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Business Simplification in Human Resources: New Tools for Managing Today's Workforce



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Human resources departments manage a company's most precious resource — employees — and yet many still use outdated systems that introduce inefficiencies. As companies grow, merge, restructure or enter new markets, the need for business simplification is more urgent than ever, especially in HR. Data analytics can help a company make the right hires, recognize talent and find ways to develop and retain promising workers.

Running a business in today's global economy is becoming increasingly complex. Companies merge, reorganize and venture into new markets. Employees, too, are moving around more. And the nature of jobs themselves is changing, with existing positions becoming more tech-focused and new roles being created, such as data scientist or iOS developer. As companies change, it is imperative that their systems keep up with the transformation. Nowhere is this more critical than in human resources.

Experts from Wharton and SAP offer their views on the procedural and technological challenges for today's HR departments in this white paper, which is based in part on their joint survey: "Simplifying the Future of Work Survey."

The survey shows that HR leaders are beginning to recognize that it is critical to update and simplify processes and decision-making within their departments and in the business overall. Slightly over half of

HR leaders and practitioners surveyed believed that their organization's senior leaders considered business simplification of significant strategic importance. This number climbed even higher — to 71% — when they were asked whether they thought their senior leaders considered simplification of significant strategic importance for the future.

And 72% of the HR professionals in the Knowledge@Wharton-SAP survey also felt that unnecessary levels of process or decision-making complexity were inhibiting their businesses' ability to achieve their goals. Complexity in technology, too, was seen as a roadblock by 56% of respondents.

According to the survey, much progress remains to be made. Only 29% of HR leaders said that the day-to-day actions of their senior leaders were "strongly aligned" with business simplification goals. Interestingly, the HR leaders did not fare much better when asked to assess their own departments. Only

"People cost so much that you can't afford to manage them poorly."

— Steve Hunt

a slightly larger percentage — 32% — felt the same statement was true of the day-to-day actions of their immediate teams.

New Demands, But Old Processes

David Ludlow, group vice president of solution management at SAP, is not surprised by these statistics. He notes that HR departments are often saddled with outdated systems and the processes and policies that they follow “often are reflective of things that were done 40 or 50 years ago.” This presents a major challenge, of course, to achieving business simplification.

Ludlow explains that today’s fast pace of change requires a system to be much more agile than it was, for example, in the 1980s or 1990s. He describes a now-common scenario in which an HR professional has to quickly integrate a newly acquired company: “I’m going to have to merge company codes, put employees from the acquired firm into existing codes.” Also, the way the company does legal reporting from an HR and financial perspective will change too. The dynamism of business operations today is driving the need to simplify: “These old complex HR systems ... were designed for an era when things were more [constant].”

Ludlow identifies some reasons why many HR divisions retain outdated processes. For one thing, businesses classify HR as a cost center, not a profit center. As such, it has not historically been viewed as a strategic contributor to the business, but rather as focused on back-end and administrative activities. Thus, HR departments have found it difficult to win attention from IT departments or to get them to invest in systems that support streamlined HR service delivery.

Another reason that HR typically has outmoded processes is that the field does not have standardized procedures like some other functions do. “Finance, for example, is heavily governed by accounting standards. There is a certain way to do things,” Ludlow says. “So it’s been a little bit of the Wild West in how HR sets up their processes.”

Some HR departments have tried to modernize in the past few years by purchasing one-off software packages for perceived needs such as performance management or leadership development. But while this may have served as a quick fix, says Ludlow, it ultimately caused greater complexity and inefficiencies: “Now I have to configure my master data in every single system; I’m moving a bunch of employee data back and forth ... and reporting tends to get isolated as well. So I really don’t have one view of the truth.” Having multiple databases also creates a greater risk for error, and leads to increased expenses because of the time and personnel needed to maintain them.

Administrative inefficiencies abound. Ludlow recounts one example: “I’ve seen situations where companies literally have hundreds of absence codes. So I want to take a vacation: Well, I’ve got an absence code for that in the U.S., and one in Canada, and one in Germany, and in Singapore, Australia, South Africa and wherever. Does every country need its own interpretation of what a leave is? This is where some simplification can occur.”

Another example: workflows hampered by unnecessary approval steps. In a hiring situation, 10 steps might be required where only two are really needed. While this legacy approval process crawls along, valuable job candidates could be lost to competitors, Ludlow points out.

“Often, HR is flying blind. They don’t have access to data. They’re making assumptions about the workforce that are out of date or were never correct.”

— Mick Collins

Steve Hunt, senior vice president of customer value at SuccessFactors, an SAP company, describes the value of simplification for succession management. Many companies have traditionally considered succession planning only once a year, manually gathering information on all their high-potential leaders into three-ring binders or PowerPoint presentations. “Our customers would tell us they used to have a full-time person [spend] over four weeks just pulling those tools together,” Hunt says.

With updated technology, HR professionals report being able to complete the same task in less than a day, and have reaped the administrative savings. Moreover, because the process became easier, customers began to perform talent reviews more frequently, helping their company achieve reduced turnover and increased internal promotions.

Unnecessarily complicated coding, workflow, and other procedures eat up time that HR personnel could be spending on more strategic projects — such as better recruiting, corporate learning programs, or talent development — that truly contribute to the business outcome. The Wharton and SAP experts agree that new technologies can help remedy the situation.

“The big challenge remains getting one dataset to match up with another dataset,” notes Peter Cappelli, a Wharton management professor and director of Wharton’s Center for Human Resources. Mick Collins, vice president of workforce analytics and planning at SuccessFactors, says many organizations find it challenging to make their data ready for analysis, but that “the technology that exists today can help manage very large, complex datasets.”

Spotlight on HR

Although HR’s role in the business may not have been highlighted in the past — and the group’s technology needs may have gotten inadequate attention — that is changing. Today, there is a new focus on the value that a strong, modernized HR department can deliver, according to Ludlow. As the world economy has shifted from manufacturing-based industries to more service-based industries, the importance of HR is being revisited because the knowledge that resides in employees has become a key competitive advantage. This holds true even in manufacturing, to some extent.

“What makes the world economy hum today is the intimate knowledge of the processes, of the customers, the products, and the mind power that goes into creating all that value and differentiation for the organization as they compete,” Ludlow explains.

Hunt agrees, adding that this global shift often has divided the workforce into two kinds of jobs: very complicated and skilled, and very unskilled. He also notes that more skilled employees, besides being the drivers of today’s business, are expensive. For most companies, employees constitute more than 50% and even up to 80% of operating costs. This fact, too, raises the profile of HR divisions since they bear the responsibility of recruiting and retaining talent. “People cost so much that you can’t afford to manage them poorly,” Hunt says. “Over the last 25 years, we had a lot of bad management because companies could get away with it. And that’s changing.”

Many HR professionals are looking to simplification to help support their business’s new expectations and to spur the employee

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— Cade Massey

behavior changes their company requires for success. The survey found that 62% of HR professionals believe that driving simplification improves productivity and performance across all lines of business.

“Often, HR is flying blind. They don’t have access to data. They’re making assumptions about the workforce that are out of date or were never correct,” says Collins. He notes that simplification can provide HR with needed visibility into today’s workforce — “what kind of people are we employing, are they successful, and what makes them successful.”

The Promise of Data Analytics

In addition to streamlining important administrative processes such as payroll, benefits, and the like, analytics are increasingly being applied in more strategic areas such as recruiting, retention, performance evaluation, and talent development.

In fact, in the survey results, when HR professionals were asked which capabilities were “must-have” in order to develop and retain business leaders within their organization, they ranked having more effective talent management and performance tools as number one. Obtaining deeper insights through analytics to assess the effect of leadership also ranked high on the list. To support these capabilities, HR departments need simplified instruments and reliable, easy-to-access archives so that employees’ performance can be accurately tracked, measured and assessed.

Cade Massey, professor of operations and information management at Wharton, agrees that HR divisions would do well to pay

attention to people analytics, a data-driven approach to managing people at work. He explains that the aim of people analytics is to “improve decision-making about employees — every phase of employee life — through more use of evidence as well as analytics, as opposed to just intuitive judgment.”

But what is wrong with intuition? “We know from decades of psychological research that people are biased in systematic ways in all kinds of decision-making,” says Massey. Many of those biases get applied in employee-related decision-making too, and as a result, “organizations make sub-optimal decisions all the time in one of their most important domains: what to do with their people.”

Massey notes, as an example of applying analytics to hiring decisions, that he is currently consulting for NFL teams about their draft. Some teams are tracking their forecasts about college players. “[We’re saying] let’s capture the data around our judgments and see how it compares to what actually happens down the road, two years, three years, four years.” Having simplified, reliable systems are important for this type of effort.

Cappelli agrees that people analytics can help companies make better recruitment decisions. He notes, “right now, HR seems to have pushed most of the hiring decisions onto line managers, who are likely to just hire based on their gut feel.” And “gut feel” unfortunately translates to “according to their most powerful biases.” He adds that a sensible assessment would be to discover, through analytics, what qualities or factors about past candidates predict their success. This would help avert hiring mistakes.

The return on investment of a good UX ranges from \$2 to \$100 for every \$1 invested.

Development is another area that Cappelli feels would benefit from greater use of analytics. “In terms of development, the big challenge right now concerns career moves inside companies. Where will [a particular] job lead? Data from prior moves would tell you.”

Massey observes that one of the most common places that HR divisions are currently applying data analysis is in retention. “People know that turnover is costly,” he observes. A 2015 SuccessFactors white paper shows that turnovers can cost a mid-sized to large company millions of dollars in hiring and onboarding expenses and lost productivity. “Just the cost of losing a single key critical technical person could be devastating,” Hunt says. “Imagine the financial damage created if a lead software architect quits in the middle of developing a new core product, or if your top sales professional quits to join your competitor?” Massey adds that “companies are very interested in better understanding what leads employees to leave: Can we predict that? Can we intervene?”

Hunt and Ludlow note that simplifying HR technologies can have a big impact on retention in several ways. If the hiring process is improved, then hiring the right employees in the first place will make it more likely they will stay. If performance evaluations and goal-setting are made more effective and meaningful, this will contribute to employee satisfaction and retention. Even something as administratively based as not making errors in a paycheck will lead to greater retention. According to Ludlow, studies have shown that paycheck errors, especially among hourly employees, are a major contributor to turnover.

“Simplifying even small things can have a big impact on employee satisfaction. Some

of the most frustrating bureaucratic tasks are often some of the seemingly most trivial, such as entering expense reports. But these can have a major impact on satisfaction because employees get frustrated having to do them over and over again,” Hunt notes. “In addition, it’s a waste of employee time and as they say, time is money especially if you are talking about highly skilled employees.

Overall, says Massey, the use of more analytics in HR translates to “can we muster more evidence for our decision-making?” One way firms can do that is by bringing upgraded technology into their processes. New systems are available that can even help managers whose strength is not necessarily in analytics — or whose workload precludes doing deep analysis — better interpret trends in their workforce.

Collins gives the example of systems that can provide simple summary messages along with the data: “Overall turnover of your group is climbing slightly,” “Your group is losing high-potential employees,” or “See who else is at risk.” He points out the advantage of these types of reports over the unwieldy Excel files a manager might have received in the past — key takeaways are quickly delivered in an actionable form.

Do Analytics Trump Intuition?

Is the use of data analytics to make HR decisions “dehumanizing?” After all, HR is not like finance or marketing. It may be a concern to think about relying on technological systems for things like hiring, terminations, evaluations, promotions, and leadership development. But Hunt says the technology is not there to replace human input, but to support and enhance it. “What our technology does for the most part is it takes concepts we’ve known for a long time

and puts that information into the hands of managers in a way that they can use," he says.

Many people do have doubts about applying analytics to people, says Massey. But, he notes: "I would flip that argument around and say if you're making bad decisions, or decisions based on a wrong understanding of the world, then you're ultimately hurting employees."

The key, Hunt emphasizes, is to use the technology effectively. He jokes that you cannot be like those people who follow GPS devices so unquestioningly that they end up driving into the ocean. "There's a right way to use it." Massey adds: "One of the great challenges — and opportunities — in this space is, how do you blend quantitative analysis with subjective opinion so that we can take advantage of both?"

The Way Forward

What steps should HR professionals take to move forward and simplify their processes? Increasingly, HR divisions are realizing that going to the cloud is the future, says Ludlow. Not only does it provide cost savings and free up scarce resources, it gives them access to the latest innovations because of the ability to do faster, and regular systems upgrades. But many HR departments are not certain where to begin making changes.

To start, HR should first strive to better understand the business challenges, goals and strategies. From that base, it should formulate strategies to achieve these imperatives, determine factors needed to succeed and identify impediments to the goals. These factors could be quantified as

metrics. The next step is to map each factor to the talent management applications that contain relevant data for analysis. This would help HR identify and prioritize the processes and applications it needs to add or upgrade.

Ludlow recommends that they evaluate their current situation, because every case will be different. A customer might realize that their biggest pain point, for example, is having old on-premise core HR systems that they "haven't touched in 15 years" and that reflect antiquated business practices. Or perhaps they have been maintaining their systems fairly effectively, and the bigger pain point is that the company does not recruit very well. "Or, I don't onboard my employees very well and it is leading to negative employee satisfaction," he says.

Another path might be to start with a revamped performance management process, in a case where employees do not have sufficient line of sight into what they are doing, and managers have a difficult time assessing their performance and potential.

"It does require organizations to take a hard look at where they are ... an honest look in the mirror," says Ludlow. "And it requires the input and advice of experts to define what simplicity might mean for them, and what is the journey to get there."

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