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EXCELLENCE, AGILITY, & OPTIMIZATION:

LEVERAGING TECHNOLOGY TO SOLVE FOR HIDDEN COSTS WITHIN WORKFORCE MANAGEMENT

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James E. Stefanchin, EdD
Research Director, Human Capital Management

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Overview

As the pace of technology innovation continues to accelerate, business leaders are seeking cost effective workforce management solutions that drive excellence, agility, and optimization. Considering the mounting rates of turnover coupled with increasing time-to-hire and cost-of hire, today's Human Resource leaders are investing in human capital management (HCM) solutions that ease the burdens associated with modern business complexities and changing industrial landscapes – they are seeking systems that provide enhanced experiences for *all* their stakeholders.

Hidden Costs Are Sinking Optimization Efforts

Since the 1950s, organizations have been accumulating digital baggage in hopes of streamlining operations, driving revenue, and enhancing experiences for their stakeholders. Enormous sums of money have been invested in electronics, telecommunications, and computer systems that now contribute to a vast, disparate system-of-systems. Today, capital investments are being made to tear down unreliable data silos and to reliably integrate various information systems across the human resource (HR) function and beyond (finance, operations, etc.).

As the nature of work evolves, workforce management processes and capabilities are expanding beyond scheduling, time/attendance, and payroll. Workforce management now integrates other key areas of human resources (e.g., performance management, learning & development, talent acquisition, analytics) to *align* workforce investments with strategic horizons. HR leaders are toiling to effectively plan and *optimize* organizational productivity to meet the demands of rapid change. Managing **disparate systems** in the face of **evolving practices** is a recipe for escalated hidden costs.

In fact, a leading cause of soaring costs is **time**. Time lost to ineffective management of systems and the workforce is one example. In post-pandemic operations, managers must split their time and attention to focus on the emerging hybrid workplace preferences of employees (e.g., onsite vs. remote work) and on the growing *mixed* workforce consisting of salaried, hourly, part-time employees, contingent workers, interns, and retirees. And, a large majority of these managers are relying on disparate **systems that hinder quick, consistent access to crucial information** such as employee records, performance data, time keeping, etc.

The *employee* is changing too, further complicating matters. As work becomes increasingly automated, specialized, and knowledge-driven, job titles and wage structures have become fluid and non-standardized

**To develop its maturity-class framework, Aberdeen examines organizational:**
(P)ressures,
(A)ctions,
(C)apabilities, and
(E)nablers

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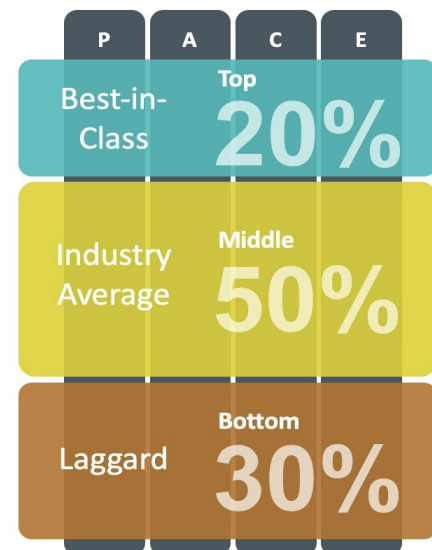
across the enterprise – all leading to unforeseen costs in effective pay and performance management. Considering the budding nature of **shifting employee categories**, human resources (HR) is struggling to identify **emerging skill gaps** and relevant talent, internally and externally. Nonetheless, organizations of all shapes and sizes are hiring to meet demand.

Aberdeen's recent HCM ecosystem survey (2021) revealed that 83% of organizations indicate an intent to grow their workforce during the coming year. Figure 1 breaks down that intent and represents anticipated hiring growth, by employee category. Each category – full-time, hourly, part-time, contingent, and internship – brings its own unique management challenges and subsequent hidden costs.

Figure 1: Anticipated Employee Hiring in 2022
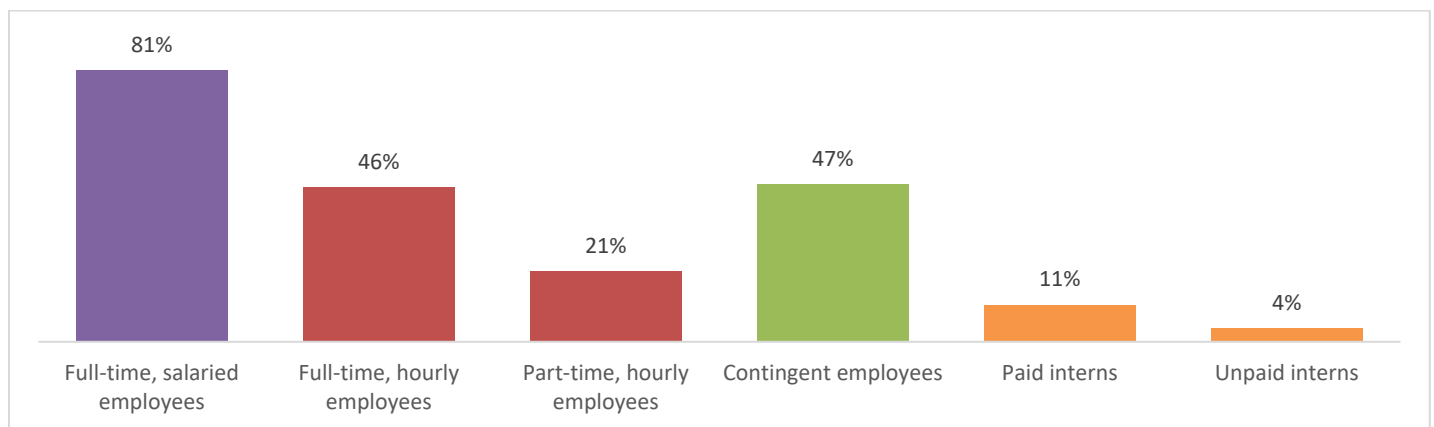
Source: Aberdeen, 2021 (n = 377)

Given **shrinking talent pools** and escalating labor costs associated with salaried employees, particularly outlays linked to benefits administration and available bonus options, a myopic focus on salaried workers as a source of hidden costs is taking shape (Aberdeen, 2021). Technologies may have changed for the better; however, the pressures of managing a cost-effective, capable workforce have become more complicated. The implications of not holistically managing today's (and tomorrow's) *mixed workforce* can be severe. HR leaders are moving towards single system operations to better defend against uncertainty and the creep of hidden costs.

A Single System to Manage a [Continuously] Changing Workforce

One-in-four (24%) HR leaders cite there is too much time being spent reconciling data siloed within disparate best-of-breed solutions. Additionally, roughly one-in-three (29%) of these leaders also report too much time is being spent tracking and interpreting data rather than engaging employees (Aberdeen, 2021). All-in-one HCM systems provide greater data accuracy and transparency. They integrate the full suite of HR data, to include time and payroll. They provide for a flexible *single system of truth* that can be accessed from a desktop or on the go via mobile platforms. At the core, unified cloud-based systems are driving administrative excellence and operational agility by enhancing experiences for end users.

With a unified, single source of truth in place, HR leaders should focus their efforts on two things along the journey towards optimization – the first is to control engagement and turnover to minimize cost escalation. Secondly, firms need to become more agile to respond to change quicker.

1. *Control Engagement & Turnover to Minimize Cost Escalation*

Operational managers are at a stalemate. They are facing corporate restrictions and budgetary limitations regarding headcount, talent preferences that favor flexibility and growth opportunities, and technological systems that slow down decision making and action planning. They are dealing with the fallout of turnover and the subsequent disruption to operations, missed deadlines, and knowledge loss. They are ensuring schedules are covered. They are communicating changes to employees and often left to fill operational voids. This may be one reason engagement levels of managers are 13 points below the rest of the organization – they are simply burned out and frustrated with delayed decisions causing employees to become flight risks due to unresolved problems (Aberdeen, 2021).

While only 13% of respondents (n=500) indicated their organizations use an all-in-one HCM suite that provides a central data set for analyses, these same organizations realized a manager engagement level 8% (~5pts.) higher than those incorporating linked best-of-breed technologies. Furthermore, organizations that provide comparative dashboards for their employees to assess performance against individual goals, departmental goals, and overarching company objectives reported a 3% improvement in engagement *across* their workforce (Aberdeen, 2021).

24%

of HR leaders cite there is too much time spent reconciling data siloed within disparate best-of-breed solutions

Organizations that incorporate all-in-one HCM systems report manager engagement levels 8% higher than those using disparate best-of-breed systems

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On the surface these figures may appear low. However, the *relative workforce value* should be viewed as positively significant given engagement's relationship with turnover (i.e., higher engagement *generally* reduces likelihood of turnover). In fact, in the same study, the foremost WFM pressure facing leaders today is turnover (19%). Over fifty percent (53%) of HR leaders report voluntary turnover within their organization is on the rise. They indicate similar increases in time-to-hire and cost-of-hire (54%). While the explicit high costs of turnover are well documented, the implicit impacts of disrupted operations, missed deadlines, and knowledge loss are less quantifiable.

Turnover triggers a cycle of recruiting, hiring, onboarding, and termination. It triggers payroll and financial entries and reconciliations. Having a single system provides transparency into labor metrics and *true* labor costs during turbulent periods. Via dashboards and mobile service, they provide managers with flexibility and actionable insights to help resolve issues before they result in unnecessary regrettable turnover. Before they result in escalating hidden costs.

With the recent attention and discourse surrounding *"The Great Resignation,"* it is widely accepted that people are leaving their jobs for more money, more personal time…more happiness. Aberdeen data (2021) show organizations utilizing an all-in-one HCM system – those same organizations experiencing higher engagement levels – are reporting less turnover than their counterparts relying on disparate best-in-breed solutions; far less.

…implicit impacts of disrupted operations, missed deadlines, and knowledge loss are less quantifiable [than costs associated with turnover].

Organizations utilizing an all-in-one HCM system…are reporting less turnover than their counterparts relying on disparate best-in-breed solutions.

Figure 2: Turnover reported during the preceding 12-month pandemic period
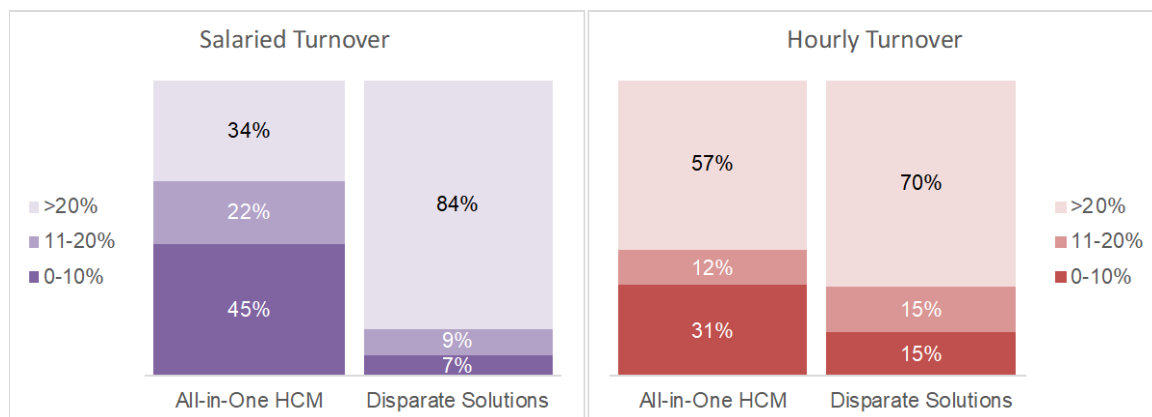
Source: Aberdeen, 2021 (n = 481)

In effect, those relying on disparate solutions are 2.5x more likely to be managing salaried turnover above the 20% level (see Figure 2 above). These heightened reports help explain the attention being given to salaried workers in hopes of controlling hidden costs. *The Great Resignation* knows no bias. People are leaving their jobs at unprecedented rates – all employment categories, all sectors, all industries.

Interestingly, those with all-in-one HCM systems are better at *controlling* excessive turnover – across all employment categories, all sectors, and all industries. An administrative excellence mindset contributes to these organizations being 6.5x more likely to limit turnover of salaried workers to below 10 percent. They are also 2.1x more likely to limit hourly turnover and 2x more likely to limit contingent turnover, both to below 10 percent. Because of this, those with single HCM systems are shifting their focus to hourly employees to better control costs. In fact, they are almost twice as likely (1.9x) as others to focus attention on the continuously changing structure of the hourly workforce.

Recently, HR leaders were asked to identify the top three challenges to control hourly labor costs (Aberdeen, 2021). The first challenge to tackle? Not being able to fill positions *quickly enough*. These companies recognize the value of time which is why roughly one-in-two (42%) have identified speed to fill as the leading hourly issue to control costs compared to just one-in-four (27%) of those operating with disparate systems. The latter are still struggling with an inability to track the continuous talent cycle (recruiting, hiring, onboarding, and terminating – 26%), worker data being stored in multiple systems (25%), an inability to align workforce contributions to profitability and sales (24%), and inaccurate time entries (24%).

2. *Stop Throwing Good Money After Bad – Respond to Change!*

Time was called out earlier as a primary driver of hidden costs. Time equates to speed. Speed equates to agility. All of which are required to optimize operations. Agile organizations developed in response to the growing unpredictability of the operational landscape. Agile organizations are those that have developed the capabilities to internally respond to the externally driven rapid pace of change. *Operational agility* enables administrators and managers to be more predictive, more productive, and more empowered to rapidly respond to change. All-in-one systems facilitate this type of objective, mission-oriented action.

Organizations that incorporate all-in-one HCM systems are 2.1x more likely to limit turnover of hourly workers to below 10%

Operational agility **enables administrators and managers to be more predictive, more productive, and more empowered to rapidly respond to change**

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To reduce operating costs and drive greater agility, organizations have been flattening their structures and increasing spans of control. Lateral moves are driving talent development as managers attempt to stretch employees into new roles based on skill versus experience. This helps explain why 18% of respondents identified irregular pay structures as a pain point for administrators. Further, roughly one-in-five (19%) of all organizations surveyed list maintaining an effective pay for performance strategy as a leading workforce management pressure (Aberdeen, 2021). A question that begs to be answered is, *are companies paying for the position or for the skills brought to the table?* Regardless, shifting skill requirements are shifting pay strategies – all-in-one systems are facilitating nimble management of equity by providing holistic views into the organization's *complete* workforce inventory. All-in-one systems facilitate simpler analyses.

The preceding challenges highlight payroll as a common thread that unites employee types in workforce analysis. Organizations are moving to single source systems to tackle administrative burdens associated with variable pay. Companies that incorporate all-in-one systems are 22% more likely to rely on common tools to allow employees and managers to self-manage capability, time, and payroll options. They are also 22% more likely to integrate time and attendance with payroll for real-time, accurate labor cost management.

Figure 3: Average reported increases in unscheduled overtime
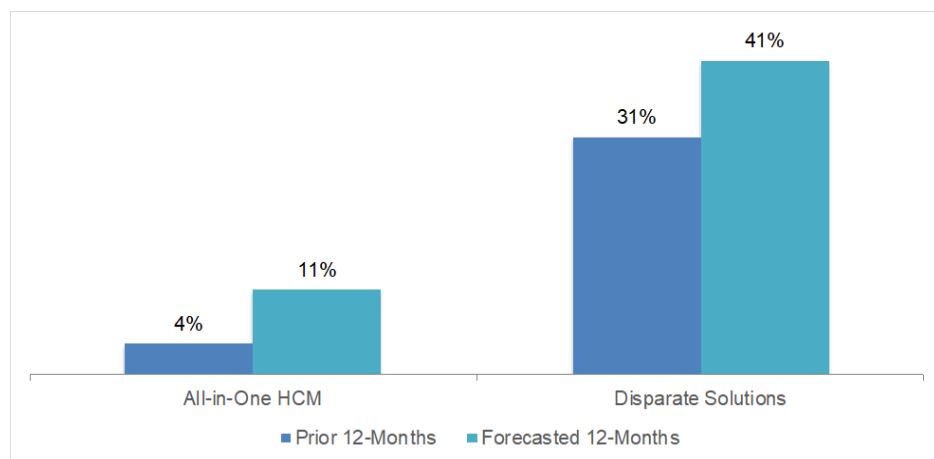
Source: Aberdeen, 2021 (n = 457)

Regarding the hourly worker, it should be noted that **excessive turnover** combined with **inefficient scheduling processes** and **inaccurate time entry** are a large force behind a 26% reported increase in overtime costs

incurred this past year (all organizations). Further, it is anticipated that on average, overtime will inflate *another 37%* over the next 12 months (Aberdeen, 2021). However, organizations incorporating all-in-one HCM systems are better positioned to mitigate rising labor costs. With scheduling and payroll management as part of a single HCM system, these organizations not only reported significantly lower overtime this past year, but they are forecasting significantly less overtime impacts during the coming year (see figure 3 above).

Integrations and self-service tools are crucial to excellence and agility as they support automated decision making and the ability to adjust the workforce as needed, based on available skillsets. Companies with these capabilities are 10% more likely to incorporate skill planning, 18% more likely to track their ability to meet sales targets with appropriate staffing, and 23% more likely to monitor time-in-role to ensure progressive upskilling and reskilling of the workforce.

With the recent growth and universal acceptance of virtual work, organizations must be mindful of multiple layers of **regulations and tax implications** as they replenish their workforce, align skills, and remove geographic boundaries associated with when and where work is performed. Costs associated with non-compliance are significantly more expensive than compliance. All-in-one systems facilitate conformity to changing regulations and minimize instances of non-compliance. Organizations incorporating these solutions are 34% less likely to see maintaining compliance as a leading payroll pressure. Instead, automated oversight allows for administrators and managers to focus on tactical workforce challenges and optimize their workforce.

Administrative Excellence + Agility = Speed & Optimization

Workforce optimization, in the context of this report, is focused on value. Leading organizations are *optimizing* value via networked solutions at the intersection of strategy, technology, and operations.

One-in-four organizations increased spend on HR technology by 11-30% over the past 12 months in hopes of achieving greater alignment to operational demands. However, without a robust strategy in place that embraces change these investments often end up as simply another disparate solution. Best-in-Class organizations, however, are doing more.

Thirty-two percent (32%) of these organizations are continuing to *significantly increase their investments in HR technology* over the next year versus just 18% of All Others. They are **improving data accuracy**

**Workforce optimization is focused on *value***

Organizations incorporating [single source] solutions are 34% less likely to see maintaining compliance as a leading payroll pressure

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by incorporating a single system of truth and they are connecting workflows and adjusting processes via automated, evidence-based decision making. Best-in-class companies are **forecasting labor demand and needed skills**. They are investing in upskilling and redeploying talent based on clear, objective metrics. They are providing a worker-first environment and driving **enhanced employee experiences** across their ecosystem. Leading organizations are following a strategic path to optimization.

By providing integrated mobile and self-service technologies for their workforce, Best-in-Class organizations are 34% more likely to realize a reduction in time to review records for compliance and 90% more likely to reduce time in promoting and managing benefit enrollment. They are **saving time**. Best-in-Class organizations are also 25% more likely to provide a unified platform for operational analysis and control. These platforms are **fueling optimization** across organizations of all sizes – small, medium, and large.

All-in-one systems are reducing the amount of data analysis time, past and forecasted (see figure 4). These realized time savings are being redeployed to engage, empower, and develop employees.

Figure 4: Average reported increases in time spent on data analysis
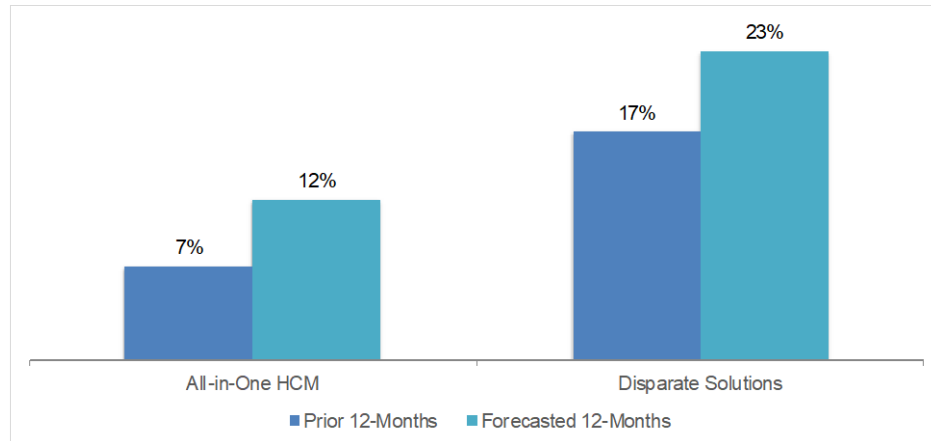
Source: Aberdeen, 2021 (n = 454)

The Business Case

Evaluating metrics, year-over-year, leader organizations are seeing greater improvements in their key financial results. Starting with profitability, 94% of Best-in-Class organizations realized improvements as

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32%

of Best-in-Class organizations will continue to significantly increase their investments in HR technology over the next year

…realized time savings are being redeployed to engage, empower, and develop employees

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compared to just 52% of All Others. It is a similar story across recurring revenue, net new revenue, and revenue per FTE. These high-performing organizations are on average, roughly 95% more likely to report favorable results than all other organizations.

Beyond metrics, support for a single system of truth, or an all-in-one system can be found through examination of impact on cost of operations. Figure 5 displays the impacts of seven common drivers of hidden cost, as reported by senior HR leaders – those incorporating a single system versus those linking best-of-breed disparate systems.

Figure 5: HR leaders report on impact to cost of operations
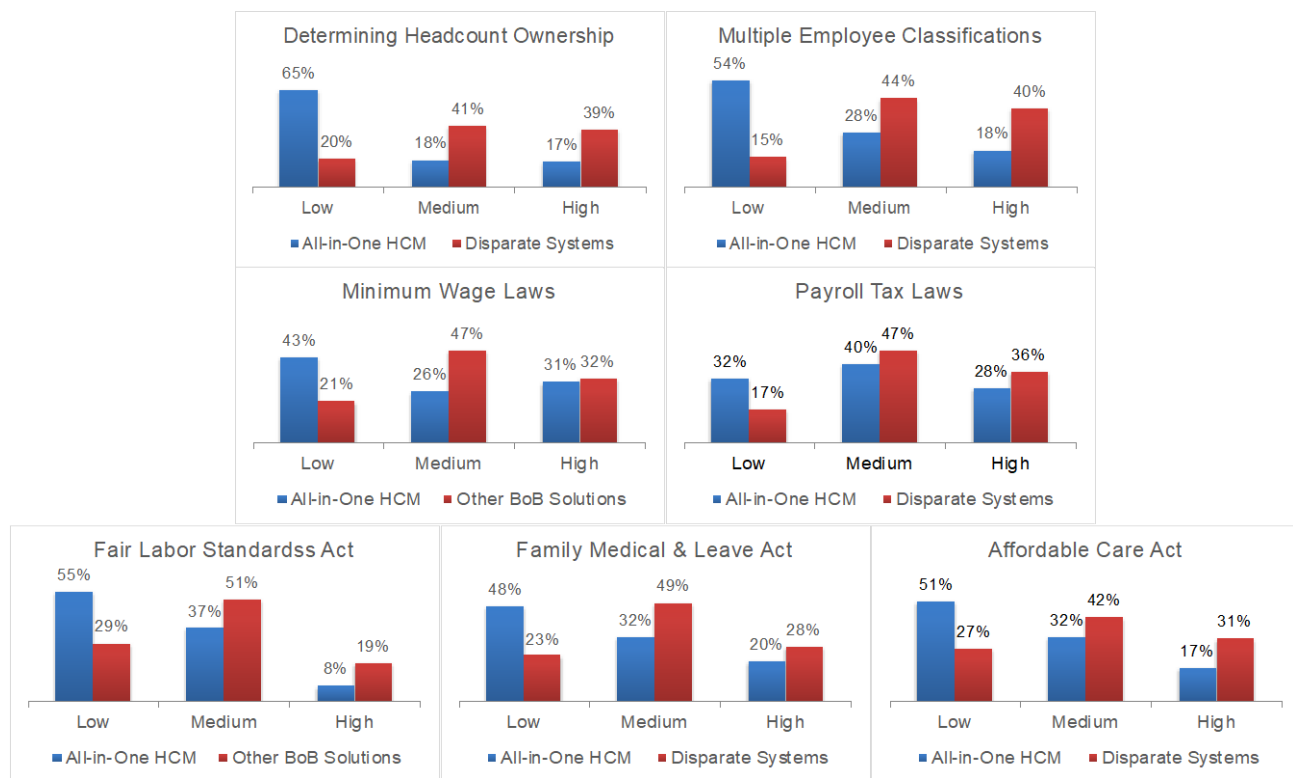
Source: Aberdeen, 2021 (n = 481)

Beginning with regulatory complexities, those with all-in-one HCM solutions are experiencing far lower impacts to their cost of operations as technology provides seamless compliance-related updates. Minimum wage and payroll tax laws, although complex, are complied with via automation and dashboard reporting. Although payroll taxes continue to plague cost of operations, those with single system platforms are far more likely to realize lower impacts. Finally, rapidly changing employee

categories and fluctuating headcount allocations are controlled via an integrated, single source for data. Organizations with this *single source of truth* are 3.6x and 3.2x more likely, respectively, to realize lower impacts to the cost of their operations.

The Bottom Line

The interactive complexities of today's workforce management tools, practices, and policies require an organization to be highly connected and integrated in its approach to data and workforce management. The scale of data in the modern world may seem trivial on the surface. However, when considered in totality of digital transformation, it becomes noteworthy in tracing hidden costs. Time and skill to analyze aside, without a single source of contextual digital truth, it becomes near impossible to make timely, relevant business decisions in the face of uncertainty and ambiguity.

Having a single system for time, scheduling, and payroll provides a singular source of data for reporting accuracy and enhanced decision making – it reduces risk to non-compliance and provides a holistic view of the workforce to ensure consistency and a complete, reliable, view of labor costs. Having a single system that integrates across the HR function (and beyond) enables **enhanced management of the complete workforce** – salaried, hourly, contingent, and intern. A single system optimizes value by aligning technology to operations and strategy.

Organizations incorporating all-in-one HR systems are **finding more time**. They are spending less time tracking and reconciling disparate data. They are spending less time on analytics thanks to enhanced dashboards and automation. They are spending less time deciphering skill gaps and capability shortages.

What are they doing with this newfound **optimized time**? They are engaging their employees. They are creating greater experiences for their stakeholders. They are working smarter, not harder. They are allowing technology to improve their bottom line.

Organizations with [a] *single source of truth* are…more likely to realize lower impacts to the cost of their operations

A single system optimizes value by aligning technology to operations and strategy

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About the Author

Jim joined Aberdeen in 2021 with over 20 years of experience in the field. His fact-based work is focused on the intersections of information technology and talent management, employee engagement, performance management, talent acquisition, total rewards, and organization development. He has consulted, externally and internally, in both the public and private sectors. He held multiple leadership positions with Eaton Corporation. Most recently, he was the Director of Talent, Learning, & OD at the Panasonic Corporation of North America. Jim is an Adjunct Assistant Professor of Clinical Research and Leadership at The George Washington University's (GWU) School of Medicine and Health Sciences. His teaching experience includes courses in change management, strategic management, knowledge management, research methods, organizational behavior, and leadership at GWU, Western Michigan University, Northeastern University, Embry- Riddle Aeronautical University, and within the University of Maryland system. Jim is a frequent speaker and presenter at HR conferences across North America.

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