



Three Reasons to Integrate ERP and HCM

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It's generally recognized that the human capital management (HCM) space is heating up and that HR professionals are investing in technology to improve organizational performance. Research has found that existing systems are aging, cloud systems make software easier to buy and advances in user experience make purchases more compelling.¹

Yet, as HR leaders evaluate a new generation of HCM solutions, the landscape is quickly evolving. The HCM solutions of the future are the ones that embrace lessons already learned by the best ERP solutions—an adjacent space that has already navigated the learning curve. The ERP market has come to understand the importance of unified data, employee-driven workflows and contextually relevant tools.

“Even adding modules to an existing suite can take two to three years to bear fruit. The benefits are significant if the development effort is successful, as customers will experience better process integration and a seamless user experience.”

Paul Hamerman

Forrester Research²

1. Unified Data Wins

The ERP market understands that having all your data in a single system drives higher efficiencies and provides the business intelligence needed to support better decision-making. In the rapidly iterating, cloud-based HCM space, on the other hand, that lesson has been largely overlooked. The HCM landscape has numerous vendors selling disconnected solutions for recruiting, performance and HRIS core data, while evangelizing the need for “integrated suites.”

This contradiction is easy enough to explain. When business leaders can seamlessly move between functions, they save time and enjoy a better experience. But building a unified platform is costly and vendors hesitate to invest in development when it's faster to partner. So they continue selling not-so-integrated suites that leave customers with multiple contracts and difficult paths to resolve problems.

Releasing the Power of Unified Data

Consider the impact of integrated ERP and HCM on 2014 human capital budget planning. You begin by defining your hiring plans and setting your budget for the year. Since your HCM suite provides the data you need on average time-to-hire and cost-to-hire, you can automatically assign your projected recruiting costs to the right month. Of course, your budget also takes into account the cost of replacement hires, because you have easy access to your employee turnover numbers by department and location. This type of efficiency simply isn't possible if you're running separate recruiting, HRIS, and succession planning tools, none of which are fully integrated with each other or with your ERP system. For many companies today, human capital is both the greatest contributor to and the largest financial investment in business success. To capitalize on that investment, the integration of HCM and ERP has emerged as a key strategy to improve organizational performance through the power of unified data. Companies seeking to maximize their workforce investments while improving internal efficiency can no longer have HCM data isolated from overall business information and intelligence systems.

¹Forbes, “7 Reasons HR Technology Is So Hot Today,” May 31, 2013.

² Forrester Research, “Consolidation and Innovation Transform the HRM Vendor Landscape,” November 2012.

“A company needs to know on a cost level how many employees they have and what it’s costing them, along with turnover rates and analytics to help them make decisions and understand the essential talent that makes the organization successful.”

Paul Hamerman
Forrester Research³

Integrating HCM and ERP data means improved transparency and productivity across multiple business functions, from transactional to strategic. Unified data means that the full lifecycle of an employee, from recruitment to termination, is captured and available within one system. At minimum, this means:

- Touchless transfer of data and records from the time an applicant applies for a position throughout their tenure. This eliminates the need for manual data entry across disparate systems reducing time, cost and the risk of error.
- Quicker onboarding of new employees and automatic population of employee information across the system to immediately enable required activities, such as assigning user roles and requisitioning needed assets.
- Faster offboarding of terminated employees to avoid undesired access to critical systems and data, such as financial transactions. This reduces overall security risk since terminating an employee automatically eliminates business system access.
- The ability to incorporate key HCM data into operational decision-making and, conversely, key ERP data into performance management and planning efforts. For example:
 - Including employee and team performance data in business performance reports for planning purposes.
 - Including relevant ERP data (such as margin, revenue, profit, and time-to-cash) in performance reviews at the subsidiary, department, team and individual levels.
 - Including CRM data from functions like customer support (first call resolution), professional service (billable hours), and sales (reached quotas) for performance management and to support planning at the subsidiary, department, team and individual levels.

Of course, administrative and transactional functions make up a substantial component of all ERP/HCM activity. Access to unified data simplifies and augments a variety of these tasks as well, including:

- Automatic transfer of payroll journal entries into the general ledger.
- Improved tracking of all payroll costs and expenses, including salary, employer contributions to benefits, employer taxes, etc.
- Simplified tracking and management of employee assets (phone, laptop, etc.).
- Employment related financial transactions (sales commission, purchases orders, approved expenses, etc.) paid seamlessly through payroll rather than accounts payable.

These are just a few of the ways that businesses will derive value from unified ERP and HCM data. As systems mature and HCM/ERP integration becomes more common, new opportunities for leveraging unified data to enhance business performance will undoubtedly emerge.

³ Forrester Research, “Consolidation and Innovation Transform the HRM Vendor Landscape,” November 2012.

“Workflows in HCM tools should cater to the unique needs of diverse stakeholders.”

2. Employee-Driven Workflows Matter

Although the most frequent users of ERP software often work in the finance department, the fastest-growing⁴ and most successful ERP vendors recognize that they need to build tools that will be used not just by finance, but by people across the organization—sales staff entering orders, warehouse staff working on fulfillment and even customers making purchases.

In the HR context, this correlates to employees recording sick time, line managers posting results of one-on-one meetings or candidates applying for jobs.

By optimizing workflows for end-users, HCM vendors can adopt best practices from established ERP vendors and build solutions that employees and managers enjoy using, rather than tools that make them cringe.

Creating Value across Business Functions

Just as unified data offers a variety of benefits, so does paying attention to design that caters to the needs of various business functions and workflows. That can mean enabling effective mobile use of systems for supervisors, project managers, unit managers and CEOs, or ensuring that the web-based user interface is consistent, regardless of the underlying data source. Paying attention to the workflow needs of multiple user groups offers a broad array of advantages, such as:

- Accessing workforce management functions like time tracking in HCM to support project based billing through ERP.
- Tapping into the HCM organizational structure to drive ERP workflows, for example, enabling the supervisor or manager role in HCM to drive approvals, such as purchase requisitions and expense approvals within ERP.
- Using a combination of HCM reporting structure and ERP cost center data to drive project billing in ERP.
- Facilitating professional services automation (in ERP), when a resource with a specific skillset is required to complete a project, by tapping into HCM employee profiles, skills matrix information and applicant data to identify whether the required resource exists in the workforce, or is available as an external candidate in the applicant tracking system.
- Reducing repetitive work by eliminating the need for manual data entry at multiple points across systems.

By leveraging the lessons that ERP has already learned, the combined power of integrated HCM and ERP can be brought to bear to optimize employee workflows for enhanced user experience, accuracy, efficiency and job satisfaction.

⁴ Gartner Inc., “Market Share: All Software Markets, Worldwide, 2012,” March 29, 2013.

“...with big data, there is an opportunity to apply predictive analytics to the centralized store of data to understand potential future outcomes. In human capital management, one example of this potential is in workforce planning, where combining historical labor supply information and labor demand inputs can produce a predictive model of future workforce needs.”

Stephen Millard
Ventana Research⁶

3. Tools Require Context

Every day we read about the launch of a new social platform and how it’s going to revolutionize the workplace. Truth be told, there are only so many uses for pure-play chatting tools.

chat·ter

/ˈCHAtər/ 

verb

verb: **chatter**; 3rd person present: **chatters**; past tense: **chattered**; past participle: **chattered**; gerund or present participle: **chattering**

1. talk rapidly or incessantly about trivial matters.
"the kids chattered and splashed at the edge of the lagoon"

 - (of a bird, monkey, or machine) make a series of quick high-pitched sounds.
 - (of a person's teeth) click repeatedly together, typically from cold or fear.

However, when you unify your data set and focus on employee-driven workflows, you uncover opportunities to collaborate over specific activities, such as reviewing a new candidate’s application, celebrating a co-worker’s achievement or discussing a new quarterly objective. These context-relevant collaborations increase engagement and help resolve questions of legitimacy—employees and managers no longer worry that using a social chat tool is a distraction or a waste of time.

While a chat tool is an obvious example of how context affects the perceived value of a technology, a less obvious (though more important) example applies to enterprise systems themselves. ERP has long been sold on the basis of its strategic value to the company. While facilitating day-to-day transactional processes, it offers leaders the ability to drill down into their operations to extract the business intelligence they need to make better decisions and plan for the future.

With human capital representing an increasingly greater share of company assets and investment, combined ERP/HCM systems run the risk of simply complicating the landscape with more raw data. To leverage the power of these converging data streams, decision-makers need context.

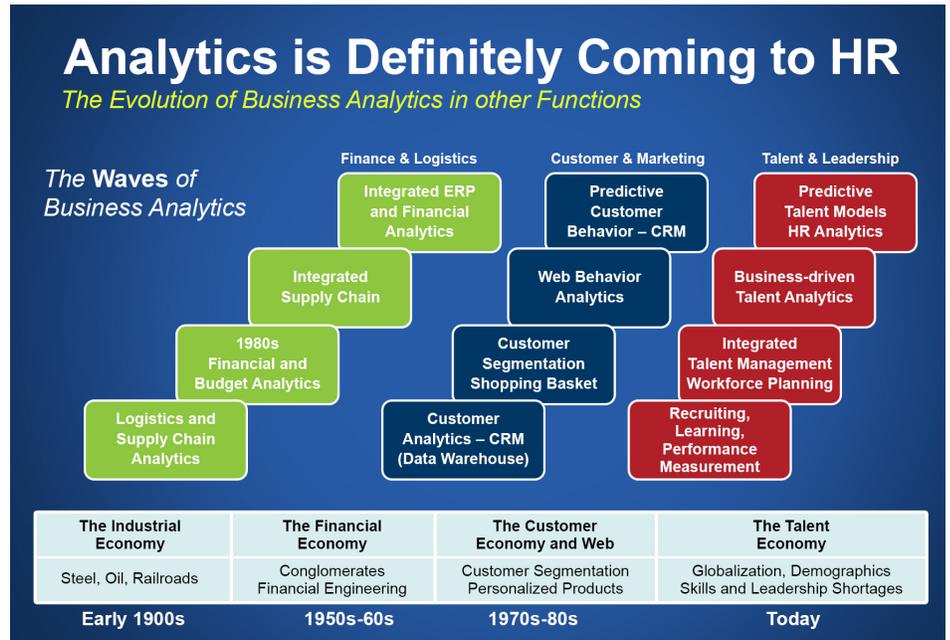
Deriving Context from Data

Just as business information systems have evolved from ERP (financial and logistics) to CRM (sales, service and marketing) and now HCM (talent and leadership)⁵, so too has the demand for analytics in each of these areas. The need for businesses to better understand the forces at play in both internal and external environments has never been more acute.

With the advent of big data, business information analysis has grown from a traditional review of historical data and forward-looking estimations based on “best educated guesses” to complex algorithms drawing from much broader data sets. Today, big data promises deeper analysis, greater insights and more accurate projections.

⁵ Bersin by Deloitte, “The Inevitable Shift to HR and Talent Analytics,” November 2012.

⁶ Stephen Millard, Ventana Research, “Big Data Brewing Value in Human Capital Management,” August 28, 2013.



The Inevitable Shift to HR and Talent Analytics⁷

Millard’s research shows that the top three benefits of big data analytics are in a company’s ability to:

- Retain and analyze more data (74%).
- Increase the speed of analysis (70%).
- Produce more accurate results (61%).⁸

More importantly, big data provides the context business leaders need to appreciate and realize the benefits inherent in their business information systems. With the enhanced analytic capability afforded by big data, it makes even more sense to invest in ERP/HCM integration.

In fact, big data makes it possible to measure the impact of each business decision across multiple metrics and functions. Just as real-time collaboration provides context for a chat tool, predictive analytics provides strategic context for well-integrated, comprehensive business information systems.

⁷ Bersin by Deloitte, “The Inevitable Shift to HR and Talent Analytics,” November 2012.

⁸ Bersin by Deloitte, “The Inevitable Shift to HR and Talent Analytics,” November 2012.

Let's consider two more examples in which the integration of HCM and ERP data provides the context for better decisions.

- **Adapt to trends.** Analyzing combined HCM/ERP data sets can help an organization identify internal trends and make predictions based on specific business decisions. For example, you might:
 - Send sales staff to a training class and then monitor results to see whether sales output increases, or
 - Determine whether high employee turnover rates in a particular region impact revenues.
- **Optimize staffing.** Mining aggregate information can help support more accurate workforce planning and staffing models. For example, you might:
 - Manage a retail workforce more effectively by extracting point of sale data from the ERP and combining it with employee time and attendance data to create predictive scheduling requirements. You might determine that you'll need two FTEs in the paint department from 6 to 10 p.m. on Tuesdays in December.

A More Meaningful Analysis of Business Health

While these three lessons present three clear opportunities for HCM to learn from ERP, the learning can go both ways. While advocates of ERP systems understand the power of unified data, employee-driven workflows and contextually relevant tools, HR professionals have a better understanding of the people and the stories that drive the organization. And this knowledge, if accessible, can be even more relevant than traditional business data.

For example: A strong sales quarter might be as much about a great business model as a single stellar sales leader. A department experiencing high turnover might be due to a toxic employee rather than a shift in production scheduling. In these cases, the specific stories contributing to the situation provide crucial insight.

When we link HCM, especially social HCM, and ERP systems together into a unified suite, we connect the stories and people to data and processes, resulting in a much deeper, more meaningful analysis of business health.