# An Industry Gone Wild on HRM Technology Deployment

*Did the industry learn anything from four decades of evolution in HRM technology tools? The early days of HR BPO were marred by some pretty unsustainable assumptions that led to significant growing pains for the HRO industry.* **By Naomi Bloom**

In writing about the eight generations of applications software architectures for my November 2007 column, I was struck by the fact that the earliest architecture, which is often referred to as mainframe computing, was used by all but the largest organizations on a time-sharing basis. We paid for time-sharing on a resource consumption basis, to include "consuming" a portion of any related software license and maintenance fees.

Here we are, nearly 40 years after time-sharing first appeared, still talking about these same issues of application deployment (i.e., in-house, hosted/on-demand, with or without managed services, SaaS, BPO, and cloud computing) and payment methods (i.e. computing resource consumption, by covered employees/other persons, by specific functionality subscribed, and/or combinations of all three). But just as my spike heels from the 1960s are different enough from today's designs to make the older ones look a little frumpy and a little out of fashion, so, too, do the software deployment and payment options of yesteryear vary from today's myriad options.

Time-sharing was a response to total cost of ownership for those who couldn't afford their own huge mainframes. Time-sharing customers paid for what they used, and the vendor handled all of the functions needed to ensure software availability, upgrades applied, system up-time, security (not much of that then, but who knew?), backup (again, not much more than data saved daily on tapes), and the physical infrastructure. But as computers became personal and much more affordable, and packaged application software became the norm for business applications, we got used to licensing HRM software with a substantial capital outlay paid up front with about 20 percent of that outlay paid annually for "maintenance."

Except for the most limited software sold to the smallest organizations, we customized that licensed HRM software for our own use (i.e., writing code to extend the package's delivered functionality because configuration tools were pretty weak at the time) and ran it on-site in our own data centers (or on our own PCs). Because much of this implementation and customization work was done by systems integrators on a time-and-materials basis, many projects went on seemingly forever and way over budget—often because no one had much incentive to deal with the pain of business process re-engineering, data redesign, elimination of duplicative practices, etc. And so we perpetuated the mindset of custom software even as we licensed packages to gain access to the best thinking of our vendors.

Little by little, an ITO industry emerged that offered us economies of scale, access to scarce expertise, and the promise of best practices in running large data centers. Even some of the largest companies decided to have their highly customized HRM applications software hosted by these ITO providers.

In this same period in the late 1990s, a number of new HRM software vendors heavily focused on staffing automation and funded entirely by not-always-smart venture money came to market with the idea that they would host their own software for each customer who would pay for the use of that software on a subscription basis rather than a license. They thought at the time that they could manage very rapid upgrades, thereby allowing them to come to market more quickly and build out functionality behind the scenes. This version of ASP, wherein the vendor hosts its own software, was also

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intended to shorten the "sales" cycle by removing much of the IT footprint and capital outlay angst.

There was a lot of good thinking here about deployment and payment, but many of these early, on-demand HRM software vendors went through their cash like ice cream on a hot Atlanta day and have long since disappeared. They discovered that their operations and support costs were totally unaffordable because they were essentially running an instance of their software for each customer. And with no big upfront license payments, these pioneers of ASP/on-demand software lost money on every customer. And then came the dot.com bust.

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But there were many important lessons from these experiments:

- Without a one-to-many model, the costs for deploying/upgrading/supporting the software were too high;
- Off-premise doesn't mean out of sight or disconnected. The same interfaces that keep on-premise applications connected must be recreated off-premise;
- Configuration by client is just as important off-premise as on-premise;
- Without full architectural multi-tenancy (as opposed to multi-tenancy provided through the use of blade servers and/or virtualization), most vendors cannot achieve sustainable profitability;
- Without properly designed, full architectural multi-tenancy, single tenancy SaaS vendors will always face higher costs; and
- When you consider the additional, architectural multi-tenant capabilities needed for BPO, e.g. inheritance of business rules across and within clients, not only are the total costs of ownership reduced tremendously, but the improvement in total costs of service delivery is substantial. And it's total cost of service delivery that matters.

Enter Exult—or rather, enter General Atlantic Partners, a major equity partnership with the market research to prove that CEOs, CFOs, and CIOs would be glad to get the "burden" of HR operations off their plates, leaving only the smallest possible number of HR leaders to guide strategy and policy and to govern their outsourcing relationship. And what better way to get started in this very lucrative sounding business than to buy a presumed best-in-class, large-scale HR shared services organization and its people, technology, and process assets.

Any good ITO executive—and the startup leadership of Exult and several other early HRM BPO providers came from ITO—knew that there were many cost savings from consolidating assets, labor arbitrage, automation, and improvements in the underlying processes by which such shared services organizations operate. And considering the savings in big $1 billion deals, it's no wonder lots of folks were caught up in the excitement without realizing just how hard this business was going to be. Greed and lust were abroad in the land.

The "aha" moment for me came during the startup of Exult, for whom I was a consultant, when I realized that there were a number of assumptions being made that just didn't fit my experience. I continue to beat myself up about not having been more effective in raising my concerns, but the scent of IPO was too powerful an aphrodisiac for me to overcome:

- The first realization was that the massively customized implementations of the major ERPs—which had been performed by the largest IT services firms working mostly on a time and materials basis and without forcing their clients to rationalize and standardize polices/practices/plan designs/etc.—were probably the very worst choice as a starting point for what needed to be shared or at least leveraged.
- The second flawed assumption was that the retained HR organization would go off to do "strategic stuff" even though most of these folks had done very little other than transaction processing and regulatory compliance through most of their careers. Retraining a

generation of HR professionals would be needed, and we've all seen how well corporate America has retooled its Cobol programmers for life on the Web. What I never considered was that many of these early HRM BPO clients would either reduce their retained organization way ahead of BPO implementation, thereby ensuring that there was no one home to help get those implementations over the hump, or that, equally misguided, those retained organizations never shrank enough to meet the cost projections in the original business case for BPO. Whether too lean too soon or never willing to get lean enough, the results of mismanagement of the retained HR organization continues to haunt specific HRM BPO relationships.

- Another assumption that haunts our industry was that labor arbitrage was a no-brainer. While heavily accented Southerners are no easier to understand than our colleagues in India, the foreign accents really rankled many U.S. employers, and more than one foray into moving Tier 1 and Tier 2 employee services to India or elsewhere had to be reversed. Even more complex was the difficulty of offshoring non-call-based activities that had never been designed or documented with the precision and stability needed for offshoring. Try explaining worker's comp to someone with no cultural context or years of experience with the surrounding considerations.
- But I think the biggest challenges that many missed during the early days were that the nascent industry didn't have sufficient talent with the right capabilities to keep up with the demand; would be plagued with unsustainable long and costly deal pursuits and client implementations; and wouldn't have the right software to power the BPO "factory." After years of relying on HRM software package vendors for so many of our needs, none of the earliest providers even considered a totally customer-built platform. And this lack of BPO-ready HRM software, e.g. multi-tenant software with Amazon-like that does away with those Tier 1 and a good bit of Tier 2 contact centers—continues to weigh on the BPO industry.

In spite of these challenges, end-user desire to be out from under HR operations, to include the costs and capabilities needed to sustain the related software-based delivery systems, and to put these operations on a pay-as-you-go basis are alive and very well.

But whatever deployment and payment model you prefer, it's pretty unnerving to HR execs to learn that their implementation of Unicru for hourly staffing must now be redone because Kronos' newly acquired Deploy platform will now be its only platform for hourly staffing. Equally unnerving must be the concerns of the customers of some providers who have failed to gain traction in the market, failed to make enough money to make needed, continued investments, or have been unable to do much more than good administration.

## THE SAAS OPTIONS

So where do we go from here? As in so many things, there is no one right answer for how best a specific organization should obtain and pay for its HRM software. There are clearly sustainable models and others that are dead ends. Obtaining your HRM software on a SaaS basis can work very well if the software is terrific and designed to deliver a low total cost of ownership to the vendor along with sufficient margins to keep that software moving forward. Just keep in mind that the software is a part of the overall HRM delivery system so that you don't underestimate the implementation and ongoing maintenance and systems integration of all the software and data piece parts. SaaS providers of payroll will not necessarily do your tax filings or payroll distributions.

Another model that works at a higher cost is to have your software vendor or some third-party host that software. In some cases, the third party has arrangements with your ERP/HRMS vendor, which allows them to offer you that same software at a lower price. But But when you have two organizations making money, i.e., the software vendor and the third-party managed services firm, your costs are going to be higher. However, this is still the only way to put Oracle EBS, Oracle PeopleSoft, or SAP ERP on a pay-as-you-go basis, and it may well be the best way for those planning to stay on older releases, who are limiting their maintenance payments, who lack in-house capability to move to Oracle Fusion or SAP NetWeaver, and for those whose ongoing expenses are more easily approved than a capital outlay for software licenses.

For my money, however, I don't think that HRM software vendors, no matter their preferred deployment and/or payment approaches, will ever create the embedded intelligence across HRM processes that's needed to achieve an Amazon-like, HRM delivery system requiring little or no call-center support. Nor will they ever be in the business of hooking together for you all the parts needed to create the entire HRM delivery system, from background checking and drug testing on the front-end of the employee life cycle through employee assistance programs (EAP) when work and/or life overwhelm us, to filing that last tax report as we leave the organization.

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If HR organizations and their senior management ever want to get out from under the "burden" of HR operations—i.e., of creating and sustaining the bulk of the HRM delivery system—then comprehensive HRM BPO is going to be their preferred software deployment and payment model. And there are next-generation HRM BPO providers and BPO service offerings on the way that will improve tremendously the economics, service levels, strategic possibilities, vendor viability, customer satisfaction, etc. of that industry. Stay tuned. HRO