



SAP White Paper
mySAP ERP Human Capital Management

HUMAN CAPITAL MANAGEMENT

**Managing and Maximizing People
to Achieve High Performance**

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EXECUTIVE SUMMARY

“If you can’t measure it, you can’t manage it,” exhorts Peter Drucker, one of the world’s foremost authorities on business. Despite the progress companies have made measuring many of the key operations that can lead to high performance – such as productivity, customer retention, quality, and even innovation – few companies effectively measure, and thereby manage, one of their most critical and expensive assets: their people. However, a research collaboration between Accenture and SAP provides a strong empirical foundation beneath a long-held but largely unproven proposition: companies that put people first finish first. That is, organizations with more effective people processes have far superior financial results than those with less effective people processes. More important, research results indicate that **particular** processes and programs matter most to the bottom line – and provide a way for organizations to chart their own unique courses to investing in human capital initiatives that will deliver maximum value and lead to high performance.

The White Paper Objectives

This white paper marks the second in a series of three collaborative white papers by SAP and Accenture. The first paper, *Human Capital Management: A Measurement Breakthrough on the Horizon*, introduced the need for a new approach to measuring the true value of workforce investments.¹ It described the Accenture Human Capital Development Framework as a new measurement system that can, for the first time, rigorously and reliably assess the effectiveness of processes designed to improve workforce performance and the impact of these processes on business results.

This second white paper picks up where the first one leaves off. It presents the findings from a nine-month beta test of the Accenture Human Capital Development Framework, cosponsored by Accenture and SAP.

The Partnership Background

SAP has partnered with Accenture and the Accenture Institute for High Performance Business to support its research in understanding the impact of human capital investments on business results. Together, the companies beta tested the Accenture Human Capital Development Framework in more than 19 organizations in late 2003 and early 2004. This research alliance has spawned the results presented in this white paper and has helped to further the cause of human capital measurement and management.

1) Robert J. Thomas, Thomas H. Davenport, and Patricia Fletcher, *Human Capital Management: A Measurement Breakthrough on the Horizon*, SAP White Paper (2004).

INTRODUCTION

People are arguably the most valuable asset held by an organization today. People invent new products, find ways to creatively reduce costs, deliver quality services, and build long-lasting relationships with customers. It is also an organization's people

“I believe you can have the best assets – brand, fixed assets, product – but without the right people who are managing, executing, and doing what needs to be done to use the assets to create value, you might as well forget it”.

President of an industrial manufacturing organization with 29% three-year revenue growth

– and the collective skills, knowledge, and capabilities they represent as human capital – that are most difficult to duplicate by the competition. Only people can manage and maximize assets so that the assets reach their full potential. And only people can reinvent processes, products, and ways of working so that an organization remains one step ahead of the competition. For many organizations today, long-term competitive success is tied less to the products or services they produce than to the people producing them.

Yet organizations struggle to manage this important – but highly elusive – asset. Most executives believe that people are important, but they have no real way of empirically justifying their belief to others. Executives spend 25% to 45% of a company's revenue on human capital management (see Figure 1) yet

have no clear way of prioritizing their investments based on the business value these investments are likely to yield. Even more alarming is that few executives have any kind of insight into the performance of their people, let alone the effectiveness of the actions the executives take to try to improve their people's performance.

To meet this demand, Accenture developed a new system to measure and determine the effect on performance of an organization's human assets: the Accenture Human Capital Development Framework (see “The Accenture Human Capital Framework”). In partnership with SAP, Accenture conducted

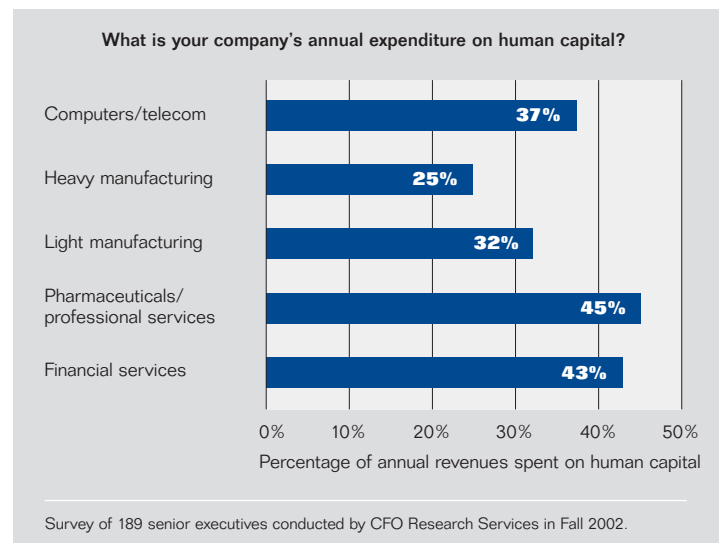


Figure 1: Expenditure on Human Capital by Industry

a beta test of the framework in 19 organizations to accomplish two objectives: to test its validity and reliability as a measurement technique and to demonstrate empirically that investments in human capital assets and processes affect a company's growth potential and its value to shareholders (see "The Research"). On the basis of the results of the beta test, we conclude:

- There is a strong link between the maturity of an organization's human capital processes and an organization's financial performance.
- Organizations with superior financial results focus on three key human capital areas:
 - Processes that align people initiatives with overall business strategy (human capital strategy)
 - Processes that provide employees with supportive and positive work environments (work environment)
 - Processes that expand and enrich employee capabilities (employee development)
- Human capital processes likely lead to better financial performance through enhanced business capabilities such as leadership, workforce performance, employee engagement, and innovation.
- Maximum payback on human capital will occur when a company deploys the framework alongside its business strategy to guide its investments in people.

The Accenture Human Capital Development Framework

As part of its overall research program to determine the characteristics of high-performance businesses, Accenture introduced in 2004 the Accenture Human Capital Development Framework. The Accenture Human Capital Development Framework is a new measurement system developed by the Accenture Institute for High Performance Business and Accenture's Human Performance practice.² It assesses the effectiveness of an organization's human capital processes, benchmarks the processes' performance against other organizations, and determines the impact of each process on bottom-line business results. The framework draws on best practices in the fields of human resource development and learning, as well as on state-of-the-art measurement techniques, to enable an organization to determine its strengths and weaknesses in 13 key human capital processes, to prioritize and track investments, and to target those interventions that are most likely to have the greatest overall impact on the organization's business results. The framework assesses, benchmarks, and determines the relationship among process elements in four distinct areas:

- **Human capital processes**, or the specific practices and activities organizations undertake to develop their human capital assets, such as performance appraisal, workforce planning, or learning management
- **Human capital capabilities**, or the most immediate and visible people-related qualities that human capital processes produce, such as workforce performance, employee engagement, or workforce adaptability
- **Key performance drivers**, or the intermediate organizational outcomes, such as customer satisfaction and innovation, that are typically captured on a balanced scorecard
- **Business results**, or the financial measures of organizational success, such as capital efficiency, revenue growth, return on invested capital, and total return to shareholders

2) For a detailed description of the Accenture Human Capital Development Framework, see Thomas, Davenport, and Fletcher, *Human Capital Management*, as in footnote 1.

The Research

As part of a joint research relationship between SAP and the Accenture Institute for High Performance Business and Accenture's Human Performance practice, the Accenture Human Capital Development Framework was implemented in 11 companies as part of a beta test of the framework in late 2003 and early 2004. In total, 19 organizations participated in the beta test; 4 of the organizations were entire enterprises, and 15 of the organizations were business units within the companies with separate profit and loss accountability.³ The companies represent a variety of different industries around the world: the Americas, Europe, Asia Pacific, and Africa.

As part of the implementation of the framework, the research team spent 6 to 10 weeks in each organization collecting data on each of its four areas: human capital processes, human capital capabilities, key performance drivers, and business results (see "The Accenture Human Capital Development Framework," for a description of each area). Business results were represented in the beta test as an organization's two-year average capital efficiency relative to an industry peer group.⁴ Capital efficiency is the ratio of total annual sales to the capital invested in the operations of the business by shareholders and creditors. Also referred to as "capital utilization," capital efficiency is a measure of management's efficiency in driving sales off a fixed capital base.

Data was collected through interviews with human resource executives and business leaders, Web-based surveys administered to human resource personnel and a large cross-section of employees, and worksheets used to collect factual data from the finance and human resource functions. In total, the research team interviewed more than 78 business and human resource leaders and administered more than 3,347 Web-based surveys to employees and more than 117 Web-based surveys to human resource executives. Human resource and financial data was collected for each organization and analyzed and compared with benchmarks produced from publicly available data sources (for example, Compustat or Worldscope for financial data and the Saratoga Institute for human resource data). Interview data was coded and used to help interpret an organization's results.

For each beta test participant, the research team used the data to produce scores for each element in the framework and corresponding benchmarking quartiles (first, second, third, or fourth) on the basis of scores from all the beta test participants. Statistical methods were then used on the cross-company scores to determine relationships between the elements and to produce the insights and conclusions highlighted in this white paper.

3) For any given company, either the enterprise as a whole participated in the beta test of the Accenture Human Capital Development Framework or one or more business units participated, but not both.

4) Capital efficiency was collected for 11 of the 19 organizations. Statistical relationships between capital efficiency and human capital processes are thus based on a subset of the 19 organizations in our sample. All other relationships between elements in the Accenture Human Capital Development Framework are based on a sample size of 19 organizations.

THE PEOPLE-PERFORMANCE LINK

Do people management practices really make a difference to the bottom line? If so, what distinguishes high performers with respect to the way they manage and develop people? We set out to answer these questions by measuring the maturity of 13 human capital processes in 19 organizations. We chose the processes in light of previous research and thinking concerning the people programs and practices that most likely impact workforce performance and business results. Among the processes were both core human resource processes – such as recruiting, career development, and competency management – and broader human capital processes – such as workplace design, learning and training, and knowledge management. For each process, we explicitly assessed its process maturity. We measured process maturity by how complete the underlying practices are, how well they support employees, and – borrowing from measurement techniques used in quality improvement and software engineering – how reliable and repeatable they are (see “What Makes the Accenture Human Capital Development Framework Unique?” for a more detailed description of process maturity).

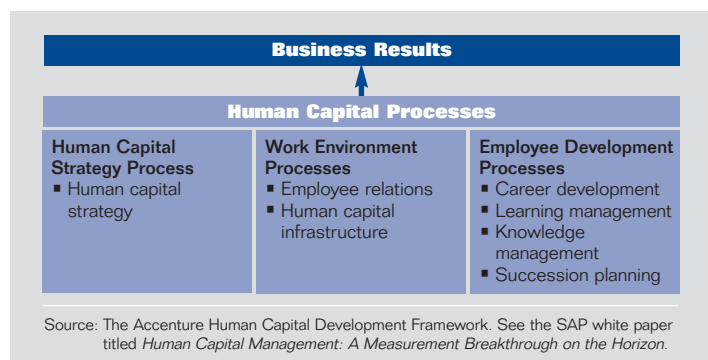


Figure 2: The Seven Critical Human Capital Processes Linked to Business Results

We found that people development practices **do** matter. Those organizations with more mature human capital processes have better financial performance than those with less mature processes. Indeed, more than half of the 13 human capital processes we measured have a statistically significant relationship with the financial performance of a company. This sends a powerful signal to anyone who has ever doubted the business value of investing in people; research indicates that such investments do indeed pay off.

However, some processes seem to pay off more than others. Specifically, research indicates that those organizations that focus on processes devoted to three key areas – creating a people strategy aligned with the business strategy (human capital strategy), providing employees with supportive and positive work environments (work environment), and developing employees by giving them plenty of opportunities to learn and grow (employee development) – will most likely achieve far greater economic success than those that do not (see Figure 2).

The Human Capital Strategy Processes

Every business has a strategy that executives hope will enable the company to outperform the competition. Likewise, successful companies have human capital strategies designed to ensure that the right people capabilities are in place to successfully execute the business strategy – whether that capability be the depth of leadership required to steer an organization through a merger or acquisition, the skill set necessary to craft and market a new brand, or the flexible labor policies required to efficiently adjust to fluctuating demand. Explains the CEO of a high technology company with stellar financial results, “The human capital component of executing our competitive strategy is by far the most important component. It is the bedrock and foundation of all our other execution activities. Human capital strategy cannot be conceived of as a separate issue: it is an integral part of our overall business strategy.”



Figure 3: The Relationship of Mature Human Capital Strategy Practices to Financial Results

Each organization's human capital strategy should and will vary according to its business strategy. Research results found that what financially successful companies share in common, however, is a mature human capital strategy-making **process** that ensures the organization has the capability to formulate, align, and prioritize human capital initiatives based on the business strategy (see Figure 3). All too often, however, organizations either lack well-developed people strategies or have people strategies that are disconnected from the overall business strategy. It is these organizations that are in danger of becoming poor performers.

Take the experience of a well-known cell phone manufacturer we will call "CellTech," for example. In the mid-1990s, CellTech was performing exceptionally well. However, in the late 1990s, new players flooded the market and analog cell phones slipped down the product life-cycle curve toward commoditization. CellTech sought to stem shrinking margins by developing the next wave of new and innovative cell phone technology: digital cell phones. CellTech had a new business strategy, but it lagged in developing a new people strategy to support it; it neither acquired nor developed the skills in its workforce that would enable it to develop and produce the new technology in time.

5) As defined by Robert Levering and Milton Moskowitz, *The 100 Best Companies to Work For in America*, rev. ed. (Boston: Addison-Wesley, 1993).

Because CellTech had never developed the human capital strategy-making process that would have enabled it to anticipate a new workforce need based on a changing business strategy, CellTech was unable to execute its strategy in a timely way; it thereby lost significant market share and millions in potential revenues.

What exactly do organizations with mature human capital strategy processes do differently than organizations like CellTech? First, they clearly prioritize and track their people programs and initiatives on the basis of the business value these programs and initiatives create. Second, employees and business policy makers set human capital strategy direction together. The CEO of the high technology company we quoted, for example, participates in establishing his company's human capital objectives and measures of success. Although this might seem like an obvious action to take – especially given how often executives claim that human capital is critical to their competitive success – results of our study show that it is surprisingly rare. Just as rare are organizations that have human resource representatives who actively participate in the strategic planning process of the business. Not only does this participation keep human resource executives informed of business direction so that they can better align people programs accordingly, but it can also reveal whole new fields of strategic opportunity based on a thorough understanding of the people capabilities that can be leveraged in new or unexpected ways to serve new business purposes.

The Work Environment Processes

Companies with outstanding business results work hard to provide their employees with supportive and positive work environments (see Figure 4). Other studies confirm this link between work environments and financial performance; *FORTUNE* magazine reports, for example, that the 100 Best Companies to Work For in America⁵ have substantially higher stock market returns as compared with the S&P 500.⁶

6) Matthew Boyle, "How the Workplace Was Won; In which we trace the lineage of our Best Companies by revisiting some great moments in workplace history." *FORTUNE*, January 8, 2001, page 139.

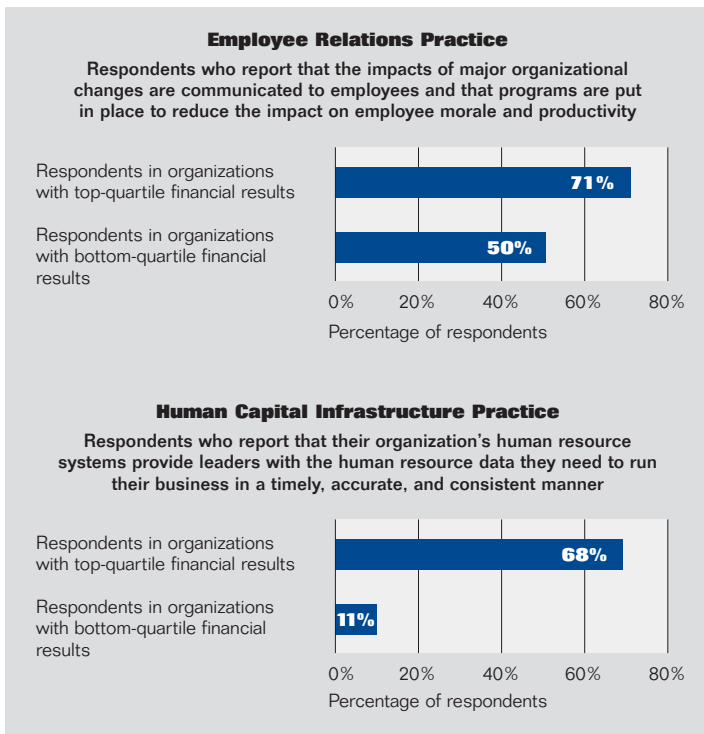


Figure 4: The Relationship of Mature Work Environment Practices to Financial Results

What processes devoted to creating a positive place to work are most strongly linked to financial results? First, we found a statistically significant relationship between peak performance and the maturity of an organization's employee relations process – a process specifically devoted to ensuring that employees are informed, satisfied, and engaged. Organizations with mature employee relations processes effectively address employee grievances or general questions and concerns, inform employees about business issues affecting them, and have programs in place to reduce the impact on morale when the organizations are undergoing major changes such as mergers or downsizing. Employee health and well-being programs, flexible work arrangements, and team-building programs may also be part

of a mature employee relations process. During the recent economic downturn, however, many organizations reduced or eliminated these types of programs in order to cut costs. Results of the beta test indicate that those companies that resisted the temptation to sacrifice such programs outperformed those that did not.

Interestingly, companies with robust processes and technology in place to support basic human resource transactional activities – such as payroll, benefits administration, and time and attendance tracking (together making up what we call the human capital infrastructure process) – also have much greater economic success than those with less robust processes and technology. Having the infrastructure and systems in place to be able to pay people reliably, accurately, and on time is one of the most basic but important signals an organization can send that it cares. Moreover, this process provides business and human resource managers with reliable data and information regarding their expenses and their people.

Although we found it rather surprising that such a basic process differentiates high performers from the pack, we heard time and again from our executive interviews just how important it is to perform this human capital process well. Not only does it help to create a more supportive work environment, but this process – above all others – enables human resource personnel to gain credibility and trust from both employees and senior leaders. Explains one vice president of human resources, “Without having proved that we can do the basic transactional processes well, we wouldn't have had the credibility to work with the businesses on more strategic types of activities. Doing this process well has earned us a seat at the executive table.”

The Employee Development Processes

Companies that actively develop their employees and provide them with opportunities to learn and grow also achieve superior economic success. Results of the beta test reveal that the career development, succession planning, learning management, and knowledge management processes are all strongly associated with financial performance.⁷ Those organizations that actively develop their employees' careers, support them with learning opportunities, and provide ways for them to share knowledge and information with one another all realize much greater value from their capital and assets (including people) than companies that do not (see Figure 5).

The chief operating officer of a professional services company that had by far the best financial performance in our study explains, "Of course, we need to hire the right people. But once we have them, it is extremely important that we continuously deepen their skills or develop some of the skills and behaviors that might be lacking. Our competitive strategy is based on delivering a leading-edge skill set to clients in our local market; a crucial part of executing this strategy is having strong processes such as knowledge management and learning."

What specifically does this high performer do differently? First, a larger proportion of employees in this company – compared with most others in our beta test – felt that they are getting the training they need to excel at their current jobs and prepare for future ones. Employees are also given more opportunities to formulate career plans and goals; on average, employees meet with their supervisor or career counselor one to two times a year to discuss specific career development plans. Third, this company has established communities of practice, or groups of people with shared interests who get together to share knowledge, solve problems, and informally collaborate across functional boundaries. The company even monitors the communities' activity levels and rewards employees for participation.

7) Mature knowledge management processes, in addition to having a statistically significant relationship with capital efficiency, also have a statistically significant relationship with return on invested capital.

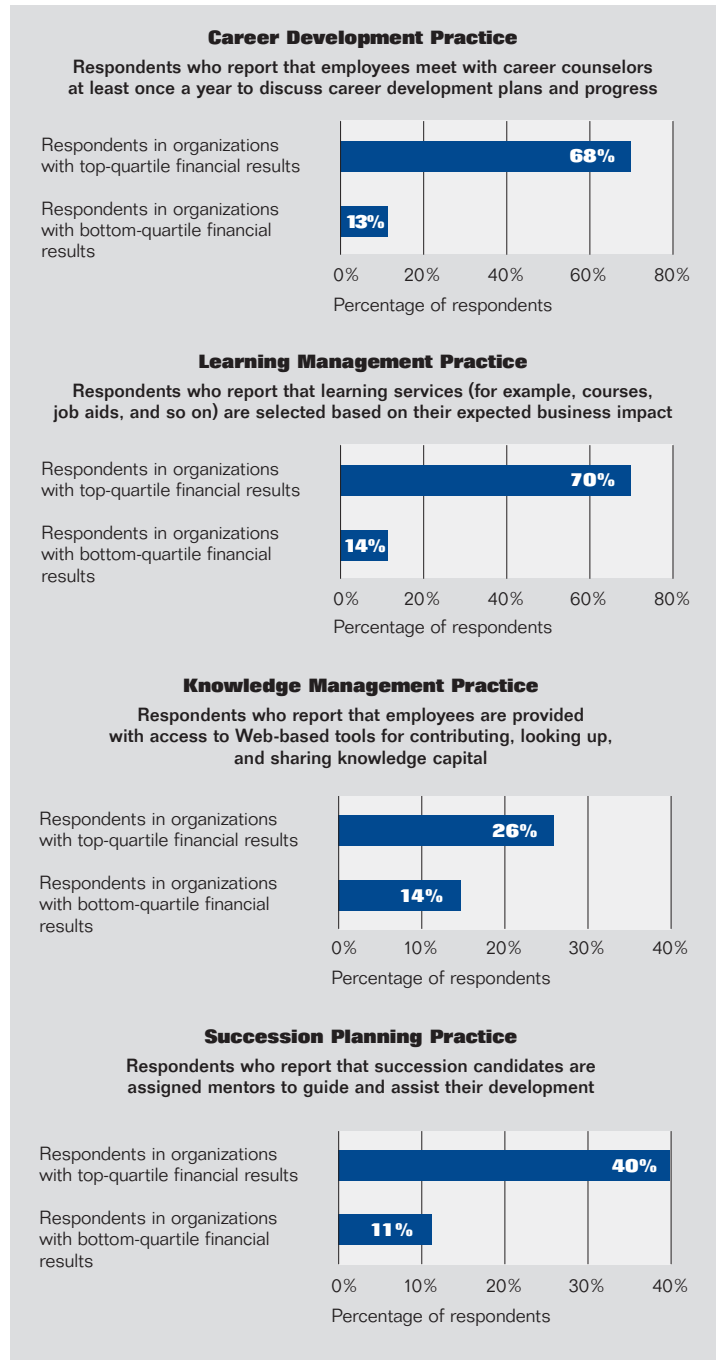


Figure 5: The Relationship of Mature Employee Development Practices to Financial Results

In addition, particular attention is placed on identifying and developing future leaders of the company. Compared with other companies in the beta test, this company more often assigns mentors to succession candidates to guide candidates in their development, and a larger proportion of succession candidates are provided with specific development plans, such as rotational assignments or skill-building programs. Given that senior executives exert perhaps the most visible influence on an organization's performance, it is not surprising that high performers like this professional services company choose to focus their development attention not just on employees in general, but also on that special subset of employees who are most likely to lead and represent the company in the future.

What Makes the Accenture Human Capital Development Framework Unique?

When most organizations think of human capital measurement, they think of spending or ratios, such as training budget per employee or human resource staff per employee. These metrics may tell an organization something about the efficiency of its human resource organization, but they tell an organization little about the effectiveness of its human capital programs and practices.

A few tools do look beyond levels of spending or headcount to the specific programs and practices used to develop employees. These tools usually rely on a small number of interviews or surveys conducted with human resource representatives to determine whether the organization has a particular human capital program (for example, employee stock option reward programs). Answers to these queries are then correlated with financial results to identify the highest value programs. Although such tools represent an improvement over measurement of investment spend, they still fail to sufficiently probe into how well the programs are carried out or how effectively

and reliably they support employees. Given that one person typically is asked to answer for the entire organization (and he or she is usually part of the service-providing department), the voice of the customer – the managers who pay for the services and employees who consume them – is missing entirely.

Other tools have made great strides in helping organizations assess important human capital capabilities, such as employee engagement. However, these tools give little practical help in determining the specific actions an organization should take to improve such capabilities, or the trade-offs and risks associated with investing in different capabilities.

The Accenture Human Capital Development Framework is unique in that it enables organizations to reliably probe into the effectiveness and business value of their human capital processes and programs as well as to identify specific, actionable improvements that are linked to superior business performance.

How does the Accenture Human Capital Development Framework accomplish these objectives? First, it distinguishes between human capital processes and human capital capabilities – such as employee engagement – so that it can determine the root cause of performance variations. Second, it measures and assesses the business impact of a broad array of human capital processes to ensure an organization takes all possible factors into account when trying to improve the performance of its workforce. Third, to ensure reliability, it surveys a number of human resource personnel and a large cross-section of employees – from senior executives to shop floor personnel. Surveying employees also enables the framework to determine the true effectiveness of each process in supporting employee needs.

Most important, however, the framework determines the effectiveness of human capital processes by explicitly measuring **process maturity**. Maturity scores are unique to the framework and are determined from answers to questions in the following three areas:

1. Human Capital Best Practices

The degree to which an organization incorporates best practices in each process area can tell us much about the effectiveness of the process. Best practice questions also help assess the completeness of the underlying practices for each process and the degree to which technology and other resources support the process. Best practices for the rewards and recognition process, for example, might include linking rewards to individual and organizational performance and the use of tools to perform modeling of “what if” scenarios for base and bonus pay.

2. Execution and Support of the Process

The Accenture Human Capital Development Framework assesses human capital processes in part by applying many of the traditional metrics that are often used to assess the maturity of an organization’s manufacturing or software development processes. The first maturity model, inspired by W. Edward Deming’s “plan-do-act-check-act” method to improve quality, was developed by Philip Crosby for manufacturing processes in 1979.⁸ The model laid out five stages of maturity, ranging from level one, in which work processes are ad hoc, to level five, in which work processes are repeatable, best practices are implemented and transferred across groups, and processes are continuously measured and improved. The Software Engineering Institute later developed a similar five-stage maturity model for software development processes called the Capability

Maturity Model. These models have produced significant improvements in the reliability and repeatability of key processes, resulting in dramatic improvements in both quality and productivity.

The Accenture Human Capital Development Framework borrows and incorporates three areas of inquiry for assessing the reliability, repeatability, and effectiveness of a process:

- Do people (including human resource managers, supervisors, and employees) have the skills and abilities necessary to support and use the process?
- Are there clear and consistent policies for each process?
- Is the process measured and continually improved?

3. Employee Use of the Process

Other human capital measurement tools assess human capital best practices, and one even applies traditional quality process metrics to human capital.⁹ However, the Accenture Human Capital Development Framework uniquely incorporates both elements and adds a third: the employee perspective. Employees’ perceptions act as a check on those insights provided by human resource executives and help indicate how effectively the process supports its end users.

8) Philip B. Crosby, *Quality Is Free: The Art of Making Quality Certain* (New York: McGraw-Hill, 1979).

9) The Software Engineering Institute has developed a human capital version of its popular Capability Maturity Model. See Bill Curtis, William E. Hefley, and Sally A. Miller, *The People Capability Maturity Model* (Boston: Addison-Wesley, 2001) for more information.

CHARTING YOUR OWN PATH TO HIGH-PERFORMANCE RESULTS

Organizations now have a fact-based analysis to help them prioritize and justify their people investments. Those organizations that seek to achieve the highest levels of performance, however, will tailor these findings and insights to their own organization based on their strategic objectives and the performance of their human capital processes.

The Accenture Human Capital Development Framework can help an organization accomplish this in two ways. First, organizations can measure their own performance and benchmark it against other organizations. This will enable them to identify the unique strengths and weaknesses in each of the human capital processes so that improvements are targeted where they are most needed.

Second, the beta test results have started to reveal exactly **how** human capital processes ultimately lead to financial results through enhanced key performance drivers (such as innovation or productivity) and improved human capital capabilities (such as engaged or proficient employees). These results can help organizations identify the processes that have the strongest effect on key performance drivers.

Target Less Mature Processes First

Organizations that implement the Accenture Human Capital Development Framework receive maturity scores for each human capital process, as well as a benchmarking quartile (first, second, third, or fourth) that indicates performance relative to other organizations. Organizations will achieve the maximum benefit by focusing on processes that are strongly related to financial performance and that are least mature (see Figure 6). Likewise, organizations will achieve the least benefit by focusing on processes that are neither strongly related to financial results nor in need of significant improvement.

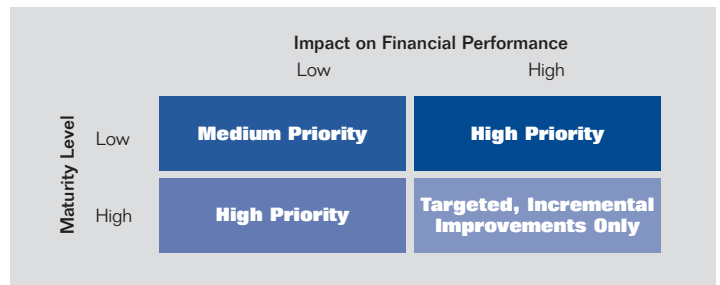


Figure 6: Prioritizing Human Capital Investments on the Basis of Process Maturity Level and Impact on Financial Performance

The framework also can identify specific actions an organization should take to improve the maturity of a particular process. For instance, answers to particular survey questions can be analyzed to reveal that although an organization has robust knowledge management technologies in place to help people access and share information, few employees use the technology because knowledge sharing is not encouraged or rewarded. Such an analysis suggests that improvement efforts should be targeted at encouraging and rewarding knowledge sharing. The strengths and opportunities for improvement within a process will vary from organization to organization, but in all cases, the weakest should be improved first.

Target Those Processes Related to Your Company's Unique Way of Beating the Competition

Not all companies generate superb business results the same way: some compete on superior customer service and satisfaction, others compete on the attraction and retention of customers on the basis of high-quality products and services, while others compete on the constant introduction of innovative new products and services. By understanding which

processes ultimately control the key performance driver an organization uses to compete, organizations can selectively focus improvement efforts on those processes most directly related to their key driver of financial success.

Results of the beta test have started to reveal the myriad pathways through which human capital processes influence an organization's key performance drivers and, ultimately, its business results (see Figure 7). Results suggest that people programs and processes influence key performance drivers such as innovation or customer satisfaction through their ability to improve core human capital capabilities, including leadership, employee engagement, and workforce performance.

Evidence for this comes from the strong, statistically significant relationships between human capital processes and human capital capabilities. For example, an organization's degree of employee engagement is strongly associated with nine of the human capital development processes: career development, learning management, employee relations, recruiting, human capital infrastructure, human capital strategy, workplace design, performance appraisal, and rewards and recognition.

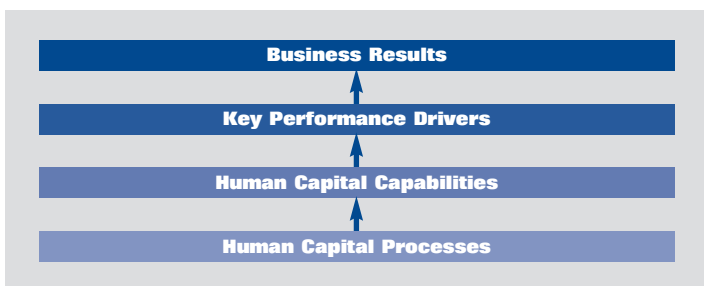


Figure 7: Pathways to High Performance

Research suggests that specific human capital capabilities, in turn, are strongly related to key performance drivers such as customer satisfaction and productivity. Though not a participant in our beta research, International Paper, for example, observed that those facilities with higher employee engagement scores also tended to have the highest productivity rates.¹⁰ By understanding how your company's people programs may improve the key performance drivers that your organization uses to compete, you can better prioritize your human capital initiatives and make more effective trade-offs in investments.

For example, take an organization that primarily competes on innovation. Research results demonstrate that an organization's ability to innovate is statistically related to three human capital capabilities: the ability of employees who manage others to make effective decisions and guide and inspire others (leadership); employees' commitment to the organization and their work (employee engagement); and the ability of employees to effectively apply their skills, knowledge, and abilities to accomplish the organization's goals (workforce performance). Each of these capabilities, in turn, is statistically linked to specific human capital processes (for example, the recruiting, workplace design, and employee relations processes are all linked to workforce performance).

Such an analysis suggests that an organization that competes on innovation should not only focus on the human capital processes linked directly to financial results, but also on the processes linked to the human capital capabilities that will most likely drive innovation. These processes are listed in Figure 8. A colored block indicates the process is statistically linked to

¹⁰ Thomas, Davenport, and Fletcher, *Human Capital Management*.

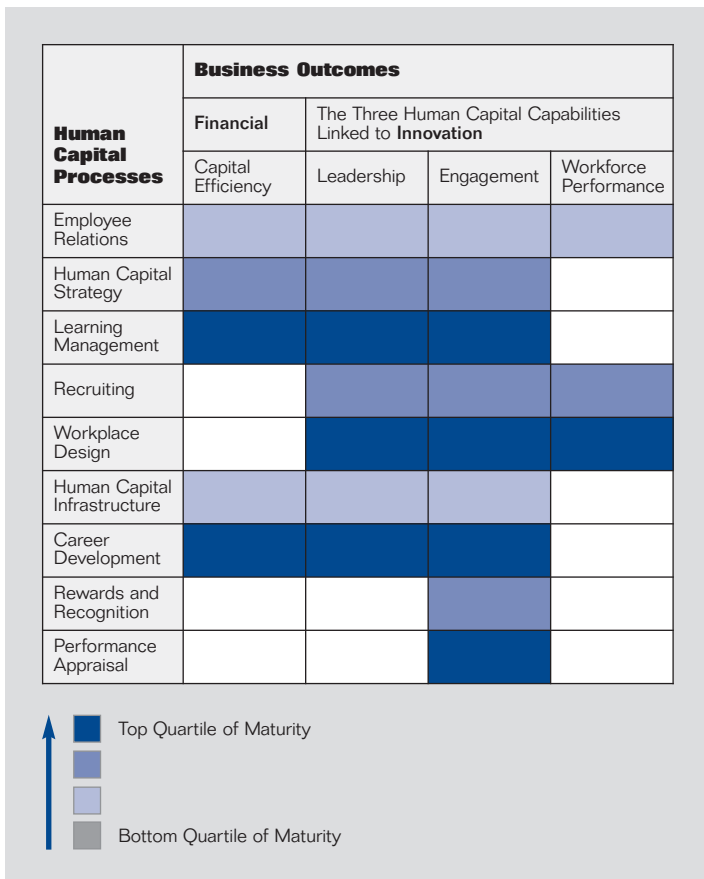


Figure 8: Sample of Human Capital Development Framework Scorecard for Organization XYZ, Which Competes on Innovation

a specific business outcome; the specific color of each block indicates the level of maturity of the process for “Organization XYZ” compared with other organizations in the beta test. Note that Organization XYZ had no processes in the bottom quartile of maturity.

Organizations implementing the framework can use a chart like this to help fine-tune their human capital investments. The sample provided in Figure 8, for example, indicates that this organization would benefit most from improving the employee relations process; it is among the least mature of the processes and strongly related to both financial results and all three of the human capital capabilities linked to innovation. Second, the organization may decide to focus on the human capital strategy, recruiting, and human capital infrastructure processes. These processes could all use improvement, and they are all linked to three of the four business outcomes.

In addition to identifying a firm’s strengths and weaknesses, providing specific recommendations for action, and identifying priorities for investments on the basis of an analysis of which human capital development processes will most likely impact key business results, executives at organizations that have implemented the framework plan to use the framework to:

- Track progress in human capital processes and capabilities over time
- Provide input into fiscal and operational planning
- Identify whether the organization has the people capabilities in place to meet changes in business conditions, strategy, or structural changes such as mergers and acquisitions
- Identify areas of misalignment between the business and the human resource function
- Determine best practices that can be shared across business units
- Identify specific employee populations that are underserved by people programs and processes

MANAGEMENT IMPLICATIONS

Wherever you reside in the organizational hierarchy – be it in human resources, finance, strategic planning, a business unit, or the executive suite – you can use the findings presented in this white paper in three ways (see Table 1).

Prioritize People Initiatives

We now have empirical evidence that organizations that put people first finish first. However, research also indicates that not all the processes that companies traditionally use to improve the performance of their people yield the same value. Companies with the best financial performance focus on creating an overall people strategy aligned with the business strategy, developing employees and providing them with supportive and positive work environments. Organizations hoping to achieve maximum benefit from their human capital investments will focus on improving those processes that are less mature but that are linked both to financial performance and to the key performance driver their organization uses to compete.

Justify People Investments to All Relevant Stakeholders

The findings from the beta test of the framework, used in conjunction with the framework's externally validated assessment of an organization's human capital process strengths and weaknesses, can be used to support and justify investments in people programs – especially in more numbers-oriented organizations or with people in more metric-conscious types of roles. No longer must advocates of people programs base their requests on faith or logic alone, only to be turned down because of a growing emphasis by top management to ensure that all investments contribute to shareholder value. Rather, people advocates can use the findings from the framework to build a business case that empirically justifies human capital investments to all relevant stakeholders and allocators of resources.

Outperform the Pack in a Changing Business Environment

Organizations that focus on the three main process areas detailed in this white paper – human capital strategy, work environment, and employee development – position themselves in a uniquely challenging business environment to outperform the competition. First, they position themselves to take full advantage of an upswing in the economy. Without proof that people programs really do matter to business results, many organizations cut or significantly reduced their people programs while under pressure to trim costs during the recent economic downturn. As the economy picks up, these organizations are now in danger of losing their best employees. A recent Accenture survey found that 40% of employees plan to leave their jobs in the next five years, in large part due to lack of training and advancement opportunities in their current organization.¹¹ Those companies that provide a positive, supportive work environment and ample opportunities for employees to learn and grow are much more likely to retain their top talent or acquire top performers from organizations that have neglected such programs. And organizations that eliminated such programs now know what to bring back first to achieve the best results.

Second, two of the processes linked to the financial performance of a company will help companies specifically address what has been widely reported by the press as the coming “brain drain,” or the retirement of baby boomers and the subsequent loss of knowledge from the workforce. According to some studies, many organizations may lose up to 50% of their employees in the next 5 to 10 years.¹² Those organizations that

11) Accenture Employee Survey, part of an ICR/International Communications Research omnibus survey. The survey entailed querying 508 people in the United States, aged 18 to 59 who were employed full-time but not self-employed, by telephone in December 2003.

12) David W. De Long, “Confronting the Chemical Industry Brain Drain: A Strategic Framework for Organizational Knowledge Retention,” Accenture Institute for Strategic Change, 2002.

Action	Example
Prioritize People Initiatives	One division of an industrial manufacturing firm used the framework results as a foundation for a new human resource strategy, which included the prioritization of human capital initiatives for the next few years. Executives in the division decided to focus on two processes – human capital infrastructure and human capital strategy – that were both linked to bottom-line business results and that the framework revealed were less mature than other processes.
Justify People Investments to All Relevant Stakeholders	By sharing framework findings with business and finance leaders, the vice president of human resources at one energy company explained that the findings “validated the money the business was spending on people programs, supported some additional changes we wanted to make, and framed our initiatives in terms of the results the business cares about.”
Outperform the Pack in a Changing Business Environment	Another energy company used the framework findings to help steer a change in business model. Once a fully integrated, regulated utility that focused on providing reliable service, the company now focuses on achieving maximum efficiency to compete in the deregulated generation and transmission energy markets. Framework results helped executives determine whether the company had strong enough processes to cultivate, share, and reward the new business skills and behaviors required to compete. In addition to deciding to focus on the learning management and performance appraisal processes, executives felt that improving the succession planning and knowledge management processes would ensure it retained valuable knowledge and information at risk of being lost when a large portion of its workforce soon retires.

Table 1: Using the Accenture Human Capital Development Framework Results in Your Own Organization

identify, groom, and develop future executives to replace the ones about to retire through a mature succession-planning process, and those organizations that help employees about to retire share knowledge with the next generation through a robust knowledge management process, are more likely to cope effectively with this increasingly pressing business trend.

Finally, today’s global business environment is characterized by extreme geopolitical and economic uncertainties, increasing customer demands, and sources of competitive advantage that seem to erode quicker than ever. Those organizations that maximize the performance of their employees through focusing on human capital strategy, people development, and people environment processes are more likely to succeed in such a tumultuous environment; only they can draw from a deep reservoir of talent capable of meeting today’s business challenges and sustaining an ongoing source of competitive advantage: the workforce’s ability to constantly generate and execute new strategic positions.

CONCLUSION

SAP and Accenture have found the results from the beta test of the Accenture Human Capital Development Framework highly encouraging. Not only do the results establish that human capital processes are important to the economic success of an organization, but they also establish which human capital processes are most strongly related to superior financial performance. In addition, results have started to empirically demonstrate the relationships among the framework's four key variables: human capital processes, human capital capabilities, key performance drivers, and business results.

By engaging leading-edge companies in testing the Accenture Human Capital Development Framework, the Accenture and SAP research alliance has helped further the cause of measurement in human capital management. Together with the mySAP™ ERP Human Capital Management (mySAP ERP HCM) solution, the Accenture Human Capital Development Framework can help companies make more data-based decisions regarding the management of their human assets. The alliance has enabled SAP and Accenture to embark on a challenge previously unmet: to rigorously and comprehensively link human capital processes to business results. For the first time, executives have a reliable tool that enables them to truly target improvements in the processes that drive the performance of one of their most valuable but costly resources: their human capital. The framework's ability to help organizations understand their unique human capital strengths and weaknesses, coupled with its ability to identify the key human capital processes linked to high performance, can empower executives like never before to make the right human capital investments — those that will most likely contribute to the organization's long-term competitive and financial success.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Committed to delivering innovation, Accenture collaborates with its clients to help them become high-performance businesses and governments. With deep industry and business process expertise, broad global resources and a proven track record, Accenture can mobilize the right people, skills and technologies to help clients improve their performance. With more than 110,000 people in 48 countries, the company generated net revenues of US\$13.67 billion for the fiscal year ended Aug. 31, 2004. Its home page is www.accenture.com.

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