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Features

Building a Better Workforce

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Sue Bushell 05 April, 2006

Knowledge-intensive companies are focusing on a mix of measures to enable more effective human capital accounting

There is a fundamental shift afoot in the way organizations manage their people. Companies whose traditional focus has been on reducing labour-intensive tasks and automating traditional human resources (HR) functions suddenly find their futures hanging on their ability to improve workforce productivity.

Now, top organizations battle for talent in an arena where the skills needed to drive business performance are in ever-decreasing supply. That creates a new mandate: improving employee productivity by taking a business operations-centric approach to workforce performance and talent management.

Leading executives know managing talent well is fast becoming an imperative, and that doing it poorly is proving a major and obstinate barrier to optimal business success. The market leaders are already starting to rope in big gains by using human capital management (HCM) technologies.

Take Corning Incorporated, which is claiming savings of more than $US1 million a year in HR-related costs thanks to its use of Softscape's integrated HCM platform. That is four times more than it predicted in 1999 at initial roll-out, its executives say. Those savings embrace greater efficiencies in process time, a significant reduction in the number of queries per administrator, and a reduction in time spent managing the review process.

"The benefits to Corning have stretched beyond our expectations into entirely new areas," says Corning manager organizational effectiveness Hank Jonas. "Not only have we seen a marked jump in the hard dollar return of the performance automation process, we have also seen a significant increase in the demand for the 360 [degree] feedback process."

According to IBM's Asia-Pacific leader for human capital management, Bill Farrell, how talent is managed is where the battle for organizational competitiveness is going to be won or lost. "Some organizations do it well; others really struggle. I think the war for talent is on and a lot of organizations are losing the battle," he says.

IBM's Global Human Capital Study 2005 examined how organizations around the world are leveraging their human capital to improve workforce effectiveness and organizational performance. It found companies in both Australia and New Zealand struggling to hang on to executive talent, yet fewer than half adequately equipped to respond.

Despite being a leader in efficient HR methods, Australian organizations have real trouble in retaining their best and brightest employees and executives, the study showed, with the Asia Pacific region - including Australia - having the highest voluntary turnover of senior and middle management in the world. This costs organizations both dollars and intellectual property (IP).

"One of the key findings for organizations in this part of the world is this paradox of being very efficient in terms of HR processes while having an executive turnover that is the highest in the world. In other words, we're very efficient at recruitment but not necessarily very effective," Farrell says. "So you have to question where we are focusing our resources in terms of the HR function and the outcomes we're trying to achieve. I think we've lost track of what we're trying to do in terms of outputs."

Part of the problem seems to lie with the nature of systems already in place. A recent study from Curtin University of Technology found a majority of all current performance management systems had been designed by internal organizational HRM specialists or project teams, with the remainder imposed by multinational headquarters or designed by external consultants. The main types of performance management systems reported in the study were tailored combinations of traditional techniques, largely designed by the organizations themselves and incorporating all employees, and often consciously linking employee and organizational goals and imperatives.

However, traditional HR systems and practices seldom allow decisions about the talents of people to be made with the rigour, logic and strategic connections attending those about money, technology and products, and - unlike strategic planning, marketing, operations, and budgeting processes - only minimally connect to core business management processes. Too often people issues barely rate a mention in strategic plans.

Human Capital

Effective human capital management is proving a major differentiator for some organizations. Results of the Deloitte & Touche Human Capital ROI Study, which set out to measure human capital practices and link them to corporate financial performance, suggest human capital practices may account for as much as 43 percent of the difference between a company's market-to-book value and its competitors'. And Aberdeen Group's 2004 Employee Performance Management Benchmark Report found 90 percent of respondents saw improved employee performance management as a key to gaining competitive advantage.

Aberdeen found that even though leaders in employee performance management enjoy a competitive advantage over their peers, while also gaining improvements in employee satisfaction and retention, 40 percent are not ready to evaluate performance beyond its demonstration at the departmental level, and 52 percent are locked into paper-based evaluations that are conducted yearly and rarely reviewed again.

When the Accounting for People Task Force instigated by UK Secretary of State Patricia Hewitt set out to explore the current capability of HR to report on human capital metrics and the capability needed to report in the future with 246 HR professionals and business leaders in the UK and Canada, it found 78 percent of managing directors acknowledged that human capital management was critical to the fundamental success of the business and that more than half believed measurement was key to the delivery of human capital management. Yet it also found HR professionals and business leaders simply were not focusing on the measures that count. "Today, metrics inform rather than drive strategy. Tomorrow, the metrics need to drive strategy. Our research concludes that human capital metrics and reporting need to align to the business strategy to be useful as a driver of business outcomes," the task force noted.

Managing directors want measures that are more strategic, primarily to enhance their ability to deliver customer satisfaction and operational effectiveness. Only 31 percent believe that the current HCM measures actually enable an evaluation against strategic objectives. Nevertheless, the majority believes that HCM has the potential to be critical to the fundamental success of the business.

High priority HCM measures executives want their organizations to report on in the future include leadership team capability, effective change programs, employee competency and motivation. Managing directors want HR professionals to give their top priority focus to strategic measures to drive the business as well as operational HCM metrics. Part of the current difficulty, as Deloitte found, is that most metrics look backwards at historical measures like headcount changes, hires and terminations and total compensation, rather than focusing on the HCM metrics that can inform strategic decisions and prove crucial to future success.

"Tomorrow, business leaders want to capture and focus on strategic measures that drive the business in addition to basic operational HCM metrics. Business leaders clearly understand the value of HCM metrics in managing people for performance. They want access to a broad range of people measures to help them assess current performance and support key decisions about the future of the business," Deloitte says.

"Both business leaders and HR professionals understand that they need to focus on different, more strategic metrics, if they are to realize the potential performance gains available from HCM information. The shift towards strategic HCM within this broad range of measures is dramatic. In the future, business leaders want internal reporting to reflect these changed priorities."

It also finds operational measures will remain relevant to managing directors in the future, but will fall down the reporting agenda relative to strategic measures. Business leaders will continue to see those metrics as important in the portfolio of information that HR professionals provide to them.

New Buzz on Skills

The latest buzz in HCM, according to Ed Cohen, chair of the Aviation Industry CBT (computer-based training) Committee (AICC) standards committee - one of the main standards bodies for learning management software (LMS) that ensures interoperability with legacy systems and new software installations - is around competency and skills management.

Competency management lets organizations track key skills, behaviours and knowledge needed to meet business goals throughout the enterprise. It lets organizations define competency models based on the organizations' objectives; map competencies to jobs, projects and groups within the organization; use industry-specific competency models via established competency content partners; and quickly identify employees with the skills needed for specialized projects and just as quickly identify and manage competency gaps and levels associated with the changing needs during mergers and acquisitions.

"We have an airline customer which has mechanics that work on the [Boeing] 737, the 747, all these different planes," Cohen says. "Traditionally you took a bunch of classes and you could work on a 747, but if you wanted to do something on a 737 you would take a bunch of different classes. And what's changing is they're saying that if you know how to perform this procedure, you have these skills and you've demonstrated it on a 747, you can do it on a 737."

Cohen says the US government is leading the way in competency and skills management, closely followed by major industries like pharmaceuticals, manufacturing and airlines. Growing numbers of Australian companies are also expressing keen interest.

He says the discipline can be crucial in helping organizations competing in the marketplace to maintain a competitive edge that can distinguish themselves from their competitors. Employees must have the ability to learn new skills quickly, acquire new product information and adapt to changing business environments. Competency management - already built into some off-the-shelf products - helps ensure they can, he says.

Biggest Expenditure

Today, experts say, organizations need to go beyond automating traditional HR processes. Even with investments in automation and operational efficiency, people remain the biggest cost for most organizations, says chairman and CEO of Plateau Systems, Paul Sparta. To further drive business performance, organizations must take a business operations-centric approach to managing people to increase workforce productivity and improve business performance.

Sparta, whose company provides learning and performance management systems, says an approach centred on business operations requires organizations to:

• Assess and track skills and capabilities across the enterprise.

• Develop capabilities based on job performance requirements.

• Manage individual performance by assessing employee skills, identifying future development opportunities and aligning results to organizational goals and performance metrics.

• Deliver just-in-time content directly to the operating workforce.

• Match people to the right jobs, at the right time, at the right place to maximize business results.

And enterprise-wide adoption is critical. "When you implement this technology, the wider you use it throughout your company, the more value you get out of the software," Cohen says. "If you do learning management for one little department then the number of employees that you can substitute for a position or cross-train is very limited, so a lot of companies that implement in one area see very little return on their investment. This whole technology's value comes when you open it up to the whole company and the smarter companies open it up to their vendors and their customers."

Recipe for Conflict

Unfortunately the issue of workforce management frequently turns IT and HR into adversaries, as the HR team lobbies for "user-friendly" against IT folks pushing "easy integration".

"It is not unusual for human resources, the IT department and corporate executives to have entirely different ideas about which system is best and what approach to take," Ed Newman, president and founder of The Newman Group, a US consulting firm, told the Workforce Management Web site last year.

HR tends to favour functionality, speed and performance, Newman said, while the IT department weighs compatibility, ease of integration and its ability to support the application. Other executives sit somewhere in the middle, arguing for efforts to leverage existing enterprise technology investments. Not surprisingly, cost and compatibility often win out as the organization ends up favouring the more basic functionality that comes with an enterprise resource planning module or human resources management systems over niche or "best of breed" solutions that tend to be seen as luxuries.

The end result is an organization that could compromise its ability to achieve recruiting success. "It is possible to wind up with different factions that do not understand the functional and strategic issues," says Tedd Long, managing consultant and director of human resources technology at US consulting firm Findley Davies. Ultimately, "a company can spend a lot of money and time putting an application in place that isn't right for its needs".

Smart CIOs, Cohen says, are asking questions about how the organization can exchange information between the HR system and the company's learning management system, for instance, and between those systems and the company's ERP system. "What the CIOs are looking for are things like Web services or service oriented architecture to let them integrate multiple applications and move data back and forth without the need for a custom-built interface, and without having to invest huge amounts of time on implementation.

"I typically find the CIO getting involved for a couple of different reasons," Cohen says. "First, during the selection process, they are very focused on the type of technology the system is using. If it is a smart CIO, it is because they want to be able to use the data from the system and combine it with data from other systems to draw conclusions about the business performance. They also want to know whether or not [the software is] scalable and what hardware it runs on. From the technology side, J2EE versus .Net is the biggest discussion."

Web-based technology is necessary to integrate applications and enable browser-based access any time, any place, from any Web device. The system also must have very robust role-based and domain-based restrictions to protect private employee and company information, but CIOs currently struggle to reconcile competing priorities.

"The ability to exchange data and to be able to define the rules for moving the data around are the single biggest things CIOs are concerned with right now," Cohen says.

"When you look at the market, anybody who delivers enterprise applications has essentially used J2EE - Siebel, Oracle, what used to be PeopleSoft - but then inside of companies the fastest, easiest way to link these applications together is the .Net framework. We're seeing more and more of that, and then the thing that ties them all together is this idea of Web services to extract data from one system and put it in another." (For more on the relative merits of J2EE and .Net, see "The Twain Shall Meet", below.)

With growing numbers of organizations looking to extend their HCM systems to partner organizations, scalability to support large numbers of users and transactions is just as crucial. But with a push on also to integrate learning management systems, Cohen says few CIOs pay sufficient attention to likely stressors in the system. HR systems are very simple, he says, with a typical system involving a limited number of administrators and transactions that can be done late at night. Learning technologies by contrast can host potentially thousands of concurrent users, putting pressure on both the corporate infrastructure and the individual application.

"And if it doesn't run it doesn't matter. If it can't scale it doesn't matter what the functionality is," he says.

"I will give you an example. American Red Cross uses our applications. They have two million students in their database but they actually have a very low concurrency level, meaning that many times there are only maybe a thousand people using it simultaneously. We have other customers who have maybe only 100,000 students in their database but then have a very high concurrency, like 8000 out of 100,000 people using it simultaneously.

"One of the nice things about J2EE is that you can compensate for that with hardware: you know scaling just the storage or scaling concurrency," Cohen says.

A highly adaptable technology architecture is required to allow tailoring to an organization's specific business operations, and it should be easy to configure changes to workflow and rules-based approvals. The data model should be designed to support the type of skills, competency and job history information most relevant to a specific organization.

CIOs should also consider the user experience to ensure widespread end-user adoption. Ideally the user interface will be readily personalized and branded to support the unique requirements of different business units and workgroups. Application components must be easily deployed within other portals so that relevant capabilities can be embedded wherever needed.

Difficulty of customization is one of the largest implementation risks, so a highly configurable framework is a must to ensure that code changes are minimized as customer-specific capabilities are deployed. This maintains a productive implementation schedule and ensures smooth upgrades to future software versions.

Cohen says CIOs are also expressing a great deal of concern over the issues of standards. "When we do a demonstration we spend a good hour on education on what the standards mean and which ones actually help you and which ones see you just paying extra for to have this pretty little label, you know: the certification. It's important not to get hung up on requiring a standard when it's not something that actually benefits the company."

Plateau Systems' Sparta says the biggest drivers to long-term customer loyalty and satisfaction are vendor implementation and support, as well as the ease with which software can be upgraded over time. "Most companies also spend two to three times the cost of the initial software for implementation. Therefore, a detailed review of vendors' professional services is a critical part of the selection decision. Checking a vendor's track record of technical support and overall support responsiveness is critical to ensure long-term satisfaction and success.

"Ask vendors what percentage of their software is customized on average. What percentage of their customer base is on the most current architecture and release? The ability to adapt software to meet specific needs without modifying the application or database enables the smooth upgrade of software over time. This is a critical success factor to realizing the long-term value from software investments," Sparta says.

"Are end users reaping the highest value from software investments? Learning and performance management solutions can substantially increase workforce productivity. Therefore, it is critical to make sure that software functionality meets business requirements."

Sparta says CIOs must never underestimate the importance of choosing proven technology that is designed to scale and adapt to changing needs over time. Most importantly, check vendor services and support to make sure business objectives will be fully realized, he says. The biggest predictor of future success is historical experience and track record.

SIDEBAR: Strategic HR Metrics a Must

The International Association for Human Resource Information Management recently surveyed its members about the impact and changes related to workforce performance management.

The study confirms HR initiatives must be tied to business results (such as increased sales, reduced customer churn, higher productivity and improved quality) to be valuable to the organization.

However, it found lack of process and systems integration were posing obstacles to effective human capital management (HCM), with most respondents admitting that process and systems integration are somewhat or very limited, leaving HR unable to tie together data or provide executive access to information. They also said data silos were impeding efforts to integrate investments in workers with business performance or to illustrate a meaningful ROI on HCM programs.

Most survey respondents believe HCM will make a difference to the top line. However, HR must identify and solve its business "pain", not just increase workforce performance. HR results must support business outcomes, and use metrics and measures to reach the top executives.

SIDEBAR: The Twain Shall Meet

Large application vendors prefer J2EE but users go for .Net

Afew years ago, a heated debate raged over the benefits of two competing technologies: .Net versus J2EE, Ed Cohen, chair of the Aviation Industry CBT (computer-based training) Committee (AICC) standards committee, says. Microsoft advocates affirmed that .Net was superior, and likewise Java enthusiasts asserted similar observations about J2EE. As it turns out, both camps were at least partially correct.

The progression has been interesting to watch: both technologies have carved out niches on either side of the corporate firewall. For example, the large enterprise software makers - especially the major ERP vendors such as Oracle, PeopleSoft and SAP - have developed business software applications almost exclusively based on J2EE. However, a quick glimpse behind the firewall shows that application customers are selecting .Net as the internal development tool of choice.

Cohen says although each technology has a set of strengths and weaknesses, the advent of Web services has changed the paradigm because it facilitates communication between the two technologies. What's more, from the enterprise perspective J2EE and .Net are beginning to look less and less like competitive technologies and more like complementary languages working hand in hand.

He says Microsoft's decision to support so many different developing environments to ensure that all are capable of producing .Net code was nothing short of brilliant. For many companies and customers of enterprise applications, this event was the single most compelling reason to transition towards a .Net environment for internal development.

"Microsoft's support enabled enterprises to leverage the existing expertise of programmers with skill sets in languages such as Visual C++ and Visual Basic because these programmers could immediately begin producing applications in .Net. To add to the benefits, Microsoft provided tools and guidelines for taking the entire legacy client/server and desktop applications and porting them to Web-based environments," Cohen says.

"As with many choices in technology, advantages gained generally also come with drawbacks. The adaptation of .Net technology comes with dependencies on platforms, browsers and licences from Microsoft. This fact has been the impetus for application developers to use J2EE more often than not."

Productivity vs Flexibility

What a developer gains in productivity from .Net is lost in flexibility, and the businesses that develop enterprise applications have taken note. Although Java in a J2EE design is a considerably more difficult environment in which to program, once built, the flexibility of the application deployment and the scalability of a J2EE architecture far outweighs the additional development costs.

To put it another way, Cohen says, in order to develop and sell an enterprise application to the widest possible customer base, the application must run on any hardware platform, with any operating systems and without licensing fees. This must include everything from the smallest handheld device to the largest cluster of servers. To this end, there is one choice: J2EE.

So why are these two technologies becoming complementary? The most overlooked component contributing to this trend is the unprecedented willingness of Microsoft and Sun Microsystems to agree to work together on a common standard for Web services. This now allows enterprise application customers - many of whom have already made substantial investments in one technology or another - to easily use both J2EE and .Net. Traditionally, the only choice for enabling various applications, built within these separate environments, to communicate was with extensive - if not expensive - custom development.

While some might argue that Web services is not the best possible solution for every interface, the fact that users now have a convenient method for exchanging data between enterprise applications developed in different technologies cannot be overlooked. For example, with Web services a major ERP application developed in J2EE now has the capacity to communicate with a Web portal developed in .Net.

SIDEBAR: Back and Forth Bonuses

An employee self-service portal makes planning and tracking executive pay easier at Optus

At performance review time, Optus's HR department used to send out spreadsheets where managers were required to detail the bonus payments they wished to allocate to their staff. All data was then imported into a Filemaker database to enable HR to consolidate the data across the organization to allow comparisons of total allocated payments against budget. "This is where it got tricky, especially if payments exceeded budget," says Optus national manager for Remuneration, Benefits and Payroll Andy Payne. "Typically, there was a lot of back and forth adjustments or negotiation for extra funds." It used to take two to three weeks to consolidate the data and ensure allocated payments were within budget.

Now Optus has expanded its EmployeeConnect employee self-service portal solution by creating an online tool for use by managers to allocate incentives and review remuneration. The new implementation has won high user acceptance, and the praise of the HR department. "What used to take us two to three weeks to consolidate, now takes minimal resource to get right," Payne says.

The reviewing managers know their budget and work within it to allocate incentives. Consolidation occurs automatically, saving time and providing data integrity.

Better still, the new EmployeeConnect solution also allows employees to nominate, online, how they receive their incentives. They can choose to be paid in shares, cash, super or a combination. The system also gives employees confidence their nomination has actually been processed.

Source: CIO Magazine http://www.cio.com.au/index.php/id;164775018;fp;;fpid;;pf;1