

## TOOLS AND RESOURCES FOR FINANCIAL EXECUTIVES

### Precious Resources

**Technology is already reshaping the human-resources function, mostly through cost-cutting. Some say it can do more.**

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"People are our most important asset." How many times have you heard that? More important, how many times, upon hearing it, have you nodded politely and then changed the subject to something more, ah, important?

Human resources receives far more lip service than respect, but it may be about to get its due. Web-based technologies, the sour economy, and other factors are making HR the subject of some truly substantive executive discussions — and expenditures. To date, much of the activity has centered on automating administrative duties, mostly such mundane activities as handling pay, benefits, and retirement plans. These systems have dramatically reduced HR costs — for some processes by as much as 80 percent. They also offer solid ROIs that can keep even the sternest CFO smiling.

But a new generation of HR automation, sometimes going under the umbrella of E-HR, wants to transform HR from a lowly cost center to a strategic, mission-critical part of the business. "It's time to treat your human capital as an asset class," says Paul Schaut, president and CEO of Performaworks, in Burlington, Massachusetts, one of this new breed of HR-software vendors. "Executives of large organizations talk about people as their most important assets. It's time to live up to that statement."

While much of the current activity in HR automation is driven by a wish to cut costs, some financial executives say there's more to it than that. "We look at ROI, but sometimes it may make sense to simply break even for the intangible, soft benefits," says Renée Hornbaker, CFO and a vice president of Irving, Texas-based Flowserve, a \$2 billion producer of industrial pumps, valves, and seals that is constructing an advanced E-HR system.

If that sounds more like a nice-to-have than a need-to-have, consider several trends that will make HR the subject of more executive scrutiny. Demographic changes loom large: the oldest of the baby boomers will begin to retire en masse in just 8 years, leading to a decided graying of the workforce. Over the next 17 years, the number of U.S. workers age 55 or older will grow by about 80 percent, to more than 33 million, says the Bureau of Labor Statistics. And the ailing stock market could keep older people working longer; a recent Gallup poll found that nearly half of all working adults plan to delay retirement because of declines in the value of their 401(k) and other stock-related retirement plans.

#### **A Changing Workforce**

Also factor in fundamental changes to the ways people work and, as a result, the ways in which companies administer HR. Among these shifts are the emergence of far-flung "virtual" teams; the growing number of people who work from home; the increased use of consultants, contractors, part-timers, temps, and other nonsalaried workers; all those wireless road warriors taking up the best seats in your local airport lounge; and the emergence of what Diane Morello, a vice president and

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research director at Gartner, calls deployees — people who work in multiple roles on multiple projects with multiple teams. In fact, Morello reports, more than 90 percent of attendees at a recent Gartner event say they spend more than half their time on collaborative work. "However," she says, "evaluation and compensation programs are woefully behind in reflecting the changing work patterns."

The bottom line: human-capital management (HCM) is one facet of E-HR that demands senior-level attention now.

### In With The New

HCM has certainly caught the attention of IT companies. Vendors are rushing in, both the traditional enterprise players — including PeopleSoft, SAP, Oracle, and IBM — and the so-called best-of-breed vendors that offer applications for specific HR functions. This latter group includes Authoria, Employease, Performaworks, Recruitsoft, Workscape, and many other small and midsize companies, most of which got their start by targeting specific HR needs, everything from performance management to recruitment to training to compensation. Some, including Softscape, in Wayland, Massachusetts, are taking the next step and offering "strategic HR suites" — systems that take data on employee-performance goals and link it to systems for compensation as an automated way to link performance with pay raises. "There's a lot going on, and a lot of different approaches to getting the work done," says Ron Hanscome, a senior program director at Meta Group.

All that has led to a growing market, an anomaly in the otherwise dismal IT scene. According to market-analysis firm International Data Corp. (IDC), the total North American market for HR-management and payroll applications software grew by 5.1 percent last year, to \$1.92 billion. Those sales will continue to grow at least through 2006, IDC forecasts, when they'll hit \$2.34 billion. While that's not a huge market — by comparison, IDC predicts the 2007 worldwide market for IT services will be nearly \$500 billion — the positive growth rate remains a rare thing of beauty.

Neither automation nor outsourcing is new, of course; payroll processing represents most companies' exposure to both, meaning that HR is something of an IT pioneer. What makes E-HR a potentially huge leap forward is the way in which the Web allows companies to offer self-service HR applications. By overlaying a Web interface on legacy applications, companies can automate a huge number of very manually intensive processes, thus paving the way for a change in the very nature of HR.

An increasingly vocal chorus within the industry is calling for the boring old HR department to be updated into a shiny, strategic function that helps companies achieve their most-vital missions. Given that employees are expensive (according to data from the Saratoga Institute, people costs — compensation, benefits, and HR itself — represent 43 percent of the average corporation's total operating expenses) and difficult to manage efficiently (PeopleSoft claims that a corporation with annual sales of \$10 billion is likely wasting \$231 million a year on HR processes, which can run the gamut from excessive recruiting fees to overpaid benefits), the time seems ripe for change.

Some say it's already starting to happen. "In the last 18 months, we've seen a real evolution from HR as an administrative, back-office responsibility to a role that can affect enterprise performance," says Mark Lange, a vice president of global product marketing at PeopleSoft.

A recent white paper from Cedar eWorkplace Research Group shows that self-service applications reduce HR costs by anywhere from 44 percent to 80 percent, depending on the application. In 2000, General Motors launched a Web-based employee portal that has helped reduce the company's costs by millions of dollars, according to Kathleen Barclay, the company's vice president of global HR.

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The GM system, known as mySocrates for its ability to impart information, was built around software supplied by Workscape. Barclay calls it a "big-bang step" in the company's HR strategy. "Not that many years ago, we spent a lot of time on very necessary tasks that we do address today, but in a different way," she says, pointing to such things as payroll, benefits administration, and answering policy questions. "Technology is a big lever for these," she says.

Big indeed. Automating just one small task — how employees update their emergency-contact information in their file — now saves GM nearly \$150,000 a year, says Barclay. Automating a slightly larger task — how managers authorize subordinates' pay raises — saves an estimated \$650,000 a year. Moving technical training for GM's dealers from classrooms to satellite-fed monitors in the dealers' own service bays has cut the cost of supplying the training from \$89 per student hour to just \$38. Last year, GM provided more than 1 million hours of training this way, saving \$50 million.

### Costly Catch-Up

The original concept for mySocrates sprang from an interdisciplinary committee with representatives from GM's finance, IT, HR, manufacturing, product-development, and engineering departments. When the committee was able to show the Automotive Strategy Board how the system would support a broader HR, the project was approved.

E-HR also has a role in melding once-disparate workforces into a cohesive unit. Financial-services giant Wells Fargo installed what it calls its Ask HR system following its 1999 merger with Norwest. The system is one part standardization on PeopleSoft's payroll and HR applications and one part employee self-service, using Authoria software. Building the system, converting the files, and getting all 130,000 employees to reenroll was a "ton of work," says Carol Johnson, HR technology manager with Wells Fargo.

Yet it was so successful that the original plan — provide service-center representatives with Web access to key HR information — was expanded so that all employees now have access to benefits and payroll files. That lets the company do things it could not do before, at least not easily. For example, a Life Events database tells employees who are expecting a child how to get a Social Security number for their newborn. Another page, called Personal Profile, contains secured information on employees' jobs, payroll, and benefits, so they can check to see whether they got that extra week of vacation.

Another major E-HR driver is underinvestment in any form of HR. Take PSS/World Medical, a medical supplies and equipment distributor in Jacksonville, Florida. The company, founded in 1983, grew its sales from just \$30 million in 1989 to roughly \$1.2 billion today. Impressive, but not without a downside. HR remained a paper-based department, one so muddled that it was a "complete nightmare," says Jeff Anthony, who oversees HR as the company's senior vice president of corporate development.

"It would take us 6 to 7 weeks to get employees the benefits-enrollment forms and information, and another 8 to 10 [weeks] to clean up what they passed in." An internal audit revealed that PSS/World Medical had overpaid more than \$180,000 in administrative fees to a medical insurer because it listed the wrong number of employees. In another snafu, some employees were receiving their paychecks days, or even weeks, late. One year, the company paid out approximately \$600,000 in unused vacation time to departing employees because it lacked a system to track that information.

One result of this accounting chaos: nearly half of PSS/World Medical's employees were quitting every year. That was bad enough, but each time the company replaced one of those employees, 20 new

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pieces of paperwork had to be generated. Anthony estimates that his company was generating nearly 60,000 pieces of HR paperwork a year.

He was tapped to fix the mess, and saw automation as the way to go. With a thumbs-up from then-CFO David Smith (today the firm's CEO) and the executive committee, Anthony brought in software vendor Employease, and by September 2001, a new system was in place. Now paychecks roll out on time, enrollments proceed smoothly with the use of self-service technology (during a recent benefits-enrollment drive, the company's roughly 3,100 employees made fewer than 30 errors in total), and employee turnover has shrunk to just 8 percent.

### Expectations Gap

Despite numerous successes and rosy predictions of growth, however, E-HR is not without problems. For one, getting these systems installed and working can be complicated, time-consuming, and expensive. Most of the deployments cited here, while having originated from one to three years ago, are still under way — although in fairness, this is often because their value in one area has prompted companies to extend them.

One issue is that any new HR software system has to work with current hardware and software, and despite claims of easy integration, such is not often the case. Even assuming that everything has been installed correctly and is working properly, there can be unforeseen performance issues. "If you send an E-mail to your 20,000 employees telling them to now go to this Web site and review their benefits programs — well, if they all go immediately, it could be pretty slow or even go down," says Steve Fein, director of HR delivery services at management consultants Towers Perrin in Stamford, Connecticut.

These and other risks are not well understood, according to a survey conducted by Towers Perrin. There's a disturbing gap between what executives expect from HR systems and what they actually receive. For example, while more than 95 percent of executives surveyed believe E-HR can improve the quality and timeliness of service to employees, only 70 percent report actually receiving this benefit. Another key benefit, the ability to improve overall organizational efficiency, is expected by more than 95 percent of those surveyed but was actually reported by only 67 percent.

Yet even with these problems, perhaps one of the most powerful benefits of E-HR is the way it can restore the human touch to some of the country's largest corporations. Referring to the mySocrates system, GM's Barclay says, "You can't underestimate the power of what a tool like this does for making a large company feel small." Those who have rolled out Web-based systems say that their acceptance is immediate. Far from feeling fobbed off on a computer system, employees feel they've been given something substantive and responsive, two characteristics rarely ascribed to employee handbooks. For example, GM is now working on a "what-if" calculator that will let employees figure out how much they would get in retirement pay if they retired at various ages or adjusted other variables such as investment choices.

Barclay says a multifunction system such as mySocrates provides a strong base on which to add new features. "Our goals were to be common and consistent, so that all our employees can not only transact their personal business but also access information about their workplace, get tools and information about business processes, and use it for education, too. That was the master plan."

That broad approach to E-HR does not lend itself to the slam-dunk ROI analysis that a more limited

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system might. "Initially, when you're looking at individual productivity, it's very, very difficult to put a business case to it," says Barclay. "We could cite which applications would save money, but there's a bit of a leap of faith in there. Now that we have had two years of experience, we can determine what it's saving us."

Barclay won't divulge a figure, but it's safe to say that GM expects its commitment to show up on the bottom line.

Peter Krass is the president and founder of Petros Consulting and a former senior editor at *Inc.*, *InformationWeek*, and *Planet IT*.

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### What Are Your People Worth?

For most companies, employee costs are the single largest expense. Yet precious few CFOs can define human capital, let alone put a price tag on it. So first, what is human capital? Human-resources professionals define it as the combined skills, knowledge, and experience of an organization's employees.

What's it worth? Few know. In fact, in a recent survey conducted by CFO Research Services, financial executives were asked whether they know the return on their organizations' investments in human capital, and only 16 percent said they did to a considerable or great extent. Not good. In response, vendors, consultants, and financial and HR executives are focusing on the burgeoning field of human-capital management (HCM). The central tenet of HCM is that companies must stop thinking of employees as an administrative cost and instead see them for what they are: a strategic investment. That should affect how the HR function is perceived, yet according to the survey, only 11 percent of CFOs today see HR as primarily strategic.

Investment in HR technology also drew a less-than-enthusiastic response. Fewer than half said they were largely or highly satisfied with their ability to track employee turnover. When financial executives were asked how well their systems facilitate systematic workforce planning, only 15 percent said they were largely or highly satisfied. When asked about HR systems' ability to measure employee skill levels, the satisfaction rating fell to 11 percent, and for the task of assessing a return on human-capital investments, the rating was just 8 percent.

Is HR prime ground for simple forms of automation but immune to more-profound changes that might elevate its status? Software vendor Recruitsoft thinks not. The company has compiled a list of the top trends and practices for HCM automation. Among its top drivers: the prevalence of project-based workgroups, which create demand for a new breed of HR systems that can keep up with the freewheeling, now-you-see-'em-now-you-don't nature of such groups.

Diane Morello, a vice president and research director at Gartner, says, "We're now in pursuit of 'versatilists' rather than generalists or specialists." Dave Watkins, co-founder of Softscape, adds that HCM provides a way to "measure, manage, and optimize employee performance" and make sure employees are aligned with business objectives.

Will that create opportunities for HR and the systems that serve it? Given the momentum behind other forms of E-HR, the more-esoteric realm of HCM may yet produce satisfied customers.

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<b>The Lower Cost of Self-Service</b>			
Business Process/Task	Manual Cost	Self-Service Cost	Savings
Enroll in benefits	\$109.48	\$21.79	80%
Change contact info	\$12.86	\$3.39	74%
Enroll in training	\$17.77	\$4.87	73%
Approve a promotion	\$48.64	\$18.26	71%
Create job requisition	\$36.89	\$11.11	70%
Change salary	\$44.67	\$18.26	59%
Apply for a job	\$21.31	\$11.85	44%



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