

Integrated Human Capital Management:

Over-hyped or Over-due?

December 2007



Executive Summary

“Our most important asset”; This time-honored litany once muttered from the lips of just about every CEO across the globe has now become the topic of hot debate in the corporate boardroom as well as the headlines of most business publications. As organizations look internally to achieve sustainable competitive advantage externally, Human Capital Management (HCM) has taken on heightened strategic importance. This report, a compilation of survey responses from 245 organizations (representing all sizes, industries and geographies), is a roadmap for organizations that desire to achieve superior performance through Best-in-Class use of HCM with regards to strategy, capabilities, and technology utilization.

Best-in-Class Performance

Aberdeen used five key performance criteria to distinguish Best-in-Class companies:

- 91% increased employee performance
- 84% decreased cost of hire
- 84% increased revenue per employee
- 66% improved their ability to determine projected growth by job category
- 49% improved their ability to forecast annual retirement rates

Competitive Maturity Assessment

Survey results show that the firms enjoying Best-in-Class performance shared several common characteristics:

- 81% identify key HCM performance areas within their organization
- 68% use a "fully integrated" HCM solution
- 67% communicate corporate HCM strategy to stakeholders

Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, companies must:

- Identify where human capital management investment can make an impact on corporate objectives; correlate critical business pain points to the workforce.
- Define the metrics your company will use to determine the success of your HCM initiative (start small) and put in place the supportive processes to reinforce these metrics.
- Automate beyond core HR and payroll functions, and make sure the data can be leveraged with other corporate programs.

Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations

Quality people are the key to any organization's progress and growth, and are very difficult to find. HCM facilitates consistency, retainage and better focus of a company's human capital resources.

~ CEO

Mid-sized, US-based Industrial
Equipment Manufacturer

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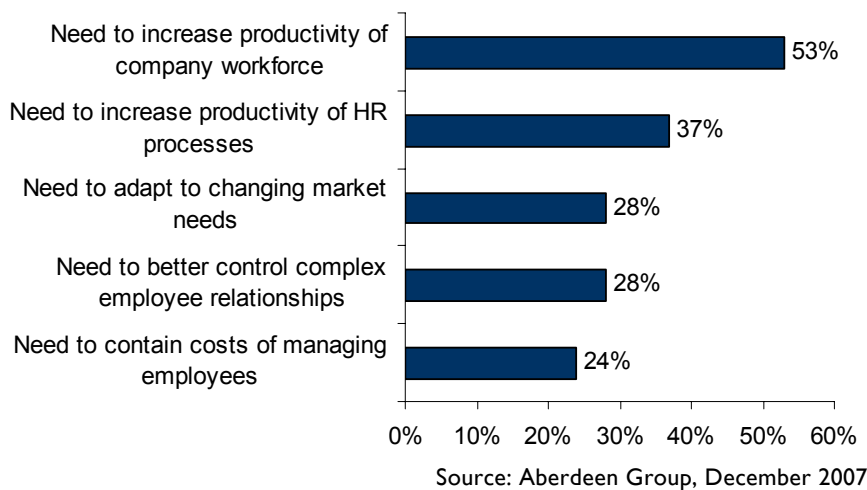
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Chapter One: Benchmarking the Best-in-Class

Aberdeen Analysis

Human Capital Management (HCM) has become a boardroom topic with overarching organizational implications and impact. In fact, 78% of all organizations surveyed for this benchmark study cited that HCM is either a "high" or "top two" organizational priority. The overwhelming pressure driving all organizations surveyed (including 67% of Aberdeen's Best-in-Class) to focus resources on HCM is to increase the productivity of the company's workforce (Figure 1).

Figure 1: Pressures Driving Organizations to Pursue HCM



To increase the productivity of the workforce and supportive HR processes, as well as adapt quickly to market changes, Best-in-Class organizations seek to ensure that the efforts and output of human capital are aligned with the company's overall objectives. In support of this, Best-in-Class organizations look to add more strategic functionality to their HCM processes as well as integrate HCM systems.

The Maturity Class Framework

To ascertain the impact of HCM initiatives, Aberdeen collected performance data against 38 metrics assigned to 19 distinct HCM elements, including staffing, onboarding, payroll, scheduling, competency management, and learning and development. Any of these key performance criteria could have been used to distinguish the Best-in-Class from Industry Average and Laggard organizations in HCM performance. The five (5) performance criteria we selected measure efficiencies realized as well as productivity gained across the HCM spectrum:

- Employee performance (defined as ratings in performance reviews and percentage of goals attained)

Fast Facts

- ✓ **85% of Best-in-Class organizations** cited that human capital management (HCM) is either a "high" or "top two" organizational priority
- ✓ **78% of Best-in-Class** describe their HCM initiative or strategy is part of the organization's overall corporate strategy

Looking at HCM as an end-to-end process is critical to managing talent in the complete sense of the word. It may be expensive to achieve, but the long term benefits associated with managing talent are more important than ever.

~ Sr. HR Consultant

Large international consultancy

- Cost per hire
- Revenue per employee
- Ability to determine projected growth by job category
- Ability to forecast annual retirement rates

Table 1: Companies with Top Performance Earn Best-in-Class Status

Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 91% increased employee performance ▪ 84% decreased cost of hire ▪ 84% increased revenue per employee ▪ 66% improved their ability to determine projected growth by job category ▪ 49% improved their ability to forecast annual retirement rates
Industry Average: Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 33% increased employee performance ▪ 18% decreased cost of hire ▪ 33% increased revenue per employee ▪ 12% improved their ability to determine projected growth by job category ▪ 8% improved their ability to forecast annual retirement rates
Laggard: Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 4% increased employee performance ▪ 0% decreased cost of hire ▪ 4% increased revenue per employee ▪ 1% improved their ability to determine projected growth by job category ▪ 1% improved their ability to forecast annual retirement rates

Source: Aberdeen Group, December 2007

The Best-in-Class PACE Model

Using HCM solutions to achieve corporate goals requires a combination of strategic actions, organizational capabilities, and enabling technologies, as illustrated in table 2.

Table 2: The Best-in-Class PACE Framework

Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> ▪ Need to increase productivity of company workforce ▪ Need to adapt to changing market needs 	<ul style="list-style-type: none"> ▪ Align the workforce with business objectives ▪ Add strategic functionality to HCM processes ▪ Integrate HCM systems to consolidate processes ▪ Integrate HCM systems to consolidate data 	<ul style="list-style-type: none"> ▪ Identify key HCM performance areas within the organization ▪ Document HCM project processes ▪ Communicate corporate HCM strategy to stakeholders ▪ Link workforce pay to performance ▪ Define anticipated outcomes of HCM projects ▪ Identify best practices for HCM ▪ Analyze results of HCM processes on a regular basis 	<ul style="list-style-type: none"> ▪ Payroll processing system ▪ Benefits Management system ▪ Compensation management solution ▪ Workforce scheduling tools ▪ Time and attendance system ▪ Talent acquisition system ▪ Assessments/Testing tools ▪ Competency modeling tools ▪ Employee performance management solution ▪ Learning and Development solution

Source: Aberdeen Group, December 2007

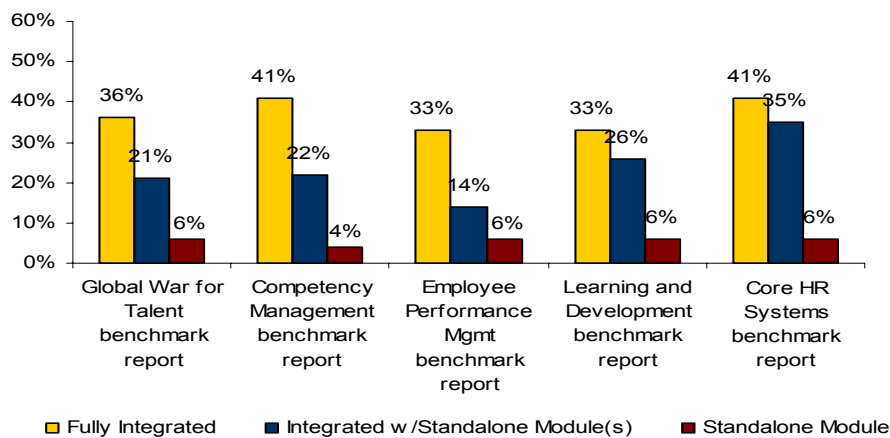
Best-in-Class Strategies

The majority of all companies surveyed, including 56% of Best-in-Class, plan to impact workforce productivity by aligning the workforce with business objectives. Best-in-Class organizations realize they must have manageable processes in place that support this endeavor, such as linking compensation to performance. In an effort to demonstrate HCM's value to the organization, Best-in-Class companies also focus on putting in place tight and controlled processes to ensure they are measuring, documenting, reporting, communicating and analyzing HCM's impact. To this point, Best-in-Class organizations aim to add strategic functionality to HCM processes (38%) as well as integrate HCM systems in order to consolidate processes (36%) and data (22%).

Preference for Integrated HCM

Fifty-six percent (56%) of all organizations surveyed for this report (including 64% of Best-in-Class) prefer an integrated HCM solution. This preference has been well documented in data collected from several of Aberdeen's 2007 HCM benchmark reports. In each report survey, the same question was asked: "What type of solution do you prefer for your organization's human capital management?" (Figure 2).

Figure 2: Preference for Type of HCM Solution



The benefits I believe of an integrated HCM solution are as follows: easy access to data through a common UI that allows employees and managers to make more effective business decisions quicker; easier reporting of information; facilitation of data standards and data integrity; lower cost of ownership. The drawback of an integrated HCM system is that sometimes you sacrifice cool features that are typically provided by niche vendors offering point solutions.

~ Director, Large Software Enterprise, North America

Source: Aberdeen Group, 2007

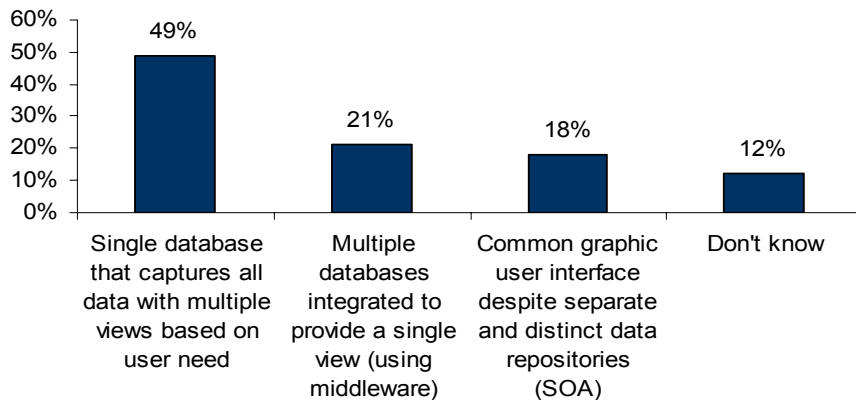
"Integration" Defined

Generally, integration has referred to a common graphic user interface among multiple (disparate) solutions -- and this is still the preferred definition among 23% of Best-in-Class organizations. The importance of a common, user-friendly interface should not be minimized or overlooked by any organization that seeks to empower its workforce via employee self-

service or encourage its managers to automate processes and reinforce the use of these systems.

Organizational adoption of HCM, however, goes beyond an intuitive graphic user interface. Best-in-Class organizations realize that HCM data can be leveraged to achieve uncommon competitive advantage and understand the importance of correlating real business value with HCM initiatives. To accomplish this, 52% of Best-in-Class organizations currently facilitate information sharing among disparate HCM disciplines and an additional 41% of Best-in-Class plan to do so over the next year. These organizations seek to access and leverage data from multiple HCM elements. For example, as organizations assess workers against competency models to determine skills or behavior gaps, this data can then be accessed via the company's succession planning tool to view workforce readiness and be used to determine if an external recruiting effort must be launched. If the company must look for an external candidate, a profile of the ideal skills and/or behaviors can then be automatically generated and used by recruiting to target its efforts. This scenario illustrates why 70% of all organizations surveyed (including 73% of Best-in-Class) now associate "integrated HCM" with back-end databases rather than with front-end user interfaces (Figure 3).

Figure 3: "Integrated HCM Solution" Defined



Source: Aberdeen Group, December 2007

To understand more completely the perceived benefits and/or drawbacks of integrated HCM, Aberdeen collected more than 200 written descriptions from the organizations surveyed for this report. Among all descriptions we collected, several clear consistencies emerged (Table 3).

Consistent and relevant data allows management decisions based on known assets and potential capital investments. Benefits are realized when the right person is in the right place at the right time with the right skill set, and has the tools and support network -- at the right cost!

~ Director of Operations

Division of the U.S. Dept. of Commerce

Table 3: Perceived Benefits and Drawbacks of Integrated HCM

Benefits	Drawbacks
<ul style="list-style-type: none"> ▪ Single view of data ▪ Single system update capability ▪ Single user interface and global platform ▪ Analytics / business intelligence 	<ul style="list-style-type: none"> ▪ Limited functionality (as compared to best-of-breed applications) ▪ Timely and costly to implement ▪ Timely and costly to upgrade

Source: Aberdeen Group, December 2007

The most cited benefits of integrated HCM focus on the perceived business value that can result from a single view of data (i.e. a single database). This single source of "truth" results in consistent data integrity as it reduces the number of errors that occur from the manual input of data and/or the maintenance of redundant sources of data. A single data repository also enables HCM data to be more easily leveraged across the organization for the analysis and validation of business impact, as well as strategic business planning purposes.

The most cited drawbacks of integrated HCM focus on the perceived loss of product functionality (or robustness) generally associated with best-of-breed applications. Additionally, organizations are aware of the time and costs associated with large ERP implementations. For many small-to-mid sized companies, the perceived costs outweigh the long-term benefits of integrated HCM.

An integrated HCM solution provides the ability to draw and analyze enterprise wide information from one source; whether it's from one interface and several databases or one database.

~ Director of HR

Small, US-based Bank

Aberdeen Insights - Strategy

As noted earlier in this report, our research has found that Best-in-Class organizations achieve performance gains unattainable by organizations without an integrated solution. In fact, in addition to performance against the five KPI outlined earlier in this report, our research uncovered that Aberdeen's Best-in-Class is more likely to achieve performance gains across all other HCM elements we tracked in this research, including the following (Table 4).

Table 4: Best-in-Class' Performance Against other HCM KPI

HCM element	KPI	Best-in-Class that improved	All other companies that improved
Recruitment	Cost of hire	84%	11%
Competency management	Revenue per employee	84%	22%
Staffing	Quality of hire	71%	29%
Onboarding	Employee engagement	71%	33%
Learning and development	Employee performance	68%	24%
Performance management	Employee retention	67%	16%
Scheduling	Ability to plan for & allocate hourly resources	66%	8%
Workforce planning	Ability to determine growth by job category	66%	8%
Time & Attendance	Accuracy of pay rate rules	65%	18%
Task management	Verification of qualification	63%	13%
Payroll	Processing error rates	62%	22%
Compensation	Salary planning process	61%	19%
Benefits	Eligibility determination	59%	18%
Succession planning	Key positions filled by internal candidates	56%	12%
Absence management	Accuracy of sick time utilization	52%	15%
Incentives / Rewards	Error rate determining bonus pay	50%	8%
Offboarding	Exit interview completion rate	45%	15%
Labor Management	Ability to produce adequate staffing levels	42%	9%

There exists no significant difference in the pressures that drive all the organizations we surveyed to focus on Human Capital Management or the strategies they are pursuing to address these pressures. What then accounts for the tremendous delta in HCM performance improvement between Best-in-Class and all other organizations? The answer is rooted in the emphasis placed by Best-in-Class on organizational capabilities that support HCM strategies and the technology utilized to capture and leverage HCM data.

In the next chapter, we will see what the top performers are doing to achieve these gains.

Chapter Two: Benchmarking Requirements for Success

The selection of Human Capital Management software and integration with HRIS/HRMS and other business systems (i.e. Finance, CRM) plays a crucial role in the ability to turn these strategies into profit.

Case Study - Investors Bank & Trust

Investors Bank & Trust (IBT) is a unique financial services company that manages \$2 trillion in assets and focuses on client satisfaction and employee growth. IBT's customers include some of the world's most prestigious banks, mutual fund, and insurance companies.

In 2002, IBT realized it did not have the infrastructure in place to enable the attainment of two primary goals: 1) Achieve the same Excellence with its corporate infrastructure as it did with customer-facing systems; 2) Scale to meet its anticipated domestic and international corporate growth.

While IT and compensation were the companies highest costs, IBT management had limited understanding of the real costs associated with employees or candidates – as a result, it was difficult to commit to specific budgets. IBT already had in place the general ledger software from a major ERP provider, however, the company was not fully utilizing the system.

IBT initially focused its efforts on fine tuning its processes surrounding financials and procurement. Once in place, the company expanded the use of other general ledger functions such as international currency. It also utilized the system to help the company consolidate its procurement efforts. With the accuracies and efficiencies gained pertaining to financials and procurement, IBT's enterprise applications team convinced the CFO to invest some of the respective savings into the HCM software suite from the ERP provider. Over the several next months and years, HCM applications that IBT utilized included compensation, benefits, payroll, time and labor, analytics, recruiting and learning management.

Because IBT built and supported large-scale fund accounting systems for its clients, it sought to demonstrate to its customers that IBT also provided learning paths for those who used and implemented those systems. Thus, IBT initiated use of the ERP's learning management system to track and document training. This allowed IBT to mandate the completion of specific training in order for a person to gain their User ID to use the system – the system automatically sent ID's to users upon completion of required training.

continued

The value of an integrated HCM solution to our organization was incredible.

It provided a single source of truth that was leveraged throughout the organization. It enabled applications and processes that allowed us to operate more efficiently as a company. This included enabling IT efforts such as identity management and single sign-on, as well as business continuity efforts making it possible to reach and coordinate disaster recovery efforts worldwide. It also enhanced our financial efforts, such as modeling compensation structures and organizational changes.

The drawbacks to companies that want to achieve what we did are that it takes a lot of time. Also, it takes vision and commitment by the top 5-10 people in the company as well as open and frank dialogue among key stakeholders.

~ Charles Dennis,

Former Director of Enterprise Applications, Investors Bank & Trust Co.

Case Study - Investors Bank & Trust

From 2002 to 2007, IBT grew from roughly 2,000 to 4,500 employees, expanded operations into six countries, and experienced 20% - 30% CAGR – all without scaling its personnel to support its systems and processes. For example, in 2002 IBT employed five payroll personnel. Due to the elimination of manual records input and payroll errors, that number remained the same through 2007. Another primary derivative of its integrated HCM solution has been accuracy of HCM data. This data has provided IBT management clear insight into actual and anticipated headcount and associated costs. All of this has culminated into IBT’s ability to achieve incremental performance improvement in critical HCM metrics including employee retention, customer satisfaction, and workforce productivity.

Competitive Assessment

The aggregated performance of surveyed companies determined whether they ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) **process** (the ability to detect and respond to changing conditions without placing additional burdens on the organization); (2) **organization** (corporate focus and collaboration among stakeholders); (3) **knowledge management** (contextualizing data and exposing it to key stakeholders); (4) **technology** (the selection of appropriate tools and intelligent deployment of those tools); and (5) **performance management** (the ability of the organization to measure the benefits of technology deployment and use the results to improve key processes further). These characteristics (identified in Table 5) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

Table 5: The Competitive Framework

	Best-in-Class	Average	Laggards
Process	Link workforce pay to performance:		
	66%	44%	37%
Organization	Identify key HCM performance areas within the organization		
	81%	47%	24%
Knowledge	Communicate corporate HCM strategy to stakeholders:		
	67%	37%	23%
Knowledge	Document HCM project processes:		
	68%	40%	23%
	Identify best practices for HCM:		
	61%	29%	11%
Knowledge	Facilitate information sharing among disparate HCM disciplines:		
	52%	28%	16%

	Best-in-Class	Average	Laggards
Technology	HCM elements currently automated:		
	<ul style="list-style-type: none"> ▪ 79% Time and Attendance ▪ 79% Recruiting / Hiring ▪ 70% Employee Performance Management ▪ 68% Assessments ▪ 67% Compensation ▪ 64% Scheduling ▪ 61% Learning & Development ▪ 58% Workforce Analytics 	<ul style="list-style-type: none"> ▪ 66% Time and Attendance ▪ 42% Recruiting / Hiring ▪ 43% Employee Performance Management ▪ 41% Assessments ▪ 60% Compensation ▪ 49% Scheduling ▪ 43% Learning & Development ▪ 43% Workforce Analytics 	<ul style="list-style-type: none"> ▪ 62% Time and Attendance ▪ 27% Recruiting / Hiring ▪ 16% Employee Performance Management ▪ 16% Assessments ▪ 33% Compensation ▪ 37% Scheduling ▪ 20% Learning & Development ▪ 12% Workforce Analytics
Performance	Measure efficacy of HCM initiatives:		
	50%	22%	1%

Source: Aberdeen Group, December 2007

Capabilities and Enablers

The essential ingredients of a Human Capital Management strategy that produce top results include the proper mix of processes, organizational knowledge, technology, and performance measurement.

Process

Previous Aberdeen HCM research shows a significant push towards organizational use of compensation solutions and the data we collected for this study provides further emphasis on this point. Considering the majority of all organizations surveyed (including 66% of Best-in-Class) are "aligning the workforce with business objectives" as a top organizational strategy pertaining to HCM, it comes as no surprise that linking workforce pay with performance is a key organizational pursuit. The critical factor here, however, is that before organizations link compensation to workforce performance, they must first understand which workforce behaviors correlate to specific business drivers. When linking compensation to performance, organizations can learn from their own sales organization; some sales people are rewarded for selling products/services and, in many instances, are rewarded differently based on which products/services they sell. Other sales people are rewarded for elements such as client retention and year-over-year net client value increase. Payout is ultimately linked to a quota that ties directly to the organization's overall bookings or revenue

Typically, the human asset management is least understood. Talent recognition and skills management are often mixed, blurring the strategic perspective altogether thereby reducing the efficiency of harnessing human potential. The best way to harness talent is to keep it simple and straight forward (i.e. award and reward innovative work).

~ CIO

Mid-sized, India-Based
High Tech/Software Company

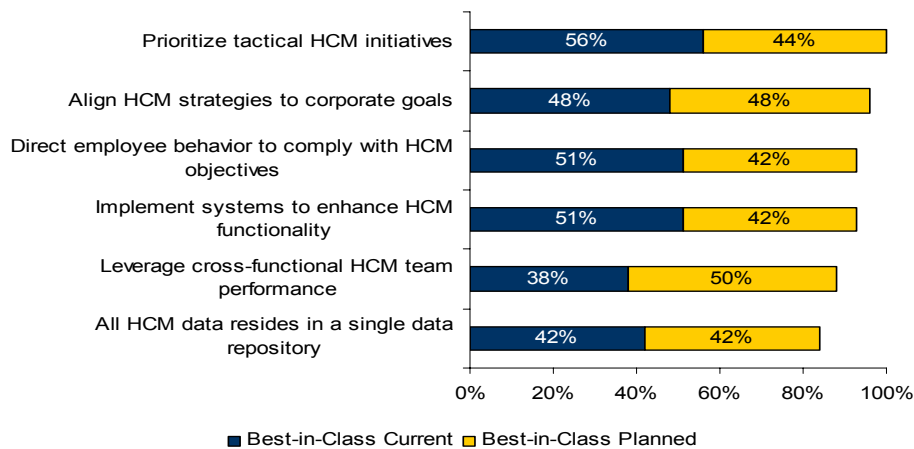
growth. The same type of correlation of compensation to desired output needs to be assigned with HCM processes, programs and pursuits.

Organization

Best-in-Class organizations understand how critical it is to identify the organizational pain points that HCM can impact. For some, this can be a daunting task. However, a good place to start is at the top: What are the company's top goals? What are the business units' top goals and how does each link to a corporate goal? What are the hurdles that business units face to achieve these goals? How can HCM help these business units overcome these hurdles? Best-in-Class organizations then utilize this information to create their HCM strategy; a strategy that is communicated to all relevant stakeholders. Though not fully leveraged by all Best-in-Class organizations, the majority of Best-in-Class then circle back with the organization and communicate the best-practices associated with HCM. This helps strengthen organizational buy-in for HCM and creates organizational "pull" for HCM involvement.

Data we collected pertaining to the support processes and programs that Best-in-Class organizations plan to put in place signals further emphasis on the strategic application of HCM, as well as the imperative of HCM's organizational integration (Figure 5).

Figure 5: Best-in-Class' Planned Adoption of Organizational Capabilities to Support HCM



Source: Aberdeen Group, December 2007

Fast Facts

- √ **While only 48% of Best-in-Class** currently align HCM strategy to corporate goals, another 48% of Best-in-Class plan to do so over the next year.
- √ **The greatest movement among Best-in-Class** organizations is to leverage cross-functional HCM team performance - this will allow organizations to capitalize on best-practice methodologies and also places greater importance on allowing HCM data to be accessed and leveraged from other sources.

Knowledge Management

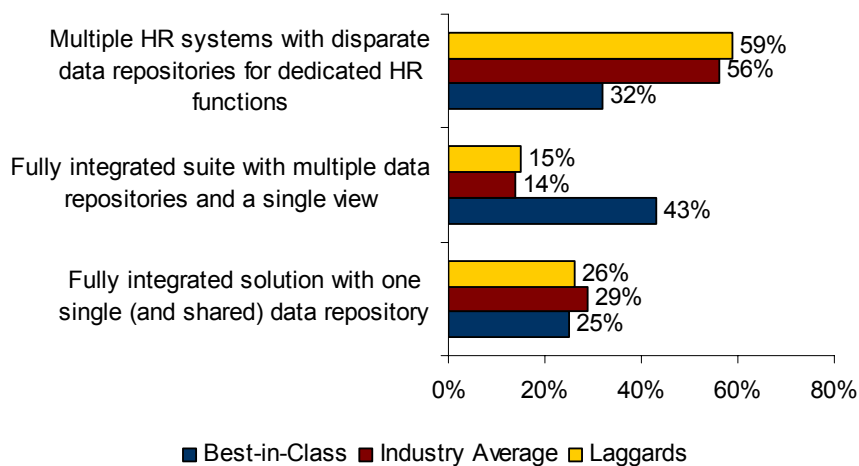
Best-in-Class organizations seek to leverage organizational input and knowledge by facilitating information sharing among disparate HCM disciplines. The technology element of this information sharing is discussed in the Technology section below. The non-technology aspect, however, is reinforced by documenting HCM project processes (68% of Best-in-Class)

and identifying and leveraging HCM best-practices (61% of Best-in-Class). All of this helps to gain further organizational buy-in and enables these organizations to more accurately target their HCM efforts.

Technology

While 52% of Laggard organizations currently use a manual or paper-based HCM solution, that is the case with only 18% of Best-in-Class. Automation is critical to allow Best-in-Class to collect, report on and share data quickly and accurately among HR disciplines and other corporate elements such as Finance. Sixty-eight percent (68%) of Best-in-Class describe their HCM solution as "fully integrated" with either a single data repository or multiple data repositories with a single data view (as compared to only 43% of Industry Average and 41% of Laggards) - Figure 6.

Figure 6: Type of HCM Solution Currently Used



Source: Aberdeen Group, December 2007

The HR/HCM technologies currently utilized by the majority of Best-in-Class organizations concentrate primarily on core workforce and talent management functions that focus on workforce optimization from both allocation as well as development perspectives. The following is a breakdown of how companies that achieved our Best-in-Class status describe the HCM technology currently in place at their organization:

- 33% - ERP system and core HRIS/HRMS with HCM software from the same vendor
- 16% - ERP system and core HRIS/HRMS with no HCM software,
- 13% - HCM suite software from a single vendor (non ERP)
- 13% - HCM single solution (best-of-breed) software
- 7% - Outsource all HR functions

Performance Management

In order to substantiate performance improvement in HCM, a company must be able to measure and verify that actual improvement occurred. While 65% of Best-in-Class have defined the anticipated outcomes of HCM projects, 61% of these organizations analyze the results of HCM processes on a regular basis. While only 50% of Best-in-Class measure the efficacy of HCM improvement, that total will jump to approximately 86% within 12 months. Finally, 56% of Best-in-Class goes to the critical next step of verifying the accuracy of HCM data and/or metrics. All of this helps ensure that best-practice HCM performance is documented and communicated across the organization.

Although it is difficult to transfer legacy systems and data into one view, a single view of our employees helps ensure all aspects of talent management are considered. Leaders can be held accountable for the growth of employees, movement on succession plans, and that manager / employee plans are established and acted upon.

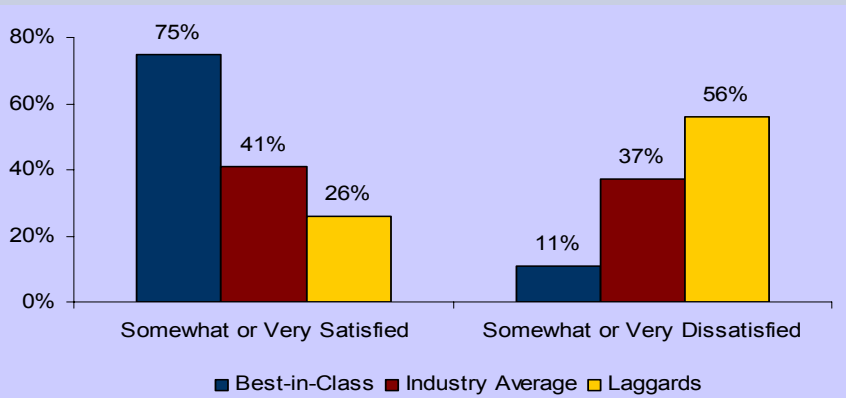
~ Director of Training

Large, US-Based Retailer

Aberdeen Insights - Technology

Our research has found a correlation between organizations with an automated and integrated HCM solution and their overall satisfaction with their HCM solution (Figure 5).

Figure 5: Satisfaction with Current HCM Solution



Source: Aberdeen Group, December 2007

Implementing an automated HCM solution can be a magnanimous pursuit and requires organizational consideration and careful planning in order to operate to its full potential. Data collection and sharing, reporting guidelines, and identifying the proper measures to best impact the organization are critical factors to address before embarking on any HCM initiative.

Chapter Three: Required Actions

Whether a company is trying to move its performance in Human Capital Management from Laggard to Industry Average, or Industry Average to Best-in-Class, the following actions will help spur the necessary performance improvements:

For all Organizations

When pursuing HCM, make sure to align your efforts with corporate goals. The best way to gain a seat at the corporate table is to be able to demonstrate measurable business value. Take time to understand organizational pain points and be proactive in making recommendations on how HCM can aid in hitting those goals.

Laggard Steps to Success

- **Strategize:** Laggard organizations must first identify where human capital management investment can make an impact on business objectives. This starts with an understanding of the organization's critical pain points and their correlation to the workforce. Start from a high level and work down. Is it an ability to recruit top talent? If not, is your company able to keep top talent? If so, for how long? Does your company even know who its top talent is or what it defines as top talent? Only 24% of Laggard organizations have identified key HCM performance areas within their organization (as compared to 47% of Industry Average and 81% of Best-in-Class).
- **Define and report on metrics:** Once Laggards organizations have determined where HCM initiatives can impact business goals, they must define the metrics they will use to determine the success of particular initiatives and put in place the supportive processes to reinforce these metrics. A mere 1% of Laggards measure the impact of HCM on the organization (as compared to 22% of Industry Average and 50% of Best-in-Class). Previous Aberdeen research provides a complete and detailed overview of the metrics that matter most across HCM disciplines, but Table 4 in this report provides a good start.
- **Automate:** Laggards experience relative parity with Average and Best-in-Class organizations in terms of automation of core HR functions such as payroll and time & attendance. Laggards should consider automating Scheduling and Compensation; these components allow organizations to achieve greater productivity by allocating the optimum workforce and aligning workforce behavior with desired outcomes. With these core HR functions automated, they should then look to automate three key talent management elements: Recruiting; Assessments; and Performance Management.

Fast Facts

- √ **81%** of Best-in-Class companies identified key HCM performance areas within their organization
- √ **67%** of Best-in-Class companies communicate corporate HCM strategy to stakeholders
- √ **One-half of Best-in-Class** measure the efficacy of their HCM performance versus only 1% of Laggards

As our data showed, no Laggard organizations were able to reduce the cost per hire as opposed to 84% of Best-in-Class companies. Having an automated recruiting system in place plays a vital role in reducing cost and time per hire. In addition, only 33% of Laggards have automated employee assessment tools compared to 67% of Best-in-Class. These systems allow organizations to track employee performance and development while managing competencies efficiently. This is demonstrated by our finding that 91% best-in-class companies improved employee performance compared to only 4% of Laggards.

- **Analyze:** Data collection alone is not sufficient to fully realize the benefits of an HCM system. Industry Average organizations are nearly four times more likely (Best-in-Class are almost five times more likely) than Laggards to utilize automated workforce analytics tools. These tools allow companies more usability and visibility into the data and comparing to certain metrics. Analytics tools empower management to be more agile in making strategic decisions to better adapt the workforce. Furthermore, it enables them to monitor the performance cross-functionally and track the return on investment for human capital initiatives.

Industry Average Steps to Success

- **Know:** Average companies must recognize and document best practices in HCM processes, as well as their respective organizational impact. Only 29% of Average companies focus on identifying best practices for human capital management compared to 61% of Best-in-Class. Furthermore, Best-in-Class organizations are 86% more likely than Average to facilitate information sharing among disparate HCM disciplines. This knowledge of HCM's organizational impact will serve two purposes: 1) Users and stakeholders will become encouraged and enthusiastic not only about the initiative but also in their knowledge of how their individual contribution impacts the organization as a whole; 2) HCM, as an overall functional area, will become a learning organization that seeks to build upon successes and continuously improves to in order to optimize the alignment of the workforce with business objectives.
- **Measure:** Best-in-Class companies are more than twice as likely as average to measure the efficacy of HCM initiatives. It is imperative to have a set of expectations and metrics to assess the system's performance against. This in turn allows companies to adjust certain procedures and optimize the system according to overall company needs in addition to departmental needs and objectives.
- **Communicate:** While 67% of Best-in-Class companies communicate corporate HCM strategy to stakeholders, only 37% of Average organizations currently do the same. Knowledge sharing is vital because it will facilitate the transition from one HCM system to

With an integrated approach you have the ability to tie in multiple facets of the solution in one package.

~ HR Manager, Large Medical Center, North America

another as well as solicit input and feedback on existing systems. This also increases visibility and buy-in at all levels of the organization. Lastly, Average companies must engage users in HCM system development. The data shows that Best-in-Class companies are 40% more likely than Average companies to engage the end-users in the solution development process.

Best-in-Class Steps to Success

- **Integrate:** Almost a third of Best-in-Class companies still utilize multiple HR systems with disparate data repositories for dedicated HR functions. Our study and our interviews show that integration works. As a matter of fact, Best-in-Class who have integrated solutions are 40% more likely to be satisfied with their HCM solution than Best-in-Class companies who don't. Nonetheless, for smaller companies, a full integration with an ERP system may not make much sense. However, even if applicant tracking data is integrated with the HR database, the HR department would be able to improve efficiency by having one less set of data to manage. This also improves data integrity and reduces the risk of human error.
- **Verify:** The ability to collect data empowers companies to make better decisions at all levels of the organization. However, if the data is not accurate, it can be misleading and at the worst case detrimental in the long run. Our data shows that only 56% of Best-in-Class companies currently have systems and processes in place to verify accuracy of HCM data collected.
- **Collaborate / Learn:** From recruiting to payroll to learning and development, an HR department has many functions. As this department morphs from an administrative to a more strategic role, it is necessary to learn from the change initiative, especially in mid-size companies to large enterprises. For instance, if the payroll function achieved a high degree of efficiency by instituting a certain process - whether in operations or implementation, it is highly likely that the benefit management team can gain from it. Currently 52% of Best-in-Class companies facilitate information sharing among disparate HCM disciplines, and only 38% currently leverage the performance of one division cross-functionally into other HCM groups.

Aberdeen Insights - Summary

Integration is not just hype - not by a long shot. It is virtually impossible for us to argue against the performance data that we have gathered across 38 different metrics in 19 HCM areas. Best-in-Class companies are achieving this prowess by automating and integrating. When we followed up regarding the survey with our end-users, it became clear to us that the number one goal for integration is dual-fold: to have a single repository that will house and distribute all HCM data, and have a common, easy-to-use graphic user interface. User interface and visualization have been the perceived strength of best-of-breed providers and have been the perceived challenge for the major ERP/HCM providers. Nonetheless, we believe that the major ERP/HCM providers will focus more on evolving this interface to complement the value they add with a single database and it will be interesting to see how this changes the landscape of solutions implemented. Aberdeen's HCM research practice will continue to keep its eyes on how this evolves and will keep you up-to-date on its impact on end-user organizations.

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Appendix A: Research Methodology

Between November and December 2007, Aberdeen examined the use, the experiences, and the intentions of more than 245 enterprises in regards to their pursuit of Human Capital Management.

Aberdeen supplemented this online survey effort with telephone interviews with select survey respondents, gathering additional information on HCM strategies, experiences, and results.

Responding enterprises included the following:

- *Job title / function:* The research sample included respondents with the following job titles: senior management (CEO, COO, CFO, president) (26%); vice president (9%); director (24%); manager (28%); others (13%). In terms of functions in their respective organization, the majority of respondents (42%) were in human resources (including talent management, recruiting/staffing, training and organizational development). Other functional areas represented included IT (19%), business process management (6%), strategic development (5%) and operations (5%).
- *Industry:* The research sample included respondents from a variety of industries. Hi-tech represented 22% of the sample, followed by finance/banking (12%), health/medical (9%), and transportation/logistics represented 6% of the sample.
- *Geography:* The majority of respondents (61%) were from North America. Remaining respondents were from the Asia-Pacific region (17%), Europe (14%), Middle East/Africa (6%), and South/Central America (2%).
- *Company size:* 30% of respondents were from large enterprises (annual revenues above US\$1 billion); 36% were from mid-sized enterprises (annual revenues between \$50 million and \$1 billion); 34% were from small businesses (annual revenues less than \$50 million).
- *Headcount:* 34% had over 5000 employees; 19% had between 1000 and 5000 employees; 14% had between 250 and 1000 employees; 33% of respondents came from companies with less than 250 employees.

Solution providers recognized as sponsors of this report were solicited after the fact and had no substantive influence on the direction of the Integrated HCM Benchmark Report. Their sponsorship has made it possible for Aberdeen Group to make these findings available to readers at no charge.

Study Focus

Responding HCM and business unit executives completed an online survey that included questions designed to determine the following:

- √ What is driving the adoption of HCM
- √ What type of HCM solution (integrated or stand-alone) is preferred
- √ Current and planned use of HCM
- √ The benefits, if any, that have been derived from HCM initiatives

The study aimed to identify emerging best practices for HCM and to provide a framework by which readers could assess their own management capabilities

Table 6: The PACE Framework Key

Overview
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <p>Pressures — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p>Actions — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p>Capabilities — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing)</p> <p>Enablers — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p>

Source: Aberdeen Group, December 2007

Table 7: The Competitive Framework Key

Overview	
<p>The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:</p> <p>Best-in-Class (20%) — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.</p> <p>Industry Average (50%) — Practices that represent the average or norm, and result in average industry performance.</p> <p>Laggards (30%) — Practices that are significantly behind the average of the industry, and result in below average performance.</p>	<p>In the following categories:</p> <p>Process — What is the scope of process standardization? What is the efficiency and effectiveness of this process?</p> <p>Organization — How is your company currently organized to manage and optimize this particular process?</p> <p>Knowledge — What visibility do you have into key data and intelligence required to manage this process?</p> <p>Technology — What level of automation have you used to support this process? How is this automation integrated and aligned?</p> <p>Performance — What do you measure? How frequently? What’s your actual performance?</p>

Source: Aberdeen Group, December 2007

Table 8: The Relationship Between PACE and the Competitive Framework

PACE and the Competitive Framework – How They Interact
<p>Aberdeen research indicates that companies that identify the most impactful pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.</p>

Source: Aberdeen Group, December 2007

Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report include:

- *The Looming Leadership Void: Identifying, Developing, and Retaining Your Top Talent* November 2007
- *The Strategic Development of Core HR Systems*; September 2007
- *Learning and Development: Aligning Workforce with Business Objectives*; September 2007
- *Competency Management: The Link Between Talent Management and Optimum Business Results*; August 2007
- *The Global War for Talent: Getting what You Want Won't Be Easy*; June 2007
- *Enhancing Operational Results with Employee Performance Management*; June 2007

Information on these and any other Aberdeen publications can be found at www.Aberdeen.com.

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