Top Five Human Capital Management Processes for 2009 to 2013

The top human capital management processes support short-term cost optimization and workforce productivity priorities, while providing a platform for longer-term, more-strategic talent management.

Overview

This research outlines the top five processes HR organizations should focus on during the next five years. Improvement in these processes can help with short-term cost optimization and productivity improvements, as well as deal with longer-term talent management challenges.

Key Findings

- The current focus for most HR organizations is to ensure that they are delivering services as efficiently as possible. However, HR organizations should take a broader view, and not only focus on HR costs, but also on how to affect fully loaded labor costs and workforce productivity.
- The current economic crisis has put some of the challenges of the "war for talent" on hold. However, the fundamental demographic issues have not changed and, in some industries, talent shortages are still critical.
- Technology can help HR professionals meet these challenges.

Recommendations

- Although there will be pressure on HR organizations to reduce costs, do not take a myopic view. Take advantage of opportunities to improve workforce planning and workforce management processes to manage enterprise labor costs to the correct levels.
- Improving workforce productivity is also crucial in economic downturns. Improve talent acquisition, pay for performance and workforce development processes, with an eye toward getting more from your talent base.

What You Need to Know

The role of HR is changing. Most HR organizations have already automated their basic service delivery processes. There can be some room for improvement, and this is especially important in the current economic climate. However, HR organizations are striving to become more of a strategic partner with line managers and executives. To that end, the focus has started to shift to activities and technologies that support line managers in managing talent. One of the biggest challenges is that HR has many functional silos. Managers want a seamless end-to-end process experience; process thinking must become pervasive if HR is to be an effective partner with the business. Not all five processes discussed in this research will have the same degree of importance for all organizations (and there may be differences in short-term vs. long-term importance). Prioritize the processes you want to define for cost optimization and competitive advantage, and create a road map for process innovation and automation. Technology and vendor selection should follow documentation of processes to ensure that solutions adequately support the processes you want to change or automate.

Analysis

HR organizations have spent more than 40 years automating how they work. The focus of these efforts has largely been on administrative HR functions. As the Internet became pervasive in the late 1990s, new opportunities emerged that enabled HR organizations to move beyond HR administration and to focus on applications that improve talent and workforce management. However, many of these efforts have focused on automation related to HR functional silos, such as recruiting and training. The recruiting organization buys an application to automate its function. The training organization purchases an application to support learning needs in the enterprise. This has created challenges in terms of system integration and end-user adoption. Line managers and executives do not care about the functional silos in HR; they want consistent end-to-end processes that enable them to leverage talent to achieve desired business outcomes.

This research discusses the top five processes that HR organizations should focus on during the next five years to not only support cost optimization, but also to improve talent management. Workforce planning, talent acquisition, pay for performance, workforce development and workforce management will be the top human capital management processes during the next five years, because they help organizations achieve two major goals: to improve talent management and to control labor costs.

Workforce Planning (Plan to Source)

This is an immature process in most organizations; at best, they may do some sort of head count planning for financial budgeting purposes. However, this is typically at an insufficient level of detail to be of much use for more-strategic talent management. A good workforce planning process starts with understanding the demand for resources in the organization relative to the supply. Once the talent gaps are understood, then a sourcing strategy is created to fill current and potential talent gaps. There are three main sources: existing employees, contingent workers and external candidates. Workforce planning in most organizations is a head count planning exercise driven by financial budgeting. Understanding head count and labor costs is an important outcome of workforce planning, but it provides little useful information for line managers and executives to make decisions about talent. To make good decisions, they need to better understand the relative importance of different roles in terms of driving business outcomes, expected turnover and timing for those roles, and the availability of resources, internally and externally. Workforce planning helps ensure that organizations have the right resources deployed at the right time to meet business objectives.

Required Capabilities and Investments: Workforce planning solutions are emerging that enable better modeling of talent demand and supply drivers.

Action Item: If your organization is downsizing, then use workforce planning to understand critical positions, bench strength and availability in the market (among other things) to make better decisions about where to make reductions.

Talent Acquisition (Acquire to Onboard)

Historically, this process has been called "requisition to hire." This description does not capture the nuances of how recruiting is evolving. For some organizations, there is no requisition approval process — they are always hiring. In addition, the hiring event is not really the end of the process. The true end of the process is when the new employee is onboard and productive in his or her new role. The challenge for many organizations is how to optimize this process (balancing time to productivity, cost per hire and quality of hire). A strong talent acquisition process and employment brand helps ensure that the organization brings in high-quality talent in a timely and cost-effective manner.

Required Capabilities and Investments: E-recruitment and contingent workforce management/services procurement solutions are required to support a complete view of talent acquisition.

Action Item: When competitors have hiring freezes or reductions in force, use them as an opportunity to upgrade your talent base by attracting and hiring high performers in critical roles.

Pay for Performance (Perform to Reward)

This process includes setting performance objectives, tracking progress against those objectives, providing ongoing feedback to the employee, rating of employees (including calibration) and rewarding employees based on results. Most organizations, especially in the U.S., have variable pay programs, where bonus and stock option allocation is driven by performance results. Uptake is increasing in other parts of the world, as well, especially in Europe (although it is important to work with the appropriate local regulatory authorities to ensure that these programs are acceptable). There are challenges with pay for performance. First, many companies say they do it, but when they actually look at their data, they find that they do not. Either performance is not differentiated (for example, grade inflation) or rewards are not allocated in a differentiated manner (low performers get compensation similar to high performers). Second, organizations have to be careful about what they rate, and that what they reward based on those ratings drives the right actions and behaviors by workers. A strong pay-for-performance process enables an organization to best allocate scarce compensation dollars to get the maximum effect in terms of employee engagement and achieving desired business results.

Required Capabilities and Investments: Employee performance management and compensation management applications are required to link pay to performance.

Action Item: During an economic downturn, pay increases, bonuses and stock awards are difficult to get approved. If there is some budget approved, then ensure that you use those scarce resources to compensate high performers in critical roles first. Also, do not forget about leveraging nonmonetary rewards. If properly used, then they can also motivate desired actions and behaviors.

Workforce Development (Assess to Develop)

This process includes an individual competency gap analysis relative to the current position (90-degree to 360-degree assessment), future desired position (self-directed career path), and/or next-in-line position (formal career path or succession plan).In addition, it identifies competence gaps relative to the goals set in the perform-to-reward process. Once the gaps have been identified, developmental opportunities are defined, scheduled, executed on and managed/tracked (against the plan). Most organizations have development programs, but the key is to balance organizational needs (formal career paths and succession plans) and individual needs (self-directed career path, managing work/life balance).

In addition, it is important to understand the effectiveness of development in meeting those needs (balancing cost vs. effectiveness). It is important that organizations continually assess development activities to ensure that they continue to be cost-effective. A strong workforce development process brings benefits to the individual and the organization. For the individual, it enables him or her to improve performance in his or her current job, and prepares him or her for future opportunities. For the organization, the process ensures that a worker has the right knowledge, skills and abilities to do his or her current job, and prepares workers for future jobs.

Required Capabilities and Investments: Employee performance management, succession management and learning solutions are required.

Action Item: Most organizations are being asked to do more with fewer resources. Development is one way to not only make workers more productive, but also to allow remaining employees to take on additional responsibilities during a downsizing. Although this is true, budgets for development are often cut during tough times. Use workforce analytic techniques to better understand learning effectiveness and to target learning initiatives where they can have the most impact.

Workforce Management (Schedule to Pay)

This process encompasses labor demand forecasting, scheduling, time capture, time evaluation (applying business rules against raw time data), leave management (for example, paid time off) and payroll. Workforce management is crucial for managing labor costs (which can be anywhere between 20% and 70% of total expenses for most organizations). This can be a complex undertaking, especially for organizations with large percentages of hourly workers, with unionized workers and/or with multinational operations. Most organizations think of workforce management only for hourly workers, but better managing absences and leave can result in lower costs and improved productivity. Strong workforce management processes can help organizations reduce labor costs (total worker time via schedule optimization and overtime costs), and leave liability and related costs.

Required Capabilities and Investments: Labor scheduling, time and attendance, leave management and, in some cases, payroll applications are critical for this process. In specific industries, such as retail, task management can also be an important part of workforce management.

Action Item: Improving workforce management can be one important way to reduce costs and improve productivity. It helps ensure that the right person is in the right role at the right time and at the right cost. Industries with a high percentage of hourly workers should leverage schedule optimization, along with real-time time evaluation, to lower scheduled labor costs and overtime costs.