



Imagine giving your employees an unscheduled two per cent pay rise tomorrow, regardless of whether your company was

profitable or achieving its targets, and irrespective of their performance. Crazy? Perhaps.

Now consider the idea that, according to management consultancy Bain & Co, the average large company spends the equivalent of two per cent of its total payroll on training. Do you know how that expenditure relates to creating shareholder value? Do you have any metrics to show how it's targeted on the basis of current performance (good or bad), and how it contributes to performance improvements? Has your team ever considered alternatives, working out what it could do with part of that money if it was allocated to something else? No? Well you're certainly not in a minority. But crazy? Perhaps.

Training effectiveness is just one of many components of employee management that organizations have long struggled to measure and interpret. Employee attrition levels; absenteeism impact; the link between individual performance and corporate objectives; performance-related compensation – each of these areas represents a significant challenge, and one that many senior managers are now confronting.

Webster Buchanan Research has long focused on these core areas of Human Capital Management (HCM), examining the business challenges and taking a pragmatic look at what role technology can play in helping overcome them. From traditional HR reporting to advanced workforce planning applications, we believe that levels of adoption of HCM analytical techniques are about to surge, particularly as senior management demands the same insight into its workforce as it gets into its financial position. In fact, finance itself will play a key role in that revolution.

That's why our Special Report for this inaugural issue of *Webster Buchanan's Human Capital Review* focuses on HCM reporting and what we call 'Workforce Business Impact' analysis – a discipline built on understanding how employee-related issues affect the wider business (see *Page 6*).

## Adoption of HCM analysis will surge – and finance will play a key role

Incorporating findings from our latest research survey, the Special Report provides HR, finance and other 'c-level' executives with a business-centric approach to HCM analytics.

Enjoy the read!

**Keith Rodgers, Content Director**

## CONTENTS

### P2: The dark horse of HCM?

Microsoft is quietly assembling an HR software portfolio. So should it feature on your purchasing shortlist?

### P4: The Bigger Picture

Why US biotech Chiron took a pragmatic approach to learning management

### P5: No second chances

Advice from the frontline – your early HCM IT decisions could come back to haunt you

### P6-10: SPECIAL REPORT

Our five-page in-depth report on HCM metrics, reporting tools and Workforce Business Impact analysis

### P11: In the Spotlight – Hal Leavitt

Professor Leavitt answers questions about the impact of technology on corporate structure

### P12: Cost of Ownership

Our 'Two-and-a-half minute Guide' to the true cost of HCM software

### P13: The Back Page

Where shareholder value, employee development and, er, pizzas collide...

### Subscribe!

To celebrate the launch of *Webster Buchanan's Human Capital Review*, we're offering half-price subscriptions for as little as \$70\* until September 6 2004. To subscribe, visit [www.websterb.com](http://www.websterb.com) or email [review@websterb.com](mailto:review@websterb.com). *Webster Buchanan's Human Capital Review* is published bi-monthly.

\*Price quoted is for a single-user license only. Five-user and regional licenses are available for circulation to multiple readers.

### Editorial Contacts

*Webster Buchanan's Human Capital Review* is edited by David Longworth ([davidl@websterb.com](mailto:davidl@websterb.com)). We welcome feedback, comments and ideas for articles. We also encourage 'c-level' executives and senior managers from HR, finance and other disciplines, as well as consultants specialising in HCM, to contact us regarding their initiatives and/or to contribute to our Guest Column. In the first instance, please email [review@websterb.com](mailto:review@websterb.com)

### Next Issue

The next issue of *Webster Buchanan's Human Capital Review* will be published on October 29. Articles include:

- Pioneers & Pragmatists: a large retail chain kicks off the first in a new series of in-depth interviews with HCM practitioners
  - Learning Management – four users share their experiences
  - Multi-country Payroll
- Please note that this and all future issues will be available to subscribers only

# Microsoft: the dark horse of HCM?

Microsoft's ambitions for the high-end of the business software market were exposed in June when it revealed it had discussed a merger with SAP, the industry leader. But its main focus today is still on small and midmarket users - and Human Capital Management is creeping into its roadmap

The talks may not have come to anything, but the revelation in June that Microsoft and SAP had discussed a possible merger raised a host of questions about the company's plans to compete in the HR, financials and other business applications space.

Microsoft was forced to reveal that talks had taken place ahead of an ongoing antitrust trial into Oracle's year-long hostile takeover bid for PeopleSoft. The court was seeking to establish how much competition really exists in the high-end business application software market, where PeopleSoft, Oracle and SAP dominate (see page 5).

As a result, Microsoft's intentions in the high-end of the market have been the subject of much debate in and out of court. The fact that the talks were mutually abandoned because of the complexity of a possible merger hasn't stopped widespread speculation about what might have been, and about where Microsoft is heading in the enterprise software space.

**If anything, Microsoft seems to be deliberately holding back from staking any claim to the HR space**

While this drama plays out, however, the real action today is happening in a different part of the market. Microsoft Business Solutions (MBS) has been making significant inroads into the small and midsized market over the last three years, acquiring Great Plains Software, Navision, a Danish software developer, and Solomon, a

**Launch issue: Summer 2004**

financials application developer with a particular focus on the Americas. The takeovers gave it four separate suites incorporating strong financials packages along with some supply chain, manufacturing and project accounting capability, and supplemented by Microsoft's own development of customer relationship management applications. Although it has work to do in several key areas, including fleshing out functionality and developing a common interface across its different suites, it's committing significant resource to the space.

## An undersold inheritance

What Microsoft also inherited with these acquisitions was an untidy but surprisingly broad array of HR applications, along with a Balanced Scorecard application that gives it a foothold in Human Capital Management (HCM) analytics. Human Capital Management clearly isn't at the forefront of the company's marketing strategy— if anything, it seems to be deliberately holding back from staking any kind of claim to the space, failing even to mention HR when it spelled out its product roadmap in mid-June. There are, however, a small number of Microsoft Value Added Resellers specializing in the HR space and the company's footprint is growing. And earlier this year, it shared its short-term and mid-term HR product strategy plans with *Webster Buchanan's Human Capital Review*.

Most of the HR and payroll components available today are either specific to particular regions or relatively basic modules that support other core applications,

particularly financials. At the lower-end of the market, Microsoft claims that one in four customers opt for the core HR functionality bundled with its Navision suite, while in the midmarket, the company offers basic self-service functionality to users of the Great Plains suite along with payroll applications for the Americas (see box, next page). But the Axapta HR range, inherited from Navision, is by far the most rounded offering, aimed at the midmarket and upper midmarket and localized for some 40 countries.

**Axapta currently has no payroll option, but the company has been evaluating its options**

The current version of Axapta consists of three modules that contain core HR functionality, such as employee administration, CV/resume processing and absence management. It also has some self-service capability, allowing employees, for example, to maintain personal data or input absence data, and managers to approve training. From an employee development perspective, the HR application includes competency mapping tools, appraisal recording and objective setting and training management components, although there are no immediate plans for a broader Learning Management engine.

Version 4 of the Axapta range, now scheduled for release next year, will include online recruitment capability and improved competency mapping. The company is also working on aligning the user ⇒

⇐ interface more closely to its Outlook applications in an effort to unify the user experience – it's already started that process with a new look and feel for version 8.0 of the Great Plains suite, released in June.

In the longer term, Microsoft has embarked on an ambitious project to build a new generation of enterprise suite, a project that dovetails with work on a new operating system, codenamed Longhorn. Somewhere within the next three to five years all of the midmarket suites are expected to be redeveloped on one common platform, tying into a Business Framework that connects the applications with the underlying operating systems. The aim is for Microsoft to provide both horizontal

**Somewhere within the next 3 to 5 years all of the midmarket suites will be redeveloped on one common platform**

and vertical market components, with third party developers adding their own applications. The vertical market applications are particularly significant as Microsoft sees this as a key strategy going forward.

#### **Mind the gap**

In the meantime, however, as Microsoft fleshes out its current generation of HCM products, two areas stand out. The first is a significant gap in the portfolio – Axapta has no payroll module, a key component of any enterprise HR and Financials suite in the midmarket. MBS confirmed to *Webster Buchanan's Human Capital Review* that the company has been considering its options here, including evaluating a third-party payroll solution that could be integrated into the suite. In the meantime, some Axapta partners have created their own payroll

**Launch issue: Summer 2004**

solutions, while elsewhere MBS tends to strike deals with the leading country payroll providers.

The second is an area with interesting potential in the fields of reporting and performance management capability. Axapta currently includes a portfolio of core HR reports – covering topics such as headcount, FTEs versus budget, and absenteeism rates – and allows users to view data from different organizational perspectives. Perhaps most interesting from the perspective of a long-term HCM strategy, however, is the ability to pool employee data with other non-HR information. A separate Balanced Scorecard module is available as an add-on to the Axapta suite, allowing organizations to feed in data from HR, customer management, financial and other applications to build Key Performance Indicators that can be presented in graphical format.

As a result, organizations can analyze employee data in the context of broader business information – it's possible, for example, to use employee survey data to track the links between motivation levels in the sales department and completed deals. As we explain in this month's *Special Report*, this kind of capability will grow in importance as organizations look to undertake more Workforce Business Impact analysis (see page 8).

#### **Only a question of time**

Inevitably, Microsoft's plans for the HR space arouse interest among existing players. The battle lines are likely to be drawn along traditional lines – expect questions to be raised, for example, about the relative merits of MBS' reseller-based sales strategy versus a direct model, and about the benefits of specialist 'best-of-breed' HR applications versus Microsoft's multi-functional suite.

Today, Microsoft's HR component tends to be visible as an add-on to

#### **The HR components in Microsoft Business Solutions' suites**

**Axapta** Aimed at the core midmarket and upper midmarket space and localised for 40 countries, Axapta is best known for its manufacturing, supply chain and financials functionality. It also contains MBS' most advanced HR functionality, although it currently lacks payroll. Elements of Microsoft's Balanced Scorecard and questionnaire applications are also integrated

**Navision** The Navision suite includes a basic HR module aimed at the lower-end of the market (100-150 employees) in North America and EMEA (Europe, Middle East and Africa). It includes core components such as personal data management

**Great Plains** Payroll is included within the Great Plains suite for customers in Canada and North America, but not elsewhere. MBS' Business Portal also allows for basic self-service with Great Plains, focused on labor-saving functionality such as having employees update personal data and run reports via the web interface. In Europe, Microsoft Business Solutions sold Great Plains' UK HR subsidiary PWA Group to Northgate Information Solutions in 2003, partly, it says, because the product is better suited to direct sales than its own reseller model. As a result, although Great Plains is strong in midmarket financials, most of the HR emphasis in the UK is on Axapta or Navision.

**Solomon** Aimed at customers in Canada, North America and Mexico, Solomon primarily targets project-driven organizations.

other Axapta modules, particularly financials, rather than a lead sale in its own right. That, however, would change with the addition of Payroll capability, enhanced functionality and a concerted marketing campaign, and this will be the true test of MBS' commitment to the market. Whatever its intentions in the high-end space, it's the small and midsized market that's likely to see the real action. □

# The Bigger Picture

**A global learning management initiative at biotech company Chiron shows how compliance needs are starting to drive training agendas. But it also reflects the mindset of today's pragmatic IT investor – focus on short-term priorities, but keep longer-term HCM possibilities bubbling in the background**

When biotechnology company Chiron put the finishing touches to its purchase of a learning management system in early July, its business case for investment was built on one key driver – compliance.

With 5500 employees around the world – less than half of them in the US – the company has to go to some lengths to prove it's meeting the requirements of the US Food and Drug Administration and other international regulatory bodies, as well as achieving ISO quality standards in areas such as blood-testing. That means documenting the skills employees join with, demonstrating what technical training they undergo and how their skills are developed, and proving that the company can manufacture safe products. FDA 'Part 11' regulations also lay down standards for electronic documentation and communications.

## Proof of success in the first phase of a rollout is the best justification for more investment

After a project definition and selection process that lasted over a year, Chiron is about to begin the first phase of its implementation, rolling out an enterprise learning management system from Saba to replace a legacy system that's not up to modern compliance demands. Phase One of the project, which is being carried out jointly by the

company's Compliance, Health & Safety and Organizational Learning divisions in the US, will see 100,000 records transferred from its existing training management system. After a six-month US rollout - half of which will be spent on validation - it will have restructured its learning set-up for compliance, while giving managers and employees access to transcripts and a library of off-the-shelf reports.

Chiron's move provides further evidence of how compliance-driven projects will be a key feature of the learning management landscape going forward. That's particularly true in heavily-regulated markets, as organizations seek to establish audit trails and improve their reporting capability to meet legislative demands and internal Health & Safety policies. But many of the features of e-learning that appeal to compliance officers will resonate elsewhere, and it could provide proof points for multiple business needs. Extending the reach of training is key to compliance, for example – but it's just as important to a global sales director looking to distribute product data around the world.

While compliance is the key driver at Chiron, Lina Divitt, associate director of corporate QA, already has her eye on the second and third phases of the Learning Management project, where opportunities emerge for more advanced Human Capital Management (HCM) initiatives. Nothing has been committed to, but in Phase Two Divitt would

like to see more manual documents replaced with electronic versions, and be able to issue automatic reminders as compliance-related and safety training updates become due. Phase Three may focus on building common competencies and standardizing competency processes, as well as offering more transparency over promotion requirements.

## While compliance is the key driver, Lina Divitt has her eye on future HCM projects

This kind of approach to a learning project reflects two complementary trends for HCM IT investment. Firstly, faced with tight budget constraints and a demand for tangible returns on technology investment, many customers have turned away from the 'Big Bang' rollouts of the past in favor of phased rollouts, focusing first on tackling immediate pain points. Not only does this make it easier to control costs, it also makes each phase easier to measure.

At the same time, strategic HCM vision has taken on a more practical look and feel. In many cases, today's urgent IT initiatives are being used as the unspoken building blocks for other longer-term initiatives.

To an extent, this represents a return to sanity in purchasing - proof of concept in the first phase of a project is the best justification for continued investment. □

# No second chances

**Hindsight is a wonderful gift – but a little bit of foresight comes in just as handy. The experiences of one public sector organization demonstrate why HR and Finance professionals need to be closely involved in IT projects from the outset, and why a dose of realism about cost savings really helps**

**H**R and finance professionals might recoil in horror at the thought of being sucked into a technology implementation, but even the best-run HRIT projects rely on specialist functional input. No-one's expecting the VP of HR to call out for pizzas and settle in for a late night computer coding session, but the level of upfront involvement in a Human Capital Management project might well determine how many glitches crop up further down the line.

Hampshire County Council, a large public sector authority in the UK, admits it suffered teething problems during the rollout of an SAP enterprise suite that it believes could have been headed off earlier in the project. Decisions made in 2002 and 2003 during the first phases of the rollout – which covers finance, procurement and HR –

forced system changes to be made later on.

Pauline Lucas, acting personnel and training director at Hampshire, told delegates at the Chartered Institute of Personnel Development conference in London in June that because the authority's HR department didn't communicate clearly with IT at the beginning of the project, configuration changes had to be made during the project.

**“In the early days, people identified cost savings that later on turned out to have been pulled out of a hat”**

The organizational structure, for example, wasn't implemented as HR would have liked, leaving

management reports open to differing interpretations.

Communications were also a problem – at one point, HR needed to make modifications to the system but didn't realize IT had put a freeze on development while it upgraded the core application.

Lucas adds that organizations need to be clear at the outset where projected savings are coming from, adding that “in the early days, people identified cost savings that later on turned out to have been pulled out of a hat”. Implementing a centralized time and attendance system, for example, can reduce administrative overhead in HR. But it won't of itself reduce absence – that's dependent on how effectively managers use the newly-created information. Savings can only be relied upon if there's a concerted plan to leverage the information.

Part of the problem faced by organizations in this kind of implementation is the difficulty of prioritizing HR's needs. Generally speaking, while payroll tends to be a corporate priority – mistakes cost money and antagonize employees – HR often has to fight its corner against the business-critical priorities of getting financials or purchasing processes up and running.

On top of that, while HR's focus is on automating HR transactions and building a platform for more effective Human Capital Management, IT is concerned with ensuring the continuity of the entire technology infrastructure. □

## Reinventing the wheel

Hampshire County Council's SAP implementation is designed to help it standardise its HR business processes, removing duplication across its six main departments and improving support to business partners.

The council has forecast major savings from centralizing and rationalizing similar practices, introducing more efficient business processes to reduce administrative overhead and making the most of individual pockets of innovation.

“Some of our personnel teams in individual departments were putting together local solutions but sometimes the learning wasn't developed for use elsewhere and the wheel was re-invented,” says Pauline Lucas, acting personnel and training director.

The Council's original structure also lacked the flexibility it needed. “We weren't able to pull together personnel resource easily to support project teams and key projects for the authority. It's not easy to be innovative in this kind of structure.”

Hampshire's plan is to pull everything back to central HR, with centers of excellence supporting business partners in each major department and line managers. Centers will be dedicated to Resourcing; Learning and Development; Business Support (IT, Finance, Performance Management, Facilities Management) and Employment Practice, with an advice line for managers supported by a website.

The scale of the project is extensive, with all 37,000 staff affected. Key functionality includes a managers desktop module, employee self-service and organization management.

# Absent without leave

Like employee attrition, absenteeism is a huge drain on every business – but few know exactly what it costs or where it hurts most. That's where Workforce Business Impact analysis comes in, *argues Keith Rodgers*

When Webster Buchanan Research asked senior members of the finance function for their views on workforce intelligence earlier this year, the feedback was disarmingly blunt. While most organizations appear to be content with the way they handle basic HR metrics, many clearly struggle to understand how those metrics relate to the wider

## Accounting for People: the IT implications

Webster Buchanan's 'Accounting for People' survey provided detailed insight into respondents' analytical capability and their current IT investment plans. Key findings from our 8-page report include:

- Most organizations are comfortable with basic HR metrics, but begin to struggle when it comes to placing their metrics in a broader business context. For example, our survey indicated that around half of respondents consider themselves better than average in their ability to report on voluntary employee turnover, but only a quarter believe they are 'good' or 'very good' at reporting the business impact.
  - There's a clear gap between respondents' relatively high assessment of their own reporting capability and the metrics (especially business impact measurements) that they currently use. This implies that many organizations are not yet pursuing a more strategic HCM reporting agenda.
  - Approximately a third of respondents plan to invest more in workforce-related technology in 2004 compared to last year, including financial analysis software. The biggest driver was to improve the quality of management information (81.8%).
  - Users are also heavily committed to maximising their existing IT investments. Around two thirds (67.1%) said it was important to improve their use of existing HR reporting tools and applications to raise the quality of workforce reporting, while slightly more wanted to improve their use of finance tools and applications
  - Many organizations recognise that the starting point for HCM analysis is process automation (which helps generate and manage data that might otherwise be hidden in manual systems). Over half of respondents said further automation of their HR processes is 'important' or 'very important'. Most also (81.9%) agreed better co-ordination between HR and financial IT strategies was important.
- A copy of the full report and analysis, first published in April 2004, is available at [www.websterb.com](http://www.websterb.com). Webster Buchanan Research interviewed 227 respondents, the majority of them senior finance managers and board level executives.*

business. Yes, 60 per cent of respondents think they're better than average at measuring absenteeism – but disappointingly, only a third can say the same about measuring the *business impact* of absenteeism, and another third confess to being 'poor' or even 'very poor' at doing so (*see box left*)

Establishing this link between traditional people-related metrics and broader business drivers is fundamental to any Human Capital Management strategy. As the HR function strives to find a voice at board level, the ability to present workforce issues in a relevant context for CEOs is becoming increasingly important – it provides a way of thrusting people-related issues to the top of the agenda and reinforcing HR's business credentials. This combination of business context and board level relevance is what Webster Buchanan Research terms 'Workforce Business Impact Analysis'.

None of this is to demean the stature of classic HR reporting. Metrics such as days-to-hire are key indicators of HR operational efficiency, while absenteeism statistics and other collated data provide useful comparators, both to measure against historical performance and to compare with external benchmarks. But Workforce Business Impact analysis takes this kind of data to the next logical step and provides a deeper insight into the underlying trends and meaning. It doesn't just measure absenteeism rates – it measures what absenteeism costs the business in terms of bottom-line profit, employee morale, opportunity cost and so forth.

## Linking reward to performance

Much of this impact analysis rests on an organization's ability to tie together different pieces of information – information that they may well already hold in-house. For example, most organizations retain data relating to employee performance, built around individual performance appraisals and measurement of group performance against departmental targets. Likewise, every organization retains information about what salary, bonuses, and benefits they pay each employee. The difficulty is in linking the different data together →

⇐ to ensure that compensation is tied to performance and corporate objectives. Indeed, our survey shows that only 30 per cent of respondents rank themselves better than average at reporting on the relationship between compensation and performance, while almost the same number declare themselves 'poor' or 'very poor'. Part of that problem is cultural – but as we explain below, part of it is also down to basic data management. Too often data is held in disparate, unconnected systems or simply stored on paper.

The more that data can be pooled from different parts of the business, the more that organizations can begin to understand the wider context of cause and effect. Measuring the impact of voluntary employee turnover is a great example of how workforce intelligence can be investigated at multiple levels. In a high-turnover environment such as a retail or call center, single percentage point reductions in retention rates can have a significant impact on the bottom line and on other business priorities such as customer service. But if they're able to measure turnover at all – and given the difficulty many large enterprises have in establishing current headcount, that in itself shouldn't be taken for granted – most organizations have tended merely to assess it in relation to historical patterns and industry norms.

While it's useful to know whether percentage rates are climbing or falling, this kind of information is really only an indicator that problems exist, and – if it's broken down by geography or business unit – of where those problems are occurring. What's more important is to find out which types of employee turnover are causing most pain to the business.

### Investigating the root of the problem

One approach is to analyze the impact of different 'representative' employees quitting the business – perhaps taking a middle manager from each key business unit, for example. In the first instance, it might be useful to assess the cost and business impact as it affects those sample roles, including:

- Total cost of the recruitment process, comprising direct external expenditure (advertising charges, agency fees etc) and internal costs (eg cost of HR and management resource allocated to recruitment). In some instances, such as sales, this could also include opportunity cost from the diversion of resources to the recruitment effort
- Training costs, including cost of formal training services, plus an allocation for the management and peer-level resource required for "on the job" education
- Productivity costs. The loss of an employee and introduction of a replacement invariably leads to a

**Launch issue: Summer 2004**

### Customer Comment:

#### The wider implications of absenteeism analysis

For mid-sized and large enterprises, absence management is emerging as a key business priority. As Caroline Kitcher, an HR director within leading UK leisure group Whitbread, notes: "When you have a payroll bill of £600m, a tiny improvement in absence management reaps huge benefits."

Kitcher was part of the team that implemented Oracle's HCM application at Whitbread, and recalls an initial reluctance among managers to appreciate the wider impact of absenteeism. "We don't pay staff for the first three days of absence, so management were asking whether absence was such a huge cost to the business? Well there are other implications of absence which don't come out on the pay bill, such as what it does to customer service and to other employees who have to pick up the pieces."

Whitbread's answer was to put in place a system to monitor managers' performance in relation to team absence levels and target low-performers for extra training.

One of the key issues in measuring the business impact of absence is that employee absence will have a different impact at different stages of the business cycle. The presence of one bar tender on a crowded weekend evening, for example, is more critical than during a slow period on a weekday afternoon. Mapping, monitoring and managing those impacts can be a challenge.

Now as HR director of Brewers Fayre and Brewsters Restaurants, Kitcher has implemented a system for team scheduling. Based on Point of Sale data, the system produces a rolling forecast for demand and then generates shift patterns and schedules with key time and attendance events highlighted. "It should help manage absence," says Kitcher, "and ensure that the right person is in the right place at the right time."

By flagging peaks and troughs and monitoring inefficiencies, general managers can retrospectively check on performance.

short-term deterioration in productivity, usually starting as soon as the employee resigns and begins to work out a notice period. Some approximate provision might be helpful here

- Loss of employee knowledge and experience. This is hard to measure from an economic perspective – but it's possible to grade its relative importance for different types of sample role

The next step would be to assess the broader impact:

- Direct business impact. In many cases this can be quantified in financial terms. For example, the departure of a senior manager in product design may slow a development project and delay product release, impacting sales and marketing strategy and delaying revenue generation
- Loss of customer/supplier/partner value capacity. The departure of employees may have a detrimental effect on key business relationships. This might best be measured in terms of a sliding scale of risk ⇒

← •Loss of team impetus. The loss of a key team member might be seen in the context of their positive impact on group activities and local morale.

The end result will be a series of comparative analyses looking at multiple impact factors, which provide a context for targeting retention initiatives.

With each of these kinds of analytical exercises, the aim is to provide indicators and parameters – it's not necessary to do a comprehensive, detailed audit.

While many in HR and finance approach HCM analytics with trepidation, the reality is that Workforce Business Impact analysis is rooted firmly in logic and often guided by anecdotal evidence – most organizations already have some understanding, for example, of where employee attrition is hitting them hardest, and that allows them to prioritize their initial analytical projects.

As with so much in HCM, pragmatism is the watchword. □

## Market overview: Workforce Intelligence

### From measuring HR operational efficiency to Workforce Business Impact analysis, there's a surprisingly rich market for HCM analytics

Whether they're at the high-end of the market or the midmarket, the key software vendors in the HCM sector share several central tenets. Firstly, they agree that effective Human Capital Management is underpinned by an organization's ability to collect, pool, analyze and distribute a wide range of HR data, which has implications for their whole HRIT strategy. Secondly, most believe that HCM information ultimately needs to be viewed in the context of information from other applications, such as Financials and customer management. Thirdly, they share a touching and enduring faith in the notion that rapid uptake of HCM analytics is just around the corner.

Now, after years of frustration, that corner may finally be coming into view as improved reporting and analytical capability rises rapidly up the HCM agenda. Prospective customers are now starting to look at what's on offer from the supplier of their core HR Management Systems – and in some cases, are also checking out specialist business intelligence vendors like SAS Institute and Business Objects. In instances where organizations are deciding whether to upgrade or switch platforms, analytical capability is an increasingly significant component of the decision-making process.

There are three levels of reporting capability to consider. Firstly, in terms of pure HR reporting, most suppliers bundle a wide range of reports with their core HR Management Systems. These tend to focus on traditional HR metrics such as absenteeism rates or turnover. The quality of data coming out of the applications will largely be determined by what goes in, so the level of process automation within the organization will be key in terms of generating data in

a digital format.

As the central HR database pools more and more data, so it provides a richer source of raw data. This can be accessed and analyzed in multiple ways, using standard reporting tools to run ad hoc queries, and configuring pre-built reporting templates that vendors provide with their applications.

### Vendors share a touching faith that rapid uptake is just around the corner

From a product selection perspective, there are several differentiators in this field. Firstly, the breadth of available pre-built reports will be important – some high-end vendors offer hundreds of reports 'out-of-the-box', so it's worth checking out what's on offer and how closely they fit your needs. It's also important to bear in mind that 'out-of-the-box' can be a misnomer – all reports will require some degree of configuration. The key factor here is ease-of-use – if configuration work has to be handled by a product expert rather than non-technical users, that can increase the cost of implementation.

The second level of reporting provides deeper, richer insight into HCM issues, typically provided in specialist applications that are purchased as separate add-ons. These provide a wide range of insights, including:

- More granular insight into HR process efficiency
- Analysis of core HCM drivers such as retention, designed to help organizations identify and track high-performing employees
- Performance Management applications, designed to measure individual or group performance and align it with corporate objectives. These include →

⇐ applications based on the principle of the Balanced Scorecard, which assess performance on the basis of pre-set targets and in some instances, analyze the impact of variables

- Workforce planning applications, which help organizations to map current and future requirements for skills and competencies
- Modelling technology, which allows companies to carry out 'what if?' analysis. While uptake here is still low, many believe that predictive analytics will form the next wave of adoption
- Many applications link to third party benchmarking data that allows organizations to assess HCM metrics in a broader industry perspective

The breadth – and indeed depth – of functionality within comparable products can be telling here. Several vendors offer pre-built Key Performance Indicators, for example – but what matters is whether they're generic across multiple business functions, or whether they've been tailored for an HCM environment. While uptake of these analytical tools may be relatively low compared to sectors such as finance, many of the products have evolved over years and are in advanced stages of development. PeopleSoft, which is widely recognized as a pioneer in the space, launched its first Workforce Analytics applications more than five years ago.

The third level of reporting becomes critical for Workforce Business Impact analysis because it pulls in data from non-HR systems, such as financials and increasingly, customer management applications. It's here where there's some divergence in approach between vendors. Where organizations have standardized all of their applications on the same vendor's software platform, it's easier to pull data into one central database. Oracle, which favors a 'single platform' strategy for applications, has made this the centerpiece of its analytical efforts, focusing on data generated within its transaction systems and providing web-based self-service through what it calls Daily Business Intelligence. This approach makes it simpler to implement analytics and allows for faster deployment, but the downside is that it's currently limited to Oracle applications. Oracle will begin to address that later this year when it releases interfaces to import data from third party systems.

An alternative approach favored by other enterprise software vendors is to build a central repository (or datawarehouse) to store data that's sourced from a variety of different systems. These warehouses come with a range of tools to help customers both manage and manipulate data and usually contain pre-built metrics. Building a warehouse is a significant IT undertaking, and generally speaking, a data-sharing exercise of this size may well initially be driven by the needs of the finance department or customer-facing functions, rather than HR.

While it's helpful to divide the analytics market up into these different levels, they don't necessarily correlate chronologically. Just as it's a mistake to think of analytics as the 'second phase' of an HCM strategy after process automation – the two go hand-in-hand, since automation generates data for analysis, and analysis in turn helps fine-tune processes – so it's important to see the full range of analytical software capability as a menu that can be selected from at will. Business priorities differ, and second- and third-tier applications could generate significant business benefit early on in specific environments.

- See our free Briefing Paper: *"The Foundations for Workforce Intelligence – a practical approach to leveraging HR applications and reporting tools"*, in association with Northgate Information Solutions [Click here](#)

## Snapshots

### Supplier perspectives on analytics

Leading software providers at the high-end of the HCM analytics space argue that while adoption of analytics has historically been low, the technology foundations are in place to allow for far wider uptake. Part of the problem, however, is that while customer interest levels may be high in certain types of analytical application, that doesn't necessarily correspond to levels of adoption. There is, for example, great interest in workforce planning applications – but what many users really want right now is strong historical (or even real-time) reporting and the ability to get at the data they already hold in their transactional systems.

Vendors agree that automation is key to analytical capability because it helps organizations collect data that might otherwise be stored on paper or hidden in ageing, inaccessible systems. Self-service – which extends people-related processes outside the HR function and gives employees access to information – is also seen as a key distribution mechanism for metrics. Where vendors sometimes differ is in the emphasis they put on different products and in their approach to the way data should be managed.

The extracts below provide selected snapshots of vendor perspectives on analytics.

#### Jason Averbook, director of global product marketing, PeopleSoft HCM

Recognised as a pioneer in the workforce analytics space, PeopleSoft probably has as good a feel as any vendor for the principles and practicalities of HCM analytical adoption over recent years.

One trend that Jason Averbook now sees emerging is users demanding tools to accompany packaged applications – in other words, rather than trying to map their business to the way a packaged application works, they want tools to help them measure in whatever way best suits their business. Users can generate valuable information by implementing packaged solutions – the question is, is it focusing on their main pain points? Most organizations ⇒

← know where their pain points are, and that's where their analytical activities should start.

Averbook identifies several fundamental factors that lie behind broader adoption of analytics, beginning with providing access to information and delivering business intelligence in a way that's meaningful to the recipient. He gives the analogy of Internet media access: "When we started putting browsers on people's desks, how many people read the New York Times in San Francisco?" he asks. "Once you give people access to information, they become addicted and want more."

He also acknowledges that analytics is often seen as a big, complicated undertaking. "We're trying to get people over the fear that they're implementing a big, Star Trek system – what they're really doing is proving the ROI of their HCM system." If the HCM system generates valuable information rather than "empty promises around data mining", that's a tangible return.

#### DJ Chhabra, vice president of Oracle HR

DJ Chhabra argues that as organizations have got their tactical HR operations in place and begun to adopt self-service technologies, so they're better placed to make the most of the data at their disposal. That paves the way to carry out a broad range of business-related analytical activities, beginning with factors such as headcount and moving onto more sophisticated activities.

For example, it's relatively easy to work out who your most effective sales people are. But why are they effective? What skillsets do they have, what training have they been through, what regions are they in? Likewise, why not drill down into greater depth to understand the nature of turnover? "Am I losing my top performers? Am I losing people it takes six months to replace?"

Oracle favors an approach that delivers metrics from the transactional system using its Daily Business Intelligence solution, although at present that only supports the Oracle environment. "If you had to do it in a data warehouse, there are many more steps and validation processes to make it work. [This is] a quick win – you don't have to spend months, you don't need consulting resource."

#### David Ludlow, VP of mySAP ERP HCM

Some components of HCM provide a relatively simple cost-benefit analysis, argues David Ludlow – for example, implementing self-service will cost a certain amount, and will deliver a certain level of efficiency within the HR department. But the next level of HCM takes a deeper look at where the benefit really lies. For example, 'time to hire' is a useful HR metric – but the key issue is the *quality* of the individual you hire. Likewise, taking a particular employee-related decision may cost more money upfront, but if you have a holistic view of your business processes and outcomes, you may be able to demonstrate that it's more beneficial in the long term. That kind of analysis requires a more comprehensive IT platform.

Like his peers, Ludlow is realistic about the level of adoption of more advanced, strategic analytics. "We're seeing a lot of interest, but not a tremendous amount of implementation. The data is there, but a lot of companies are using a lot of different applications or solutions or have not even automated their processes yet. It's fairly easy to track a single project – it's more difficult to look at the holistic view." That said, as organizations begin to extend employee-related processes beyond the HR department through self-service, it paves the way to deliver analytics. "It requires people to think differently on what it means to deliver services. To make manager self-service more strategic, it's not just about delivering processes, it's about delivering content and analytics."

Ludlow argues that while much reporting can be carried out against a central HR database, a datawarehouse is a 'pre-requisite' for analytical activities that require data from outside the HR department. HR itself may not be the function that drives the datawarehousing project – in many cases, it could be a customer relationship management or financials project.

#### Dan Minto, global strategist for IT management solutions at SAS

According to Dan Minto, the last 12 months have seen a significant shift in the analytics market. Previously, much of the emphasis had been on general HR reporting and analysis: in the last year, however, there's been more emphasis on "trying to be proactive in the business to make the right business decisions". Key components are the ability to do forecasting and modelling.

What customers are looking for is the ability to tackle diverse business issues. One organization might want to assess the impact of outsourcing a specific business function on the employee base, for example, while another might be trying to understand the skills and training implications of dealing with an ageing workforce.

#### Richard Neale, product marketing manager at Business Objects

As a third party business intelligence tools vendor, Business Objects puts a lot of emphasis on pulling together data from various different sources for analysis. "If you've got a problem with absenteeism on the factory floor, that may be something related to the production planning system, so you need to start overlaying information from all different systems," says Richard Neale.

BO's contention is that organizations should consider HCM analytics in the first wave of implementation, rather than coming back to it after the fact. "People think their problems will go away when they have an automated system. The reality is the data may be more locked in than before. You need to get the data out of the ERP (Enterprise Resource Planning) system and into the hands of HR people and line-of-business managers."

# Know thy boss

Technology is supposed to help flatten management structures – but the traditional hierarchy just won't go away, argues Professor Hal Leavitt

Flat management structures and collaborative working practices may win the admiration of HR thought leaders, but traditional hierarchical business structures simply won't go away. That's why Harold J Leavitt, Professor Emeritus of the Graduate School of Business at Stanford University, California, and an expert in organizational behaviour, argues that companies and their managers should face up to the practicalities of working within them.

Professor Leavitt argues that hierarchies are intrinsic to the natural world, and that new technologies and communications methods have in part reinforced them. He points out that hierarchies provide important psychological benefits, such as measuring success as we climb the corporate ladder, and bringing structure to our lives. At the same time, however, they're authoritarian, and emit what Leavitt describes as "highly noxious byproducts". Communications, for example, are distorted as they go up and down hierarchical ladders. Given that hierarchies won't go away, it is these by-products that managers need to address.

In an article in the Harvard Business Review that paves the way for publication of his new book at the end of this year\*, Professor Leavitt pointed out that hierarchies have survived three major managerial shifts in the last half century. The "human relations movement", which first advocated a people-centric approach to management after the Second World War, at first strengthened hierarchies because it was initially applied to management rather than hourly workers. The second wave, analytic management or "management by the numbers", was made popular in the early 1960s in part by the emergence of computer technology. That, he argues, was "a return to traditional military-style, top-down values".

The third wave – "hot groups", or communities built around small, task-focused groups – emerged in the 1970s but didn't make it big until hi-tech start-ups in Silicon Valley started challenging the rules of organizational structure. Like the other two movements, this approach has effectively been transposed on top of existing hierarchies. Those start-ups that made it through the hi-tech collapse have matured and adopted more hierarchical

approaches, while traditional organizations have also allowed small hot groups to develop within them.

In an interview with Webster Buchanan's Human Capital Review, Professor Leavitt addresses several issues relating to collaborative working practices and technology adoption.

***Information can be disseminated much more widely and easily today. Does this empower more layers of the hierarchy and so help "flatten" organizational structures?***

It helps to ease the negative effects of hierarchy, but the hierarchy doesn't go away. You've superimposed a set of mechanisms for people to communicate horizontally, and people at the middle and lower levels can interact daily without having to go up and down the hierarchy. But the hierarchy is in the background – if you can't negotiate with your peers, you can go to the people upstairs and use that circuitous route to get things done.

The technology of the last couple of decades has made an enormous difference to exchanging information. In the early days of monster computers, we said that technology would allow organizations to centralize authority – the assumption was that if top managers had the information to make decisions they would do so. The only thing wrong with that was that we failed to foresee the PC and the Internet. Miniaturization and the ease of the Internet have had the effect of partly decentralizing organizations, but at the same time maintaining the central authoritarian hierarchy.

***Collaborative working practices are becoming more common within organizations, reflected in project-based working, the development of cross-departmental teams and an emphasis on end-to-end processes. Since this approach clouds traditional lines of responsibility, what impact is it having on business hierarchies?***

This is indeed happening and it's a positive event. Knowledge is a big factor, and the drive to collaboration is partly because it's very hard to control brains. But again, what we're seeing is psychological, social, technological change – but it's⇒

⇐ not displacing the hierarchy! It sits there in the background. All other forms I keep reading about, because people hate hierarchies so much, turn out to be variations on hierarchies. I don't think federalized systems, networked systems are really different forms. They're modifications of the hierarchy, perhaps with fewer levels and wider spans of control – but there's still a boss.

In terms of teams, smart companies are not simply appointing people to be members of a team. They're trying to encourage teams that grow spontaneously – a few people in an organization who communicate across departments or companies. If companies are wise, those are allowed to grow, and are supported and protected. These are the "hot groups" that can really innovate.

***Finally, there's a lot of emphasis today on "agility" and "flexibility" - building applications that can easily be changed to reflect fast-changing business needs. Does that have any impact in flattening hierarchies?***

It seems to me that if flexible technology is used by the hierarchy to turn teams on and off, it's a tool of the hierarchy. If flexible technology is used by the team to change its direction and purpose, I think that's great. That's very positive.

*\*Professor Harold J Leavitt's next book, "Top Down: Why hierarchies are here to stay and how to manage them more effectively", will be published in December by the Harvard Business School Press*

## *The Two-and-a-half-Minute Guide to...*

# Cost of Ownership

### ***How hard is it to put a price on IT expenditure?***

You'd be surprised. Most purchasers know that the fee they pay to license Human Capital Management (HCM) software is just one component of their total outlay - but fewer take the time to work out what those other charges really add up to. Total Cost of Ownership (TCO) is a means of calculating all those costs over a three or five year period.

### ***So where do you start?***

Implementation is as good a place as any. In the high-end enterprise software market, it's not uncommon for implementation charges to equal two to five times the price of the license: that drops in the midmarket and at the lower end, but the outlay can still be significant. These costs are influenced by several factors, including the underlying architecture of the product and the amount of customization that's carried out. And integration work can be a problem, both in tying together HCM products and linking to other applications such as Financials.

### ***And what about the ongoing costs?***

There are several. Annual maintenance fees – covering software fixes and enhancements to keep applications current – run to around 20 per cent of the price of the application. Ongoing support can be significant, and the cost of user training is frequently underestimated.

### ***Any other surprises?***

Future upgrades. It's hard to think about future enhancements when you're just about to install a

spanking new piece of software, but the pace of technology change means one or more upgrades may be needed in any five-year period. This shouldn't be sneezed at, particularly when a software vendor rebuilds its underlying architecture – switching to a new platform can be almost as big a task as the initial implementation. If you've carried out extensive customisation, your upgrades also tend to be harder.

### ***So am I wasting my time negotiating discounts?***

Not at all. It's still a buyer's market, so you should be able to secure a good deal. Much depends on how many vendors pitch for your business, how strategic your business is to them, and in many cases, how desperate they are to meet their quarterly sales target.

But the benefits of a lower upfront investment in one system can be undermined by a higher TCO. And of course, cost isn't everything – you're also going to be taking into account depth and breadth of functionality, support, other users' experiences, plus the vendor's viability, vision and track record.

### ***Where's the good news?***

This isn't all about new outlay – to establish the net cost of implementing a new system, you need to deduct the cost of maintaining your existing applications from the TCO of the new product. You may be in for a pleasant surprise – if you replace multiple, resource-hungry standalone applications with a single standardized platform, your running costs could go down once you've absorbed the cost of the new application. □

**Steering Committee +++ Memo to the Steering Committee +++ Memo to the Steering Committee**

From Ashley Tate, Special Project Liaison Director  
August 19<sup>th</sup> 2004

Re: Human Capital Management IT Project

Thanks everyone for attending last week's hugely successful kick-off meeting!!! As promised, I've attached a summary of the key conclusions

**1) Project nomenclature**

The great news is that I think we're really close to agreeing what to call the project!!! Just to recap:

The finance team voted for 'Human Capital Management: Unlocking Value' (HCMUV). It believes this encapsulates the notion of employees as assets, and reflects the Board's mission to leverage its assets in order to maximize shareholder – and where relevant, stakeholder – value. (Susan, I hope that's a fair summary of your position!!!)

The HR department prefers the title 'Human Capital Management: Unleashing Employee Potential' (HCMUEP). It's open to negotiation, but notes that any decision will need to be ratified by senior management and the unions.

The IT Department suggests Project Icarus. (And I have to say – I LOVE the imagery of reaching for the sun!!!)  
Final vote will be on September 15<sup>th</sup>!!!

**2) Project phasing**

We agreed that the project should be broken into manageable parts – we just have to decide what they are!!!

The Finance Department suggests six incremental phases over 18 months. At the end of each phase, it will carry out an analysis of actual spend versus budget and calculate ROI on four pre-determined factors. Ongoing budget will be released only if projects come in within pre-set budget variance parameters, usually on a +/-10% ratio.

The HR Department suggests three phases over six years. At the end of each phase it will carry out an employee engagement survey, assess the change management implications, and undergo a 360 degree appraisal of the entire HR function to determine whether it's become 'strategic' yet.

The IT department suggests 52 phases, fitted in wherever possible around the demands of finance, operations, logistics, front-desk reception, fleet management, water cooler maintenance and general IT-complex-technology-kind-of-stuff. It has also asked for guidance on pizza allowances and a Monday-thru-Friday dress-down policy.

One final note for the records: we were all terribly excited when Geoff stepped into the meeting to add his CEO's perspective. I think his suggestion that we 'Take whatever steps are necessary to achieve operational brilliance in the context of alignment with overall strategic vision' hit the nail on the head!!! Thanks Geoff!!!

So, the next meeting is set for September 15<sup>th</sup>. Preliminary Agenda:

- 1) Outstanding items (Nomenclature; Project phasing)
- 2) Project goals – do we need them?
- 3) Fun!!! Fun!!! Efficiency!!! Fun!!! (Winning Employee buy-in in the context of overall budget constraints)

(To be continued...)

To subscribe and to view more of our content, visit [www.websterb.com](http://www.websterb.com) or email [review@websterb.com](mailto:review@websterb.com)

European Office  
2 Lansdowne Row, Berkeley Square  
London W1J 6HL  
United Kingdom

US Office  
1819 Polk Street #328  
San Francisco CA 94109  
United States

Asia Pacific Office  
15/F Onfem Tower  
29 Wyndham Street  
Hong Kong

**Disclaimer and Copyright**

Webster Buchanan's Human Capital Review is published by Webster Buchanan Research Ltd in London. All material is copyright. Except as permitted by the Copyright Act, no part of it may in any form or by any electronic mechanical photocopying recording or any other means be reproduced stored in a retrieval system or be broadcast or transmitted without the prior written permission of Webster Buchanan Research, or in accordance with our subscription terms and conditions. Facts presented and information provided by third parties referred to in this publication have been verified to the best of Webster Buchanan Research's knowledge. Webster Buchanan Research is not responsible for any errors or omissions, or for the results obtained from the use of this information. The information contained in this publication is provided on the strict understanding that Webster Buchanan Research is not engaged in rendering professional advice and services of any description. This publication should not be used as a substitute for consultation with professional advisers. Full disclaimer is available at our website ([www.websterb.com](http://www.websterb.com)).