To ERP or Not to ERP: Is That The Right Question?

WHETHER YOU DELIVER HR SERVICES INTERNALLY OR THROUGH AN HR BPO SERVICE PROVIDER, MAKING SURE YOU HAVE A ROBUST DELIVERY SYSTEM IS A PROBLEM NO ONE WANTS TO CONFRONT.
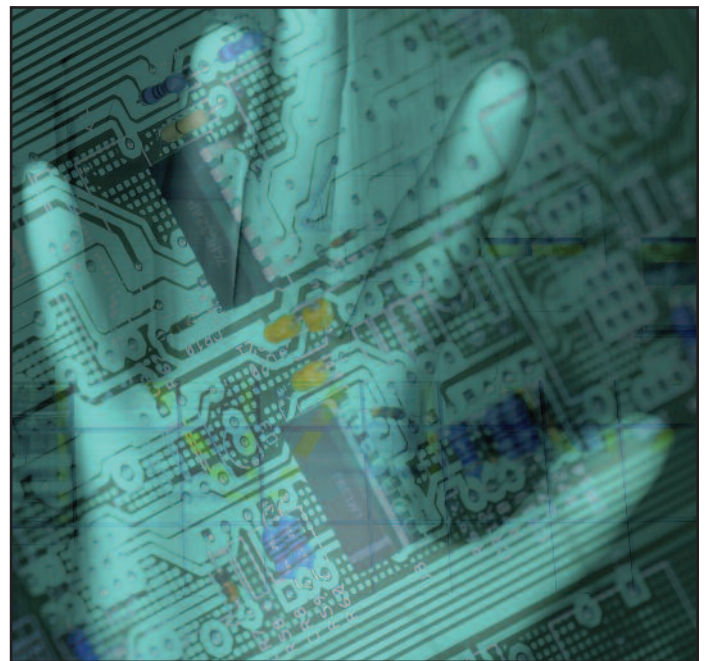
BY NAOMI BLOOM

HR leaders are confronted almost daily with deciding about how best to conduct the business of HR management (HRM) and how to make those decisions operational in their technology-enabled HRM delivery system (HRMDS). How do we modify our healthcare benefit plan designs to maximize employee wellness and the perceived value of the employer's contribution to these benefits while minimizing employer healthcare costs, including lost productivity?

What developmental investments will produce the maximum positive behavioral impact on our sales force at the lowest responsible cost? How do we retain and then transfer the critical knowledge and skills of our aging experts and leaders without limiting the opportunities for or the creativity of our younger workers? And for all of these questions, how do we make operational our best practices and agreed-upon business rules in a highly automated, self-service HRMDS at the best balance of cost, quality, risk and business outcomes?

Each of these HRM and HRMDS decisions holds the promise of either contributing to or damaging the organization's business outcomes, and rarely can any one decision be made in isolation from others. For example, if I improve performance processes but mishandle changes in healthcare benefits, the reaction of employees to a perceived loss of benefits will certainly damage workforce performance. Even worse is when policy and business rules are well-designed but have all their expected positive impacts more than offset because implementation in the HRMDS takes too long, costs too much, is uneven, clunky, error-prone, or even offensive.

Imagine the reaction of a high-potential employee or a highly desirable candidate when a poorly briefed manager asks culturally or legally prohibited questions during an interview or career planning session because the HRMDS didn't deliver these business rules. No high-caliber professional wants to work for an organization whose managers are ill-informed or worse. Today's workers know that if their employer isn't making effective use of technology, then the employer's future is not very bright.

Even under the best of circumstances, HR leaders trying to ensure that their organizations' HRM practices, plans, business rules, and HRM delivery systems are designed to achieve the desired business outcomes may feel like they're playing that old carnival game of whack-a-mole when it comes to the software platform components of that delivery system. Should we upgrade our licensed, on-premise or hosted ERP/HCM suite or standalone HRMS to the latest release and use that vendor's integrated and expanding talent management functionality? Should we layer a shiny new, highly rated, and more comprehensive SaaS talent management suite on top of our older release ERP/HCM or HRMS, perhaps avoiding an upgrade? Should we abandon our ERP/HCM suite or HRMS and outsource payroll in order to use one of the talent management suites that is expanding to encompass core HRM processes? Must we break up with our much-loved but entirely North American HRMS vendor, who has given us a solid administrative foundation at modest cost, because we now need a global foundation and a whole lot more management?

Absent an overarching HRM strategy that speaks to the critical interconnections among business outcomes and the major HRM processes, there's no effective method for ensuring that a change in one HRM process

doesn't produce unforeseen and undesirable impacts elsewhere. And absent a similarly overarching HRM delivery system strategy, every decision about HR technology and related content, collaboration, social software, systems consulting, and/or HRO runs the risk of being anywhere from suboptimal to dead wrong. In these particularly difficult times, making daily decisions takes on a much higher risk because there's just no room in HR or organizational budgets to recover from suboptimal, let alone dead wrong, decisions. And the interconnectedness of these HRMDS platform decisions greatly raises the risks and costs of going in the wrong direction on any one of them.

So what's an HR leader to do? In this first installment of a two-part article, we'll consider your essential HRM system of record. Then we'll focus on how best to meet critical talent management technology needs.

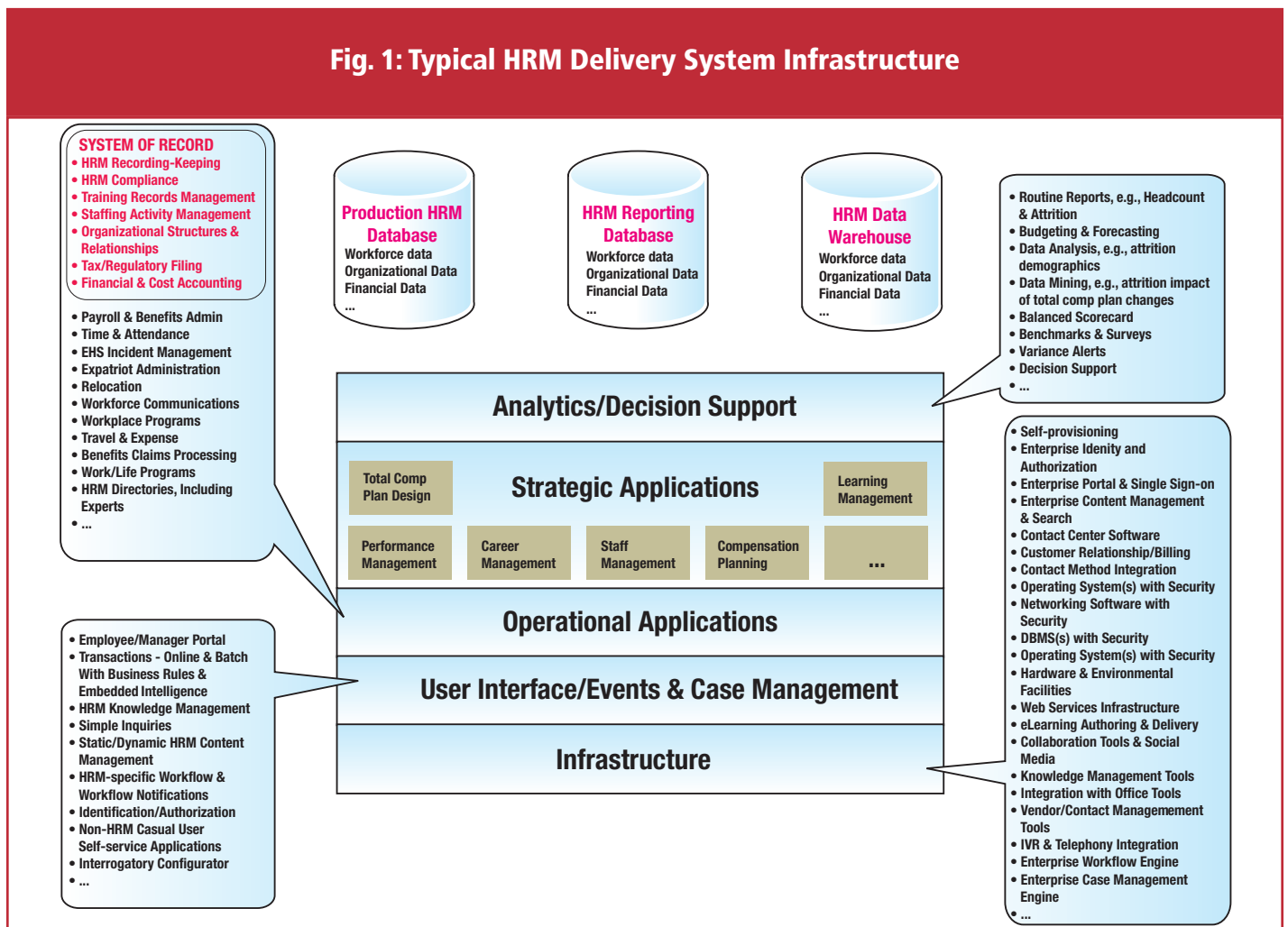Whatever else is going on, including a great recession, we are obligated by law, labor agreements, and necessity to manage the administrative basics of HRM. There's very little direct business value in doing this competently (although the related analytics can produce real insights into how to shape strategic HRM practices), but there are huge costs and risks if we don't. Employees paid accurately and on time rarely win compliments for the HR department, but let something get out of whack and all hell breaks loose.

More importantly, HRM administrative basics conducted through the system of record provide critical information to HR management, not to mention the entire organization. Who works here? When and how did they become employees? When and why did they leave? What do they do and where do they work? What should they be paid and when? To what benefits are they entitled and why? What required training have they had? What required performance reviews or assessments have been done? These and many more questions are the data gathering and reporting responsibility of the system of record. All other HRM processes, especially all analytics and talent management, rely on the system of record for accurate, timely, properly structured, consistently coded, and sufficiently granular data. While our growing body of regulatory compliance requirements can shape the system, wise organizations shape it to meet their business needs and secondarily consider how best to meet additional compliance requirements.

Fig. 1 shows the most common components of a larger organization's, highly automated HRMDS software platform. It's simply not possible to obtain all the needed HRMDS platform components from a single vendor, not even from the broadest offerings of the largest ERP vendors. So every HRMDS platform has some number of interconnection points, with each a potential failure point requiring either real-time or batch interfaces and integration work. Even components obtained from a single vendor may

Fig. 1: Typical HRM Delivery System Infrastructure

SYSTEM OF RECORD
- HRM Recording-Keeping
- HRM Compliance
- Training Records Management
- Staffing Activity Management
- Organizational Structures & Relationships
- Tax/Regulatory Filing
- Financial & Cost Accounting

- Payroll & Benefits Admin
- Time & Attendance
- EHS Incident Management
- Expatriot Administration
- Relocation
- Workforce Communications
- Workplace Programs
- Travel & Expense
- Benefits Claims Processing
- Work/Life Programs
- HRM Directories, Including Experts
- ...

Production HRM Database
Workforce data
Organizational Data
Financial Data
...

HRM Reporting Database
Workforce data
Organizational Data
Financial Data
...

HRM Data Warehouse
Workforce data
Organizational Data
Financial Data
...

- Routine Reports, e.g., Headcount & Attrition
- Budgeting & Forecasting
- Data Analysis, e.g., attrition demographics
- Data Mining, e.g., attrition impact of total comp plan changes
- Balanced Scorecard
- Benchmarks & Surveys
- Variance Alerts
- Decision Support
- ...

Analytics/Decision Support

Strategic Applications

Total Comp Plan Design

Learning Management

Performance Management

Career Management

Staff Management

Compensation Planning

...

Operational Applications

User Interface/Events & Case Management

Infrastructure

- Employee/Manager Portal
- Transactions - Online & Batch With Business Rules & Embedded Intelligence
- HRM Knowledge Management
- Simple Inquiries
- Static/Dynamic HRM Content Management
- HRM-specific Workflow & Workflow Notifications
- Identification/Authorization
- Non-HRM Casual User Self-service Applications
- Interrogatory Configurator
- ...

- Self-provisioning
- Enterprise Idenity and Authorization
- Enterprise Portal & Single Sign-on
- Enterprise Content Management & Search
- Contact Center Software
- Customer Relationship/Billing
- Contact Method Integration
- Operating System(s) with Security
- Networking Software with Security
- DBMS(s) with Security
- Operating System(s) with Security
- Hardware & Environmental Facilities
- Web Services Infrastructure
- eLearning Authoring & Delivery
- Collaboration Tools & Social Media
- Knowledge Management Tools
- Integration with Office Tools
- Vendor/Contact Managemenent Tools
- IVR & Telephony Integration
- Enterprise Workflow Engine
- Enterprise Case Management Engine
- ...

not be fully integrated as to user experience, object model, application architecture, etc., and it's the buyer's responsibility to expose this lack of full integration. And if you thought you were off the hook through comprehensive HRM BPO, BPO providers pass along integration costs, hopefully shared by many clients.

There are many infrastructure and user interface/event and case management components essential to the system of record, but at its heart are specific, automated HRM processes. Payroll, benefits administration, timekeeping, and many other administrative processes impose their own set of demands on that essential foundation of transaction processing and record-keeping, and completely integrated software applications for these other core administrative processes are often provided by the vendors of the system of record.

SHOULD YOU WORRY?

These core HRM administrative processes are well-defined, and while dynamic, their business rule changes tend to fall within known patterns, e.g., the patterns of tax table changes or compensation plan eligibility rules. However, we're looking at a period of substantial activism around labor-related regulations as governments around the world, perhaps led by the activism of the Obama administration, deal with this great recession. After eight years of only modest investments needed to keep up the regulated functionality in systems of record, vendors now face making much larger investments over the next few years.

HR leaders who depend on a system of record or closely related payroll/benefits/timekeeping applications that are long out of date should consider moving onto current releases. Vendors investing in their current releases (SAP with BS7, Oracle with Fusion, and Lawson with their new HCM suite are three good examples) cannot be expected to support new development at the needed level if they have to address disruptive regulatory requirements in older versions.

Even the best intentioned of the largest ERP/HRMS vendors of on-premise software will not be able to build critical new functionality on their latest releases (or, in the case of Oracle, bring a full replacement Fusion HRM suite to market as quickly as it's needed while supporting fully their legacy EBS and People-Soft HRM products) if much greater investments are needed to ensure compliance. And you certainly won't be getting the benefit of vendors' investments in more strategic functionality unless you are on their latest releases.

Now's the time to figure out whether you'll be moving to those latest releases. If you've turned over your older release ERP/HRMS to a BPO provider or an ITO firm just for hosting, these concerns don't necessarily disappear. While some HRM BPO providers are committed to moving their entire installed base at their own expense, that's by no means a universal commitment.

At much greater risk, in my opinion, are HR leaders who depend on a system of record from brands that haven't sold in years and whose current owners are investing from a shrinking maintenance stream. Here Tesseract (now owned by Empagio), Integral, and Cyborg (now rebranded Accero) come immediately to mind, but they are by no means alone. Many end-user organizations have been able to keep their total cost of ownership (TCO) very low by running software that's well beyond its useful life, but those savings could be diminished by having to make a move quickly in the face of a vendor that can no longer afford to maintain full regulatory compliance or leaves much of that compliance to a customer's manual processes. Even when these "heritage" platform components are hosted by the vendor or a third party, it's still the HR leader's problem to pay for manual processes to do whatever the software cannot do.

At no real risk are end-users depending on the latest releases from viable ERP/HRMS vendors, who are well-positioned to release updates as quickly as the underlying rules are defined, but that doesn't mean there won't be manual or automated workarounds needed. Also at no real risk—as long as their SaaS vendor is viable and capable of providing those regulatory updates correctly and on time—are HR leaders who use a true SaaS system of record because they are always on the latest software release. Also at no real risk—as long as their provider is viable and they've been very clever in writing their SLA to include the entire system of record along with protection against all manner of regulatory changes—are HR leaders who have committed to comprehensive HRM BPO, thereby turning over to the provider all responsibilities, including the responsibility for regulatory compliance. I should note, however, that some comprehensive HRM BPO deals might not have been priced to include the unusually high level of regulatory changes we may experience during the next few years.

For those of you thinking that I've only paid attention to the system of record issue as it pertains to those larger, more global organizations and their software vendors, let me note that there are still entirely domestic organizations that may choose to commit themselves to entirely domestic (perhaps including Canada and/or Mexico) HRMS and BPO/PEO providers. Some buyers such as large private or public healthcare organizations, public school systems, sports teams, radio station groups, beauty salons, dry cleaners, landscape services, car dealerships, neighborhood shops or plumbers rarely expand across national borders, and all country-specific governmental organizations are by definition domestic. But in our increasingly flat world, private-sector organizations with more than a thousand employees often have geographic expansion as a part of their growth strategy.

Even for entirely domestic and more middle-market or smaller organizations, what I've said here about the challenges faced by healthy vendors is equally applicable. There's a point at which even healthy vendors can no longer afford to do much for older releases and at which marginal vendors close up shop. Shame on any HR leader who wakes up to these realities without having planned for them.

Thus far, we've discussed the challenges HR leaders face in ensuring that their system of record is complete, current, and compliant, and the special challenges of doing so at a time when the pace of regulatory changes may accelerate. But this same system also provides the critical data foundation for all things talent management, and it's only in doing talent management well that we can deliver strategic value to our organizations. In the second part of this article, we'll tackle the ERP/HRMS/talent management suite issue, but you may already leap to the conclusion that, unless you're on a very firm system of record foundation, your talent management automation efforts are going to suffer. **HRO**

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