



ENLIGHTENED LEADERSHIP:

Unbundling HCM

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The tides are shifting on the age-old question for Human Capital Management (HCM): Enterprise Resource Planning (ERP) Suite versus Best-of-Breed (BOB). The 1980's movement toward a single vendor, single platform ERP system is altering its course toward modern, agile, single function, fully integrated systems. This change is being enabled with the growth of Web 2.0 – the method of software and service delivery via the Internet that is now penetrating all aspects of our work and personal lives.

In their article “[Unbundling the Corporation](#)” McKinsey consultants John Hagel and Marc Singer contend that “the forces that fractured the computer industry are bearing down on all industries. In the face of changing interaction costs and the new economics of electronic networks, companies must ask themselves the most basic of all questions: what business are we in?” The movement to outsource non-core functions to reduce ongoing costs and allow the company to focus on their core competencies is being made easier with the drastic cost reductions in communications and technology. Just look at the prices of cell phones and, in particular, netbooks, which now can do more than many desktops!

Because systems integration and human collaboration across space and time have never been easier or cheaper, it is now often more cost-effective to communicate across organizations than within one. Hence, we are seeing the unbundling of the modern organization into separate and discrete functions – either outsourced, offshored or split off into shared services centers – so that each function can focus on what they do best. Hagel and Singer maintain that “activities that companies have always believed to be central to their business will suddenly be offered by new, specialized competitors that can undertake those activities better, faster, and more efficiently.” This shift is causing the modern organization to un-bundle and then re-bundle their activities

and infrastructure into more agile, nimble structures that can change and scale up or down as business needs dictate.

So what does all this mean for the modern HR organization and for HR technology? HR has long been an organization that has worked across boundaries, and functions such as benefits and payroll have long been outsourced to third-parties. Yet, the un-bundling of HCM will have a much farther reaching impact. Beyond benefits, payroll, and call centers, we are seeing the un-bundling of HR services from RPO (recruitment process outsourcing) to off-boarding and the un-bundling of HR technology from perpetual licensed enterprise resource planning (ERP) software to subscription-based software-as-a-service (SaaS).

Adapting from Hagel and Singer’s model to HCM, the modern HR organization needs to focus on three key areas: employee relations, service delivery, and infrastructure and tools. These areas rarely match the company’s formal organizational structure, and each has different goals, different economies, and different competition and cultural underpinnings.

HR business processes are typically cross-functional, stretching both horizontally and vertically across the organization; as they cross these different areas of the organization, the goals and expected results inevitably conflict. “Scope, speed, and scale can’t be optimized simultaneously; trade-offs must be made,” according to Hagel and Singer.

The Modern HR Organization

Employee Relations	Service Delivery	Infrastructure
<p><u>HR Focus</u> Employees & Managers</p> <p><u>Economics</u> High Acquisition Costs</p> <p><u>Competition</u> Battle for Talent</p> <p><u>Culture</u> Employee-centric; Customer-comes-first; Coddling the stars</p>	<p><u>HR Focus</u> Services & Programs</p> <p><u>Economics</u> Competitive Differentiators</p> <p><u>Competition</u> Battle for Scope</p> <p><u>Culture</u> Services-oriented; Best-in-Class Offerings Flexible Programs</p>	<p><u>HR Focus</u> Tools & Technology</p> <p><u>Economics</u> Fixed/Variable Costs</p> <p><u>Competition</u> Battle for Scale</p> <p><u>Culture</u> Cost-focused; Standardization; Efficiency</p>

Thus, it is by un-bundling HR and building dedicated teams to focus on specific areas – either within or outside the organization – that we can achieve the best results. Charter your recruiting partner to battle for the best talent, demand your benefits provider to provide the best-in-class, most flexible programs, and ensure your technology infrastructure is standardized, highly scalable, and with a variable cost structure. 🌐

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