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## HR in Flux:

How Organizations are Adapting to Technology and a Changing Business Landscape

A Workforce Management White Paper

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*"As the digital age takes shape, a growing number of organizations are looking for ways to ratchet up productivity...and results. Understanding what it takes to succeed is a growing concern. Creating value within human resources is an emerging challenge. Only through analysis and insights can decision makers understand how to create a successful strategy and produce bottom line results."*

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**HUMAN RESOURCES**

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## **Introduction**

Over the last decade, business processes and technology have become inextricably intertwined. Mounting cost pressures and a growing need for efficiency have led many organizations down a path of radical change and transformation. As a result, companies have begun to scrutinize their human resources strategies, including the task of finding the right human capital and developing it to maximum advantage.

In the middle of this shifting landscape is the HR department. As C-level executives look to human resources to become more efficient and more strategic, the emphasis is squarely on providing greater value through improved business processes and advanced technology. Pixels have replaced paper. Sophisticated Web-based applications—including those focusing on recruiting, analytics and self-service—have eclipsed manual processes.







As the digital age takes shape, a growing number of organizations are looking for ways to ratchet up productivity and results. Understanding what it takes to succeed is a growing concern. Creating value within human resources is an emerging challenge. Only through analysis and insights can decision makers understand how to create a successful strategy and produce bottom line results. In June 2004, Oracle Corporation and *Workforce Management* magazine collaborated on a survey designed to understand how organizations are adapting to technology and the change it creates.

## Background and Demographics

Overall, 261 individuals responded to the survey. More than 53 percent hold a position as HR director; over 41 percent serve as a vice president of human resources; and 4.7 percent serve in another executive capacity, such as CEO, CFO, COO or CIO. The survey tapped into a wide array of industries, including healthcare (14.9 percent of respondents); financial services, including insurance and real estate (12.3 percent); manufacturing (11.5 percent); services (9.6 percent); education (8.8 percent); and high-tech (6.5 percent).

**Figure 1**

**Question:**  
**What is your company's total annual revenue?**  
*Choose only ONE of the following:*

Results			
Response	Chart	Count	%
Less than \$250 million		91	34.7%
\$500 - \$499 million		39	14.9%
\$500 - \$999 million		42	16%
\$1 - \$4.9 billion		38	14.5%
\$5 - \$10 billion		17	6.5%
More than \$10 billion		35	13.4%

Respondents included a cross-section of companies. However, the employee count at these firms falls mostly within the small and medium business “SMB” category. More than 45 percent of respondents work at companies employing less than 2,500 people. About 16 percent work at organizations with 2,500 to 4,999 employees. And just over 27 percent have 10,000 or more workers. Although 84.3 percent of respondents reported that their companies operate in North America, a significant number of these organizations also maintain a presence in Asia-Pacific (31.8 percent); Europe (30.3 percent); Latin America (18 percent); and the Middle East (18 percent).

## **The Current State of HR**

As executives in human resources attempt to guide their organization into the 21st century, achieving a strategic focus is paramount. At the heart of the challenge: understanding how the HR department deals with today's fast-changing world and its ability to provide leadership and direction. Remarkably, 41.8 percent of the survey's respondents indicated that their human resources department remains a staff function. Another sizable chunk, 46.7 percent, say that HR is a business partner to line management. Only 11.5 percent believe that it is a critical source of competitive advantage.

These results indicate that many HR departments will encounter turbulence in the months and years ahead. As business process outsourcing (BPO) grows into a more popular and powerful tool, it's likely that human resources departments providing mostly administrative support will find themselves completely outsourced. On the other hand, those that provide strategic input and value will continue to thrive—though most likely in a different form than today. In many cases, a core staff of managers will handle strategic issues and oversee outsourced tactical functions.

At the same time, there is a growing focus on treating employees and line managers like customers. As self-service technologies, including Web portals, take root, companies are developing business processes to support this new strategic direction. Using a 1 to 7 scale (1 being not at all committed to self service and 7 being most committed), 56.3 percent of respondents indicated that they fall in the 5, 6, or 7 categories. Only 18.8 percent land in neutral territory, while 14.9 percent are in the 1, 2 and 3 categories.

When asked about HR's role in driving development of the workforce through recruitment, training and retention programs, most respondents said that their companies are doing a reasonably good job. The majority of respondents, 65.5 percent, rated their firms between 5 and 7. Only 13.8 percent rated their organizations in the neutral range (4), while 20.7 gave their companies low marks.

Not surprisingly, the ability of a human resources department to implement these programs goes a long way toward defining its strategic value. As the Information Age economy emerges, it is unwise to view workers as simply an item that appears on the

expense side of the ledger. Increasingly, human capital differentiates organizations and provides a distinct competitive advantage. The knowledge that resides within an enterprise serves as the fuel for future revenues.

Other factors that add value to the HR function include: improving employee relations (77.4 percent); cost savings within the HR organization (48.7 percent); improved information capture and flow (53.3 percent); enabling growth and acquisition (56.3 percent); and standardization of processes and services (65.1 percent). Organizations that tie two or three of these initiatives together find themselves in a much stronger position to compete and achieve superior results.

### **Emerging Trends and Technology**

Developing a more strategic HR function creates enormous challenges and opportunities. When asked, “Does your company have a global HR strategy for managing employees?” 44.1 percent of respondents answered yes and 55.9 percent answered no. This represents an increase of about 17 percent over the last year. Today, globalization affects most companies, either directly or indirectly. Many organizations employ workers in other countries or outsource entire functions. Even those that do not manufacture globally find themselves buying or selling products in other countries, or dealing with international issues and laws.

Increasingly, technology plays a key role in connecting geographically dispersed organizations. At the enterprise level, ERP, CRM and supply chain management applications are essential. Yet, no less important are systems that drive performance within the HR arena. Today, 52.5 percent of the organizations surveyed consider themselves “technologically driven.” A sizable 21.8 percent rate their organization as neutral, and 25.7 percent say that technology does not drive their business processes. Although the trend is clearly toward the adoption of information technology, the figures show that many companies continue to lag.

The use of self-service technology is a good indicator of this situation. Only 2.7 percent of respondents noted that their organizations have fully adopted self-service tools. Those in the 5 and 6 categories—meaning that they have turned to some self-service technology—comprise 29.9 percent. While 16.1 percent land in the middle, 51.4 percent admit they are slow to use self-service. With the latter group, 14.6 percent of

respondents have not used self-service at all. They continue to process transactions by mail, phone and fax.

**Figure 2**

**Question:**

**To what degree has your organization embraced employee self-service?**  
*(i.e., managing routine transactional processes through self-service technology)*

Response	Chart	Count	%
Not at all		45	17.2%
2		50	19.1%
3		45	17.2%
4		35	13.4%
5		39	14.9%
6		38	14.5%
Fully		10	3.8%

**Figure 3**

**Question:**

**To what degree has your organization embraced manager self-service?**  
*(i.e., managing key business drivers through self-service technology)*

Results			
Response	Chart	Count	%
Not at all		47	17.9%
2		61	23.3%
3		39	14.9%
4		37	14.1%
5		35	13.4%
6		32	12.2%
Fully		11	4.2%

The lack of adoption for self-service has some serious ramifications. One of the challenges for organizations lagging in self-service is to control the administrative costs related to human resources. More paperwork and human handling translates directly into higher labor and materials costs. What’s more, HR departments that focus heavily on providing services often find it difficult to develop a strategic focus. In the end, they become the most likely candidates for outsourcing. Even those that remain intact find that they play a less influential role in corporate decision making.

Companies are taking a varied approach to the types of systems they deploy. Only 18.8 percent use a mainframe with a payroll-centric focus; 19.5 percent use homegrown multiple systems supporting HR; 44.1 percent use a standalone HRMS client server system such as Oracle; and 17.6 percent rely on an integrated ERP system that supports HRMS as well as financials, supply chain, CRM and logistics. Although there’s no standard for what works, the overall trend is toward greater integration of applications. In the end, this approach supports a more connected e-enterprise and allows executives and managers to use data in new and powerful ways.

Yet achieving success is no simple task. Unfortunately, many HR departments find it difficult to assign a significant portion of their budget to technology. An overwhelming 47.1 percent of respondents indicated that less than 5 percent of their human resources budget will encompass technology over the next two years. A sizable 34.9 percent noted that their budget hovered between 5 percent and 10 percent. Only 13.4 percent said that their technology budget comprised 11 percent to 25 percent of the total. And a mere 4.6 percent of respondents indicated that their technology budget exceeded 25 percent.

At the same time, technology spending is trending upward only slightly. A mere 3.1 percent of respondents reported that their budget will decrease over the next two years; 37.9 percent indicated that it will remain steady; and 51.4 percent predicted that spending will increase (see accompanying chart).

**Figure 4**

**Question:**

**Over the next 2 years, what is the projected amount that your company's HR technology expenditure will shift?**

*Choose only ONE of the following:*

Results			
Response	Chart	Count	%
Increase more than 50%		21	8%
Increase approximately 30%		50	19.1%
Increase approximately 10%		83	31.7%
Remain the same		99	37.8%
Decrease less than 10%		6	2.3%
Decrease approximately 30%		2	0.8%
Decrease more than 50%		1	0.4%

The primary reasons for adopting human resources technology include: the desire to implement additional functionality (30.3 percent); better use of current applications

to improve process effectiveness (23.4 percent); better integration of applications (19.2 percent); and replacing existing HRMS technology (16.9 percent). The numbers indicate that organizations are now looking to maximize their investments and put the technology into use more effectively.

In fact, many organizations have now turned their focus to integrating HR tasks with other processes—including budgeting, production planning, general ledger, purchasing— to gain a more comprehensive view within the enterprise. While only 3.8 percent of respondents reported that they have fully integrated data, 30.2 percent rated themselves in the 5 or 6 categories, 18.8 percent rated their organization as a 4 (neutral), and 36.8 percent rated their company in the 2 or 3 category. About 10.3 percent indicated that they had not made any progress integrating various functions.

Finally, human resources executives are tapping into outsourcing in a major way. Although 84.8 percent of respondents have no plans to outsource HR administration and record keeping—and less than 11 percent plan to do so within the next few years—25.9 percent of firms surveyed already outsource payroll, 22 percent use outside providers for employee benefits administration, and 23 percent outsource workers compensation and risk management tasks.

Interestingly, most of those that have not yet outsourced functions in these areas say that they do not have plans to do so. Yet, whether senior executives at these organizations agree that outsourcing is a low priority remains a question. As financial pressures intensify within organizations and the underlying technology supporting business process outsourcing improves, it's likely that HR executives will reevaluate the current state of affairs.

## **Putting Information Technology to Work**

It's clear that progress occurs slowly within the human resources field. Information technology is not spurring a revolution, but rather an evolution in the way organizations manage processes. So far, few companies have embraced leading edge functionality; most struggle to adopt employee and managerial self-service and connect data across the organization. What's more, with limited budgets and an economy that has lagged over the last few years, companies are carefully analyzing tools and strategies before

taking any bold steps.

Nevertheless, the emerging trends are obvious. HR must become more strategic in the coming years—and gain a strong voice in the executive suite. It must tackle growing cost pressures, a tight labor market and the need to train and retain workers. As the battle for talent intensifies, information technology and solid business processes differentiate top performers from the rest of the pack. Within this environment, change management becomes a key factor in putting technology and people to work in the most efficient way possible.

When asked what challenges specifically face HR over the next two years, survey respondents noted several major issues. Among them: health benefit cost containment; boosting morale during times of fiscal constraint; developing problem solving skills; getting HR managers to use technology effectively; talent and leadership development; coping with an aging workforce; knowledge management; dealing with a global workforce and cross-border issues; and dealing with the *mélange* of laws and regulatory issues that exist in a global marketplace.

The common thread is that all these issues involve strategic analysis and planning. Today, human resources departments that become a strategic partner can boost their value and play a key role in determining the future of the organization. HRMS, payroll software, recruiting systems, workforce analytics and other applications—delivered through a Web-based interface or an enterprise portal—can redefine work and reduce the inefficiency of paper and manual processes.

The most successful HR departments combine business knowledge, strategic skills and technical acumen to redefine workflow. They use metrics and measurements effectively and identify key workforce management lifecycle issues. By putting the pieces together and using technology effectively, they are blazing a path to greater enterprise success.

*Samuel Greengard has authored hundreds of articles, including pieces for Discover, Wired, Home, IndustryWeek, Modern Maturity, Los Angeles, Attaché (US Airways), Hemispheres (United Airlines) and America West. He is also a contributing writer/editor for Workforce Management and Business Finance.*

# Workforce

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