Make Way for HCM

The pressure to attract, hire, and retain good people is forcing HR departments to rethink on systems to manage their workforce—Human Capital Management is one such system

"Talent acquisition, transformation, and management are critical anchors for the growth of the (IT) industry," Infosys co-chairman, Nandan Nilekani, said last year. His statement rings true not just for the booming IT industry, but also for all major industry segments in India. With the country's economy growing at a steady 8% annual rate, India is now poised to become the world's third-largest economy (behind China and the US) within two or three decades, if economists are to be believed.

Over the last few years, India has been reaping the rewards of its advantageous demographic dividend, and many companies are looking at ways to have a steady stream of quality talent and, more importantly, ensure retention and satisfaction of employees. The dizzying pace of talent acquisition creates a challenge for smoother assimilation and cultural binding of new recruits into the organization's fold. At no other point in India's history did Human Capital Management (HCM) assume so much importance as it does now.

So, what does HCM really mean? The Chartered Institute for Personnel and Development (CIPD) describes human capital management as the "skill, experience, and capacity to innovate that is owned by individuals." This is a basic definition, and a more specific one is provided by the International School of Human Capital Management (ISHCM); HCM is an organization's multi-disciplined, integrated approach to optimize the capabilities and performance of its management and employees.

The New HR Mantra

While the realm of human resources refers to people as resources, the term human capital reflects employees as assets. HR issues are now business issues, and those who tackle human capital issues are prized. Human resources management is now more of a technical and proactive approach that blends traditional HR disciplines with technical measurement and performance, and financial and economic disciplines.

A recent cover story article on India in the US-based HR magazine noted: "The human capital challenges facing some of India's hottest sectors are similar to the skills shortages that some employers in the United States face today—and that more may encounter in the future as vast numbers of baby boomers retire, legal immigrant laborers grow scarcer and America's educational system continues to struggle to produce qualified new workers."

It goes on to state that while similar challenges face both nations, the stakes are higher in India. "For many companies in highly competitive sectors, a lack of talented workers con-

stitutes a 'make-or-break' HR issue, which makes the value of good HR management readily apparent to top executives."

HCM is becoming core to any enterprise simply because the employees are the company's primary assets. An increasingly globalized workforce throws yet another challenge for companies' managing teams across geographies and cultures.

With Information Technology simplifying business processes and day-to-day functions across companies, can HR be far behind?

According to Oracle, globalization would force large enterprises to reevaluate the importance of running a standardized HR system as a single instance, and take into account localized features that are more suitable for their far-flung operations.

Businesses have access to technology infrastructure, cutting-edge communication systems, information enriched processes, and deep pockets. However, their key challenge lies in aligning their human capital to their business goals and in measuring their performance in the business. Nagaraj Bhargava, VP, Marketing and Sales Operation, SAP India, opines that adoption of an HCM system is becoming a long-term solution for organizations to address perennial staffing and productivity problems, while providing a stable and proven platform to better handle growth, change, and future market demands.

Vijay Dewan, MD, the Park Hotels, which recently went live on SAP's HCM software says, "We wanted Park Hotels to be a world-class organization both in terms of employee engagements and customer engagements. We believe that highly engaged employees lead to highly engaged customers. So, we decided to implement this HR system." Park is the only hospitality group in India to have implemented such a comprehensive system.

Key objectives for automating HR functions

Objective	Score
Reduce compliance and organizational exposure risk associated with human resources	3.8
Improve hiring and employee retention	3.5
Boost employee satisfaction	3.5
Align pay with performance, company goals	3.4
Lower human resource operational costs	3.3
Better manage sales compensation	2.9

(Note: Scale from 1 to 5, with 5 indicating highest priority; Source: IDC Appstats Survey, August 2006)

View of HCM Players

The global HCM and HR management system segment is a mature space and also an extremely competitive one. Whether the software caters to large Fortune 500 giants or mid-market and SMB firms, it is now part and parcel of any enterprise-wide IT rollout.

According to an AMR research released in 2006, the HCM software segment is expected to grow at 10%, and HCM and CRM are together the fastest growing segments of the overall enterprise application market. The ERP software sales, by comparison, would grow at a mere 3%.

If there is any indication of the importance of the HCM market, one does not have to look beyond Oracle.

HR Challenges in India

■ Creating a high-performance culture
■ Retaining talent
■ Recruiting
■ Moving from patriarchic, hierarchical management to a more team-based, informal organizational culture
■ Linking training with performance
■ Compensating knowledge workers
■ Building interpersonal relationships/ managing conflict
■ Going global

Source: CEO survey 2006, by Aneeta Madhok, dean, Faculty of Management Studies, and professor, Organizational Behavior and HR, at the Narsee Monjee Institute of Management and Higher Studies.

The Redwood Shores-based company invested billions of dollars to buy two major companies in the space-PeopleSoft and JD Edwards, a few years ago. These acquisitions have placed Oracle neck-in-neck in the race with SAP.

At the upper end of the HCM spectrum are the huge ERP companies like SAP and Oracle to the lower end of the spectrum that is peppered with mid-range enterprise software providers and small pure play HCM players, some of whom have cultivated their own local markets.

According to AMR research's HCM applications report 2005-2010, Oracle was the leader in HCM space in revenue terms, overtaking SAP following its PeopleSoft buy in 2004. In 2005, Oracle held 26% share of the HCM market revenue while SAP garnered 23%. The distance is closing between the two fierce rivals. Kronos is ranked behind the two and has 10% market share. The top three vendors together notch up around 60% of the market. Some of the major specialized players include Sage, Adrenalin eSystems, Meta4, Ultipro, Lawson, and SuccessFactors. However, the market is big enough for a number of smaller HR management players, some of which are making their mark by adding on innovative feature rich and flexible solutions based on a low-cost, SaaS model aimed at the mid-market and SMB segments. Not to be left behind, the ERP/HRMS giants that follow a platform based licensing

model have also started offering an alternative option. SAP, for instance, offers Business ByDesign, an on-demand solution for small businesses and midsize companies, that is currently available in the US, Germany, the UK, France, and China.

The Indian Scenario

The Indian market is just starting to pick up. Until now, enterprises that were used to traditional DOS-based or Microsoft Excel based HR systems are moving into top gear to adopt end-to-end HR systems. Chetan Pathak, VP Enterprise Solutions, Ramco Systems, traces the evolution. "In the last 15 years, many companies are moving away from traditional HR functions that were only about personnel administration, leave policies, and compensation. This has evolved into HCM that is used to tap the potential of every employee and ensure that employee's contribution and performance is aligned with the company's goals. Very few organizations adopted this approach six-seven years ago."

Pathak adds that the HR function has gained specialization in the ITeS segment. "BPOs sometimes hire something like 5,000 people in a matter of a few months. Traditional HR systems fail to address such a high requirement. Managing BPO projects are complex; they need to translate each project into shifts, number of employees needed, specific skills required and track the employees regularly."

Many large enterprises adopt HCM as a part of their overall ERP implementation while others prefer to choose specific modules. Adrenalin eSystems and Ramco are the main homegrown players that have been catering to the mid-to-large companies in India and also countries in the Asia Pacific. Touching on the fragmented HCM segment in India, Balaji Ganesh, CEO and MD, Adrenalin eSystems says, "The HR

Looking Under the HCM Hood

Human Capital Management is all about managing employees, the most valuable asset of any organization. A well-designed HCM strategy would take a complete life cycle approach to employees, covering everything from recruitment and hiring through training, career development, and compensation. The ultimate goal would be to help an organization realize, maximize, and manage the inherent value of its workers. This goes beyond the typical HR functions of payroll and benefits. Simply put, a good HCM product is HR software powered by business intelligence.

Main Components of HCM Solutions:

Performance Management: Every organization carries out performance reviews of its employees. Done manually, it takes up a lot of precious time away from managers. But, this procedure could be automated quarterly. Time-bound performance reviews and appraisals between an employee and his or her boss can be carried out online, enabling a 360 degree review. Each employee can be tracked from applicant stage through internal position changes, to the end of the separation process. The performance management system usually links to the compensation systems. Some vendors also offer software that allows succession planning.

Recruitment Management: Recruitment or talent acquisition is a crucial aspect of any strategic HR strategy. While seeking to fill up a good position, a manager can quickly identify a pool of employees suitable for the job. He can sift through the database and identify a suitable employee for a certain project based on the parameters that are fed in, such as years of experience, requisite skills, and qualifications.

Workforce Management System: When organizations view employees as assets, it is obvious that the assets are tracked and monitored effectively. Workforce Management Systems usually involves staffing, tracking, and rewarding employees. It tracks the status of labor activities including current active projects, work orders, man hours, and compensation data.

Payroll and Compensation Systems: HR software began its journey with this solution and as the name indicates, the system enables HR managers control overall aspects of payroll processing operations. Many vendors are bringing out scalable platforms that allow customers install and operate payrolls that are compliant with local requirements at any global location.

Using this system, employees can view their salary slips online, their personal data around compensation and benefits, and also get a copy of their latest earnings statement.

Policy Compliance: A lot of international and local compliance regulations require organizations to report their HR areas such as payroll, benefits, pensions, and others. The new Clause 49 of SEBI regulations defines, among other things, corporate governance standards and requires a certification of a true and fair view of financial statements. Listed companies need to conduct a Policy Compliance Program periodically. This entails employee confirmation on various internal processes and policies as a part of the Compliance Program.

Management Systems space is hotting up and also getting over crowded. At the one end of the spectrum are small time fly-by-the-night vendors dishing out software at unimaginable prices, and the other end is full of ERP vendors fighting for their share in the space. We were placed in the middle."

In the past, the decision of implementing an HR system usually fell on the CIO's shoulders, but now it is slowly becoming the priority of the CEO and the HR head.

A good HCM approach could be the chief weapon of an organization's strategy to achieve increased revenue, increased profit margin, and preparing for new economic and cultural shifts.

—**Priya Padmanabhan**
with inputs from **Shrikant G**