

Human Capital Management in the Cloud

A review of the SAP and SuccessFactors strategy

The curious case of Human Capital Management (HCM) in the Cloud: Has lightning struck the ERP business community?

With adoption of HCM in the cloud accelerating, integrations such as SAP and SuccessFactors are a testament to how Software as a Service (SaaS) approaches are becoming part of the long-term corporate strategic plan.

The strategic HCM market has grown rapidly over the last decade, accelerating in the last three years. In terms of cloud-based SaaS implementations, four out of five recent implementations have been specific talent management deployments. With SaaS gaining momentum, the enterprise HCM software market is expected to continue to evolve rapidly with on-premises ERP vendors looking at deeper development, collaborations, and/or acquisitions of cloud-based HCM pure-plays. Recent studies suggest this movement appears to be more than just a flash in the sky. Consider:

- Gartner is projecting a \$10 billion HCM market, with \$4 billion in talent management, 75 percent of that market coming from SaaS.¹
- According to a published Aberdeen study, 39 percent of “High Growth” organizations planned to invest in cloud computing in 2012.²

But what is the root cause of this climate change around HCM? It is probably fair to say that the major ERP providers have under-invested in the HCM market and that HR



organizations generally have had to make do with what was included as part of a broader ERP initiative or continue to use outdated technology to address back-office functions. A series of market disruptors, however, have thrust HCM into the spotlight.

In the past few years, many articles have been written about the pressing issues of talent shortages, challenges in attracting Millennials, and the opportunities around social collaboration and mobile technology to do so. Given the innovations in connectivity and touch-screen technology over the past five years, it makes sense that HCM would find itself in the SaaS sweet-spot due to the increasingly high-touch, mobile expectations of younger employees. The desire to feel connected, social, and collaborative is fueling new innovations around HCM processes. With the availability of discrete, low-cost solutions, HR organizations have quietly taken a best-of-breed approach that not only demonstrates immediate value, but also raises the notion of reimagining the HR process and pushing the envelope for what can be achieved outside the corporate IT boundaries.

Additionally, the HR organization is now in a position to make operational expenditure decisions and in some cases to bypass the procurement process because of subscription-based models. In light of this newfound empowerment, it's no wonder the market is intensely focusing on HCM. There are other practical reasons too, namely the notion that the risk/return ratio is so compelling

1. SAPinfo.com, <http://en.sap.info/job-strategy-hr-career/69466>

2. Aberdeen, <http://blogs.aberdeen.com/human-capital-management/a-response-to-a-stimulus-oracle-acquires-taleo/>

for HCM, especially compared to other mission-critical areas such as order-to-cash and supply chain. In a recent IDC survey on building a business case for moving to the cloud³, the top three reasons cited were:

- Lower IT costs
- Better/faster access to data
- Operational savings (beyond IT)

In the same survey, it was curious to see that access to current functionality and less reliance on IT staff were the least mentioned reasons for moving to the cloud. In contrast, when the IDC survey asked about the main challenges in implementing cloud-based services, the top three concerns were:

- Security
- Data privacy
- Legal

Notably, ROI justification was a minimal concern. Considering the survey results, one can rationalize that HCM is an effective candidate for overall cost reduction programs, but given its role as gatekeeper of Personally Identifiable Information (PII), moving to the cloud can pose greater risk management and security burdens to the HR organization. Figure 1 depicts HR/HCM adoption in relation to other types of agile technology, showing it to be of relatively high value, with a fairly high adoption rate.

The compelling outcomes of SaaS for HCM appear to be countered by technical integration and privacy challenges. This situation creates an opportunity for approaches such as the SAP and SuccessFactors integration, which present new options to organizations looking to balance function and form. In this regard, solutions such as SAP and SuccessFactors provide a hybrid choice of on-premises and on-demand. Fundamentally speaking, the question has shifted from “if” HCM in the cloud to “where.”

SAP and SuccessFactors: A path forward

This is just the beginning. With innovation accelerating, HCM will become a model for what is possible.

With SuccessFactors’ historical focus on core talent management functionality, combined with its prior strategic acquisitions in recruiting and learning applications, the company has become an aggregator of best-of-breed HCM functionality. Its performance management suite and learning platform are considered among the leaders in their

categories by many third-party evaluators. The combination of these strengths and SAP’s reputation for strong core HR functionality has created an HCM ecosystem under a unified umbrella. And this is just the beginning. SAP is still investing in its cloud-based strategy and the expansion of its IT ecosystem. These factors make the combination of SAP and SuccessFactors compelling for several reasons:

- With a focus on unifying as opposed to integrating the various functionality, SAP is leveraging the strengths of SuccessFactors’ core assets (e.g., talent functionality, user experience, and flexibility) without necessarily having to sacrifice what makes SAP compelling in the first place. In other words, SAP’s strategy of unifying the various layers of cloud-based applications with on-premises solutions gives both the CIO and CFO reasons to support adoption of the SAP/SuccessFactors approach to HCM, while protecting the company’s long-term, strategic SAP investments.
- For many HR leaders, the SAP/SuccessFactors path forward provides a way to keep HCM tightly woven with the rest of the business functions, instead of isolated within another third-party platform. Whereas the market saw HCM as a first-mover into the cloud, it is now becoming the model for demonstrating how organizations can be effective in the cloud, on-premises, or in-between — all while enhancing the value to the whole organization and not just one aspect of it.
- Advances in social, mobile, and collaboration technologies will likely leverage HCM beyond just core employee data. They can provide opportunities to develop meaningful connections with employees and customers beyond what are possible today, shining a light on the relationship between employee productivity and corporate performance indicators. HR analytics, in particular, has greater potential than ever before to provide valuable insight, given new opportunities to access corporate data and correlate it to talent management and employee productivity.
- In reviewing SAP/SuccessFactors, the following observations can be made:
 - SAP required a broad and complementary HCM solution: Many customers had stopped making internal SAP HCM investments in favor of turning to solution providers like SuccessFactors to accelerate innovation in the talent space. Indeed, the rise of discrete talent solutions was made possible by the lack of general innovation in the HCM space by legacy ERP vendors. Further, cloud computing provided an

3. IDC, 2012 Cloud Professional Services Survey and IDC, 2009 Cloud Professional Services Survey

opportunity to deliver rapid innovation to customers without the drama of securing approvals for large capital expenditures.

- SuccessFactors provides SAP users with near-instant, end-to-end HCM capabilities: SAP sees the SuccessFactors opportunity as an effective fit with its long-term strategic growth plans while leveraging its legacy HCM assets. The “secret sauce” is going to be how well SAP embeds its technical architecture within SuccessFactors’ applications to allow “plug-and-play” while providing unprecedented access to the core foundational elements of ERP data and processes.
- SuccessFactors brings enhanced social and cloud specialization, while SAP provides mobile assets: This poses some interim challenges. SAP’s portfolio comprises five different software architectures from ByD, Career OnDemand, Plateau, and Business Suite 7. Without harmonizing the architectures, SAP will face back-end integration challenges in its quest to unify the data. However, if executed effectively, this unification will put quite a distance between SAP/SuccessFactors and its rivals, by creating new opportunities and services.

Together, SAP and SuccessFactors are positioned to become leaders in developing applications and services that will be built on innovative mashups of cloud, mobile, and social technologies, and big data. These advances in open architecture will not only differentiate SAP and SuccessFactors from their competitors but also create a whole new realm of possibilities for users, integrators, and third parties to collaborate in new ways.

Weighing the options: A review of committed innovations and opportunities

SAP and SuccessFactors have released their plans for continuous improvement of functionality in the near-term and over the course of the next few years. As Table 2 depicts, there is clear support for both on-premises and cloud-based approaches. What is not apparent is that while both platforms will likely receive continuous support, those functions that are shaded will probably receive the lion’s share of investment, focus, R&D, and resources. Predominately, that means SAP will likely look to the cloud as its strategic bet for HCM development. Unless a company has compelling business reasons to implement an on-premises solution, SAP will likely steer it toward SuccessFactors as a better long-term path. For users that have largely leveraged on-premises approaches, SAP has committed to providing ongoing support and enhancements, but doesn’t plan on major innovation releases. The exceptions appear to be in the core HCM

Suite (e.g., Personnel Administration, Organizational Management, Benefits Administration, Payroll Processing, and Time Management) as well as in workforce analytics and mobile solutions.

With SAP’s HANA solution (an in-memory analytics platform), there is a direct correlation to advances in workforce analytics and how SAP can leverage SuccessFactors capabilities in linking HR data to unrelated real-time data from the organization to help produce compelling perspectives across business functions. Workforce analytics may ultimately become the “glue,” as it will likely be an integral part of how HCM extends into various parts of the organization. Mobility is less clear considering the additional acquisitions SAP has made in the mobile space and uncertainty about its overall impact to HCM. While SAP has announced that specific mobile approaches for HCM are generally available and in development, they are works in progress, particularly as organizations weigh the value of such applications. One particular area of opportunity is the notion of taking self-service to another delivery dimension: Mobility Self-Service (MoSS). Unlike Employee Self-Service or Manager Self-Service, MoSS can help organizations adopt an HR service delivery method that is distributed, immediate, and shared. For organizations where shared services, regional centers of excellence (COEs), and traditional HR services are not practical, MoSS can provide a platform to service employees anytime, anywhere. With SAP’s recent mobile acquisitions, users will have additional applications to help improve the reach of HCM processes.

Being “tethered” to the cloud while remaining connected

In developing an SAP/SuccessFactors strategy, it is important to keep the following guiding principles in mind:

- Drive the strategy by the business imperative, not by the technology. Understanding the gaps and opportunities will help determine not only where HCM applications should be implemented, but also how they could be used most effectively. Without clear integration value, returns will likely diminish and segregate themselves from the core business.
- Consider the broader HR transformation goals and develop the cloud approach around the HR service delivery components.
- Keep one version of the truth. A distributed HCM environment can easily slip into a new collection of HR environments, moving the organization backwards. Delivering HCM on a cloud-based platform is not about recreating existing capabilities.

- Take a consistent approach to a given area in the immediate term. For instance, talent should be either in the cloud or on-premises, not split.
- Remember the importance of an HR Master Data Management strategy. Consider reviewing processes to manage System of Record (SOR) and integration points.

Given rapid advances in HCM innovation, many organizations have a range of choices they did not have until just three years ago. Not only can this bring opportunity, but it can also bring paralyzing anxiety around the desirable or required path forward. In the immediate term, it appears there are no clear “wrong answers” in determining an appropriate HCM platform strategy. However, in the longer term a multitude of factors should be weighed and considered, beyond just the immediate impact of HCM. These include the organization’s overall cloud strategy, such as Platform as a Service (PaaS), Infrastructure as a Service (IaaS), and Business Process as a Service (BPaaS), and expectations for a unified IT architecture vis-à-vis ERP investments already made. The following scenarios are some likely models for organizations to consider as they are developing their long-term HCM cloud strategies.

- On-Premises Scenarios
 - Leveraging HCM largely “on-premises”
 - Hosted/non-hosted, AMS, private cloud, etc.
 - Continued innovation related to core functionality (e.g., payroll operations in the cloud)
- HCM in the Cloud
 - Fully featured solutions in the cloud.
 - Full suite of HCM and Talent Management applications
- The “Hybrid”
 - Pick and choose from an array of native on-premises HCM applications with select cloud capabilities and other third-party integration.
 - Unified solution
 - Leverages the current SAP footprint while allowing flexibility and integration in the cloud

These scenarios address a variety of decision factors that vary from organization to organization. Balancing deployment speed and innovation with implementation risks, data privacy concerns, integration feasibility, and long-term costs will likely require some thoughtful planning and a roadmap to transition the organization. For the most part, two out of the three scenarios are relatively familiar to most organizations, allowing them to draw from their own experiences related to the rewards and challenges of on-premises versus some form of best-of-breed solution. While cloud/SaaS for HCM is still very compelling, it’s no longer the only choice to achieve immediate returns while improving the HCM experience.

Organizations will likely use the “hybrid” approach as a bridge to a longer-term roadmap, allowing the offering to reach a maturity level where risk can be diminished over time. Organizations should also consider that not all geographies or business units will have the same delivery model. A hybrid within a hybrid is now possible, where organizations can adapt a deployment model to suit a line of business or region. For example, with applications such as SuccessFactors, payroll may be done on-premises, in the cloud, outsourced, and hosted simultaneously based on the regional/business need, while still connected to the rest of the business. With the release of integration tools and methods, SAP and SuccessFactors are creating new possibilities as promptly and efficiently as they are addressing current needs.

Lightning in the Cloud — HCM challenges and opportunities

Considerations for the immediate and long term

Moving HCM to the cloud can be bigger than transforming the HR function alone. The high adoption of HCM approaches in the cloud is likely to inspire other candidates to test out the much-vaunted cost-efficiency and reliability of cloud approaches. It won’t be long before the other mission-critical parts of the business take note of the effectiveness and attention HCM is receiving. Still, “people” and “human resources” are often talked about as two different things. People issues are considered strategic, whereas HR issues are viewed as administrative. While the semantics are meaningful, the dialogue has finally penetrated the C-Suite regarding the true goals of Human Capital Management, and that conversation is due in large part to the HR organization’s insistence on leveraging cloud-based technologies. HR leaders now typically find themselves with a seat at the table alongside other business leaders who are eager to learn from them and poised to provide support. However, that doesn’t mean managing the transition will be simple.

Stakeholder perspectives

The business and the IT functions are likely to have different sentiments and perspectives about moving HCM, let alone the broader organization, into the cloud. These challenges to adoption should be addressed during the case for change, along with efforts designed specifically to build confidence in the long-term solution. Leveraging the cloud for select business processes may be inevitable, but the path to getting there and staying there is bumpy. In our experience, the opposing sentiments in Figure 3 represent typical points of view.

Gaining momentum

The future for HCM in the cloud is undeniable, but there are still challenges ahead in terms of achieving the business and organizational goals expected by such innovations. It's not that the expectations are not achievable; it's that they are likely to morph, shift, and contradict each other as these advances continue to mature and evolve. In the end, the results will likely be the same — a flexible HCM ecosystem capable of adapting to various service delivery models to address the changing requirements of Human Capital Management. Some will get there faster than others, and some will reach different heights. What's important is that a roadmap is developed and clearly understood by the stakeholders, which outlines their roles in enabling the organization to re-imagine itself.

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