



SAP Industry Briefing

Enterprise Talent Management

Leveraging People, Processes and
Technology as a Competitive Advantage

© Copyright 2006 SAP AG. All rights reserved.

No part of this publication may be reproduced or transmitted in any form or for any purpose without the express permission of SAP AG. The information contained herein may be changed without prior notice.

Some software products marketed by SAP AG and its distributors contain proprietary software components of other software vendors.

Microsoft, Windows, Outlook, and PowerPoint are registered trademarks of Microsoft Corporation.

IBM, DB2, DB2 Universal Database, OS/2 Parallel Sysplex, MVS/ESA, AIX, S/390, AS/400, OS/390, OS/400, iSeries, pSeries, xSeries, zSeries, z/OS, AFP, Intelligent Miner, WebSphere, Netfinity, Tivoli, and Informix are trademarks or registered trademarks of IBM Corporation in the United States and/or other countries.

Oracle is a registered trademark of Oracle Corporation.

UNIX, X/Open, OSF/1, and Motif are registered trademarks of the Open Group.

Citrix, ICA, Program Neighborhood, MetaFrame, WinFrame, VideoFrame, and Multiwin are trademarks or registered trademarks of Citrix Systems, Inc.

HTML, XML, XHTML, and W3C are trademarks or registered trademarks of W3C[®], World Wide Web Consortium, Massachusetts Institute of Technology.

Java is a registered trademark of Sun Microsystems, Inc.

JavaScript is a registered trademark of Sun Microsystems, Inc., used under the license for technology invented and implemented by Netscape.

MaxDB is a trademark of MySQL AB, Sweden.

SAP, R/3, mySAP, mySAP.com, xApps, xApp, and other SAP products and services mentioned herein as well as their respective logos are trademarks or registered trademarks of SAP AG in Germany and in several other countries all over the world. All other product and service names mentioned are the trademarks of their respective companies. Data contained in this document serves informational purposes only. National product specifications may vary.

These materials are subject to change without notice. These materials are provided by SAP AG and its affiliated companies ("SAP Group") for informational purposes only, without representation or warranty of any kind, and SAP Group shall not be liable for errors or omissions with respect to the materials. The only warranties for SAP Group products and services are those that are set forth in the express warranty statements accompanying such products or services, if any. Nothing herein should be construed as constituting an additional warranty.

CONTENTS

Executive Summary	4
Longer Hours, Fewer People and Resources	5
Navigating a Dynamic HR Environment.....	5-6
Success Through Enterprise Talent Management	6-7
Summary	8
Leveraging People, Processes and Technology with SAP for Banking	9

EXECUTIVE SUMMARY

The onus is on the CEO to define the strategy and then communicate it in terms that have meaning for all the business units and individuals within the bank. Since people execute the strategy of the bank, everyone in the organization should understand how their role contributes to achieving the prescribed objectives.

Yet banks fail to achieve their goals when there is a break between the strategy and execution. This commonly occurs when the objectives are not clearly understood by the people charged with implementing them or when they lack the skills to perform key tasks. That leads to frustration at all levels of the organization and employee defections as people seek better opportunities elsewhere.

In service-oriented industries such as banking, people are considered among the most important assets of a firm. Forward-thinking banks are looking for ways to leverage people, along with processes and technology, to achieve their objectives.

To this end, Human Capital Management (HCM) has become a more high-profile function. HCM involves understanding each business unit's unique characteristics and needs, as well as the processes they deploy and the skills they need to get the job done. Each employee's function is defined in a way that is measurable and aligned with the execution of the corporate strategy. HCM also harnesses teamwork wherever possible to achieve organizational goals.

Once thought of as a "personnel department", HCM is now considered a strategic function that achieves growth and builds a culture and brand image that projects success internally and externally. Recruitment, training, career and compensation planning as well as leadership development are key processes that make up HCM lifecycle. All these need to be seamlessly integrated to effectively manage talent in an increasingly challenging banking environment.

LONGER HOURS, FEWER PEOPLE AND RESOURCES

Traditionally, banks were organized along product lines, but this approach lost its appeal as consumers began to recognize bank products as commodities. Commoditization put pressure on margins, incited price-based competition and made it difficult to sustain competitive advantage and revenue growth. Banks have reacted to this paradigm shift by moving towards a customer-centric, relationship-based, sales and service model in order to differentiate themselves with consumers. This change has had a significant impact on their culture. As banks have shifted from a product-centric to a customer-centric orientation, there is more emphasis on the acquisition of new customer segments and retention of the existing customer base.

People once used the expression “bankers’ hours” to describe a short workweek, but the days when banks were open Monday through Friday, 9:00 a.m. to 3:00 p.m. are long gone. Today, customers expect service anytime and anywhere through multiple channels including the branch, the Internet, ATMs and call centers.

In this 24x7, multi-channel operating mode, the bank’s staff may be expected to work longer hours, and they may need to acquire new skills and constantly upgrade them to meet this evolving set of expectations. Banks’ growth strategies depend on building a sales culture and a staff with excellent customer relationship management skills. Tellers, for instance, need to be trained to maximize limited face time with customers and leverage these interactions to cross sell and up sell products. Customer service representatives need to be educated to negotiate deals that are mutually beneficial to the customer and the bank.

Banks are asking more of their employees at a time when they are also under pressure to cut costs and increase efficiency through economies of scale. Increasingly, banks are fostering growth through mergers, acquiring new customer bases and cutting costs by outsourcing. While the banks are planning and executing these strategies, their employees may perceive these changes as a direct threat to their jobs and careers.

Meanwhile, HR is faced with the daunting task of merging two or more workforces and cultures into one and turning these perceived threats into growth opportunities to infuse a sense of security and equal opportunity amongst the employees. These factors are not only

critical in containing attrition but also building a positive brand image for the bank.

Globalization and inter-state banking adds another dimension. A consolidated view of the workforce is necessary to monitor and enhance regional efficiencies and strengths. That involves keeping tabs on key ratios like revenue per employee for each geographic location, attrition rate for each region and employee spend.

Other trends also need to be tracked, such as the number of employees that are likely to retire in the next few years. According to TowerGroup, around 77 million Americans will leave the workforce in the next five years, representing 13.3 percent of the US population by 2010. By 2020, about 16.4 percent of the workforce will be retired. This will likely have an impact on banks’ operations, product development and service strategies.

NAVIGATING A DYNAMIC HR ENVIRONMENT

Bank XYZ is a good illustration of the challenges banks face today. Thanks to its latest acquisition, it now has 300 branches and around 10,000 staff in New York, California and Florida. The CEO has defined a new growth strategy for the consolidated organization that involves increasing the customer base by 30 percent and increasing customer retention by the same order of magnitude. The bank also plans further acquisitions in other states within five years.

HR’s immediate objective is to align the workforces post-merger by quickly creating common standards and corporate culture. Currently, the rules in the two organizations differ. Similar functions in the two workforces have different tasks, performance measures, work hours, compensation plans, vacation entitlements, and career and development plans.

Standardization has to be accomplished without making either workforce feel that the other entity’s culture has been imposed upon them. In a service-oriented culture, it is critical to retain existing employees, who have relationships with the newly acquired customer base. The bank runs the risk that customers may follow disenchanted employees who move to a competitor.

HR needs to come to grips with the changes in the organizational size and structure. They must understand the new demographic distribution of talent and identify locations with a high percentage of retirees in the near

future. They also need to look at the limited talent pool to identify workforce strengths and constraints. The workforce planning exercise must include identifying the need to hire fresh talent, transferring skill sets across business units and developing new skills internally.

To accomplish its objectives, HR needs strong processes, methodologies and tools. These include effective mapping of organizational goals to performance measures for each individual function by using balanced scorecards and KPIs; managing the existing workforce by planning their careers and developing their individual roles; and constantly managing the efficiency and cost of recruiting.

Once these processes are in place, the bank will be positioned to meet the challenges posed by the current business environment and achieve its strategic objectives in the longer term. Over time, HR can optimize and restructure the workforce through strategic initiatives like Business Process Outsourcing (BPO). By standardizing and centralizing internal processes and then outsourcing transactional HR functions and payroll processing, the bank can maintain a lean organization and devote more resources to its core competencies.

Unlike some traditional service contracts, BPO does not lead to a reduction in transparency which makes it more difficult to measure performance, maintain flexibility in business processes for effective change management and control complex and costly transitions. Statistics prove that the key to a successful BPO initiative is to develop strong in-house processes before outsourcing them, a flexible and robust technology platform that can be leveraged to monitor service levels, switch BPO providers, bring processes back in-house, or modify the scope of the agreement to reflect changing business needs.

SUCCESS THROUGH ENTERPRISE TALENT MANAGEMENT

That is an ideal scenario, but in reality banks often neglect talent management. A 35 percent attrition rate for tellers and a 5-10 percent attrition rate for other functions are not uncommon. Banks of all sizes are simply bleeding staff. It takes at least six months to a year to train employees, and by the time they settle into their roles, they quit and the bank has to start all over again.

Studies show that there are several reasons for talent attrition, including:

- Benefits are not competitive enough to retain and motivate workforce.
- The compensation package is not aligned with KPIs and performance management.
- Job descriptions are too high level and open to interpretation, and they do not translate corporate goals for employees.
- There is a lack of career planning and development.
- Employees are not compensated for working harder and longer hours.
- Management does not care about the employees and is only worried about top line and bottom line.
- Employees fear that their jobs will be outsourced and they will no longer have a role within the organization.

Imagine the resources an organization could save if the average employee time span is increased by 50 percent and the attrition rate is decreased by 10 percent. For starters, this would reduce the cost of hiring, the training burden and the time it takes to get productivity from the employees.

Financial organizations are beginning to understand that merely formulating strategies in the boardroom is not sufficient to ensure the execution. Retaining and managing talent is critical for the execution of this plan. A highly skilled workforce is a competitive advantage that is difficult to replicate, and therefore it should be an area of strategic focus.

Through Talent Management, HR can increase the time an employee spends in a particular role and determine how that role evolves over time. Talent Management encompasses several functions including recruitment, career planning, learning, as well as performance and compensation management.

A workforce planning session to operationalize a five-year strategy might reveal the need for additional training, forecast associated costs and define a new set of goals for each function. Since Talent Management responsibilities are dispersed among several independent groups, several challenges may emerge:

- HR may be crippled by inaccurate information, which was consolidated manually in spreadsheets by different business units. It may be impossible to

segregate the skills that need to be acquired externally from the ones that can be developed internally by upgrading current employees.

- The goals set up for various roles in the business units do not necessarily map to the organizational goals defined by the CEO. The CEO's strategy has little meaning for a branch manager, for example.
- The recruiting organization works in its own silo and hunts for talent externally upon request of the business units. Its goals are not driven by organizational strategy.
- The Learning Management System is inefficient and decentralized because the workforce is spread across a wide geography. Some of the learning administration functions are outsourced as well.
- Multiple appraisers assess employee performance using an array of processes and tools. This leads to rigid hierarchical teams within the organization.
- Rigid career maps are defined for various functions but do not take into consideration individual strengths and the cross-functional movement of employees to develop diverse skill sets.
- Generally, the HR organization is handicapped by the deficiencies in the individual functions, and more importantly, by their inability to function cohesively.

Enterprise Talent Management aims to deliver a framework of methodologies, processes and tools that integrates functions and addresses problems. It clearly defines the points where data is exchanged as information across these functions.

The process begins with the workforce-planning phase of the HCM lifecycle. Advanced analytics help HR obtain a single view of the workforce and detect patterns and trends across bank's workforce over a given time horizon. For example, one might look at the number of senior managers retiring in all branches over the next five years, or the potential for re-locating managers who have been at one branch for more than five years. This data can be used to set objectives for the recruiting organization, develop career and succession plans to fill prospective vacancies, and plan the mass transfers of managers across geographies.

Driven by strong planning and a clear set of guidelines, the recruiting organization uses advanced Talent Retention Management processes to build prospective candidate pools. It taps talent by integrating its systems with external

vendors' applications, posting jobs internally and searching the internal database (talent warehouse) for the best skill-set match.

The recruiting organization can collaborate with the business units by providing access to the internal and external profiles in the talent warehouse. This empowers line managers to search for the skills they need across geographies and plan staffing for their projects. Recruiters also benefit because they can reduce the administrative tasks associated with managing requisitions from the business units.

Enterprise Talent Management leverages tools such as strategy maps and balanced scorecards to link the organizational strategy with performance metrics for the business units. These tools help to cascade the organizational strategy into KPIs across various levels in the enterprise. Performance Management is driven by a specific, logical data set derived from the CEO's strategy, and the periodic measurement of the KPIs has a bearing on compensation ratings and management. Moreover, career plans can be linked to the KPIs as well as development plans.

An efficient Learning Management System uses the development plans and objectives to draw learning maps for workers. The learning maps are personalized by referring to the organization's centralized skills repository and the individual's career preferences. The learning administrator can refer to the strategy maps and drive a parallel education and training plan for different roles by designing and developing courses over time. For example, training courses could be planned covering the fundamentals of a new product line that will be launched over next five years.

Talent generation (an offshoot of talent management) helps to address attrition problems and build a strong corporate culture. The ideal architecture allows new standards to be created for each job and challenges the workforce to strive for higher performance and productivity standards. It also provides a mechanism to groom the next generation of leaders through career and succession planning. And by constant monitoring of employee satisfaction through surveys and other means, HR can prepare for the future.

SUMMARY

Meeting expectations in today's world of 24x7 banking requires a new breed of people, processes and technology. As banks continue to strive for higher growth targets, increased customer satisfaction and better returns for investors, they will need to make the transformation from monolithic money management organizations into highly efficient financial engines. Moreover, banks are constantly competing to retain their existing customers and acquire new customers across various segments by becoming a one-stop shop for all the potential financial needs.

Success hinges upon a bank's ability to quickly launch products that will attract new customers. They can learn from the experience of the automobile industry, which has continually invented new ways of reusing components and optimizing operational efficiency to reduce turnaround times for launching new models. Similarly, high performance banks of the future will strive for shorter and faster launching cycles by reusing existing components to reduce time to market for their financial products.

Banks must strategically manage their workforce so they have the knowledge base and entrepreneurial culture necessary to build innovative products and services. Becoming an efficient financial engine is contingent on

managing human capital effectively. Through HCM methodologies such as Enterprise Talent Management, banks can develop a motivated workforce capable of executing the firm's strategy.

Future plans need to be tested with what-if scenarios that reflect changes in global trends. For instance, banks can gear up for large-scale retirements in 2010 by simulating the impact on the existing workforce by location and function. Proactive banks can plan to retain former employees as customers by designing programs for different income groups. According to an old business adage, "Vision without execution is hallucination". Banks and their HR organizations need to embrace Enterprise Talent Management to ensure successful execution of the corporate strategy. The HCM function needs to be armed with advanced practices and tools. Enterprise Talent Management needs to be embedded with analytical checkpoints that give a comprehensive view of the workforce across geographies, locations and timeframes.

The Talent Management framework needs to be seamlessly integrated to perform key tasks including hiring, developing, aligning and generating talent. In the end, Talent Management will be a source of competitive advantage.

LEVERAGING PEOPLE, PROCESSES AND TECHNOLOGY WITH SAP FOR BANKING

The SAP® for Banking solution portfolio includes scalable capabilities for transforming the workforces of both smaller banks and large global institutions. These capabilities include a wide range of tools for managing talent – including tools for employee development and succession management, pay-for-performance programs, and enterprise education – as well as essential tools for workforce support. In addition, the solutions provide consolidated analytics for workforce trend analysis and strategy measurement and planning.

These capabilities reduce the operational complexity of managing a global banking workforce. SAP for Banking offers support for international compensation, global employee management, deployment, and talent management. It can also streamline local operations. Capabilities within the solutions integrate fully with existing business systems and can be customized for a bank's specific needs.

SAP for Banking addresses workforce-related compliance issues by handling payroll processes and meeting current legal requirements in more than 50 countries. A range of predefined reports helps banks meet various international regulations and compliance needs – while increasing the visibility and transparency of their HCM processes and simplifying overall management of other compliance-related concerns.

With the HCM functions in SAP for Banking, financial institutions can increase operational efficiency and improve profitability. What's unique about SAP for Banking is that the solution offers scalability with a single architecture, full international capabilities, support for real-time information between financial and HR systems, and complete integration through the SAP NetWeaver™ platform.

SAP NetWeaver is a comprehensive integration and application platform designed to meet diverse business and legal requirements worldwide. SAP NetWeaver components are integrated in a single platform and come preconfigured with business content, which reduces complexity and supports IT standardization and consolidation. With SAP NetWeaver, banks can create new processes on top of existing systems for streamlined communication, knowledge management, and collaboration. They can take advantage of existing skills to improve current practices or develop new functionality. By helping banks leverage their existing investments in both SAP and non-SAP systems, SAP NetWeaver helps reduce total cost of ownership across the IT landscape.

To learn more about SAP for Banking, please visit www.sap.com/banking.

