SAP Thought Leadership Paper
Human Capital Management

Accelerate Performance in Human Resources

Data-Driven Strategies for Measurable Improvement

The Best-Run Businesses Run SAP™

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Benchmarking Disclaimer

As a business enabler, an HR executive needs to be able to drive real business results. In order to do that, HR needs the right technology, policies, and processes in place to execute and be successful. To prove their success, HR executives need to measure progress against key performance indicators, so they can take action to improve business process performance.

Executive Summary

This paper is based on the findings of the value engineering organization at SAP, which works with SAP customers and prospects to establish a sustainable approach to execute on-time, within-budget, and on-value performance along the implementation lifecycle. This includes jointly developed collaborative value assessments that result in a business case, a client solution road map, and an executive summary. Value engineering has conducted more than 10,000 collaborative value assessments with customers and prospects globally. A key component of the value assessment is a benchmarking analysis, where business performance is objectively compared against peers in the same industry and geography, and of a similar scale. Benchmarking lets organizations begin to diagnose issues, form a hypothesis, and identify root causes, helping ensure that they target areas that will bring the most value to their companies.

Since the inception of our performance benchmarking program in 2005, we have worked with more than 10,000 participants from more than 3,000 companies across more than 25 business processes – from HR and finance to sales and operations. HR is one of the most mature benchmarking practices, with more than 800 participants to date. All benchmarking insights in this report, unless stated otherwise, are based on data from the ongoing performance benchmarking study done by SAP on human capital management.

Many HR leaders are being asked to demonstrate how they are making an impact and show their plans to impact both the bottom and the top line of the company's growth. Technology is often a key component of such improvement plans.

This paper will answer the following questions:

- What metrics are typically used to measure performance in HR?
- What strategies should HR organizations adopt to drive improvement for these metrics?
- What are best practices, and what key characteristics are required from an HR solution to enable these best practices?

The Increased Need for HR to Demonstrate Value

In any economic climate, there is a focus on planning for, executing on, and measuring organizational growth. HR is at the core of making this happen. International polls of senior HR managers have found that the great majority cited "adapting their talent management strategy and process to deal with the changing business environment" as a top priority. Thus, it is imperative for HR executives to be able to measure tangible progress against key performance indicators (KPIs) based on three core executive issues:

- How do we establish an environment in which our employees feel engaged and we retain our top talent?
- How do we anticipate and meet the business's workforce demands and prepare for growth?
- How can we streamline and automate our processes to increase productivity and reduce the cost of operations?

The ability to address all three core issues and to measure tangible progress against them is a key component of HR's value to the business. Measuring KPIs, therefore, becomes a critical component to quantify and qualify HR's value.

> "Our aim was to ensure that in their day-to-day service-delivery efforts, our managers and employees are supported by an effective, efficient HR information service and system."
>
> Kobus Pietersen, Manager, Strategic HR Business Systems, City of Cape Town

How to Measure Value in Human Capital Management

Many companies leverage performance indicator frameworks and benchmarking extensively as part of their continuous improvement processes. Based on SAP's experience, at the highest level, the HR value proposition (and many HR business cases) is founded on three groups of metrics, in line with the core HR executive issues laid out earlier:

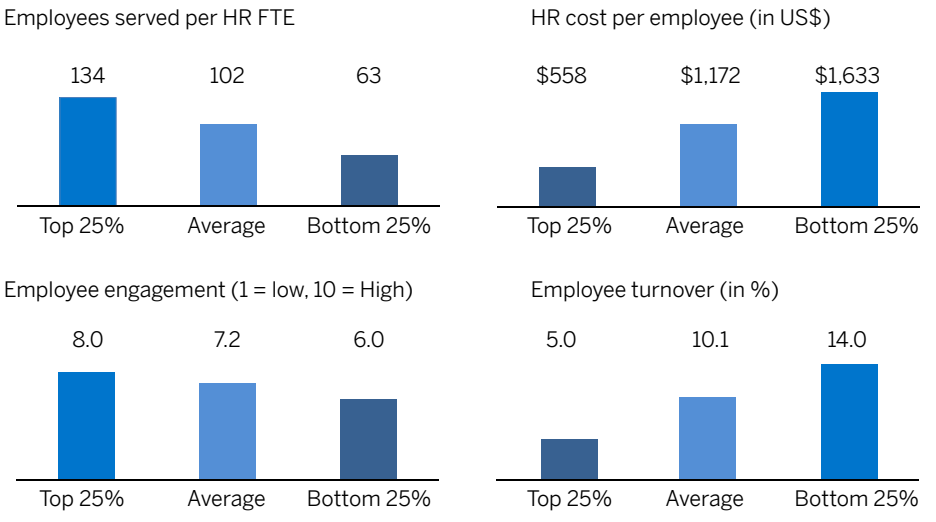
- **Employee productivity** – Employee engagement as well as other more industry-specific productivity metrics (for example, revenue per employee or employee utilization)
- **Workforce availability** – Employee turnover as well as other employee lifecycle–related metrics, such as time to hire and quality of hire
- **HR operational efficiency** – HR costs per employee or employees served per HR full-time employee (FTE) as well as related cycle time, error rate, and transactional metrics

Of the three metrics listed, operational efficiency metrics are the most commonly tracked by organizations; averages as well as typical ranges for HR costs per employee and employees served per HR FTE are shown in Figure 1. However, organizations must be careful about using generic benchmarks as a starting point for comparison, as these metrics are very dependent on industry, company size, and geography.

For example, average HR costs per employee range as high as US$2,000 to $2,400 in industries such as high tech, insurance, life sciences, telecommunications, or utilities and can range as low as $1,000 to $1,300 in industries such as industrial machinery and components, mill products, public sector, retail, or wholesale distribution. Similarly, average HR costs per employee are impacted by geography, from $1,400 in Latin America or Asia Pacific (excluding Australia and Japan) to more than $2,000 in Europe, the Middle East, and Africa (EMEA) or Japan. Similar comparisons can be made for the impact of company size.

For employee productivity and workforce availability, industry as well as geography has to be taken into account. Cross-industry and cross-region averages are 7.2 (on a scale from 1 to 10) for employee engagement and 10.1% for employee turnover. However, average employee turnover can be as low as 5% to 12% for industries such as utilities, healthcare, or aerospace and defense and as high as 30% for retail (see Figure 1).

Figure 1: Key Performances Indicators for Human Capital Management



Source: SAP HCM Benchmarking 2012

External influencers: 1. Industry, 2. Company size, 3. Geography

What Strategies Should HR Organizations Adopt to Drive Value?

Based on the work of the value engineering organization at SAP with HR organizations since 2005, five major improvement strategies (shown in the following table) have been identified that HR organizations can adopt to realize the highest impact. These high-impact strategies influence the KPIs of employee productivity, workforce availability, and HR operational efficiency.

High-impact strategies are at the center of a diagnostic and consultative framework developed by SAP value engineering that helps organizations identify and prioritize those improvement opportunities with the highest value and the strategies that can support the improvement needs. High-impact strategies were developed based on the value engineering organization's extensive customer work on more than 10,000 business cases. The framework allows companies to connect the dots between the KPI (the value), the strategy that helps move the needle on the KPI, actionable substrategies, supporting best practices, and enabling technology. Actionable substrategies are used to implement the high-impact strategies. Examples of these are shown under "Actions" in the "High-Impact Strategies" table. In the following sections, we will discuss how these five strategies have a demonstrated impact on employee productivity, employee turnover, and HR efficiency.

HR organizations with mature shared services have on average 35% lower HR costs per employee than those with no or limited adoption of shared services.

High-Impact Strategies

Primary Key Performance Indicator	High-Impact Strategy	Actions
HR efficiency and costs	Streamline, automate, and integrate HR processes	• Standardize processes globally across all business units • Reduce manual entries with simplification and automation • Integrate processes within human capital management as well as outside • Reduce HR administrative tasks by driving self-service to maximum adoption • Standardize and automate analysis and reporting processes
HR service levels	Organize for scale and leverage	• Create a centralized employee service center • Leverage shared services for routine HR transactions and compliance functions • Build a shared, expert-based organization for talent management
Employee availability and turnover	Align workforce with business needs	• Create enterprise-wide visibility into workforce availability and gaps • Establish an accurate, closed-loop workforce planning process • Strengthen recruiting and other talent management processes
Employee productivity	Develop a high-performing organization	• Align incentives with performance objectives and corporate goals • Adopt a performance management framework into the organization • Implement training programs that develop a workforce in line with organizational objectives • Identify successors for critical positions
Employee engagement	Transform HR into an enabler for innovation	• Differentiate the workplace by driving the adoption of "next" practices in collaboration simplification, communication, and information management • Establish programs that engage employees beyond the workday

Streamline, Automate, and Integrate HR Processes

HR staffing and cost ratios still sit at the heart of many HR business cases, primarily because the associated value is tangible and achievable. Streamlining, automating, and integrating HR processes is a core strategy to achieve this, together with establishing an organization model that allows for scale and leverage.

Streamlining, automating, and integrating HR processes can be achieved by:

- Standardizing processes across all business units globally
- Simplifying and automating HR processes
- Integrating processes within and outside HR
- Reducing HR transactional work by maximizing self-service adoption
- Automating analysis and reporting processes

Let's look at a few examples for underlying best practices and how they drive business performance. As organizations become increasingly complex, integration within HR and outside of HR is a key driver for HR efficiency. It is important to make the distinction between an interface, a file of data going from one system to another system, and real-time integration. With real-time integration, in addition to a more efficient business process, there is a consistency of business rules applied to the data, transactions, and people who access the data.

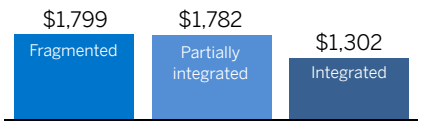
When systems are truly integrated, information is shared, so there are no out-of-sync issues that need to be addressed. An integrated system enables a consistent security platform for data and what transactions employees can perform. In addition, there is a systemic audit trail that is easy to validate. This type of integration enables companies to have a consistent set of workflows, processes, controls, and business rules, which creates a foundation for very strong corporate governance and minimal exposure to compliance-related issues. The benchmarking data from SAP supports this and suggests, on average, a 40% higher revenue and operating margin per employee for those companies in which HR is integrated with the enterprise. All benchmarking data in this report, unless stated otherwise, is based on the ongoing HCM performance benchmarking study by SAP, which currently encompasses insight from more than 800 North American and EMEA customers and other companies.

The HCM benchmarking data provides evidence for these increased efficiencies: HR organizations with a high degree of internal integration (measured by the number of distinct HR applications used) have, on average, 28% lower HR costs per employee than companies with a fragmented HR environment with many disjointed HR applications (see Figure 2).

Finally, with an increased need for insight and robust analytics, the standardization and automation of reporting processes is a key efficiency driver. Consider this: based on the SAP benchmarking data, the average HR organization maintains more than 235 manual reports, which can be more than 520 reports for large companies with more than 10,000 employees. At the same time, the value engineering organization can observe that HR productivity decreases with increasing usage of manual reporting (see Figure 3).

Figure 2: One Natively Integrated Human Capital Management Platform

HR costs per employee by degree of integration (in US$)

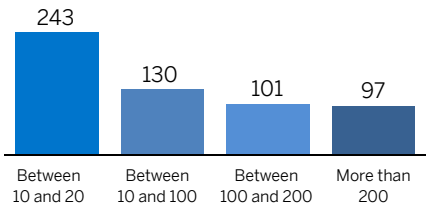


Source: SAP HCM Benchmarking 2012. Degree of integration within HCM assessed based on answers to the question "number of HR applications used."

Figure 3: Standardized and Automated Analysis and Reporting Processes

Less manual reporting = Lower staffing requirements

Employees per HR FTE by number of manual reports maintained



Source: SAP HCM Benchmarking 2012

Organize for Scale and Leverage

HR efficiency can also be increased and HR costs reduced by adopting an effective organizational model. Leading HR organizations use a combination of:

- An employee interaction center as a first point of contact for employee and manager questions
- A second level that focuses on shared services to optimize the back-office transactional processes, such as payroll or benefits administration
- A third level that focuses on the centers of expertise for talent management–related processes, such as recruiting or training (the nontransactional processes)

They also carefully balance internal and external service offerings, optimizing economies of scale and skill for the enterprise. The HCM benchmark data from SAP suggests an average 35% cost advantage for those HR organizations with a high adoption of shared services across HR processes and business units versus those HR organizations with limited or no adoption of shared services. Of course, there are other benefits as well, related to cycle time improvement, increased accuracy, and higher internal customer satisfaction.

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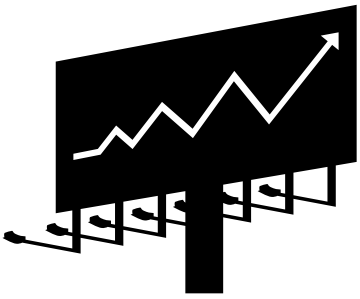

Align Workforce with Business Needs

While HR efficiency is an important part of any HR business case, the real impact of HR lies in ensuring the availability of the right skills at the right location and at the right time and by creating an environment in which employees can be most productive. Ensuring the availability of the right skills requires an incredible amount of insight not just into the existing employee base but also into future workforce trends, and it requires accurate and effective planning processes.

The value engineering organization at SAP has identified three substrategies that can help align the workforce with business needs:

- Create enterprise-wide visibility into workforce availability and gaps
- Establish an accurate, closed-loop workforce planning process
- Strengthen recruiting and talent relationship management processes

Many companies today don't have the visibility they need into workforce availability and therefore do not have effective workforce planning processes. Benchmarking data from the recent enterprise information management survey done by SAP suggests an average of only 72% completeness for HR data and only 74% accuracy, which is the lowest accuracy ranking across all business processes. A key enabler for visibility is the natively integrated environment discussed earlier. The HR benchmarking data suggests a tangible impact on an HR organization's ability to manage the workforce and manage turnover. The value engineering organization at SAP found that companies with systems that allow for analysis of workforce data as well as design, implementation, and monitoring of strategies to optimize the workforce have, on average, 14% lower employee turnover than companies that do not.

Of course, talent acquisition is another key component of a comprehensive strategy to ensure workforce availability. The value engineering organization has observed the following best practices among top-performing HR organizations:

- Allow external and internal applicants to place themselves in a talent pipeline according to their own interests or goals
- Have automated analysis and reporting capabilities to analyze the talent pool and to measure source effectiveness
- Have comprehensive, self-service recruiting, including the ability to create and submit job requirement profiles for approval
- Use approval workflows for requirements profiles
- View candidate short lists and profile and application data
- Have automated applicant and candidate administration with interview invitation, rejection letters, and standard offer letters that are generated automatically based on standard templates
- Use interview assessments that are completed and tracked online

All of these ultimately impact recruiting cycle times as well as quality of hire. For example, based on research by the value engineering organization, in the majority of industries, companies that maintain a talent pipeline have, on average, a 25% shorter time to hire.

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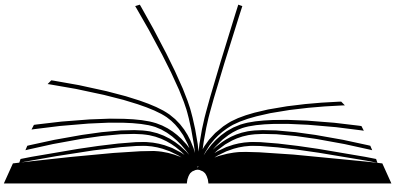

Develop a High-Performing Organization

Measuring employee productivity is vital for any HR department to show HR's impact on the organization. The bottom line is that an HR department should be run like a business in itself. However, productivity is the most difficult to measure because it means something different in every industry and employee category. For example, in a sales organization productivity is based on revenue; in R & D, productivity is measured by time to market; and in professional services, productivity is measured by utilization. The value engineering organization at SAP has identified four strategies common in top-performing companies that impact employee productivity and engagement:

- Align incentives with performance objectives to support corporate goals
- Adopt a performance management framework into the organization
- Implement training programs to develop the workforce that are aligned with organizational objectives
- Identify successors for critical positions

Additional research shows that hiring the right people to do the right things further promotes improved productivity and engagement while helping to reduce costs. A survey conducted with more than 500 participants found that, by using an integrated and automated recruiting solution, organizations were able to cut the time to hire by 10%, equating to a five-day savings. "Bad hires" were also reduced by 10%. In North America the average of the people hired that are not a good fit for the organization is 3.5%.

Once on board, having people work on the right thing further helps improve engagement and productivity. Aligning the objectives with incentives and corporate goals is only effective if there is a process in place to ensure that performance is measured across the entire organization and that the results are acted upon. The benchmark data from SAP suggests that companies with a clear "corporate performance" process in place where individual performance objectives are clearly aligned to corporate goals and rewards are given for performance have, on average, 9% higher employee engagement compared to companies that do not. The survey conducted with more than 500 participants also found that, when companies could better articulate their existing goals, on average they spent 5.5% more time on their strategic priorities. In addition, with an automated and integrated process, they were able to shorten the goal cycle by one to eight weeks on average.

It's no surprise then to find that best-in-class organizations adopt a company-wide, standardized performance appraisal process utilizing online software that is integrated with other talent management tools, such as learning management systems (LMS). The performance management software must allow organizations to link different appraisal templates to different groups of employees and profiles and should include an evaluation of employee performance and development. Top-performing companies integrate the performance appraisal and the training and development process so that the system automatically pushes course offerings to employees based on their job requirements and performance gaps. Benchmark data from the value engineering organization at SAP suggests a 9% higher employee engagement in this case. As a best practice, training and development programs need to be developed and executed in line with the organizational objectives. The benchmark data suggests that an effective training strategy and approach has an impact on employee engagement, with an average of 11% higher employee engagement.

Common practices of best-in-class organizations include utilization of LMS to help increase training adoption by allowing for personalized learning. The average company still conducts more than 50% of training sessions in the classroom, whereas top-performing companies have less than 20% classroom training, the rest being virtual. E-learning improves training execution efficiency by enabling streamlined follow-up processes, such as competency and proficiency results or validation with digital signature. In addition, when the LMS is integrated with other HR applications as well as applications outside of HR, such as financials, training effectiveness can be measured against corporate KPIs via analytical reporting. For example, what impact did the new sales training initiative have on sales revenue, or what impact did the completion of technical training have on machine downtime? This type of information enables organizations to make better business decisions by ensuring that their training strategy is aligned with corporate objectives.

Succession planning is also a key component of any strategy to drive employee engagement and productivity, as it ensures the right leadership as well as continuity in times of change. Succession-planning accuracy, measured as the percentage of successors promoted when a position became available, is still a challenge for many companies. Average accuracy is less than 50%, whereas top-quartile companies have a succession-planning accuracy of 80% or higher. A key enabler for this is the ability to identify and designate high-potential employees and support coaching, mentoring, and job rotation. This, combined with the ability to develop succession plans in line with employees' competencies, allows organizations to identify the best match in a timely fashion.

Transform HR into an Enabler for Innovation

The most innovative HR organizations are now looking for additional ways to drive employee engagement and productivity beyond the more traditional strategies previously described. Ultimately, this leads them beyond the boundaries of HR, working collaboratively across the enterprise. Here are two strategies that the value engineering organization at SAP has seen adopted by the most evolved and highest-performing HR organizations:

- Differentiate the workplace through programs that engage employees beyond the workday
- Differentiate the workplace by driving the adoption of next practices in collaboration, communication, and information management

By designing and executing employee programs – such as health programs, sustainability, volunteerism, or mentoring – HR leadership can play a key role in creating a corporate brand that future and current employees embrace. However, as these concepts are not fully proven in their impact on talent retention, it is also important to be able to track adoption of these programs to assess their impact on employee engagement and talent retention.

HR can also take a lead role in the adoption of innovative practices like collaboration and communication (for example, social networking and mobility). Social networking has made its way into the corporate world and has wide application in information sharing, communication, and project execution. Mobile applications are emerging across all business processes, with educated predictions that by 2015 at least 40% of employee self-service and manager self-service transactions will be performed on a mobile device. The digital world is actually making us more personally connected by erasing the constraints of time and distance. Mobile devices and social networks are freeing people to do what comes naturally – find, engage, and expand personal and professional circles and knowledge. This suggests the need for HR to prepare the path for change for the entire workforce. It is too early to offer any benchmarking statistics on the impact of such programs, but these are areas that the value engineering organization is monitoring for further insight.

HR can take a lead role in the adoption of innovative practices like collaboration and communication – for example, social networking and mobility.

How Can SAP Help?

When it comes to running your organization at its optimal performance, SAP is well equipped to help you from the ground up. Having collaborated with large, midsize, and small businesses worldwide for 40 years, we have gained deep insight into your industry and developed proven software that can help you address your short- and long-term business objectives. With a proven track record from 40 years of business software and solutions experience, we provide world-class technology to more than 183,000 customers in 130 countries, with a global support network to aid you in running better.

As Pere Oteo Olivé, people and organization corporate vice president of CELSA GROUP, points out: "From the moment we went live with SAP ERP Human Capital Management, we had quick access to HR data from across our more than 40 operating companies with employees that converse and work in eight different languages."

By enabling insight, efficiency, and flexibility for customers, SAP® software helps you close the gap between business strategy and execution. SAP and SuccessFactors, an SAP company, are combining SuccessFactors Business Execution (BizX) Suite with SAP offerings to provide the most comprehensive and innovative HCM solutions to the market. The difference you will get with the HCM software from SAP is:

- The most **comprehensive**, full HCM solution available today to accelerate your ability to drive value from HR assets, to help ensure consistency and a single point of accountability
- The greatest degree of **integration** for improved visibility, speed, and quality of decision making and higher strategic value
- More **deployment choice, control, and security** for greater business value, ROI, and data security and protection for our customers
- Higher **employee adoption** and enthusiastic usage for better, faster decision making and greater efficiency at all levels of the organization
- More **robust decision-support tools** for faster, smarter, and more strategic decision making, with real-time insights across both people and business data
- Unmatched **global reach, support, and scalability** to help ensure consistent HR practices around the globe and simple expansion to new offices and countries

The SAP ERP Human Capital Management (SAP ERP HCM) solution and SuccessFactors BizX Suite offer a complete and integrated set of tools with unmatched global support to help you effectively manage and engage your people. With one set of consolidated, cross-enterprise analytics, you are able to prepare for growth by planning, measuring, and aligning objectives, not just within the HR department but with the overall business strategy.

With one competency catalog leveraged by all talent management processes, SAP ERP HCM helps you hire, develop, appraise, and reward your people, helping you ensure that the right skills are in the right place at the right time. Thus, you are better situated to retain your top talents. At the same time, you can automate your core HR processes to increase efficiency in your HR department and reduce costs while maintaining compliance utilizing a beautiful, consistent user interface making it easier for people to access information when they need it.

In addition to software, the Business Transformation Services group of SAP Consulting helps organizations that want to transform their HR department into a best-run business and enable the company to execute on its strategy. Consultants from the Business Transformation Services group can help you shape a long-term perspective, spot quick wins, and plan the way forward through the best use of your resources. If you're developing an HR strategy, consolidating your HR software landscape, or introducing a new service delivery model, we can help.

The value engineering organization at SAP also has vast experience in helping customers in a different way. Having worked with more than 800 organizations globally in just the past few years on performance benchmarking assessments in the HR area, the organization has extensive experience helping companies assess and benchmark their HR and talent management processes. In many instances, the team also supports them by building a business case for improvement. Our assessments not only include an evaluation of how an organization compares in terms of its KPIs against its peers, but they also assess the adoption of business process and technology best practices.

Run better with SAP software and realize the following benefits:

- Align your workforce with your strategy and get your people working on the right tasks.
- Optimize performance across your organization as you find the right people and make them great.
- Accelerate business results with the insight you need to run your business better.

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HR departments need to transform the way they operate, keeping in mind these three key ideas:

- **Technology is a key enabler for performance improvement and is the foundation of all major improvement strategies.**
- **Performance baseline and benchmarking is an important process for any HR organization to demonstrate the value it is providing to the enterprise and effectively plan additional optimization efforts.**
- **The impact of implementing process and technology best practices on business performance is measurable and tangible.**

To help your company, you can leverage the SAP® ERP Human Capital Management solution and SuccessFactors BizX Suite and also take advantage of the performance benchmarking program at SAP to assess your HR organization's performance against its peers. To learn more about the performance benchmarking program, please visit www.sap.com/value-management/benchmarking/index.epx.

"With SAP ERP Human Capital Management, employees are more empowered to manage their personal challenges, and managers have access to accurate online and on-time information. This has helped the City become an employer of choice within local government and within South Africa."

Justine Quince, Director, Strategic Human Resources, City of Cape Town

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