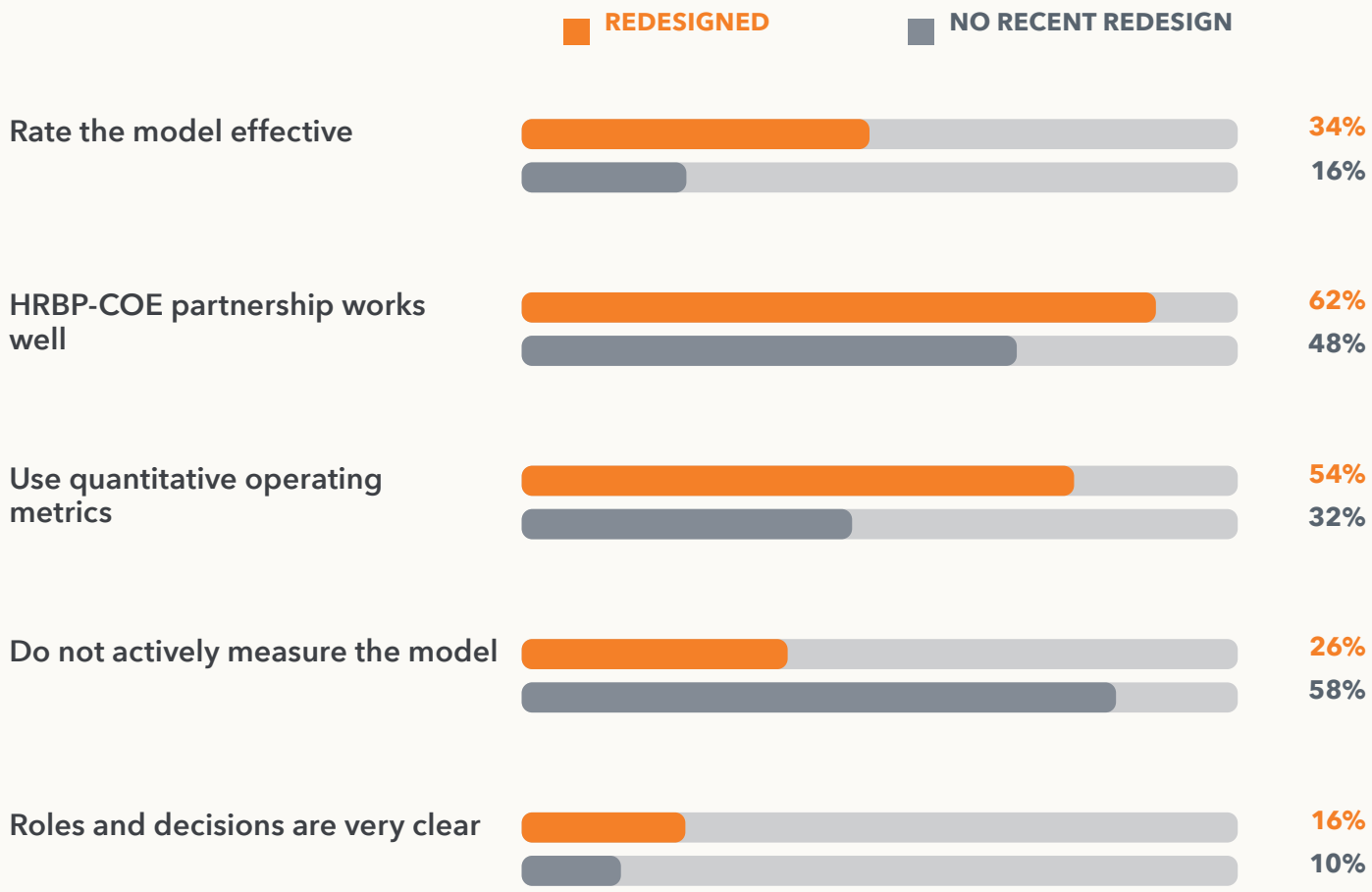


Source: TSG 2026 survey. Respondents selected up to three barriers; percentages rounded.

WHAT REDESIGN CHANGES

Recent redesigners report better discipline. Role clarity remains weak.

Organizations that recently redesigned their HR operating model report stronger HR operating model effectiveness, HRBP-COE partnership and measurement. Role and decision clarity remain weak.



THE IMPLICATION

Recent HR operating model redesign is associated with stronger discipline, but it does not consistently clarify roles and decisions. If ownership remains unclear, what did the redesign actually fix?

Source: TSG 2026 survey. Recent redesigners changed within two years; percentages rounded.

04

THEME 4 | AI VALUE

AI projections are far ahead of operating reality

Two-thirds of respondents expect AI to reduce total HR headcount, yet 82% say it has not meaningfully changed service center staffing. This says organizations aren't yet taking significant steps where there appears to be the greatest opportunity for change.

Moderate use in COEs is common, but extensive use is rare: People Analytics leads at 26%, L&D follows at 19%, and every other function is at 15% or below.

The gap is not primarily a technology problem. Only 30% have created an AI role or team, while 38% have no current plans to do so. Without someone leading the charge for process redesign and greater AI adoption, it's going to remain an experiment rather than part of an operating model change.

67%

expect AI to reduce total HR headcount

82%

report no meaningful service center staffing change

30%

have created an AI role or team in HR

Source: TSG surveys, 2023 and 2026. Percentages rounded.

AI: EXPECTATION VS. REALITY

The savings are mostly still a forecast.

82%

say AI has not meaningfully changed service center headcount

67%

expect AI to reduce total HR headcount in the next 2-3 years

Only 6%

expect AI to increase total HR headcount

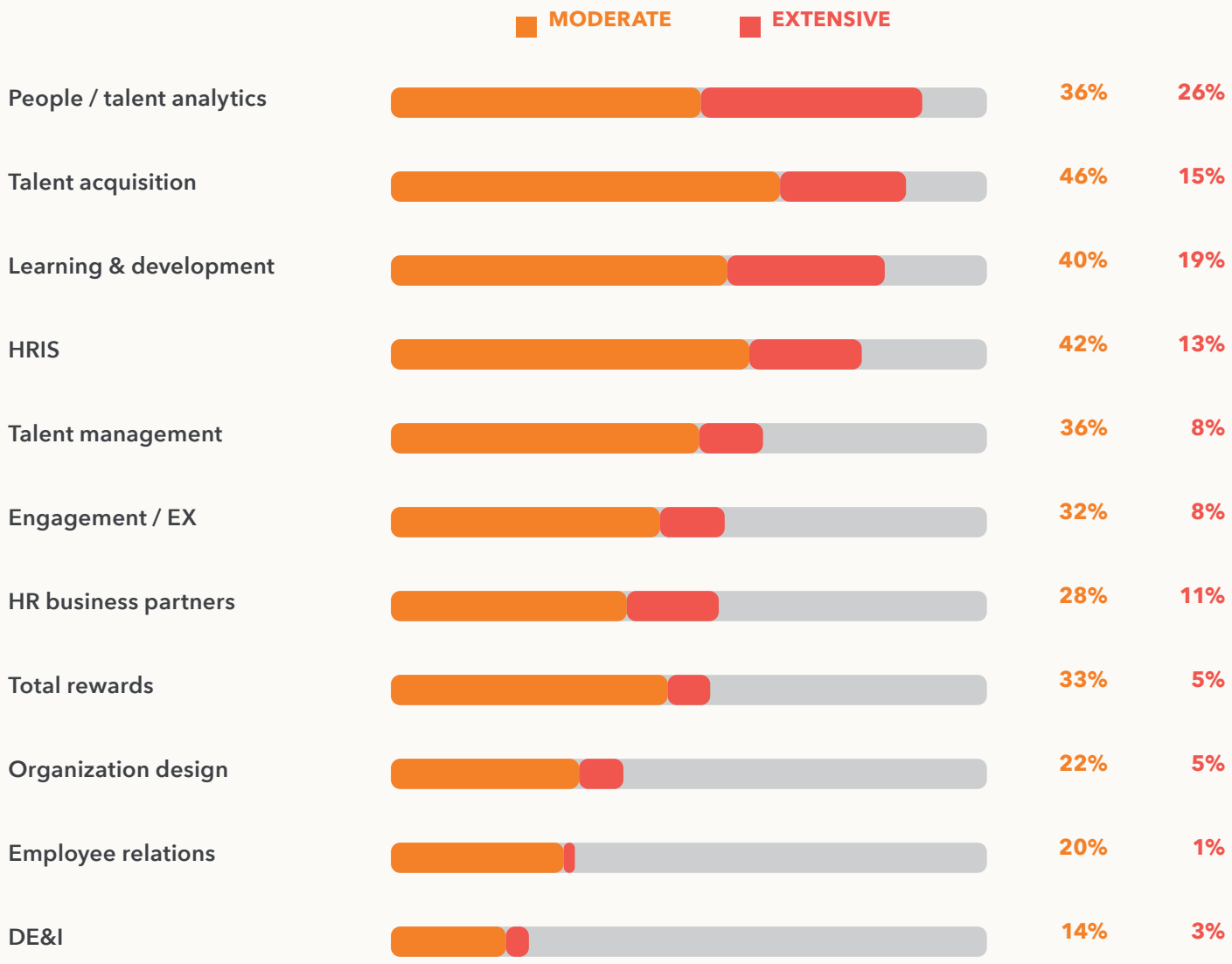
HR leaders are counting on AI savings based on almost no current experience data. This may yet work out well. But, if it goes as many HR transformations have, HR may end up half-changed, half-staffed, half-teched and still no more effective.

Source: TSG 2026 survey. Percentages rounded.

AI ADOPTION BY FUNCTION

Extensive AI use in COEs remains rare. Analytics and TA lead.

Many HR functions use AI occasionally, but few have made it a meaningful part of how work gets done. People Analytics leads at 26% extensive use; L&D follows at 19%, and every other function is at 15% or below.

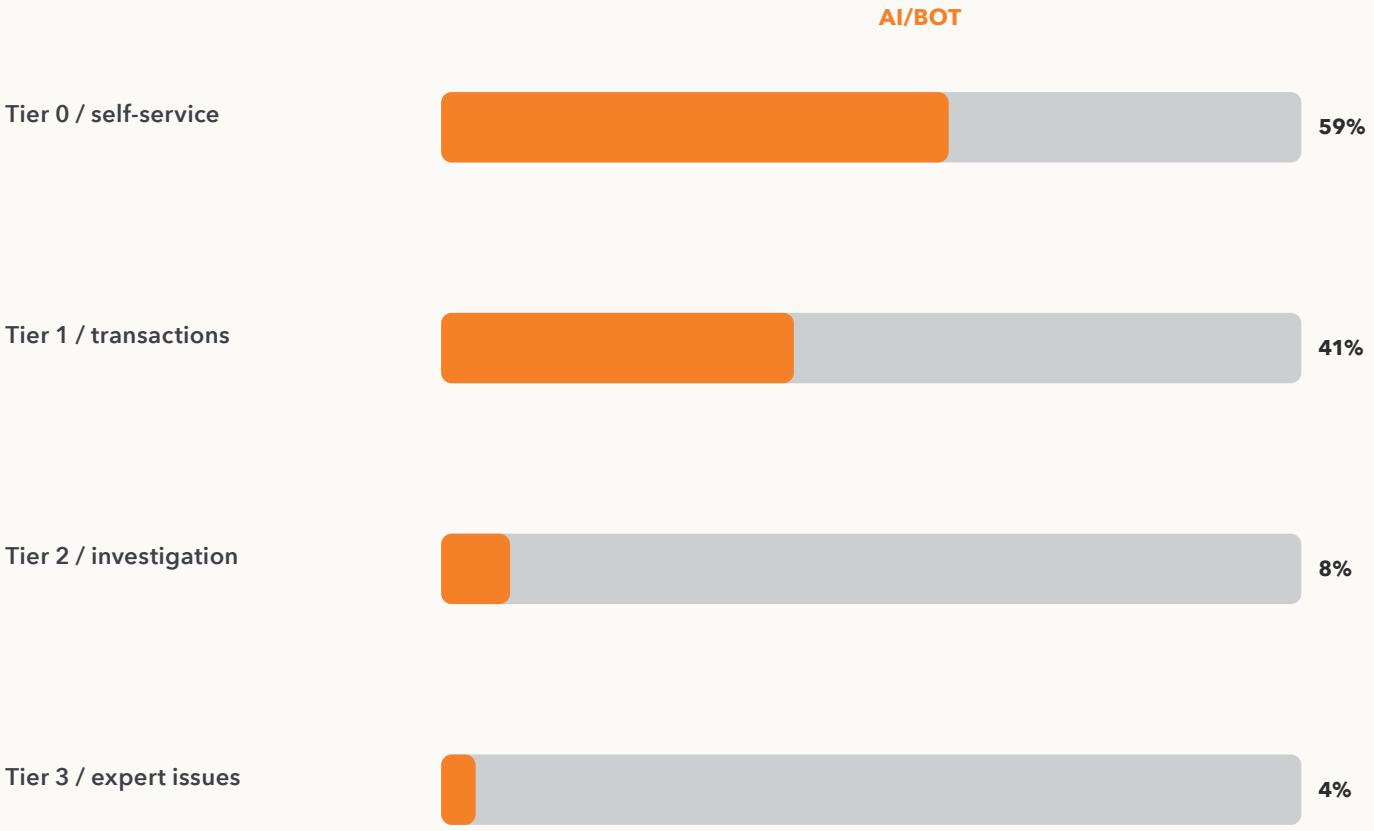


Source: TSG 2026 survey. Percent using AI moderately or extensively; percentages rounded.

SERVICE CENTER AUTOMATION

AI is far from replacing true advisory and consultative work.

We asked where you currently use AI (from basic bot and higher) in your Tier 0 - Tier 3 work. You reported that AI is used in 59% of Tier 0 and 41% of Tier 1. Just 8% use it to support Tier 2 work and only 4% in Tier 3 work.



WHERE AI STOPS

AI use falls sharply today as work becomes less standardized and more judgment-based. These numbers should meaningfully increase as technology - and our confidence in it for sensitive work - improves.

Source: TSG 2026 survey. Percent of service-center respondents selecting each channel; rounded.

AI OWNERSHIP

Most expect savings. Few have assigned ownership.

The governance model is still emerging even as two-thirds expect AI to reduce total HR headcount.

ONE QUESTION | THREE ANSWER CHOICES

Has your organization created a new role or team specifically for AI in HR?

30%
have created an AI role or team in HR

32%
plan to create one shortly

38%
have no current plans

23%
say AI/work transformation for HR reports directly to the CHRO

THE OWNERSHIP GAP

The expected savings require coordinated decisions about processes, adoption, controls and staffing. In many companies, no role yet owns that complete outcome.

Source: TSG 2026 survey. Percentages rounded.

05

THEME 5 | THE PERFORMANCE DIVIDE

Effective firms make the familiar model work

Respondents who rate their HR operating model effective vs ineffective are separated by one simple factor – better execution. HR roles are very clear in 32% of effective firms and 0% of ineffective firms. Role clarity is essential to effective HR operating model execution.

HRBPs and COEs work well together in 86% versus 18%. Because respondents rated both effectiveness and operating practices, the results may be biased by gathering the data from one source. Even so, the gaps are too large to ignore.

Measurement shows the same divide: 64% of effective firms use quantitative operating metrics, compared with 0% of ineffective firms.

32% vs 0%

very clear roles: effective versus ineffective firms

86% vs 18%

strong HRBP-COE partnership: effective versus ineffective firms

64% vs 0%

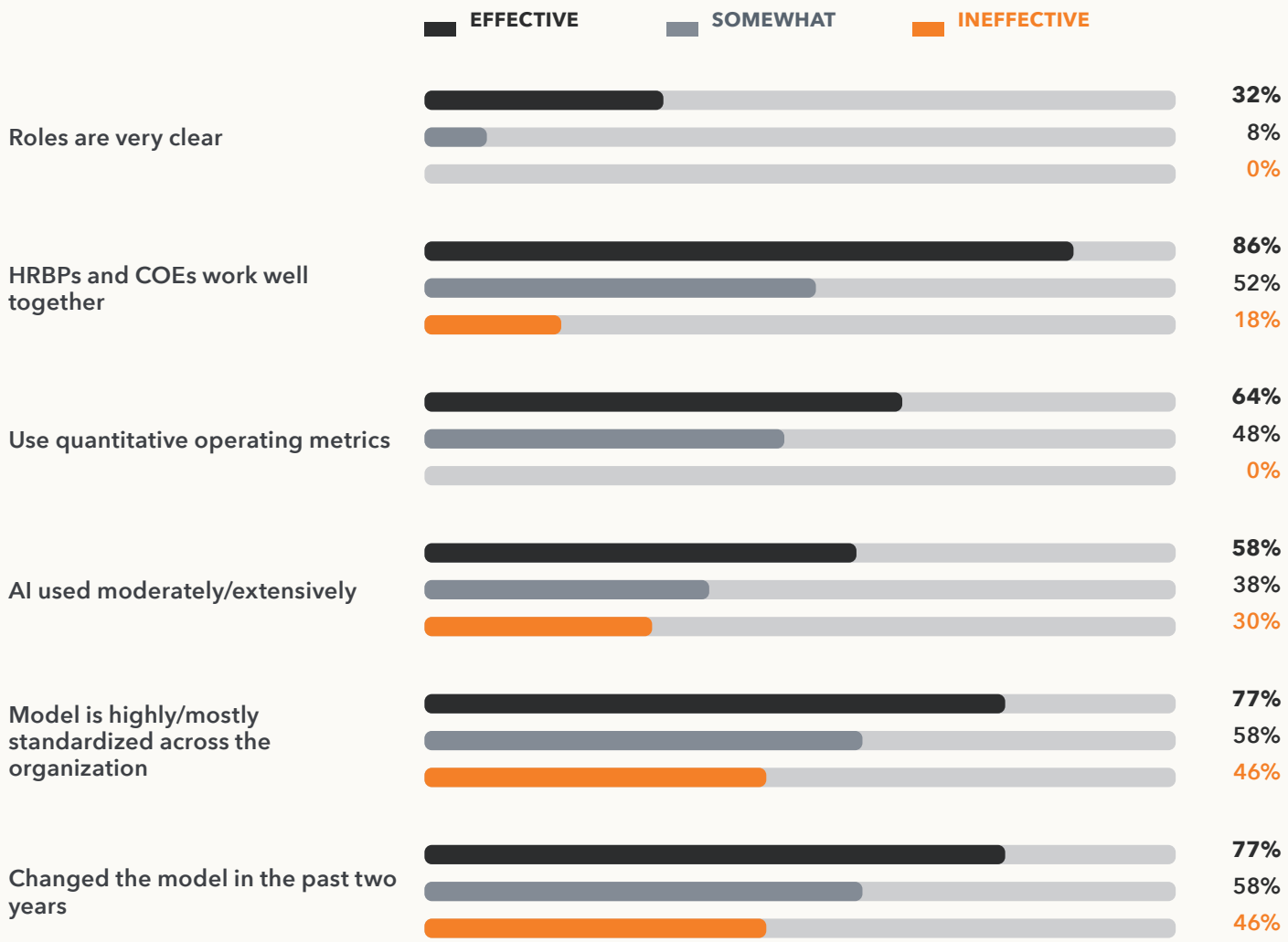
use quantitative operating metrics: effective versus ineffective firms

Source: TSG surveys, 2023 and 2026. Percentages rounded.

THEME 5 | WHAT EFFECTIVE MODELS SHARE

Effective firms execute the same model better

We see clear differences in respondents who rated their HR operating model very or extremely effective and those who rated it not so or not at all effective. Standardization of the model across the organization is an important factor to acknowledge. **Consistent execution happens in standardized models.**



Source: TSG 2026 survey. Percentages rounded. Associations do not establish cause.

THE BOTTOM LINE

A leaner HR function needs a stronger operating model.

THE STORY	WHAT CHANGED	WHAT LAGS
HR capacity	**Smaller**	**Work remains**
Operating model	**More redesign**	**Weak execution**
AI	**Savings expected**	**Little impact**

HR is cutting capacity before fixing roles, partnership and measurement. AI has not released meaningful capacity. Effective firms make the same structure work through stronger discipline.

Source: TSG surveys, 2023 and 2026. Percentages rounded.

SURVEY PROFILE

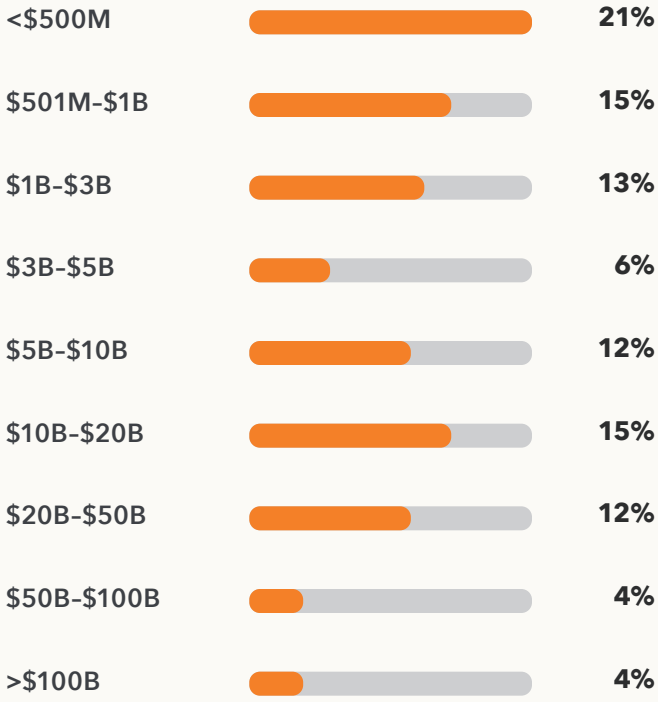
Survey demographics: A balanced mix by size and ownership.

The 2026 view is balanced across public and private companies and spans the full company-size range.

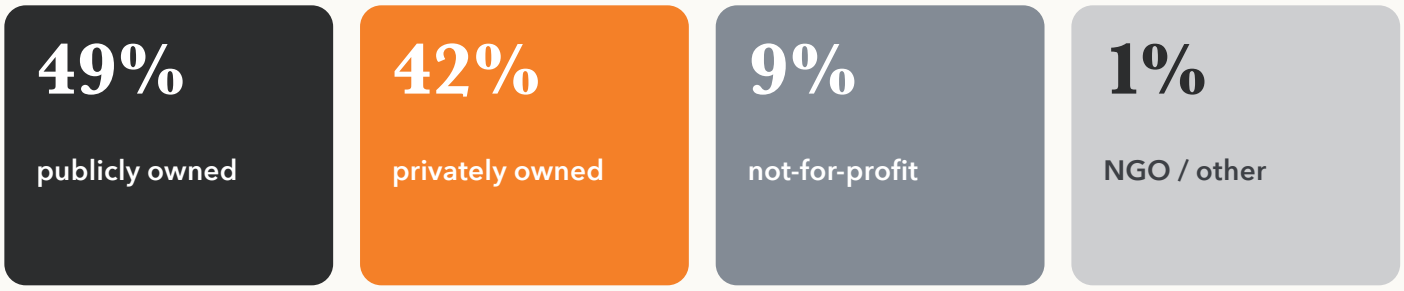
COMPANY SIZE



2025 REVENUE (USD)



OWNERSHIP



Source: TSG 2026 survey. Percentages rounded. Revenue n=172.

ABOUT TALENT STRATEGY GROUP

Science + simplicity.

Talent Strategy Group advises leading companies, investors, foundations, NGOs and governments on their most critical human resource issues. We bring practical, science-based simplicity to HR strategy, organization design, operating models, talent management and performance management.

HOW WE HELP

HR strategy + structure
Operating model design
Talent practices audit
Leader education
Performance + potential

CONTINUE THE CONVERSATION

Marc Effron
President
marc@talentstrategygroup.com
talentstrategygroup.com

Build better talent faster.