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From absence management to HRIT investment: assessing HR's priorities
A survey of HR directors and managers by Webster Buchanan Research

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Contents

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Executive Summary

This report analyses the findings of a survey of 100 HR directors and managers in the UK, carried out by Webster Buchanan Research. The survey examined a broad range of people management issues, from absence management to investment in software and services. Key findings include:

Shortcomings in managing absence

- Respondents were comfortable with their ability to handle several operational aspects of absence management, such as running back-to-work interviews and managing the disciplinary issues, but poorer at more strategic issues. 35% admitted they were **poor at intervening effectively** in long-term absence, and 55% confessed they were poor at taking **preventative steps** to encourage well-being
- From a data management and analysis perspective, 42% conceded they were poor at **promptly capturing data** about absence episodes and storing it centrally, and almost half (49%) said they were poor at **analysing and acting on the root causes** of absence. This is reflected in separate findings that show many HR managers lack either the tools to manage and analyse data effectively, or the skills to do so

Philosophies on recruitment

- The majority of respondents (62%) agreed that "recruitment is a **sales and marketing exercise**, not purely an HR task" and that organisations need "a good corporate image, marketing skills to identify the best candidates, and sales skills" to encourage them to join their organisation
- Almost half of respondents (49%) agreed that "HR will start to lose out in the race for talent over the next twelve months if it fails to get involved with **social media** such as Facebook, Twitter and Linked-In to reach potential recruits", while a third (34%) disagreed.

Drivers for investing in HR software or services

- Despite relentless focus on cost, the top driver for investing in HR software or services was to improve **the quality of service** for employees and managers (ranked as important by 89% of respondents), followed by improving the quality of **management information** (76%). Reducing **HR administration costs** was third (73%), followed by reducing **IT costs**. Webster Buchanan suggests that in some cases, these priorities may need to be reordered to win business case approval
- One third of respondents (33%) conceded that expanding their personal experience and **enhancing their CV** was an important factor in determining whether to invest in HR software or services. While that attitude may be frowned upon in the boardroom, it indicates how critical software and services are to running today's HR function

Investment priorities
- **Learning and development** topped the list of HRIT investment priorities, ranked a priority by 81% of respondents – suggesting that with headcount under close scrutiny, HR is working hard on improving the capability of its existing employee base
- **Recruitment** was the second biggest target for investment (69%), reinforcing the fact that even if overall headcount is constrained, organisations continue to hire to redress natural attrition. The finding suggests that many HR managers see benefit in automating recruitment processes at a time of high unemployment – in fact, dealing with a **high volume of applicants** was cited by respondents as their biggest recruitment challenge, alongside lack of **HR/recruiting resource**
- Other priorities for investment were **Performance Management** (prioritised by 66% of respondents), **Reporting and Analysis** (also 66%) and **Absence management** (65%)

Maximising existing investments
- Many organisations are not taking full advantage of their existing HRIT investment, with 39% aware that they're not using all the useful functionality available to them, and almost two out of ten (18%) conceding they've implemented very little of their system's **potential capability**. The survey suggests one reason is lack of training for existing and new staff

Poor HR analytical skills
- More than half of respondents (55%) agreed that the **level of business-relevant information** provided by HR to line managers and the board needs to be significantly improved, with 44% disagreeing. Almost three out of five (58%) of respondents agreed that the difficulty of getting **relevant data** together undermines their reporting and analytical capability
- In addition, 44% of respondents agreed that they do not have the **software tools** they need to do anything beyond basic HR reporting – and 43% said that even if they had the right tools, they do not have sufficient **analytical skills** within the HR function to take advantage

Perceptions of Software as a Service (SaaS)
- The survey showed some continuing confusion among HR managers about the definition of software as a service (SaaS)
- The potential benefit cited most often by respondents (61%) is that the initial **investment tends to be lower** and can limit **capital expenditure**, since SaaS services are usually provided on a subscription basis. A similar number (59%) pointed to the fact that because it's internet-based, HR employees can **access the system from multiple sites**, including home
- A third of respondents (38%) said concerns about **data security** might be a barrier to adoption of SaaS, while a quarter (25%) cited concerns about **privacy**

Respondent Profile

Webster Buchanan Research conducted a survey earlier this year based on interviews with 100 HR directors and HR managers in the UK. Interviews were carried out with respondents from a cross-section of private sector industries and the public sector. As well as assessing the aggregate response to all of the questions, responses were analysed by organisation size, measured according to the number of people employed in the UK and broken down into five categories:

- 100-250 employees (27% of respondents)
- 251-500 (34%)
- 501-1000 (18%)
- 1001-5000 (14%)
- Over 5000 (7%)

Fig 1: Respondent Base by Employee Population
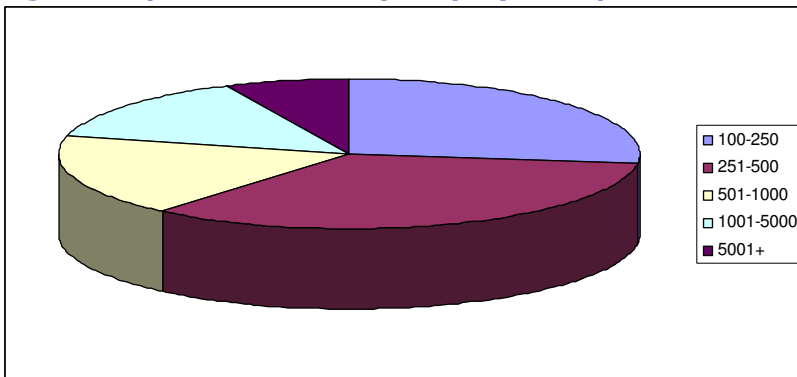
Part 1: Purchasing Software and Services in a Challenging Economy

1.1 Drivers to HRIT investment

Even in a challenging economy, organisations continue to invest in software and IT services. In fact, our survey shows that one third of respondents (34%) plan to spend more this year than last year on HR software and IT services, with a further 36% spending the same and 30% expecting to cut back.

Asked which potential benefits are most important to them in determining whether to invest in HR software or services, the top priority was improving **the quality of service** provided to employees and managers (ranked as important by 89% of respondents). Second was improving the quality of **management information** (76%), reflecting a continuing focus within HR on improving the quality of reporting and analysis (*see Part 2*).

Surprisingly given the economic environment, reducing **HR administration costs** was ranked third, although it remained important for almost three quarters (73%) of respondents, down from 89% in a similar survey published by Webster Buchanan last year[1]. This was followed by reducing **IT costs**, ranked as important by two thirds (67%) of HR managers, compared to 88% last year.

During challenging economic conditions, the service quality/cost equation would usually swing towards tighter cost management. It's possible that the marginally reduced emphasis on cutting cost reflects a level of weariness with budget constraints during the prolonged downturn. But more importantly, improving the quality of service can in itself lead to improved efficiencies and cost reduction – for example, by reducing HR data administration costs and cutting the volume of employee queries through the introduction of self-service. In practice, cost reduction may well be elevated above quality of service in any business case designed to justify HRIT investment.

Other potential benefits include **freeing HR from its administrative burden** to provide more strategic input to the business, ranked important by 58% of respondents (down from 73% last year). **Reducing operational risk** (such as the risk of relying on an ageing IT system) was also cited as important by almost a third of respondents (32%), representing a sizeable chunk of HR professionals concerned about their risk exposure.

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[1] "From managing information to managing change: how HR is coping in today's challenging economy", a survey of HR directors and managers by Webster Buchanan Research, May 2009

Finally, one third of respondents (33%) conceded that expanding their **personal experience** and **enhancing their CV** was an important factor in determining whether to invest in HR software or services, with a further 44% ranking it as a factor of average importance. As we noted last year, board-level executives will be surprised and disappointed to see such a high percentage of investment decisions influenced by personal career factors. But the finding is a strong indication of how critical software and services are to running today's HR function, with HR professionals keenly aware that this will be a factor in their career development.

Fig 2: Business drivers for HRIT investment
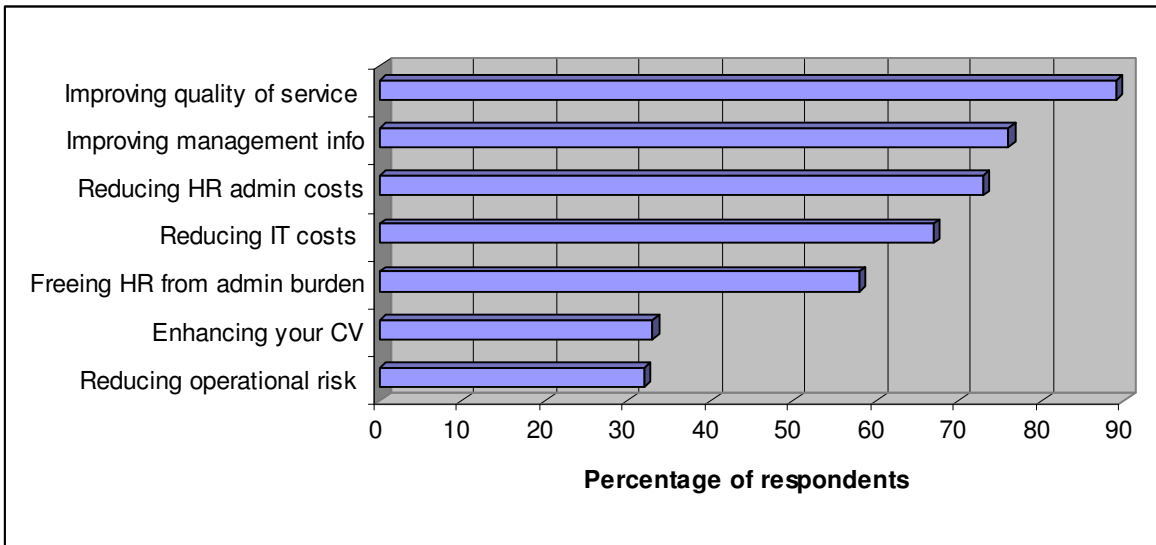
1.2 Where investment will be targeted
With quality of service, improved management information and cost reduction identified as key drivers for investment, the next question is – where do HR managers plan to target their spend?

Learning and development topped the list, with 81% of respondents ranking it as a priority or high priority – including 94% of organisations with 501–1000 employees. At a time when headcount is under close scrutiny, this emphasis on development suggests that HR is working hard on making the most of its existing employee assets. It's reasonable to assume that much of this investment will be focused on improving employee efficiency and productivity, in part by increasing employees' skills and knowledge to expand the range of work they can perform.

Despite the pressure on headcount, **recruitment** was the second biggest target for investment, ranked as a priority or high priority by more than two

thirds (69%) of respondents, albeit marginally less for larger organisations with more than 1000 employees. This reinforces the fact that even if overall headcount is constrained, organisations continue to recruit for existing vacancies and the occasional new post – and at a time of high unemployment, investment in systems that automate processes and data management can help organisations cut costs, speed up the recruitment cycle and handle large volumes of applicants.

Other priorities were ranked as:
- **Performance Management**, a priority for 66% of overall respondents and 86% of organisations with more than 5000 employees
- **Reporting and Analysis**, cited as a priority by 66% of overall respondents, including 78% of organisations with 100-250 employees and 79% of those with 1001-5000 employees
- **Absence management**, prioritised by 65% of respondents
- **HR self-service**, earmarked as a priority for 57% of respondents, with payroll self-service (such as online pay slips or pay histories) targeted by 54%
- **Maintenance and enhancement** of their core HR management system (56%)

1.3 Maximising your existing investment

Despite the sums spent on HRIT, in practice many HR functions – in common with other business functions – fail to take advantage of the full capability of their systems. Sometimes it's because they choose not to implement individual modules within their HR management suite when they first go live: in other cases, it's because they lack the knowledge required to maximise the full functionality of the software or services that they do deploy.

Asked how comprehensively they think they're leveraging their HR systems, over a third of respondents (38%) said they were pretty much maximising the use of their system. A similar number (39%) said they've implemented a large amount of the capability, but are aware that there's other useful functionality available to them – and almost two out of ten (18%) conceded they've implemented very little of the potential capability.

Part of the problem organisations face is ensuring that their employees are aware of what their software or service can deliver. Asked how they keep their HR users up-to-date on their system's capabilities, only 16% said they put HR staff on **refresher training courses** at least once a year. Less than half (46%) ensure all new HR staff are given **formal training** by an external system expert, such as the software vendor or a third party consultancy, while 59% rely on experienced in-house HR team members to teach new recruits. The downside of this approach is that HR staff will only teach what they know,

and will typically focus on what they're comfortable with: by contrast, it's in the interests of the vendor or third party to cover the full scope of the offering.

Asked if they feel that they have enough knowledge about what their HR systems are capable of doing today to analyse the value of making further investment in HRIT, over half (57%) said yes. However, more than a third (36%) said they have a broad understanding, but additional information would make a difference to their decision-making – and a further 7% said additional information would make a significant difference to their decision-making.

Part 2: Recruitment, Absence and Reporting

2.1 Recruitment challenges
The majority of respondents - 71% - expect to have the same headcount at the end of 2010 compared to the end of 2009, with 15% looking to increase their employee base and 14% looking to cut it. Even if their overall headcount remains static, however, these organisations continue to recruit, either for newly-created positions or vacancies in existing roles.

In doing so, respondents expect to encounter a number of challenges. High among them is lack of **HR/recruiting resource**, cited as a challenge by half the respondents (52%), rising to almost three quarters in organisations with 1000-5000 employees (71%). Dealing with a **high volume of applicants** in a tight labour market was singled out as a challenge by the same number of overall respondents (52%), rising to almost eight out of ten (79%) of organisations with 1000 – 5000 employees. As we indicated in Part One, automating the recruitment process is one potential way of easing both challenges, which helps explain why recruitment is the second highest investment priority for HR managers (*see Part 1.2*).

Another associated issue - **managing the recruitment cycle** quickly enough to beat competitors to a job offer – was a challenge for just under a third of respondents (31%), although the same number dismissed it as an insignificant issue.

Fig 3: Main recruitment challenges
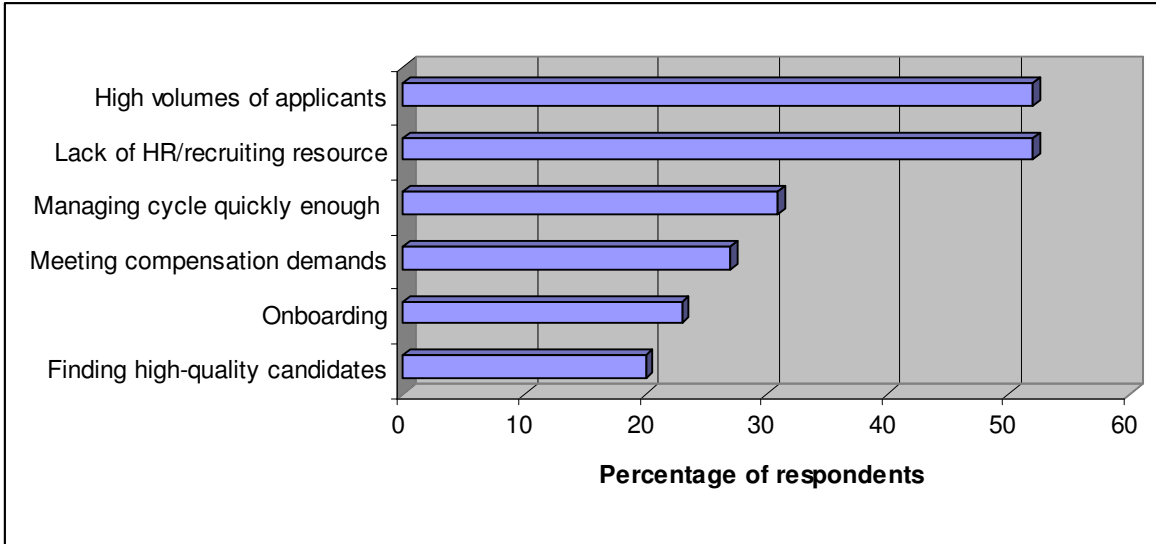
Other concerns included meeting the **salary/compensation** or flexible working requirements of candidates (27%), and getting new hires up and running - sometimes known as '**onboarding'** – which was cited by 23% of respondents, including a significant proportion of large organisations. Finding enough **high-quality applicants** was less of an issue, with 53% of respondents ranking it a minimal issue or non-existent problem, and just 20% seeing it as a challenge.

2.2 Recruitment market trends
Respondents were also asked their views on four trends in the recruitment market, beginning with market dynamics. Exactly half agreed that "the economic downturn has **shifted the balance of power** in recruitment back to the hirer. It's now less about selling your organisation, and more about applicants selling themselves to you." By contrast, just over a third (35%) disagreed, while 15% had no opinion.

More people agreed (62%, versus 29% disagreeing) that "recruitment is a **sales and marketing exercise**, not purely an HR task. You need a good corporate image, marketing skills to identify the best candidates, and sales skills to encourage them to join your organisation."

When it comes to forcing the issue in online recruitment, opinion was split. Asked whether "all candidates should be capable of applying for jobs online and it is reasonable for hiring organisations to require them to do so", 39% agreed, 35% disagreed and a quarter of respondents (26%) had no opinion (presumably because they have yet to embrace web recruiting).

Finally, asked about the role of social media in recruitment, almost half of respondents (49%) agreed that "HR will start to lose out in the race for talent over the next twelve months if it fails to get involved with social media such as Facebook, Twitter and Linked-In to reach potential recruits", while a third (34%) disagreed. Organisation size is a factor here: over 70% of the largest organisations agreed, while 47% of organisations with 251-500 employees disagreed.

This last finding points to a continuing shift in perceptions of social media in the recruitment field. In Webster Buchanan's 2009 survey[2], only 38% of respondents agreed that "social media sites such as Facebook and Linked-In are an extension of traditional employee referral schemes and provide a great way to reach potential new recruits". And in a survey of HR managers carried out by Webster Buchanan Research in March 2008[3], social networking was positioned a distant tenth as an effective recruiting tool, well behind traditional techniques such as media adverts, executive search and online advertising, and was predicted to stay at tenth over the next two years.

2.3 Absence management
Webster Buchanan divides absence up into ten strategic and operational activities[4]. The Strategic components include steps such as taking preventative measures to encourage employee well-being; establishing an effective disciplinary framework; and analysing trends and investigating root causes of absence.

The Operational components, meanwhile, include gathering and distributing up-to-date information about absence; actively managing and intervening in absence episodes, from arranging initial cover to conducting return-to-work interviews; enforcing disciplinary procedures; and maintaining absence records.

Respondents to this year's survey were asked how well they manage a selection of these activities, rating their performance on a scale of 1 – 5 (from 'very poor' to 'excellent'). The findings demonstrate that while there were

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[2] "From managing information to managing change: how HR is coping in today's challenging economy", a survey of HR directors and managers by Webster Buchanan Research, May 2009

[3] "Recruitment 2008: from marketing theory to the practicalities of web-based hiring", a survey of HR directors and senior managers by Webster Buchanan Research, March 2008 www.websterb.com/hcinsider

4 "Managing Absence: the Missing Links. A practical guide to building effective absence procedures, improving reporting and cutting costs", published by Webster Buchanan Research September 2009

strengths at an operational level, some aspects of both operational and strategic absence management were lagging.

At an operational level, 40% of respondents described themselves as excellent or good at **running back-to-work interviews**, with a further 38% declaring themselves average. Similar numbers - 44% and 43% respectively – said the same about **managing the disciplinary** aspects of absence.

However, the picture changed when it came to more strategic activities. Only 24% said they were good or excellent at **intervening effectively** in long-term absence, with 35% admitting they were poor or very poor. And only 18 per cent said they were excellent or good at taking **preventative steps** to encourage well-being, with 55% confessing they were poor or very poor.

There was a similar picture in data management and analysis. Only two out of ten (21%) of respondents ranked themselves excellent or good at **promptly capturing data** about all absence episodes (such as individual sickness or vacations) and storing it centrally in HR – while double that number (42%) conceded they were poor or very poor.

Likewise, only 20% rated themselves excellent or good at **analysing and acting on the root causes** of absence, with almost half of respondents (49%) saying they were poor/very poor. Only 23% ranked themselves excellent or good at **measuring the direct cost** of absence to their organisation, with 32% poor or very poor. Finally, just 17% said they were excellent or good at measuring the **business impact** of absence (such as the impact on customer service, or time lost in production), with almost half (46%) conceding they were poor or very poor.

These findings point to two key shortcomings in HR's approach to absence management. Firstly, many organisations have failed to put strategic procedures in place to tackle absence through prevention and effective interventions. Secondly, HR managers lack either the tools to manage and analyse data effectively, or the skills to do so (*see Part 2.3*). With research from the Chartered Institute of Personnel and Development suggesting that absence costs organisations £692 per employee per year – equivalent to over £138,000 per year for an organisation with 200 employees and more than £1m for a 1500-strong workforce – the pressure to tackle these kinds of shortcomings can only grow.

**Fig 4: Shortcomings in absence management
(Respondents conceding they are 'poor' or 'very poor')**
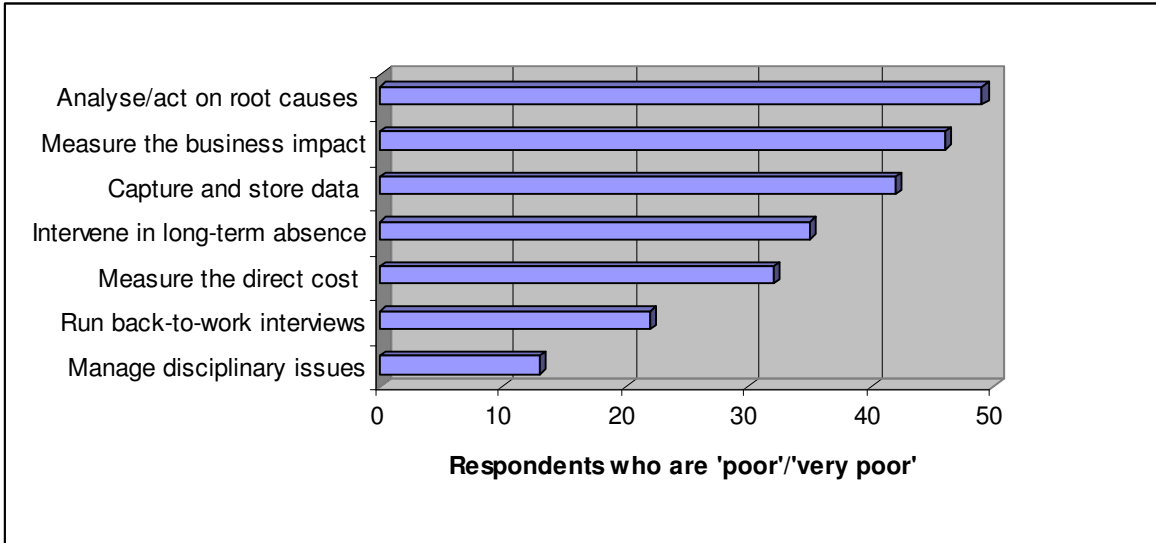
2.4 Reporting and analytical capability

The shortcomings in absence analysis were mirrored in more general questions about respondents' HR reporting capability. Webster Buchanan has long bemoaned the fact that the metrics used by HR functions tend to focus on inward-looking metrics relevant to HR's operational capability, as opposed to metrics that show the impact of people management decisions on the broader business. It's the difference, for example, between tracking how long it takes on average to recruit (days to hire), versus analysing how long it takes to fill business-critical positions or analysing the quality of hires.

The findings of this year's survey suggest that HR's strengths still lie in these operational areas. More than half of respondents (55%) agreed that the **level of business-relevant information** provided by HR to line managers and the board needs to be significantly improved, with 44% disagreeing. Not surprisingly this is a particular issue for larger organisations with 1001-5000 employees, where 79% of respondents agreed, and less of an issue for smaller organisations of 100-250 employees, where 67% did not see it as an issue. It's also a shift in the wrong direction compared to our 2009 survey, where just under a third of respondents (32%) agreed that the level of business-relevant information needed to be significantly improved, but 57% indicated that they believed that they were providing the necessary information.

The underlying causes appear to centre on problems around software and data management. Almost three out of five (58%) of respondents agreed that the difficulty of getting **relevant data** together undermines their reporting and analytical capability, suggesting that data is scattered between different

systems (and perhaps different filing cabinets) rather than being stored and accessible centrally.

In addition, 44% of respondents agreed that they do not have the **software tools** they need to do anything beyond basic HR reporting – although 56% disagreed. The good news is that this is a marked shift from Webster Buchanan's 2009 survey, when 62% agreed that they lacked the right tools, and less than a third (31%) disagreed.

Just as important, 43% of respondents in this year's survey said that even if they had the right software tools to carry out more sophisticated reporting and analysis, they do not have sufficient **analytical skills** within the HR function to take advantage of them.

Part 3: Software as a Service

'Software as a Service', or 'hosted services', is a fast-growing form of outsourcing in the HR field – but as our survey demonstrated, there's some confusion about what SaaS really consists of. Respondents were asked which of three statements most accurately defines Software as a Service:

1. *"It's an IT-only service where the supplier simply runs the HR software for you. Your HR team accesses the software over the internet and handles everything else in-house."*

2. *"The outsourcer runs the software, provides a range of HR services to you and also takes over part of your HR function, including staff."*

3. *"The outsourcer runs the software on its own IT infrastructure and provides specialist HR services for you, such as managing absence or calculating payroll."*

Approximately half (52%) opted for the first definition, which reflects the conventional definition of SaaS – a form of outsourcing where the service provider takes over the hassle of managing the software, and customers use it securely over the internet in much the same way that they might access an in-house server over their corporate network. This is a pure IT service – no HR work is carried out by the outsourcer.

Almost a third of respondents (31%) opted for the second definition, which in reality is more descriptive of a conventional managed services arrangement or a business process outsourcing deal. The difference here is that the outsourcer carries out HR functional work on the clients' behalf as well as running the software.

A further 17% opted for the third definition. Although this isn't a 'pure' definition of SaaS – once an outsourcer starts processing your payroll, for example, they're effectively providing conventional managed services - this definition might apply to a 'SaaS-plus' set-up. For example, if a vendor manages your HR software applications and data under a SaaS arrangement, they may also offer you associated specialist services, such as carrying out a strategic data analysis project.

All but eight per cent of respondents either already use some level of HR SaaS services today, or plan to use SaaS this year or in the long term. Of these respondents, when asked which potential benefits would be most important to them in deciding whether to use a hosted service, 61% pointed to the fact that the initial **upfront investment tends to be lower** and you can limit your capital expenditure, since SaaS services are usually provided on a subscription basis. A similar number (59%) pointed to the fact that because it's internet-based, HR employees can **access the system from multiple sites**, including from home – something that was significantly more important to larger companies of 1000+ and 5000+ employees.

Other benefits cited included:
- SaaS makes it **easier to work with best-of-breed** specialist suppliers in areas such as recruitment or absence management (54% of respondents found this important or very important)
- It **removes the hassle** of installing, managing and upgrading your own software (49%)
- Because the provider manages upgrades for you, you always have access to the most **up-to-date software** (36%)

Fig 5: Benefits of Software as a Service
(Importance of potential benefits in deciding whether to use SaaS)

Percentage of respondents using/planning to use SaaS
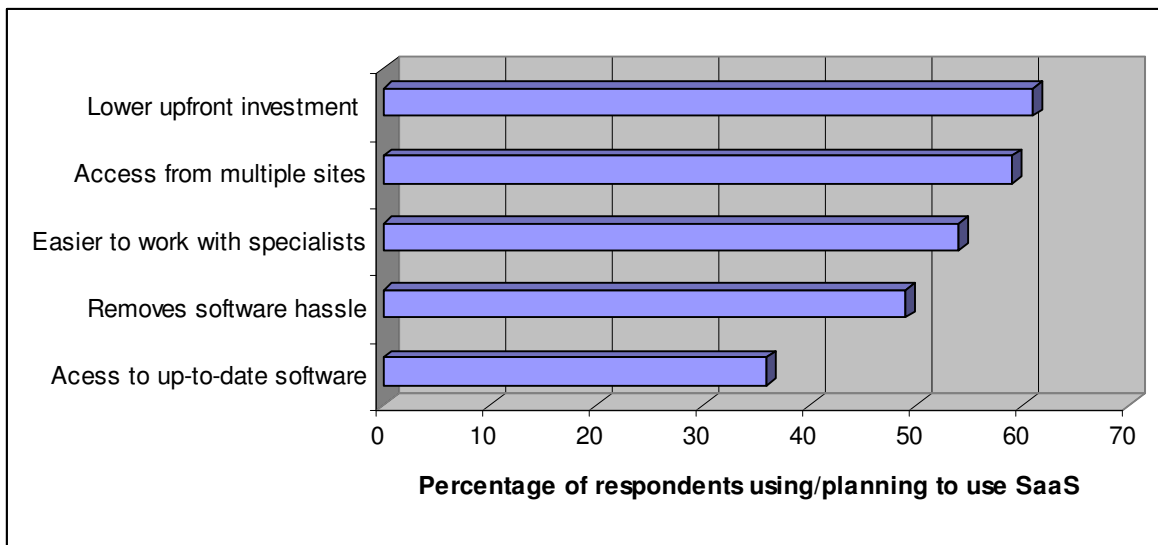
Meanwhile, responses to questions about potential barriers to adoption of hosted services indicate that some concerns are being allayed as the SaaS model becomes established in the mainstream of HRIT service delivery.

While over a third of respondents (38%) said concerns about **data security** would be a barrier or major barrier to adoption of SaaS, some 29% said it was either not a barrier or an area of low concern. Similarly, while a quarter (25%) cited concerns about **privacy** (given that data is handled off-site), over a third (34%) said it was not a matter of significant concern.

Other potential issues showed a similar split in the response base:

- 38% of respondents said concerns within their IT team about **IT control and accountability** would be a barrier – but 40% said it was an area of low concern
- Issues around **integrating** the hosted service with their existing in-house systems were a concern for 35% of the response base – with exactly the same number unconcerned. It's likely that in a survey of IT directors, the levels of concern would be higher
- Only 18% saw concerns about **uptime** as a potential barrier (in other words, can the outsourcer ensure the service is always available?) while 31% saw it as a low barrier or no issue at all.
- A quarter of respondents were concerned about the difficulty of **managing multiple SaaS suppliers**, versus 31% who did not see this as a significant issue

End Notes

About the Author
Webster Buchanan Research is a market research company specialising in business management and the supporting role of technology. Working from regional offices in London, San Francisco and Singapore, Webster Buchanan's primary focus is on People Management, Multi-country Payroll, Strategic Payroll, and Customer Relationship Management. For more information and copies of recent research reports, visit www.websterb.com.

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