Proving the Value of HR Technologies

By Lexy Martin, CedarCrestone

I will be leaving CedarCrestone after the 17th annual CedarCrestone HR Systems Survey (http://www.cedar-crestone.com/annual-survey) is released in October 2014. Last year, I identified a successor — Stacey Harris, previously with Bersin and BrandonHall — to take my teen-aged Survey to get its liquor license. Facetiousness aside, her intelligence and exuberance will give the Survey new and exciting direction. One continuing direction is to take on my personal holy grail of proving that HR technology adoption creates value.

With the support of our organization's management, I started this research in 1997 as a way to understand how emerging technologies of the time — specifically employee and manager self-service —were being adopted and what value enterprises achieved from their use. That objective, to track application adoption of HR technologies and report on their value, is a constant. Over the years, we have evolved the Survey to track any technologies deemed to have potential enterprise value. From just self-service, we expanded to track seven categories of HR technologies believed to have value that move organizations to achieve excellence from their adoption: administrative, service delivery, workforce management, talent management, business intelligence, workforce optimization, and social tools used strategically. We never made huge changes to the Survey so that we could do year-over-year trend analysis and show consistent value. Each year, we also selected a few emerging technologies that we thought might have enterprise value and continued to track them if they did — if not, we dropped them. Our latest two emerging technologies are big data and gamification. The future looks even more exciting as we will explore more emerging technologies!

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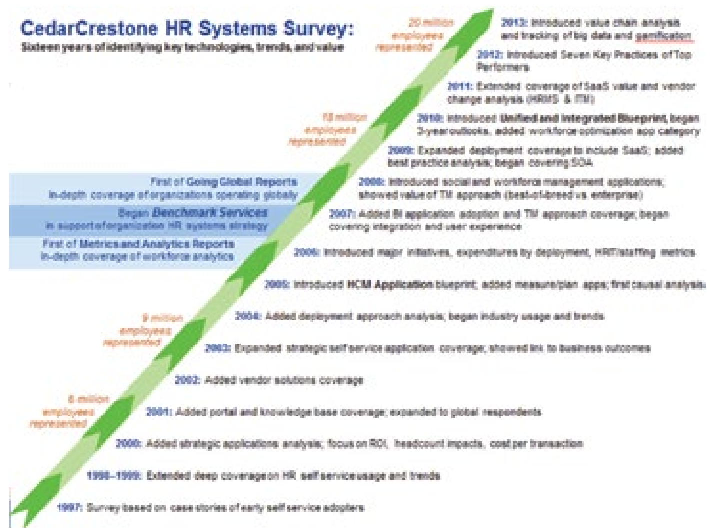


Determining Value

Figuring out how to show value from HR technologies adoption has been an evolving practice. In 1997, the justification for employee and manager self-service was to show real hard-dollar cost savings in labor and materials. Using both metrics collected during our Annual Survey and the in-depth return-on-investment (ROI) research we were doing with various vendors, we helped organizations initially justify acquiring self-service, then later their Human Resources management system and talent management solutions. One early way was to translate productivity improvements from automation into labor elimination and add in the cost reductions from elimination of files, paper, multiple servers, and systems. Alongside quantitative results such as those reported in 2002 from self-service and call-center technologies, we also recognized the emergence of strategic savings.

*Quantitative Results Achieved**

	North America	Europe	Examples
Average cost of transaction	Average 52% reduction	Average 48% reduction	North America: Savings of $5.29 per average transaction by having EE complete transaction vs. HR
Cycle Time	Average 62% reduction	Average 40% reduction	Europe: 100% for leave management; North America: average manager transaction from 10 days to 1 day, change of status from 10 days to 3 days, requisition process from 104 days to 63, enrollment from 4 weeks to 1 week
Headcount changes	Average 40% reduction	Average <10% reduction	North America: Data entry staff reduced by 50%; HRIS headcount reduced by 4 people over 3 years, reduction of benefits department by 8 people, service center headcount reduced by 10
Return on investment	Average 40% reduction	No data	
Payback Period	Average 3 years	No data	Most are reporting their forecasts; one global organization we track reports an actual 18 month payback achieved
Employee Satisfaction	Up to 50% improvement	No data	North America: 100% improvement because employees can access while traveling and from home
Inquiries to Service Center	Average >75% reduction	No data	

*No data points reported from Australia/Asia Pacific respondents

HR/Staff Ratio

HR Specialist	Web Self Service	Call Center	Web and Call Center	Plus Authoria
1/109	1/140	1/169	1/190	1/212

Beyond ROI to JOI

In June 2000, we published an article in the *IHRIM Journal:* "Human Resources Self-Service/Portal Value Proposition – Beyond ROI to JOI." JOI stood for Justification of Investment. Traditionally, the ROI from HR technologies prior to 2000 required head count reduction. In a tight labor market, this was not an option yet management still expected cost reductions. A new approach to justifying investments in technologies was required for innovations like self-service and portals. The article described the activity-based, traditional return-on-investment approach and went a step further to propose an innovative justification-of-investment approach that showed how soft benefits such as improvements in employee satisfaction or making more employees into top performers could also yield hard dollar returns.

Impact on Bottom Line of Reduced Turnover

Industry studies indicate that for every 2% improvement of employee satisfaction, you can expect a 1% reduction in turnover.

Current employee replacement costs are estimated at $40,000 per employee.

Therefore, your employee replacement costs could be reduced by **$400,0000.**

Source: The Hunter Group using ROI Calculator prepared for iClick, October 1999. Assumes 10% turnover in an enterprise with 10,000 employees.

Potential Revenue Improvement

Average revenue produced by top performer	**$4,500,000**
Number of average (revenue producing) performers	**60**
Average revenue of average performer	**$3,200,000**

By providing access to company and competitive information to your employees, average performers can become top performers...

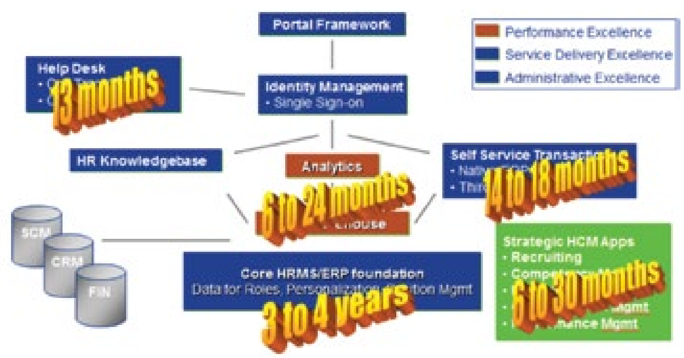
If 10% of your average performers became top performers...

Revenue for your organization could be increased by **$7,800,000.**

Source: The Hunter Group using ROI Calculator prepared for iClick, October 1999. Assumes an enterprise with 10,000 employees.

We also collected average payback periods that were used by countless organizations to justify their investments. In the figure below, juxtaposed on an early Human Capital Management Application Blueprint, we show the average payback periods for the technologies we were tracking in 2005: the core HRMS, various strategic HCM applications (our early name for talent management), self-service, the help desk, and early analytics.

Average Payback Periods



> *We found that organizations adopting more HR technologies had the highest OIG.*

Value Analysis

Around 2005 (and even before), analysts and vendors began to say that what was more important than cost savings from automation was to show the link from individual performance to meeting enterprise objectives. We were all looking at people as the intellectual capital of the organization. What was of greater significance were peoples' skills and competencies that helped them do what was critical for the organization: developing new products to meet market demands and being first to market, keeping customers happy and coming back rather than getting new customers at greater cost, selling more product and services, and so forth.

So in 2005 and continuing to now, we began to look at the link from adopting HR technologies to financial metrics of respondent organizations. Ideally, we wanted to find that adopting HR technologies caused higher revenue or higher profitability — instead we found a link from adopting more HR technologies to operating income growth (OIG) (profit after taking out operating expenses). We found that organizations adopting more HR technologies had the highest OIG.

Operating Income Growth by Applications – Worldwide

	Growth
Top quartile (20–26 applications)	18%
3rd quartile (14–19 applications)	15%
2nd quartile (8–13 applications)	3%
Bottom quartile (2–7 applications)	-6%
Overall (2–26 applications)	9%

But we were constantly asked, "Were the applications deployed because organizations have money to spend due to their income growth, or do applications cause this growth?" Despite causation being impossible to prove, it was my personal goal to answer the challenge. We did our first cross-lag statistical analysis and reported that while other factors may be at play, several applications are clearly among the factors contributing to operating income growth.

Operating Income Growth with and without Key Applications – Worldwide

	Growth with applications	Growth without applications
Manager self service	26%	3%
Career planning	22%	5%
Workforce measurement	17%	7%
Talent acquisition	14%	3%
Performance management	13%	7%

From then to recently, we began to look at those "other factors." We looked at level of data and process standardization, HR being viewed as strategic, level of best practice process adoption, state of integration of processes and technology, and more. Each year, we reported the HR technologies that showed the most promise in achieving business outcomes.

Please remember that from 2008 to essentially recently, the economy intervened and thus business outcomes faltered for many respondent organizations. One of my favorite findings in 2008 was that succession planning, when limited to top management, was linked to abysmal sales growth; however, in organizations with a broader succession planning scope that reached down to the manager level — if not to all employees (i.e. career development) — achieved the highest sales growth. Further, during those down times, HR technologies that were focused on developing the workforce showed the most promise. Another of my favorite findings in 2009 was that "integration matters!"

Talent Management Process/Integration Impact on Financial Metrics

	1 Yr. Sales Growth	Sales/ Employee	1 Yr. Op. Inc. Chg.	Best Overall
Efficiency*	○	○	○	
Effectiveness**	◑	◑	◑	
Integrated***	●	●	●	★

*Talent transaction/efficiency focus
**Talent process effectiveness focus (not integrated)
***Integrated talent processes and systems

● Highest
◑ Above average
○ Below average

Over the years, it was clear that we could not show causality from HR technology adoption to value so on the advice of several statistics experts we turned to looking at consistency of findings. In 2011, we reported on HR technologies that retained year-after-year, consistent impacts on business outcomes. A help desk for HR took top honors for being the one technology that we showed to most frequently have consistent value. That value was for its contribution to cost efficiency. Career planning and development came next. Our conclusion for it was that organizations that cared enough to develop their employees engendered employee loyalty, and employee loyalty paid off in higher financial outcomes.

Five Years of Technologies Impacting Business Outcomes

	Pre-2008	2008	2009	2010	2011
Help desk for HR	X	X	X	X	X
Manager self service	X	X			X
All workforce management applications				X	X
Absence management			X		
ERP-based talent management (integrated)			X	X	
Integrated talent management					X
Competency management		X	X	X	
Performance management		X	X		X
Learning management		X			X
Career planning	X	X		X	X
Succession planning (all employees)		X	X	X	
Succession planning (executives or key roles only)					X
Recruiting	X				X
Business intelligence (warehouse, visualization, middleware)			X	X	X
Workforce analytics		X		X	X

Value Chain Analysis

The problem with showing the link between technology adoption and financial outcomes is that we could only do that for publicly traded organizations (typically around 40 percent of our ~1,200 annual respondents) where we could independently obtain validated financial numbers. In order to be able to show value from all respondents, in 2013 we started to do a value chain analysis that looks at the link from HR technology adoption to both HR and business outcomes. So, for example, one analysis showed the link from adopting business intelligence technologies in the hands of managers to improved top talent retention (an HR outcome), and from there to improved competitive advantage (a business outcome).

Top Performers Achieve Competitive Advantage Improvements from Business Intelligence

Where are we now? With the statistical support of an outside academic advisor, Janet Marler, associate professor, School of Business, University at Albany – State University of New York, we have further linked HR technology adoption not only to HR and business outcomes but further to financial outcomes, specifically return on equity. We will publish more on this later this year.

. . . the more things change, the more they stay the same

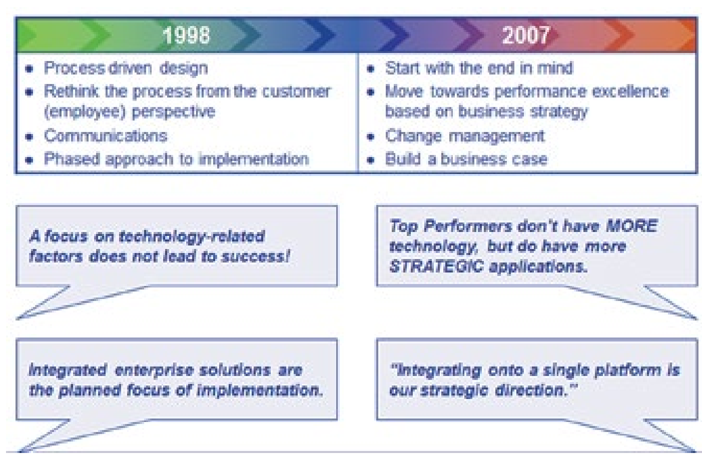
Lessons Learned

I thought of titling this last section, "Plus ça change, plus c'est la même chose"— the more things change, the more they stay the same. While the HR technologies have changed from just self-service to a broad range of applications that have enterprise value, and the way we have tracked the value has changed, some things have not. These are embodied in lessons we have learned along the way — and having been a researcher on emerging technologies since the late 1970s, I think many of these transcend HR technologies to apply to any innovations. So, I'll start with the consistent message of every Survey report we have published:

1. The most important success factor is change management! There is a lot of history behind this statement, such as when we used to track the expenses associated with technologies by hardware, software, services, and change management: on average it needed to be at least 10 percent of the budget. But recently we heard from one respondent that it is about 50 percent of any budget at his firm! And, change management often needs to start with HR itself as it is often most resistant to change.
2. Start with vision (and business objectives), not technology. Five years into publishing our Survey, we went back and reviewed the lessons learned from our earliest adopters back in 1997. Most of the early adopters had remained successful; some were hit by organizational issues such as mergers, harsh cost-cutting measures, or lack of executive support as attention was focused elsewhere than HR. A consistent refrain was to start your effort with a vision aligned with business objectives and only then look at possible technology introduction.
3. People matter, too, with self service. Our early adopters reported success is achieved with high-tech and high-touch, blending technology, organization and individual needs. By 2002, there was little doubt that organizations that had not started to implement HR self-service would cease to be competitive in their ability to reduce the cost of operations and even to recruit and retain talent. The advantages of lowered cost of operations yielding more capital available for employee development and the resultant opportunity to create a high performance workforce are compelling reasons why HR self-service and portal technology adoption had become critical. But to be successful, there needed to be a wise blend of high-touch/high tech solutions: people matter, whether they are retained, high-caliber HR people, managers, or employees, so pay attention to what matters for people. (Years later this is now embodied in the quest to improve the user experience not just for HR, but for employees and managers, too.)

Ten years into doing the Survey, our lessons learned compared our fifth-year learnings with our tenth-year learnings and can best be shown by the following summary chart.

Critical Success Factors: Some things really never change.



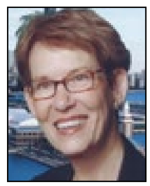
4. Integration matters. Integration was not only the planned focus in 1998, but the strategic direction in 2007 where we saw consistent links to value.

Integration has mattered and matters today in 2014. Today, unified solutions of HR and talent management hold promise. For others, integration in all its forms, from simple APIs to having an integration platform strategy, helps achieve the holy grail of integrated data and processes.

5. Key HR technologies matter. An earlier chart showed the various HR technologies that showed consistent links to value. These include an HR help desk, competency management, career planning and development, foundational business intelligence technologies, and workforce analytics. (We think there is one more and will report more deeply on it this year: workforce management.)
6. For the vendors – empower. Empower the HR and HRIT community with key benefits for adopting xxxx, with cost justification support and with stellar examples. Early adopter organizations "see the value" and need no help; but once past selling to the early adopters, vendors need to do a better job of helping HR/HRIT decision makers with cost justification.
7. Get the basics right and keep things simple. This was our first "lesson learned" from our latest Survey White Paper. It applied to getting basics right like standardizing processes, managing service delivery globally, and putting talent management on the HRMS platform. But it's been an interesting underlying theme over the years that organizations that take a stance with their HR technologies (i.e., a licensed on premise HRMS) and get really good at managing it, do really well. Part of good management of a licensed, on-premise solution is to "stay vanilla" and don't customize unless local business practices demand it.

There are other lessons learned I could pull out from 16 years of looking for the value from HR technologies. Let me conclude with one final lesson learned: take the annual CedarCrestone HR Systems Survey! It will educate you on the scope of key HR technologies and give you the chance to share the value you see from adopting HR technologies that matter: www.CedarCrestone.com/survey-lmi.

About the Author



As vice president, Research and Analytics at CedarCrestone, Lexy Martin is responsible for its annual HR Systems Survey, now in its 17th year. When not working on the Survey, she provides strategy, benchmarking, and analytics services. Prior to October 2014, she can be reached at Alexia.Martin@CedarCrestone.com and thereafter at ***lexy.martin@sbcglobal.net***. Stay in touch!