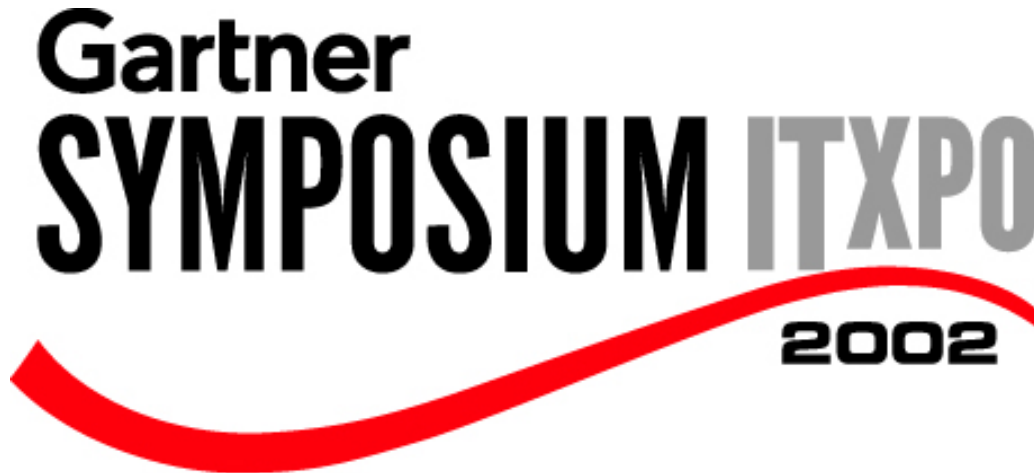

HCM, ERM and B2E Scenario: Strategic Workforce Management



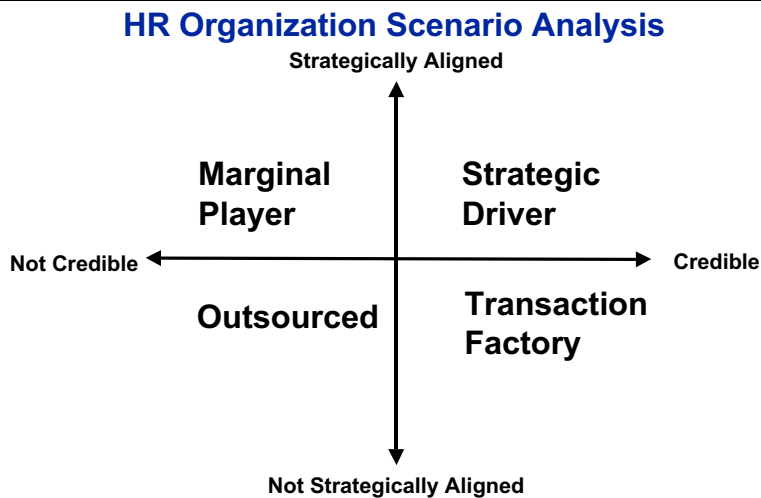
U.S. Symposium/ITxpo

Jim Holincheck

6–11 October 2002
Walt Disney World
Orlando, Florida

Strategic Planning Assumption: By 2007, HR organizations will drive strategic workforce management in only 30 percent of enterprises. This will result in line management taking a much more active role in human capital management (0.7 probability).

Strategic Workforce Management



By 2007, HR organizations will drive strategic workforce management in only 30 percent of enterprises. This will result in line management taking a much more active role in human capital management (0.7 probability).

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There are two main factors driving HR's role in strategic workforce management: its alignment to business strategy and its credibility. An HR organization is aligned with business strategy when its strategies are based on supporting business strategy and its success metrics are aligned with corporate metrics. An HR organization is credible if it can run its own operations efficiently (process transactions cost-effectively). In addition, HR has credibility when it has proved it can "deliver" on cross-functional projects. HR organizations with strong alignment to business strategy and credibility will be able to drive strategic workforce management. HR organizations that are credible, but not well-aligned with business strategy, will become transaction factories. They will focus on processing HR business transactions as cost-effectively as possible. In this scenario, line managers will drive strategic workforce management. If the HR organization is well-aligned with business strategy, but lacks credibility in execution, it will be a marginal player in strategic workforce management. HR will have a seat in the car, but it will not drive strategic workforce management. Again, line managers will drive strategic workforce management. If HR is not credible and not aligned, it will be outsourced. In this case, HR is providing little value to the organization. In this scenario, business process outsourcers (BPOs) will become the transaction factory and line managers will drive strategic workforce management.

Strategic Workforce Management Key Issues

- Which workforce trends will most influence your enterprise's HR practice in the next five years?
- How will your enterprise harness and optimize the knowledge and capabilities of its employees?
- How will technology strategy support the shift from HR to HCM, ERM and B2E?



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Enterprises must rethink the fundamental design of the enterprise HR practice. Radical changes in the workforce and a war for talent is forcing a shift to more employee-centric and strategy-focused services. This new thinking is embodied in three concepts: human capital management (HCM), business-to-employee (B2E) and employee relationship management (ERM).

HCM is the broadest of these terms. HCM is the overall management of people as key resources of the enterprise and includes three focus areas: workforce acquisition, workforce management, workforce optimization. HCM is enterprisewide in scope and reach.

B2E is the use and leverage of e-business approaches and Internet technologies to deliver two of these HCM focus areas: workforce management and workforce optimization. B2E is the delivery of a comprehensive set of enabling services to an enterprise's employees and managers to support management and optimization of their relationships and work.

ERM is also frequently used in discussions of HCM and B2E; however, it is a less well-defined term. ERM focuses on optimizing the employee's "total employment experience." ERM includes the human as well as the technology aspects of the experience, including: manager and employee interactions, the formal business tasks required to fulfill ERM, and the technology employed to manage the employee experience.

Key Issue: Which workforce trends will most influence your enterprise's HR practice in the next five years?

Strategic Imperative: HR organizations that do not have strong alignment with business strategy are at risk of becoming transaction factories (best case) or outsourced.

Strategic Planning Assumption: By 2006, 50 percent of Fortune 1000 companies will identify an owner for workplace initiatives, formally track and manage intangible assets, and measure investment vs. value creation (VOI) on these initiatives (0.6 probability).

Alignment of HR With Business Strategy



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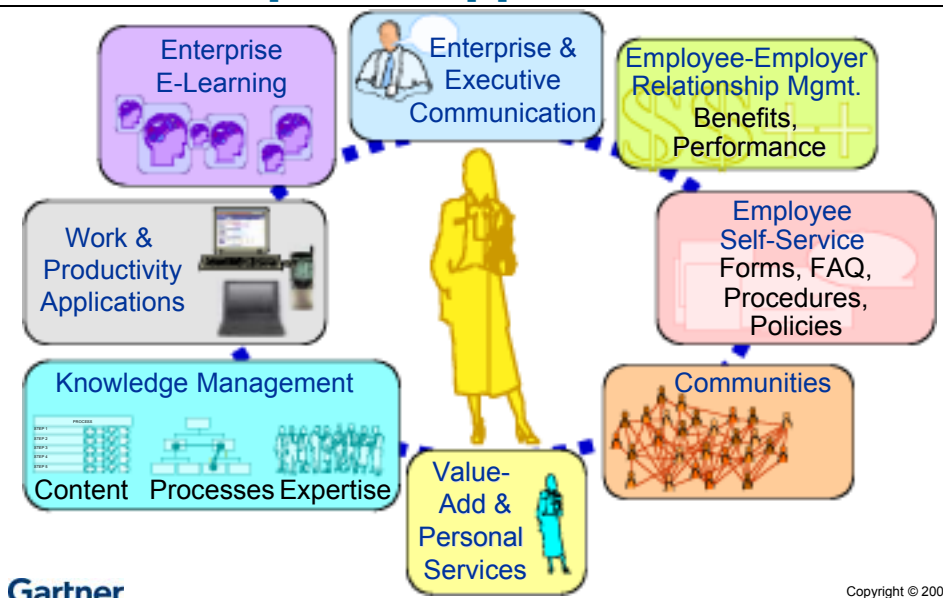
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HR is viewed as a cost center in many organizations. Its focus is on transaction processing efficiency: running payrolls, administering benefits, managing personnel information. These are important tasks to operate the business, but do little to grow the business. To be strategic, HR practices need to align with business strategy. Performance and incentive management should align individual and workgroup goals with corporate goals. It should help attract and retain the best talent by making the enterprise the “employer of choice.” HR should facilitate collaboration and knowledge sharing. It should use technology to plan, acquire and staff workers to support business strategies. HR should help ensure business flexibility by building a resilient organization. The workforce needs agility, flexibility and adaptability to change. In the "knowledge economy," managing and leveraging intangible assets will become an imperative for all enterprises. Furthermore, the wealth created by investments in intangibles will be tracked and measured as the value on investment (VOI) rather than return on investment (ROI). VOI is the total measure of benefits derived from "soft" initiatives; ROI is a component of VOI.

Action Item: HR initiatives must demonstrate alignment to business goals and objectives. Use VOI as a tool to measure and manage alignment.

Strategic Planning Assumptions: By 2004, more than two-thirds of Global 1000 enterprises will have a formal B2E initiative under way (0.7 probability). Through 2004, 50 percent of B2E/ERM technology investments will fail to have a significant impact on business outcomes and will only incrementally improve business processes (0.7 probability).

B2E – Business to Employee: A Disciplined Approach to Services



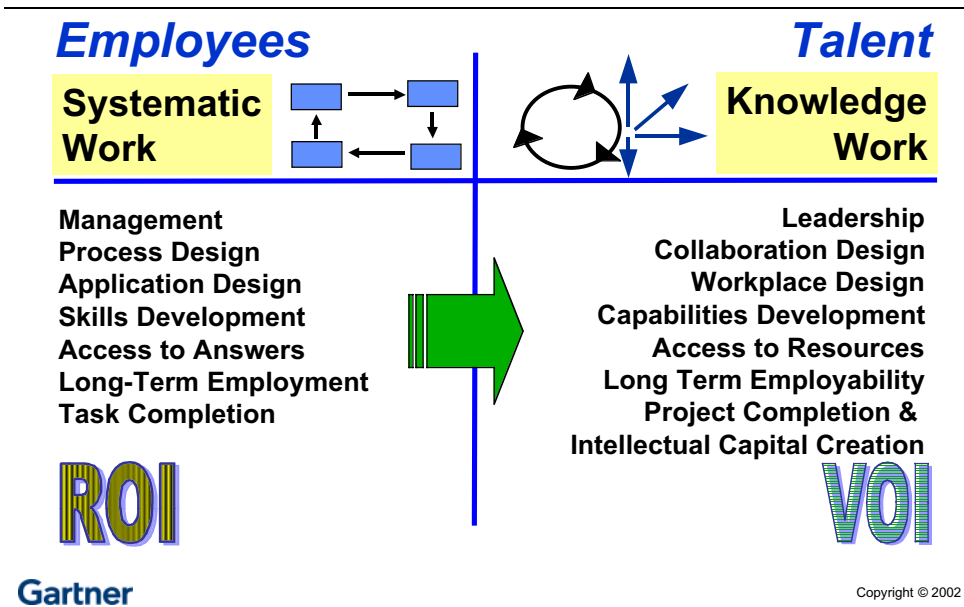
Key Issue: Which workforce trends will most influence your enterprise's HR practice in the next five years?

B2E will shift the views of HCM and ERM from the provision of traditional HR support, such as benefits, personnel or payroll, to the delivery of a comprehensive set of enabling services for employees and managers. This expanded set of services can enhance employee and enterprise productivity with enabling capabilities such as collaboration, knowledge management, e-learning, and knowledge creation. Thus, B2E will support the transformation of HCM to an enterprisewide workforce strategy. Ultimately, B2E will challenge HR's traditional ownership of employee service provision and ERM. B2E initiatives will return value in many forms. Among the value propositions are: expanding competencies, increasing human collaboration, implementing new leadership methods and capabilities, increasing the capability to develop communities, multiplying the impact of social and technical networks, and formalizing the management of intellectual assets. Many organizations see B2E myopically, as a self-service portal. In the current economic climate, employee and manager self-service are seen as ways to reduce HR administrative cost while delivering higher levels of service. Be careful. It is easy to optimize HR transactions to reduce the workload of the HR department while reducing workforce efficiency. *Action Item: Avoid the urge to implement an employee self-service portal in the absence of a holistic strategy for B2E.*

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Strategic Planning Assumptions: By 2005, agile organizations will assess people, not only by the knowledge, skills and abilities they possess, but also by whom they interact with and how well they collaborate with, facilitate or manage the work of other parties (0.7 probability).

The New Workforce



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Key Issue: Which workforce trends will most influence your enterprise's HR practice in the next five years?

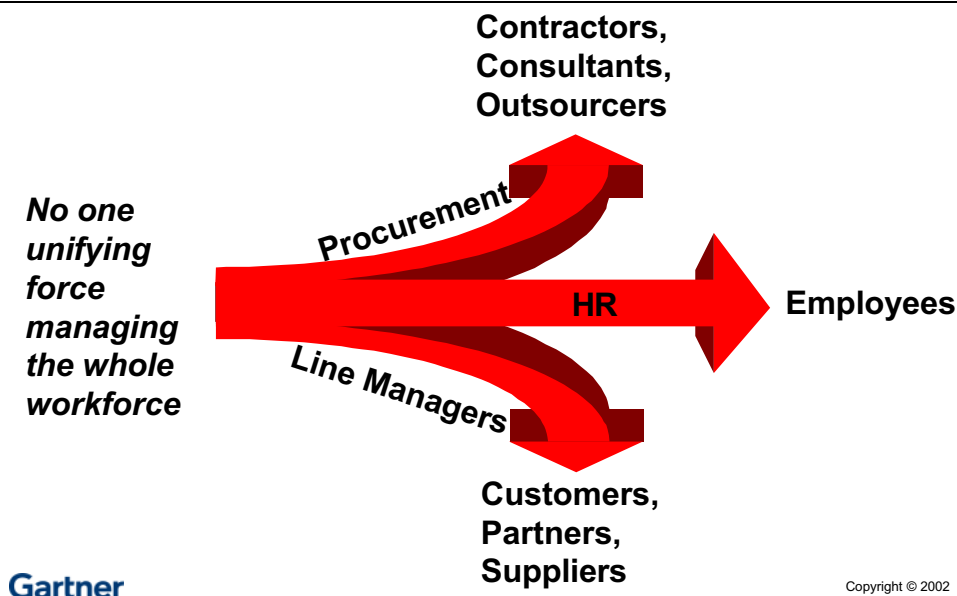
The movement to an information and knowledge economy is leading to a shift from systematic work to knowledge work. Knowledge work typically relies on the knowledge, skills and abilities of teams collaborating together to complete projects. This shift in work styles will necessitate new technology enablers. Project collaboration tools, knowledge repositories, expert location tools and point-in-time learning are all required to support knowledge work.

The nature of work assignment is also changing. With systematic work, employees were hired to do a specific job. In the world of knowledge work, employees still have a job, but the work they do is defined primarily by the projects on which they work. An employee may play multiple roles requiring a variety of different competencies. Workforce planning solutions need to evolve from job-based to project/role/competency-based to provide the flexibility to support knowledge work.

Action Item: Enterprises involved in information- and knowledge-based work should re-examine work and assignments around a competency-based approach to project/collaborative work staffing.

Strategic Planning Assumption: Enterprises that leverage all sources of talent will outperform organizations that rely primarily on just their own employees (0.7 probability).

Managing the Whole Workforce



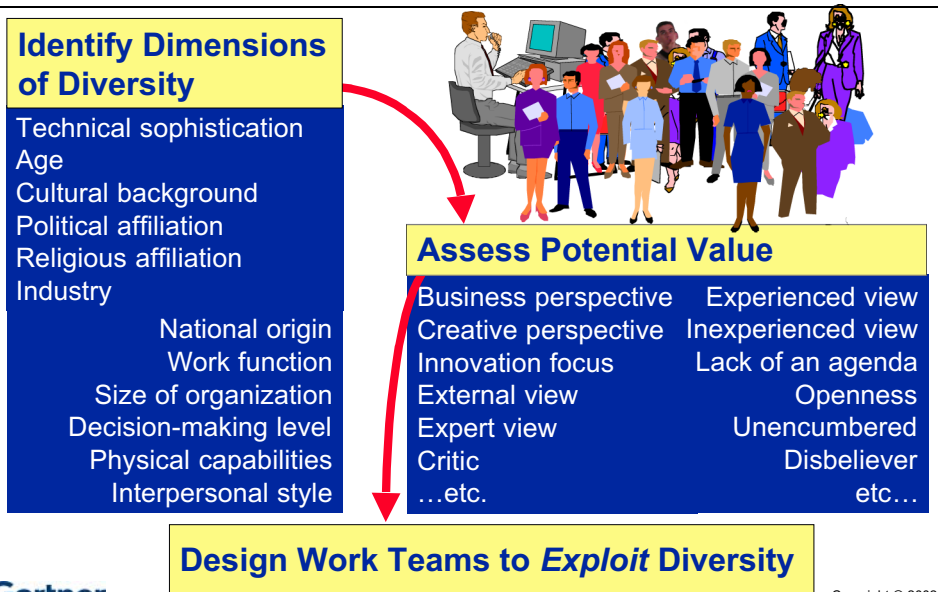
Key Issue: Which workforce trends will most influence your enterprise's HR practice in the next five years?

Enterprises are in a constant battle to have the right resources with the right skills in the right place at the right time. Increasingly these resources include not only employees, but also contractors, consultants, outsourcers, customers, business partners, suppliers and even resources acquired through mergers and acquisitions. Choosing the right mix of resources based on short-term and long-term strategy is becoming a significant challenge. HR organizations have traditionally focused on employee management. Procurement organizations have become increasingly involved in contractor and consultant management (through its vendor management role). Line managers and executives are involved in managing customer, business partner and supplier relations. There is no single unifying force for managing all human capital. Ultimately, enterprises will need to reconcile this lack of ownership by having a single point of accountability. Logically, the HR organization would play this role. However, HR needs to have strong alignment with business strategy and have demonstrated a strong ability to deliver (be credible) to take on this role.

Action Item: Start to incorporate non-employees into workforce planning and staffing activities now.

Strategic Imperative: Most enterprises view diversity as an issue to be managed and an obstacle to overcome. Diversity is increasing rather than decreasing. Enterprises must view diversity as an opportunity to be harnessed.

Harnessing Diversity: Framework of Dimensions and Value



Key Issue: Which workforce trends will most influence your enterprise's HR practice in the next five years?

As enterprises strive to do more with less and seek competitive advantage in the marketplace, it is critical that they leverage the diversity of its workforce. Innovation requires new ideas and new ideas are generated by attacking business issues from different perspectives. A diverse workforce simply has more perspectives. It is not enough to have a diverse workforce. Enterprises need to utilize that diversity as they bring teams together. Creating the right mix of perspectives is the key ingredient to gaining value from diversity.

The experience, style, and culture of workers will be just as importance as competencies in helping managers and leaders assemble high-performance teams. Do not consider diversity just in the context of EEO/ AA compliance. Leading enterprises will proactively leverage their workforce diversity to harness innovation and creativity and to cultivate competitive advantage.

Action Item: Leaders should design and create teams with mixed experiences, styles and cultures to spark innovation.

Strategic Planning Assumption: Through 2006, workplace decentralization, globalization, knowledge worker shortages and technology advancements will drive further innovations in work styles and places, which must be supported by collaborative, mobile systems (0.8 probability).

The Virtual Enterprise: Untethered Workers and Work



Key Issue: Which workforce trends will most influence your enterprise's HR practice in the next five years?

The pace of work is quickening in many enterprises. From a competitive advantage perspective, enterprises need to make their workers as productive as possible, regardless of their work locations. An increasing number of workers are located outside the traditional office environment. Locations could include home (telecommuting), customer sites and supplier sites, project sites. Enterprises will need to provide an environment that enables workers to use any device over any network to access any content or applications required to fulfill their roles and responsibilities.

A work/life backlash is under way. People are committed to “taking back” personal time from work or, at the very least, exercising more control over work. Enterprises should expect to increasingly relinquish control of work schedules and to share work and job design with employees. Location-independent work is one way enterprises are allowing people to strike a more appropriate work/life balance.

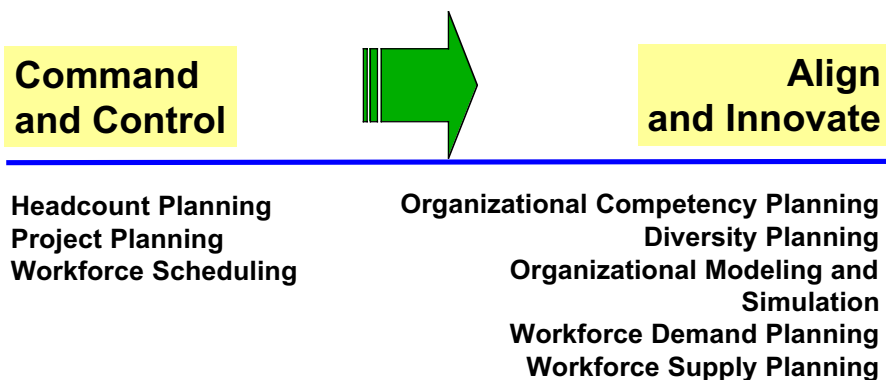
Action Item: Work with workers to understand their needs and the nature of work performed to create the appropriate infrastructure to support a location-independent work environment.

Key Issue: How will your enterprise harness and optimize the knowledge and capabilities of its employees?

Strategic Planning Assumption: Enterprises that align workforce planning with business planning will be able to respond faster to changing business needs (0.7 probability).

Workforce Planning

The Emphasis of Workforce Planning Is Shifting



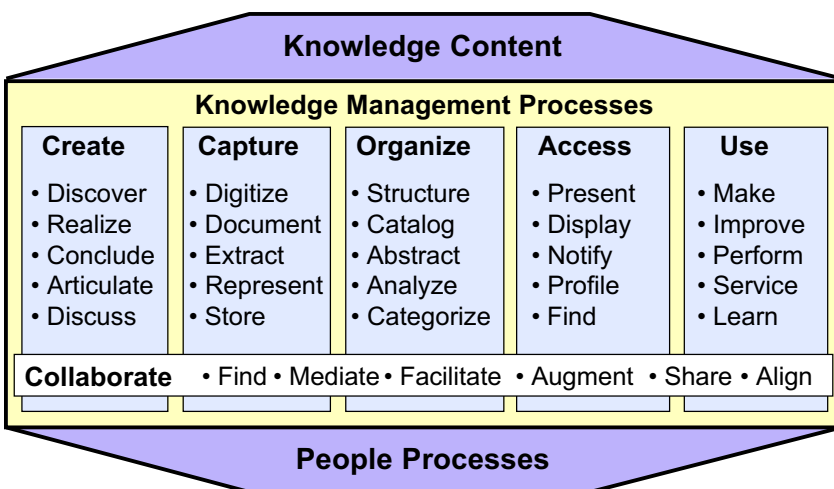
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Enterprises commonly approach workforce planning in several different ways. Headcount planning is often used as part of an annual budgeting process. It focuses on how many FTEs are required in a particular organizational unit for the next year and what are the expected costs for those resources. Enterprises that have compensation management solutions can extend this analysis further by identifying expected salary, bonuses and benefits for individuals and using this information to drive cost. Another type of workforce planning is project planning. With project planning, a series of tasks is identified and resources are assigned to complete those tasks. Sophisticated project planning solutions can look at resource availability, as well as worker skills, to help project planners assign the most appropriate resources to the project. Workforce planning can also take the form of worker scheduling. Retail store managers can create schedules based on expected customer traffic. Most workforce planning in enterprises is done at either a very micro level, to manage work, or at a very high level, to support the annual planning process. More-sophisticated workforce planning is required for strategic alignment, utilizing internal and external resources, and leveraging diversity. Workforce planning should mirror business planning. Organizational competency and diversity plans should align with three-year strategic plans. Twelve-month operational plans should drive specific workforce demand/supply plans. *Action Item: Use workforce planning to be proactive in understanding human capital needs in the enterprise.*

Strategic Planning Assumption: By 2006, more than half of all knowledge workers will be evaluated on their knowledge contribution and sharing (0.7 probability).

Knowledge Management — Supporting People and Processes



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Key Issue: How will your enterprise harness and optimize the knowledge and capabilities of its employees?

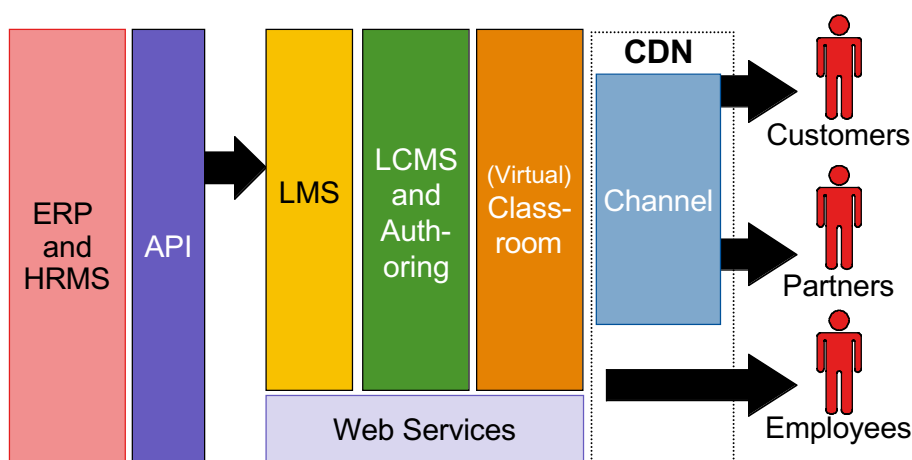
B2E is all about making the workforce more efficient and effective. Much of the emphasis today is on efficiency. The current economic climate made enterprises focus on cost-reduction. This has led many enterprises to pursue HR self-service projects to reduce HR administrative costs. As the economy improves, the emphasis will shift more towards workforce effectiveness. Knowledge management and collaboration are key capabilities that enable workforce effectiveness.

Knowledge management focuses on capturing and sharing the tacit and explicit knowledge that exists in the enterprise. In addition, knowledge management applications help workers find other workers who may have specific expertise. Applications are only enablers. For knowledge management to be effective, it needs to be a discipline in the enterprise. It is only as good as the participation of the workforce in contributing knowledge and sharing expertise. In addition to evaluating workers on building competencies and meeting performance objectives, workers will increasingly be evaluated on their knowledge contributions and sharing. *Action Item: Use knowledge management applications as an enabler for building a knowledge management discipline in the enterprise.*

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Definition: E-learning has unique architectural elements, but will be tightly integrated with core enterprise applications, including HR, and optionally, CRM, SFA, ERP and collaborative commerce.

E-Learning Architecture



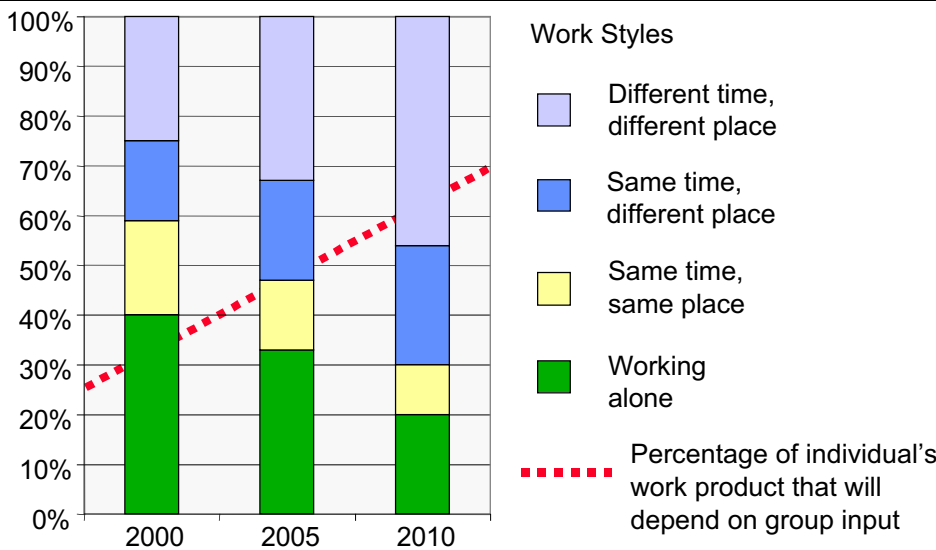
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Key Issue: How will your enterprise harness and optimize the knowledge and capabilities of its employees? The e-learning architecture includes the critical elements required for an enterprisewide e-learning deployment. This includes a learning management system (LMS), a learning content management system (LCMS) or stand-alone authoring tool, a virtual classroom and access tools, and a content-delivery network (CDN). The LMS is the foundation, and must have a close working relationship with the enterprise HR applications so that employee data is shared and current. Although relatively new, an LCMS (or authoring platform) enables content to be created, reused and actively managed. Most enterprises have not yet implemented content management for e-learning, but an LCMS will enable creation and reuse of learning objects. This will become more important when extending flexible e-learning to partners, suppliers and customers. Virtual classroom tools support the delivery of training objects and simulated classroom interactions. Although most vendors claim to support Web e-learning access, large Java or ActiveX applets must often be downloaded before a student can take a class. A CDN is an optional architectural element that is fast becoming mandatory as more audio and video content is available, and as more delivery channels and devices are enabled. CDNs will become more popular as content richness increases. Increasingly, e-learning application software will be built on top of a Web services foundation layer, which should mean better interoperability.
Action Item: Plan to integrate e-learning architecture requirements into your HRMS architecture.

Strategic Planning Assumption: By 2005, knowledge workers will spend nearly 70 percent of their time working collaboratively, and not necessarily face to face (0.8 probability).

Collaboration on the Rise, Solo Time on the Wane



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Key Issue: How will your enterprise harness and optimize the knowledge and capabilities of its employees?

The changing nature of work styles will transform HR technologies. As the virtual enterprise takes hold in knowledge-intensive enterprises, workers will need mobile tools and technologies that allow them to collaborate regardless of their physical location. Technology infrastructures will need to support multiple modes of access, as well as supplemental applications, such as document management, Web conferencing/meeting, and project collaborations. This core technology infrastructure will increasingly be integrated with business applications to enable location-independent business process support.

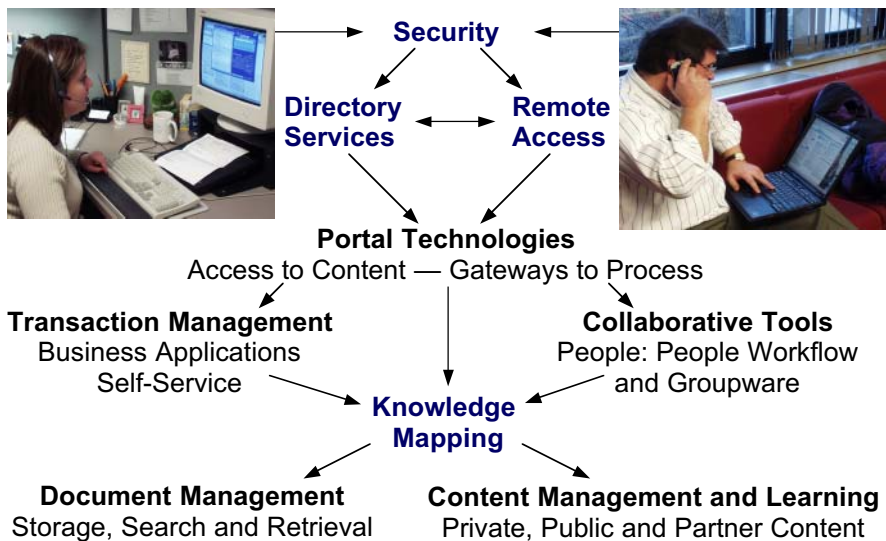
Even for enterprises that are not in knowledge-intensive industries, mobile tools and technologies provide an opportunity to rethink how work is done. For example, Web conferencing/meeting support could be used to support many efforts in collaborative product design. In addition, chat functionality could be used to help a production line worker collaborate with a designer to solve problems in a new line. These new capabilities also require new skills from workers. HR may not own the core technologies, but the application of these tools to enable higher worker performance is an important job for the HR organization.

Action Item: Enterprises should evaluate technology solutions based on their current and planned connection modes, connection scope, and their support of collaborative work styles.

Key Issue: How will technology strategy support the shift from HR to HCM, ERM and B2E?

Strategic Planning Assumption: Through 2005, the burden of integration for strategic workforce management applications will remain with the end-user enterprise, increasing individual project costs by as much as 30 percent (0.7 probability).

The Framework — Highly Dependent on Complex Integration



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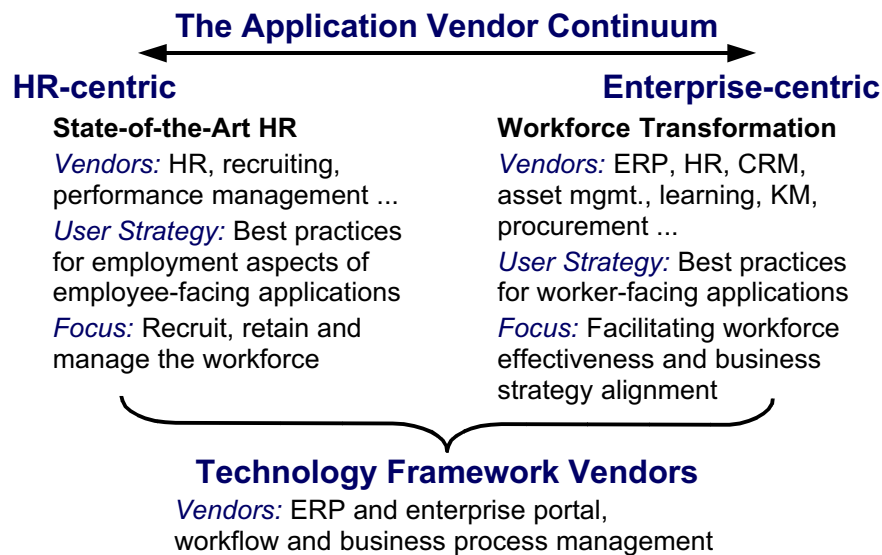
A strategic workforce management approach relies on the ability to use technology to integrate people, process and content. For most enterprises, the portal has become the organizing model for the collaborative workforce technology solution, but this only represents one layer of integration. The portal integrates the employee experience, and, when well-designed, can simplify directory services, multisystem logon, role-based personalized presentation and even cross-application workflow. But most portals fall short of meeting the demands of complex process, data and content integration.

Web services will provide an additional opportunity to leverage the portal as a unification point for content, collaboration, and business processes. Web services will enable new capabilities to “plug and play” in the portal so that it is easier to bring on new capabilities and replace existing capabilities with less interruption to the end user.

Action Item: In projects that require application integration to achieve desired business outcomes, factor in integration costs of 10 percent to 30 percent of the application cost.

Strategic Planning Assumptions: By 2004, applications delivering strategic workforce management functionality will be delivered as part of ERP II solutions (0.6 probability). The initial functionality will be immature compared to best-of-breed vendors. Single-vendor solutions for strategic workforce management will not be realistic until 2005, unless an enterprise wants to be an early adopter (0.6 probability).

Applications and Technologies



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Key Issue: How will technology strategy support the shift from HR to HCM, ERM and B2E?

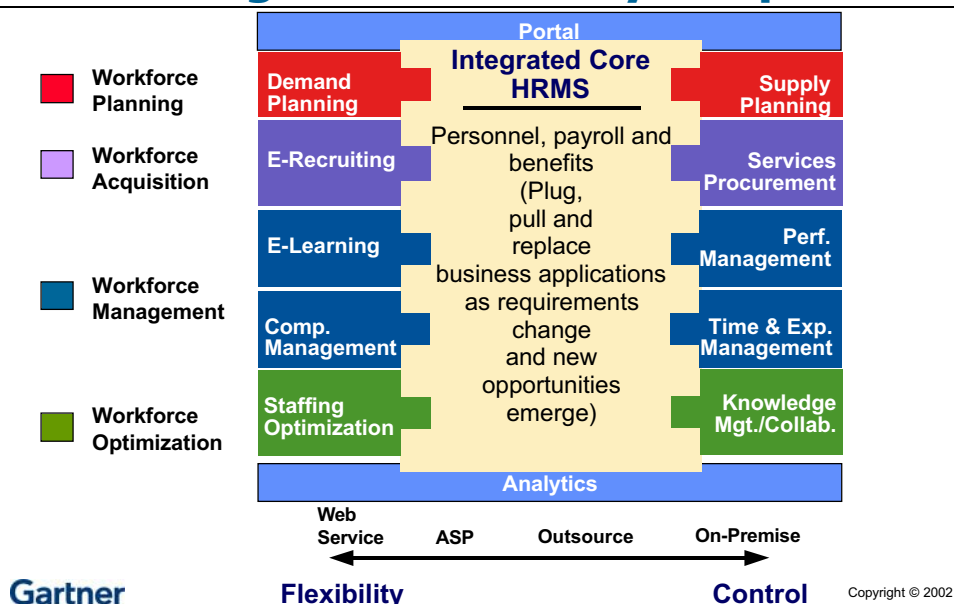
A portfolio approach to strategic workforce management increases risk and complexity, but allows for flexibility still needed in this emerging market.

Strategic workforce management initiatives will require managing a portfolio of applications and technologies that will need to dynamically change as enterprise demands change and new solutions become available. Managing these custom solutions increases the effort involved at every level of the project, from evaluation through maintenance, and runs contrary to other business application strategies many enterprises have become comfortable with — one-vendor application suites that provide common architectures, integrated functionality and a single upgrade cycle. However, new capabilities, such as strategic workforce planning, knowledge management, and e-learning from traditional ERP/HR vendors, are immature and still evolving. Enterprises that try to find easy solutions through single-vendor suites in this immature market will limit project outcomes to incremental improvements gained by process automation, not the promise of workplace transformation.

Action Item: Build a strategic workforce management application portfolio to provide capabilities to enable strategic alignment, not just process improvement.

Strategic Planning Assumption: Through 2004, users will have no choice but to manage a mixed portfolio of applications and services supporting strategic workforce management functionality (0.6 probability).

Mixed Solution Portfolios Are Key to Strategic Functionality Adoption



Key Issue: How will technology strategy support the shift from HR to HCM, ERM and B2E?

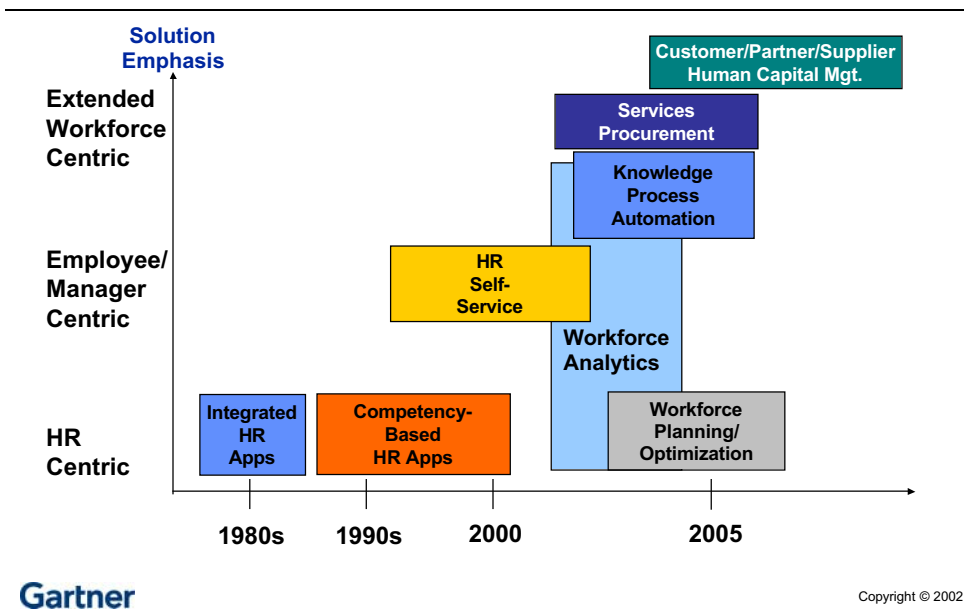
Strategic workforce management initiatives require managing a portfolio of applications and technologies. ERP/HR vendors do not offer sufficient capabilities for a single-vendor solution today.

To meet the functionality demands of strategic workforce management, enterprises will need to work with a number of vendors offering specialty products. Some of these products are well-developed in terms of functional build-out, while others only offer a functional framework that will develop quickly over the next couple of years to include not only rich functionality and some industry specialization. Using a mixed-solution approach that includes on-premise, outsourcing, application service provider (ASP) and Web service offerings can decrease the risk of investing when business requirements are unstable and can build in the flexibility to move to innovative new solutions as they become available.

Action Items: Begin with the end in mind. Determine the capabilities that the enterprise needs to align the workforce with business strategy. Then, build out the portfolio of applications to meet this vision. Keep in mind the strategy and direction of the enterprise's core integrated HRMS provider. Make sure the payback period for "best-of-breed" implementation is short enough to allow movement to an integrated solution when those solutions have matured sufficiently.

Strategic Planning Assumption: Through mid-2003, HRMS evolution will focus on applications that can demonstrate cost savings (self-service, analytics, and services procurement; 0.7 probability).

HRMS Evolution



Key Issue: How will technology strategy support the shift from HR to HCM, ERM and B2E?

HR applications evolved from point solutions (e.g., payroll) to integrated solutions (e.g., personnel, payroll and benefits) to competency-based solutions (competencies integrated with recruiting, training, career development, performance management, compensation, and career/succession planning). A significant technology shift occurred in each generation of applications (batch to online, real-time to client/server). In the late 1990s, another technology shift occurred: Internet computing. HR applications increasingly are delivered via the Web through a role-based portal. This technology shift has facilitated a move away from HR-centric applications. There is a new focus on employees and managers capabilities provided by self-service and analytic applications. These applications are tightly integrated with traditional HRMS applications. New application categories/point solutions are emerging for services procurement (contractor and team procurement), knowledge process automation (collaboration and knowledge management) and workforce planning/optimization. Strategic workforce management solutions include all of these capabilities.

Action Item: IS organizations should expect to integrate and manage a portfolio of applications to achieve a comprehensive strategic workforce management solution.

Large-Enterprise HRMS Magic Quadrant Evaluation Criteria

- Ability to Execute
 - Functionality
 - Cost
 - Services
 - Market Positioning
 - Technology
 - Viability
- Completeness of Vision
 - Company
 - Product
 - Services
 - Technology



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Key Issue: How will technology strategy support the shift from HR to HCM, ERM and B2E?

Results from the large-enterprise HRMS Magic Quadrant research will be presented at U.S. Symposium / ITExpo. This Magic Quadrant focuses on vendors that target or have a substantial market presence in the market, with 2,500 employees or more. Functionality, cost, service, market positioning, technology and viability will be the basis for evaluating their Ability to Execute. Market positioning includes looking at vendor value propositions (and delivery on the value proposition with customers). Completeness of Vision will be judged based on corporate vision, product vision, service/support vision and technology vision.

It is hard to differentiate HRMS vendors on base functionality. The market for basic personnel, payroll and benefits is very mature. Differentiation exists in newer strategic workforce management areas, such as analytics, performance management, compensation management, e-Learning, knowledge management and workforce analytics. In addition, there is differentiation based on the the specific markets each vendor targets. Some vendors are providing broad and deep solutions targeted at the largest enterprises. Other vendors are focusing on providing functionality that is focused on specific industries. Still others are focused on lowest total cost of ownership.

Recommendations

- Align HCM to strategic direction.
- Focus on VOI in workforce initiatives.
- Develop an extended-enterprise view of human capital.
- Maintain HR operational excellence. Poor execution kills credibility.
- Strategic workforce management isn't available in a box. Expect to buy from multiple vendors and integrate.



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SWM is the overall management of people as key resources of the enterprise in alignment with business strategy to drive high value on investment. HR initiatives and workforce capabilities must be aligned with business strategies and goals. VOI is a good tool for measuring and managing the value from HR initiatives.

Be creative in leveraging human capital. Use all the human capital available, including employees, alumni, applicants, contractors, consultants, outsourcing service providers, customers, partners and suppliers.

HR organizations cannot drive SWM if they do not execute basics well. They will not have the credibility in the enterprise. HR organizations must be credible and aligned with business strategy to drive SWM.

An integrated SWM solution does not exist today. Be prepared to integrate and manage a portfolio of solutions.