

CHAPTER 6

HUMAN RESOURCES PROCESSES WITH ERP

LEARNING OBJECTIVES

After completing this chapter, you will be able to:

- Explain why the Human Resources function is critical to the success of a company.
- Describe the key processes managed by a Human Resources department.
- Describe how an integrated information system can support effective Human Resources processes.

INTRODUCTION

A company's employees are its most important resources. The Human Resources (HR) department is responsible for many of the activities that a company performs to attract, hire, reward, train, and, occasionally, terminate employees. The decisions made in the HR department can affect every department in the company. Companies are increasingly aware of the importance of an experienced, well-trained workforce and have begun using the term **human capital management (HCM)** to describe the tasks associated with managing a company's workforce.

As a company grows from a small business to a large organization, the need for an organized and effective HR department becomes increasingly important. The responsibilities of an HR department usually include:

- Attracting, selecting, and hiring new employees using information from resumes, references, and the interview process
- Communicating information regarding new positions and hires throughout the organization and beyond
- Ensuring that employees have the proper education, training, and certification to successfully complete their duties
- Handling issues related to employee conduct
- Making sure employees understand the responsibilities of their jobs
- Using an effective process to review employee performance and determine salary increases and bonuses
- Managing the salary and benefits provided to each employee and confirming that the proper benefits are disbursed to new and current employees
- Communicating changes in salaries, benefits, or policies to employees
- Supporting management plans for changes in the organization (expansion, retirements, and so on) so that competent employees are available to support business processes

Making sure that these tasks are accomplished and that valid information is communicated requires an effective system to control the flow of information. In this chapter, we will explore the role of an integrated information system in Human Resources.

PROBLEMS WITH FITTER SNACKER'S HUMAN RESOURCES PROCESSES

As with Fitter Snacker's other processes, personnel management relies on paper records and a manual filing system. This setup creates problems because information is not readily accessible or easy to analyze. The HR department's recruiting, hiring, and post-placement processes would operate more efficiently with an integrated system.

Recruiting Process

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Fitter Snacker has three employees in its HR department. Problems occur because of the large number of HR processes (from hiring and firing to managing health benefits), the lack of integration among all departments, and the number of people with whom HR interacts. Many of the HR problems also result from inaccurate, out-of-date, and inconsistent information.

For example, suppose a department has an opening for a new employee. The department supervisor communicates this need to the Human Resources department by filling out a paper job vacancy form that describes the position, lists the qualifications a candidate must have to fill the position, specifies the type of position (temporary, part-time, full-time, or co-op/intern), and states when the position will become available. Human Resources takes this information, verifies that the position needs to be filled, and gets final approval from the president of Fitter Snacker to begin the recruiting process. Because there is no central information system, the details on the job vacancy form are frequently inconsistent among, and sometimes within, departments.

Usually the job is first posted internally, so that current employees have the opportunity to apply for the position. If no current employees are acceptable for the position, then Fitter Snacker posts the position externally.

A number of problems can arise in the recruiting process. First, the description of the qualifications required for the job may be incomplete or inaccurate, sometimes because the supervisor is in a hurry, sometimes because the supervisor is not aware of all of the functions required for the position, and sometimes because the supervisor assumes that all candidates will have certain basic skills. Second, if the job vacancy form is lost or not routed properly, the Human Resources department will not know that the position is available, while the supervisor will assume that the paperwork is in process. When this happens, the department ends up short-handed, creating tension or animosity between the departments. Obviously, this problem will occur more frequently when job openings are circulated by paper. With an integrated information system, the job information is available immediately and easier to monitor. Another serious recruiting problem related to a paper-based hiring process is the potential loss of a good candidate due to drawn-out hiring practices or lost data.

Although Fitter Snacker does not use recruiting agencies or Internet job sites such as Monster.com to find candidates, it does use several other methods to find people for its jobs. FS publishes its job vacancies on the company's Web site, in local newspapers, and, in the case of a professional position, in national publications. In addition, a representative from the HR department attends career fairs and recruits on college campuses for prospective candidates. Occasionally, referrals are made by other Fitter Snacker employees, and sometimes individuals searching for open positions at Fitter Snacker send unsolicited resumes.

Filing and keeping track of resumes and applications is a continuing challenge. Fitter Snacker has dozens of jobs with different titles and descriptions, and the company receives dozens of resumes and applications each day. The HR department must classify and file all applications and resumes according to the appropriate description. For example, if the resume of a mechanical engineer is accidentally filed with resumes of candidates applying for jobs in the accounting department, the mistake may not be discovered in time to include the engineer in the search process. In this case, Fitter Snacker may not hire the best person for the engineering position, and the mistake might damage Fitter Snacker's reputation.

Keeping the applicant's data on a paper form means that retrieving the applicant data and using it to evaluate candidates is also a challenging task. To generate a list of potential candidates, Human Resources evaluates the resumes and applications it receives in response to a job posting, and also reviews filed applications that are less than one year old. These resumes and applications must be photocopied and then circulated through the department making the job request. Frequently, more than one person in the requesting department reviews the applications, and because the applicant data are on paper, managers review the applicant files sequentially, slowing the review process.

The Interviewing and Hiring Process

At Fitter Snacker, the requesting department develops a **short list** of candidates for the position by selecting up to three applicants, based on the data provided by HR. Human Resources contacts the candidates on the short list, schedules interviews, and creates a file for each candidate. A candidate's file includes a form that shows when the application was received, the position(s) applied for by the candidate, and the date and time of any interviews. If this is the second time the candidate has applied for a job with the company, the form indicates the current status of the candidate: whether the candidate was interviewed and rejected, whether the candidate rejected a job offer, and so on.

If a candidate accepts the interview offer, the HR department makes the arrangements for the job candidate, including travel arrangements and a schedule of interview activities. A representative from the HR department conducts an interview that includes a discussion of the applicant's experience and questions relevant to the position for which the candidate has applied. The supervisor of the department in which the position exists also interviews the candidate, and other employees in the department are usually given time to talk to the candidate as well. For most professional positions at Fitter Snacker, the candidate is interviewed by the plant manager and, frequently, the company president.

After the initial interview process, HR updates the candidate's file to indicate whether he or she is still a possibility for hire. In some cases, a second interview is scheduled. Once HR has interviewed all the candidates on the short list, a representative of HR and the supervisor of the requesting department decide which candidates on the short list are acceptable, and rank them. If there is an acceptable candidate, the HR person makes the highest-ranking candidate a verbal job offer over the phone. If the candidate accepts the verbal offer, a written offer letter is sent, which the candidate must sign and return. Once the candidate formally accepts the written offer, his or her file is again updated, showing that the candidate has accepted the offer and will begin employment with the company on a specified date.

If there are no acceptable candidates from the short list, or if none of them accepts the job offer, then the process must be repeated, which at a minimum will require the development of a new short list but may involve starting over with a new job posting.

Many of Fitter Snacker's problems in the interviewing and hiring process have to do with information flow and communication. Fitter Snacker does not have group appointment calendar software, which would allow HR staff to easily find a time when all key personnel would be available to interview a candidate. A group appointment calendar (available in software packages such as SAP) allows users to check others' calendars in order to schedule meetings. Scheduling interviews is frequently a cumbersome process, requiring the Human Resources employee to coordinate the interview schedule between the candidate and the appropriate personnel at Fitter Snacker. Because this is done by e-mail and phone, it can take days and sometimes weeks to schedule an interview. A similar problem occurs after the interviews have been completed. Gathering feedback from all involved parties and ranking the candidates takes time and may require multiple meetings. Managing the travel arrangements and reimbursing candidates for their travel expenses are also cumbersome tasks. More than once, Fitter Snacker has lost a promising candidate to another company because of delays in the FS interviewing and hiring process.

After the candidate accepts the formal job offer, Fitter Snacker hires an HR consulting firm to perform a background check to verify that the candidate has not falsified any information and does not have a serious criminal record. Fitter Snacker outsources the background check because of the special skills required. If the background check is satisfactory, this information is also stored in the candidate's file, and the job offer stands. If the consultant finds evidence of falsified information or legal troubles, the file is likewise updated, and the job offer is rescinded with a written explanation.

After passing the background check, the new employee completes additional paperwork covering employment terms and conditions, tax withholding, and benefits. All Fitter Snacker employees must sign a form that states that the employee has been given a copy of—and agrees to abide by—the company's policies and procedures. The new employee must complete an IRS W-4 form, which tells the employer the correct amount of tax to withhold from the employee's paycheck. Next, the employee must attend an orientation session, during which HR personnel describe Fitter Snacker's benefits plan. Fitter Snacker offers a comprehensive benefits plan that gives employees a range of choices for health-care plans, life insurance, retirement plans, and medical savings accounts. The employee's dependents may also be covered under Fitter Snacker's health insurance plan. If the employee elects dependent coverage, then HR must obtain basic information about each dependent to include in the employee's file.

Because employees must provide a significant amount of detailed data to properly manage compensation and benefits, it is not surprising that Fitter Snacker frequently has problems enrolling new employees in the correct benefits plans and establishing the proper payroll deductions. It can often take months to manage the new employee's compensation and benefits correctly. The enrollment issues can generate many time-consuming phone calls to HR management—calls that would not be needed with an integrated system.

ANOTHER LOOK

Challenges in Hiring Talent

Talented workers are hard to come by. The average quality of a worker has declined by 10 percent since 2004, and the time it takes to hire a talented worker has gone from 37 days to 51 days, so HR departments must be vigilant in their recruiting efforts. Using an integrated system, such as an ERP system, helps HR departments identify and retain that rare talent. Seventy-five percent of managers surveyed by the Corporate Executive Board said that attracting and retaining talented workers was their top goal.

The consulting firm McKinsey & Company groups jobs into three categories: transformational, transactional, and tacit. The first two job types—converting raw materials into products and performing easily automated business events—are shrinking compared to the tacit category, which requires a worker to have a high level of judgment. From 2000 to 2006, the number of jobs requiring a high level of judgment increased 2.5 times more than the transactional jobs, and three times compared with all jobs. Roughly 40 percent of U.S. employers now require workers with a high level of judgment. Furthermore, with baby boomers reaching retirement age, the consulting firm RHR International estimates that by 2012 the nation's 500 largest companies will lose half of their top managers.

Companies are trying to find ways to lure workers away from their current jobs. With downsizing a concern for many workers, employees are often eager to be lured away. To find candidates, companies will comb through lists of attendees at conferences, look for scientists who created new patents, or even buy information on the competition. Companies are also using corporate Web sites for recruiting. Surveys have shown that 95 percent of large companies in North America use their corporate Web sites for hiring. The sites often are connected to HCM software at the home office that screens resumes.

The hiring of good employees is so vital to a company's success that HR managers are now commanding larger salaries. HR executives for Black & Decker, Home Depot, Viacom, and Timberland are among those companies' five highest-paid employees.

Questions:

1. Why is the hiring process more crucial than ever for companies?
2. List some incentives, other than salary, that a company could use to encourage a prospective employee to accept a job offer.

Human Resources Duties After Hiring

The Human Resources department has responsibilities that continue beyond the hiring and job start of an employee. The HR department should maintain a good and continual line of communication with the employee and the supervisor to make sure the employee is performing well.

Fitter Snacker, like most companies, issues performance evaluations to new and current employees. The supervisor performs an initial evaluation and reviews it with the employee. After the review, the supervisor may modify the evaluation, which both the supervisor and the employee sign. The employee may submit a written response to the review, listing any disagreements or explanations. Other senior employees, such as the plant

manager, may add a separate written comment, and should also review the performance evaluation and employee response. The complete package is then forwarded to the HR department, where all documents become part of the employee's file. These files are critically important when an employee consistently fails to perform adequately. If an employee must be terminated, the company needs sufficient documentation to demonstrate that the termination is warranted; otherwise, if the employee sues the company for wrongful termination, the company may have problems substantiating the termination decision. Because Fitter Snacker does not have an effective information system, it is frequently difficult to manage all of the performance evaluation data. This makes it difficult for the Human Resources Department to identify problems with an employee and take corrective action (such as counseling or a transfer) before the problems lead to termination of the employee. With Fitter Snacker's paper-based system, an employee's file can be viewed by only one person at a time, and it is possible to lose track of an employee's file—temporarily or permanently. Also, it is difficult to maintain proper control of sensitive personal information when it's maintained in paper files.

Figure 6-1 shows an employee data screen in SAP.

The screenshot shows the SAP HR 'Display Personal Data' interface. The title bar includes 'Infotype', 'Edit', 'Goto', 'Extras', 'System', and 'Help'. Below the title bar is a search bar and a toolbar. The main area is divided into several sections:

- Find by:** A sidebar on the left with options: 'Applicant', 'Collective Search Help', 'Search term', and 'Free search'.
- Search Results:** A table at the bottom left showing 'Applicant Number' and 'Name'. The first entry is '00000001' and 'Sabatos Kristy'.
- Personal Data:** A central form with fields for:
 - Name:** Title (Ms), Last name (Sabatos), First name (Kristy), Name prefix (von), Title (Dr. Math.), Other title.
 - Birth data:** Birth date (02/28/1978), Birth name, Initials, N. prefix 2, Second title, Known As.
 - Additional data:** Birth date (02/28/1978), Birthplace (Grand Rapids), City of birth (USA), State (MI Michigan), Nationality (American US), 2nd/3rd name (Swiss), Comm. lang. (English), Mar. status (Marr.), Since, No. child. (0), Religion.

FIGURE 6-1 Personal data stored in SAP HR software

Employee turnover can be a significant problem. In its 2002 Cost-per-Hire (CpH) Staffing Metrics Survey, the Society for Human Resource Management reported that hiring costs for an employee may be as high as \$70,000. This figure represents both the direct costs of hiring an employee and the less tangible losses that occur during a new employee's first year or so. While new employees are learning their jobs, other employees have to take time from their normal jobs to train them.

Another cost that is difficult to quantify is an employee's historical knowledge of the job, which is lost when he or she leaves a company. For example, if a purchasing manager leaves a company, then all of the manager's knowledge about supplier relations is lost. The

company does have a record of the contract signed with the supplier, but details of the negotiations that led to the contract may not be documented. Such details can be crucial in successfully negotiating the next contract. The manager may have developed good relations with the supplier and know whom to contact when there are problems. These relationships are not specified as part of the purchasing manager position, but accrue over time with the individual holding the position. When companies experience high rates of turnover, they lose knowledge and skills that may be crucial to keeping them competitive.

Employee turnover is strongly related to job satisfaction and compensation. If employees have satisfying jobs and are well compensated, they are less likely to leave the company. Human Resources can help maintain a satisfying work environment through a number of means, such as holding training programs for supervisors and managers, conducting periodic employee satisfaction surveys, and gathering data from employee exit surveys. Human Resources also has a critical role to play in compensation, which should be related to the skills and tasks required by the job and the performance of the employee. An important function of the HR department is to make sure compensation levels are competitive and are applied fairly to all employees. Failure to do so can result in high rates of turnover as well as discrimination lawsuits.

ANOTHER LOOK

Discrimination Lawsuits

In February 2007, a federal appeals court approved class-action status for a discrimination lawsuit brought by seven women against Wal-Mart, claiming they were discriminated against in pay and promotion. It has been estimated that 1.6 million women who have worked for the large retailer since 1998 could join the lawsuit, which would make them the largest group ever to sue a company for discrimination. These women are claiming that they were denied promotion because of their gender, and that some were subjected to sexual harassment. In this class-action case, the group of seven women is bringing the suit against Wal-Mart on behalf of the larger group.

Wal-Mart is known for its close attention to data capture and storage. In this instance, these detailed data are being used against the company. Statistically, the case claims, Wal-Mart has been paying men more than women and has been promoting more men than women. Wal-Mart says its statistics do not support this claim. With its federal appeals court approval, this lawsuit has gone further than most. The U.S. Equal Employment Opportunity Commission reported that it had resolved 27,146 sex discrimination claims in 2003. Fifty-seven percent of the claims were dropped because they were found to have no reasonable cause, and only 10.6 percent resulted in settlements. Out of the original 27,146 claims, only 393 lawsuits were actually filed. At the time of the writing of this book, the Wal-Mart case had yet to be settled.

continued

The Boeing Corporation has also had a problem with pay discrimination. In 1996, the Labor Department's Office of Federal Contract Compliance Programs (OFCCP) ran a routine investigation of Boeing's Philadelphia plant. Because of Boeing's work on federal government contracts, the OFCCP had the right to audit Boeing's level of compliance with antidiscrimination laws. It did this by comparing the median pay and median job experience of male and female employees. Using this median analysis, the OFCCP report stated that Boeing demonstrated "a prima facie case of systemic discrimination concerning compensation of females and minorities." Boeing's response was to conduct its own analysis. Boeing initiated the Diversity Salary Analysis (DSA) project to develop a legally defensible statistical analysis of Boeing's pay practices, to counter the OFCCP's median analysis. Unfortunately for Boeing, the DSA project concluded in 1997 that "gender differences in starting salaries generally continue and often increase as a result of salary planning decisions." Boeing's own analysis showed that there was a pay gap for entry-level managers of \$3,741.04.

In 2000, thirty-eight women filed a class-action lawsuit against Boeing, charging pay discrimination. Boeing's own salary studies supported the charges in the lawsuit, but Boeing claimed that the studies had been prepared at the direction of Boeing's lawyers and thus were protected by attorney-client privilege. While lawyers routinely prepare statistical studies to help defend a client against a lawsuit, the data contained in salary studies for business-related purposes (data that predate litigation and that are prepared by nonlegal executives) do not fall under the confidentiality protection of attorney-client privilege. On October 25, 2000, Judge George Pinkie ordered Boeing to release the salary studies, explaining that, "Legal departments are not citadels in which public business . . . may be placed to defeat discovery."

On May 17, 2004—two days before the discrimination case was scheduled to go to trial—Boeing made a settlement offer. After negotiation, in June 2004, Boeing agreed to pay \$72.5 million to settle the case.

Questions:

1. Boeing settled its discrimination lawsuit for \$72.5 million. What other costs were incurred by Boeing in association with this lawsuit? How do these costs compare to the financial cost of the settlement?
2. How could an integrated Human Resources information system be used to detect potential pay discrimination before it becomes systematic?
3. How would you design a compensation system so that pay discrimination is not likely to occur?

HUMAN RESOURCES WITH ERP SOFTWARE

Now that you are familiar with the numerous business processes required to manage a company's human capital, you can begin thinking about how ERP software can improve those processes, leading to overall improvements in a company's performance. With an integrated system, a company can store employee information electronically, eliminating the piles of papers and files that make the retrieval of information difficult or tedious. A good information system allows all relevant information for an employee to be retrieved in a matter of seconds. An integrated information system is a key component in this process.

ANOTHER LOOK

Major League Baseball Pioneers Sophisticated Data Analysis

Enterprise Resource Planning systems hold a wealth of data on a company—data that can be manipulated and analyzed using statistics. A wealth of data also exists on the sport of baseball, and those data are manipulated by statistics, too. Human resource managers can take a lesson from baseball when assessing employees' performance and hiring new employees. The Society for American Baseball Research uses statistical techniques called sabermetrics, which can analyze players on performance attributes other than the traditional batting averages. Measures are collected on the probability that a player will get a hit with other players on base—for example, by determining the number of times the player has done this in the past, and what type of hit he produced. Teams such as the 2007 World Champion Boston Red Sox are also using such measures to analyze their current roster and identify weaknesses, so they know which new players to recruit.

The sabermetrics method uses raw data, such as high-school and college records, family backgrounds, psychological profiles, and medical histories, all culled from a wide range of sources. Teams can also measure 11 attributes, including drive, endurance, leadership, self-confidence, emotional control, mental toughness, coachability, and trust. Using software, baseball scouts can look for players with the potential for good fielding, hitting, or even “hustle.” Prospects are rated on physical qualities and baseball abilities such as running speed, hitting, fielding, and strength.

Companies such as Target are beginning to use this analytical approach to evaluate job applicants. Applicants complete in-store and online job applications that include questions to determine suitability for the position, as well as true-or-false statements such as “I would rather sit around and read a book than go to a party with lots of people,” and “I don't act polite when I don't want to.” Once the candidate has filled out the initial application, the system prompts the hiring manager with additional questions that probe more deeply into areas of concern.

Dow Chemical used to hire MBAs from Ivy League schools—until the company realized that these candidates demanded high salaries and few of them wanted to move to Midland, Michigan. Dow delved into the vast quantities of data in its PeopleSoft ERP system and found that its best candidates came from schools such as Michigan State, Brigham Young, and Purdue. Now Dow focuses its recruiting efforts at the institutions where it will be more successful. The cost to hire a new graduate, which exceeds \$70,000, is now well spent.

Questions:

1. Assume you are the HR manager at Fitter Snacker. What metrics or measurements would you develop to assess the potential of an applicant for a production supervisor position? A sales manager position? A chief accountant?
2. How successful have the baseball leagues been in using sabermetrics? Research your answer on the Internet. Can you estimate how successful Fitter Snacker would be if it invested in a similar analysis?

Successfully using a Human Resources ERP system requires managing a significant amount of detailed information. The SAP ERP Human Resources (HR) module provides tools for managing an organization's roles and responsibilities, definitions, personal

employee information, and tasks related to time management, payroll, travel management, and employee training. Advanced HR features of SAP ERP are discussed later in the chapter.

Most companies have an organizational chart or plan that helps define management responsibilities. Without an ERP system, the organizational chart defines only the managerial relationships among employees. With an ERP system, the organizational chart provides a structure with more detail than a typical organizational chart and supports HR tasks such as recruiting employees and planning organizational changes.

SAP ERP provides an Organization and Staffing Plan tool that is used to define a company's management structure and the positions within the organizational structure as a whole. The Organization and Staffing Plan tool also names the person who holds each position. Figure 6-2 shows how the Fitter Snacker organizational structure could be defined in SAP ERP. The figure shows that the Fitter Snacker organization consists of three main organizational units: Manufacturing, Marketing, and Administrative. The organizational units Accounting and Human Capital Management are part of the Administrative organization. Within the Human Capital Management organization are three positions: the HCM Manager and two Analysts.

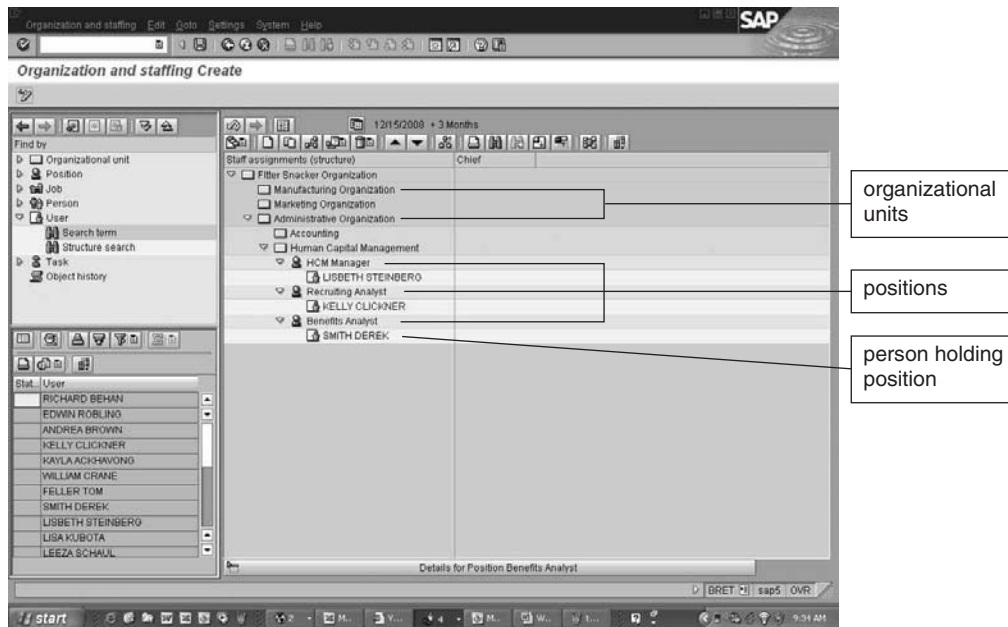


FIGURE 6-2 Organization and staffing plan in SAP ERP

SAP ERP distinguishes between **task**, **job**, **position**, and **person**. In SAP, an employee is a person who performs tasks, which can be assigned either to a job, which is a generic description of an employee's work responsibilities, or to the specific position that the individual person holds. Figure 6-3 shows the relationships among tasks, jobs, positions, and

persons in a Marketing organization. The job of administrative assistant is assigned a number of tasks such as reviewing employee time charges, reviewing employee expense reports, and preparing monthly budget reports for the department. These are tasks that the company requires of any administrative assistant, whether that job is in Marketing, Engineering, Production, or another department. The job of administrative assistant can be defined once in SAP by assigning it tasks; then, that definition can be used to create administrative assistant positions in different organizational units. The administrative assistant job in Marketing is one position, while the administrative assistant job in Accounting is a different position. Additional tasks can be added to an administrative assistant position to tailor it to the specific requirements of the organizational unit. For example, in Figure 6-3, the position of Marketing Administrative Assistant has the marketing-specific task of preparing sales reports; an administrative assistant in Procurement would not be required to perform that task. In ERP, a person is the unique individual who fills a position.



FIGURE 6-3 Relationships among positions, jobs, tasks, and persons who fill positions

Figure 6-4 shows the screen in SAP ERP where tasks are assigned to jobs—in this case, the task Prepare Budget Report is assigned to the job Administrative Assistant. If the tasks associated with jobs and positions are well defined and current, it is easier for a recruiter to determine whether candidates have the qualifications for a job. Determining appropriate compensation for a position is also simplified if the tasks required for each position in a company are clearly and consistently defined.

Complete and accurate human resource data simplify a manager's duties. The Manager's Desktop tool within the SAP HR module provides access to all the Human Resources data and transactions in one location. Figure 6-5 shows the Personal Data portion of the Manager's Desktop. This area provides all of the data maintained in the Human Resources module for all employees who report to the manager. Human Resources data are very sensitive because they are related to employees' personal information, so controlling access

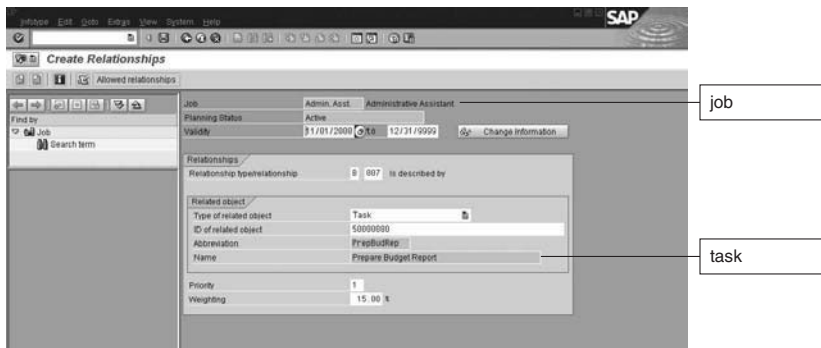


FIGURE 6-4 Assignment of a task to a job in SAP ERP

to them is critical. An advantage of an integrated information system over a paper-based system is that controlling access to data is automated; managers can use the system to determine which users should have access to various data.

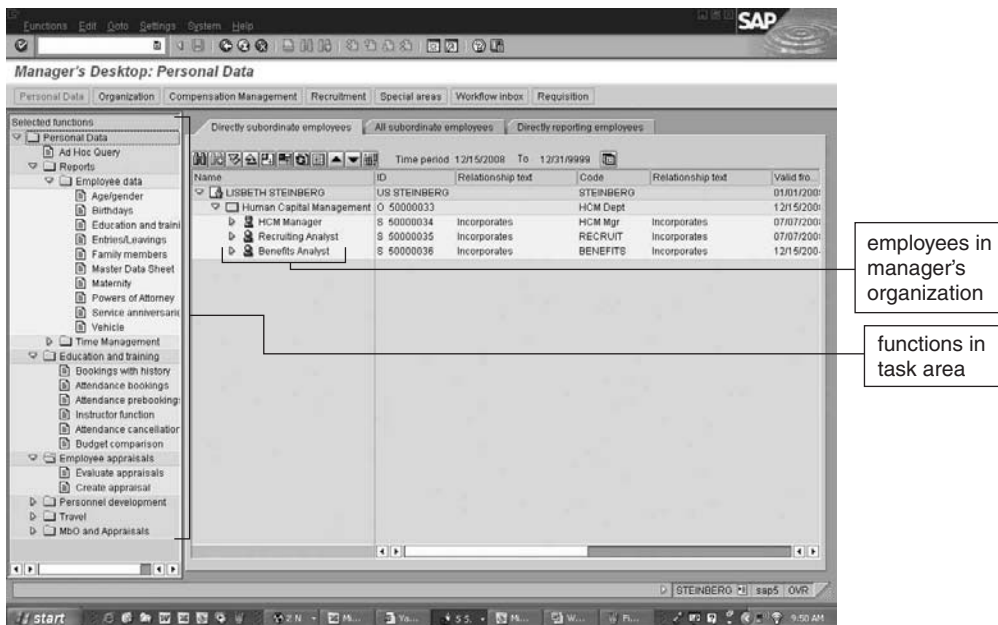


FIGURE 6-5 Manager's Desktop provides single-point access to HR functions

ADVANCED SAP ERP HUMAN RESOURCES FEATURES

Discussing in detail the many processes related to Human Resources is beyond the scope of this text; however, some of the advanced features of the Human Resources module in the SAP ERP system, including time management, payroll processing, travel and training coordination, are discussed below.

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Time Management

Hourly employees, who are paid for each hour worked, must record the time that they work so that they can be paid. Salaried employees are not paid based on hours worked, but their time must usually be tracked as well. For cost-accounting purposes, it is important to be able to attribute an employee's time to a cost object (such as cost center, project, or production order), and any time not worked must be attributed to vacation or leave. The SAP ERP system uses Cross Application Time Sheets (CATS) to record employee working times and provide the data to applications that include:

- The SAP Controlling module, for cost management
- The SAP Payroll module, for calculating employee pay and transferring the data to the Financial Accounting module
- The SAP Production Planning module, to determine whether enough labor is available to support production plans

Payroll

Payroll is probably the most important Human Resources function. Employees are, not surprisingly, very particular about being paid the correct amount at the correct time! Many people live paycheck-to-paycheck, meaning that getting paid correctly and on time is crucial. Without proper management of the payroll process, employees might not be paid for all of the hours they worked, they might not be paid at the appropriate rate, or they might have too much or too little money withheld from their pay for taxes and benefits. Mistakes in payroll can cause significant job dissatisfaction. The two key processes in determining the pay an employee receives are calculation of the remuneration elements and determination of statutory and voluntary deductions. The **remuneration elements** of an employee's pay include the base pay, bonuses, gratuities, overtime, sick pay, and vacation allowances that the employee has earned during the pay period. The **statutory and voluntary deductions** include taxes (federal, state, local, Social Security, and Medicare), company loans, and benefit contributions. Properly determining the pay for an employee requires accurate input data and correct evaluation of remuneration elements and deductions.

The process of determining each employee's pay is called a **payroll run**. In the payroll run, the SAP ERP system evaluates the input data and notes any discrepancies in an **error log**. Payroll employees review the error log, make the necessary corrections, and repeat the payroll run until no errors are recorded. Then the payroll run is used to generate information for accounting, electronic funds transfers, employee pay statements, withholding tax payments, and other calculations.

Travel Management

Companies can spend a significant amount of money on employee travel, and managing travel and its associated expenses can be a significant task. A travel request, which may originate with the employee or the employee's manager, is the first step in the travel management process. Travel requests usually require management approval, and the level at which travel must be approved may depend on the duration and location of the travel. Once management has approved the travel, travel reservations must be made. Because airfare, hotel, and rental car costs can vary widely, companies frequently require employees to make reservations through either a company travel office or a travel agency under contract to the company. The employee must keep receipts for expenses incurred during the trip in order to complete an expense report and receive reimbursement. The SAP ERP Travel Management system facilitates this process by maintaining travel data for each employee, including flight, hotel, and car preferences, and integrating this data with the Payroll module (for reimbursements) and with the Financial Accounting and Controlling modules, to properly record travel expenses. Submitting an expense report can be simplified using a Web-based application that allows employees to submit reports through a Web browser.

ANOTHER LOOK

FXIS: From SAP Customer to Solution Provider

Photocopier manufacturer Fuji Xerox established Fuji Xerox Information Services (FXIS) in 1984 to create software for its computer-related products. Since that time, FXIS has taken over responsibility for managing Fuji Xerox's information systems and networks, and has expanded its business to include sales of computer and network equipment, as well as education and training in computer software applications.

In 1998, FXIS sought to improve its own internal software systems with the goal of being able to close its books (reconcile all of its accounting records) two days after the end of the month. To accomplish this task, FXIS chose to implement SAP ERP.

When planning its SAP implementation, FXIS decided that to meet its goal of closing its books in two working days it should use SAP for all of its business applications and get rid of legacy systems. Unlike some companies using SAP, FXIS emphasizes the integration of HR data. FXIS implemented the Sales & Distribution, Materials Management, Financial Accounting, Controlling, Project System, and Human Resources modules of the ERP system. To meet the two-day closing requirement, FXIS needed to have expense account information from its sales force and time charge information from its software developers and system administrators. To simplify the collection of travel and time charge data, FXIS created its Direct Input (DI) system, which makes it easy for users to enter their time charge data into the system through a Web interface. The DI system stores these data in its own database, which allows managers to review and approve the data. When the data have been approved, the information is transferred to the SAP ERP system.

continued

The DI system provides the advantage of a familiar browser interface for users who may not be comfortable using SAP ERP directly. It also does not require additional software or hardware. The DI system has proved so successful that FXIS has formed an ERP solution business and has developed standard templates for its DI system, which it is marketing to other SAP customers in Asia.

Questions:

1. What are the advantages and disadvantages of the FXIS decision to use SAP for all business processes and eliminate its legacy system?
2. How does the use of the DI system contribute to FXIS's goal of closing its books in two days? Do you think that FXIS experiences any problems because the data collected by the DI system are not available in real time?

Training and Development

The Personnel Development component of the SAP ERP Human Resources module supports the planning and implementation of employee development and training activities. Such education maximizes an employee's ability to contribute to the organization. Because advances in technology quickly render an employee's knowledge obsolete, employees will not be productive without continuing development and training efforts. In addition, many positions require certifications that must be updated, and continuing education is frequently required for recertification. Without an effective Human Resources information system, managing the training, development, and certification needs for a company's employees can be both time-consuming and error-prone.

In the SAP ERP system, employee development is driven by qualifications and requirements. **Requirements** are skills or abilities associated with a position, while **qualifications** are skills or abilities associated with a specific employee. Requirements and qualifications refer to the same concept from a different perspective. Using the Personnel Development tool allows a manager to compare an employee's qualifications with the requirements for a position to which the employee aspires. This comparison enables the manager to identify gaps and to plan development and training efforts to close the gaps. It can also serve as a basis for employee evaluation, and can motivate the employee by providing a goal and the means to achieve it.

One of the most important reasons for managing the development and training of employees is **succession planning**. A succession plan outlines the strategy for replacing key employees when they leave the company. The success of a company depends in large part on the skills, abilities, and experience of its management team. This is especially true for a small company like Fitter Snacker. Savvy customers have been known to avoid establishing long-term relationships with companies that do not have well-developed succession plans. The Career and Succession Planning components of the SAP ERP Human Resources module allow HR professionals to create, implement, and evaluate succession planning scenarios. HR departments use Career Planning with individual employees, identifying potential career goals and drawing up career plans. Companies use Succession Planning to find people to fill unoccupied positions. Succession Planning allows the human resources

function to meet staffing requirements by identifying candidate employees within the company and ensuring that their training and development plans will prepare them for the new position when it becomes available. Using the career and succession planning tools in an ERP system ensures that HR will have accurate and timely employee and position data when developing the plans. The system allows changes in human resources (such as hiring new employees, current employees leaving, promotions) to be more easily integrated and tracked, and gives all important users easy access to the information.

ANOTHER LOOK

Management Succession Planning

Finding a chief executive officer (CEO) can be a tremendous challenge for a company. For many companies—including Coca-Cola, Xerox, and Procter & Gamble—finding a new CEO has been a process marked by long searches, poor choices, bad luck, and fumbled transitions. In other cases, succession planning has worked to ensure a smooth transition. When McDonald's Corporation CEO James Cantalupo died of a heart attack on April 19, 2004, succession planning allowed the board of directors to name Charles H. Bell as the new CEO within hours. Unfortunately, McDonald's succession planning capabilities were quickly tested a second time when Bell was diagnosed with cancer only one month after being named CEO. Bell was replaced by Jim Skinner in November 2004. Bell died on January 17, 2005.

At Juniper Networks, succession planning was called into action when vice president and chief information officer Alan Boehme had a car accident that left him with serious injuries. From the accident site, Boehme used his BlackBerry to send an e-mail message to Danny Moquin, then the vice president of operations and infrastructure, instructing him to take over Boehme's duties. Juniper had a modest succession plan on a spreadsheet—it only included the senior management. The plan was modest because the company was still in the midst of restructuring when the accident occurred.

A 2006 report on succession planning by Aberdeen Research found that 62 percent of companies have succession plans on paper or on a spreadsheet. This level of succession planning is insufficient. Succession planning goes hand-in-hand with disaster planning, but companies find disaster planning more important, even though accidents occur more frequently than hurricanes, earthquakes, or terrorist attacks—and people leave or get fired all the time. No one should be irreplaceable, yet most companies, like Juniper, have only modest succession plans. Aberdeen found that 82 percent of companies have succession plans for executives, while 17 percent of companies have succession plans for their lower-level staff.

continued

ERP HR software can aid greatly in succession planning. At Juniper, Boehme has returned and is heading up the installation of Oracle's PeopleSoft for succession planning as part of its HCM software installation. Far more comprehensive than a simple list of names, HCM software incorporates information such as skill sets, experience levels, and work histories. Companies that don't have this information available often have minimal succession planning in place, or find succession planning to be unnecessarily challenging. Experts advise that companies should create a succession plan that incorporates every level of the organization. They also say that employees should be encouraged to take over for others who are on vacation, to gain experience in doing other jobs. And all employees should have their skill sets analyzed and recorded.

At Juniper, Moquin did a good job replacing Boehme, but the transition derailed momentum related to Juniper's growth and restructuring. Now, Boehme has 45 people assigned to the PeopleSoft implementation and is hoping to organize a more comprehensive succession plan.

Question:

1. What are the reasons that companies fail to create comprehensive succession plans?

ADDITIONAL HUMAN RESOURCES FEATURES OF SAP ERP

SAP ERP has to keep pace with rapidly changing social and legislative developments in the corporate world. The HR module has been expanded to include features that assist managers with HR tasks that have only recently become important to corporations.

Mobile Time Management

Many employees, especially sales personnel who spend a significant amount of time on the road, may not have regular access to a PC. Mobile Time Management allows employees to use cellular phones to record their working times, record absences, enter a leave request, and check their time charge data.

Management of Family and Medical Leave

The Human Resources module reduces the administrative burden imposed by the federal Family and Medical Leave Act (FMLA) of 1993. The HR system can now determine whether an employee is eligible to take FMLA absences and automatically deducts those absences from the days the employee takes from allowable leave.

Domestic Partner Handling

Many companies provide benefits for domestic (unmarried) partners. The Human Resources module now supports the management of benefits for domestic partners and their children. The system now provides more flexibility in customizing dependent coverage

options for health plans, eligibility for enrollment of dependents, and designation of beneficiaries.

Administration of Long-Term Incentives

An outgrowth of the Sarbanes-Oxley Act (see Chapter 5) is that companies must account for the expected costs that occur as a result of long-term incentives such as the exercising of stock options. The Human Resources module now provides more options for processing long-term incentives. Integration with the SAP Payroll module enables companies to calculate taxes accurately when employees exercise incentives and sell their shares in the company. SAP can share the incentive data with Accounting so that Accounting can do the necessary reporting.

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Personnel Cost Planning

Changes in an organization (including expansions, acquisitions, and downsizing) can have an impact on employee-related expenses, which are usually a significant portion of a company's costs. The Personnel Cost Planning tool allows HR personnel to define and evaluate planning scenarios to generate cost estimates. Performing cost planning and simulation allows HR to forecast cost estimates by integrating data with other SAP ERP modules.

Management and Payroll for Global Employees

The management of global employees involves many complicated issues, including relocation plans, visas and work permits, housing, taxes, and bonus pay. SAP ERP has enhanced features to support the management of these issues, with customized functionality for over 50 countries, allowing payroll processes to meet current legal regulations and collective bargaining agreements in the local business environments.

Management by Objectives

The concept of management by objectives (MBO) was first outlined by Peter Drucker in his 1954 book *The Practice of Management*. In MBO, managers are encouraged to focus on results, not activities, and to “negotiate a contract of goals” with their subordinates without dictating the exact methods for achieving them. SAP ERP provides a comprehensive process to support the MBO approach that incorporates performance appraisal. The appraisal results can affect an employee's compensation, generating annual pay raises that can be either significant or insignificant, depending on the employee's performance. The MBO process in SAP ERP also allows managers to include the results of achieved objectives in the employee's qualifications profile.

Chapter Summary

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- Employees are among a company's most important assets. Without qualified and motivated employees, a company cannot succeed.
- The Human Resources department has the primary responsibility of ensuring that the company can find, evaluate, hire, develop, evaluate, and compensate the right employees to achieve the company's goals. HR is also responsible for employee training and development, succession planning, and termination.
- Managing, sharing, controlling, and evaluating the data required to manage a company's human capital are simplified by an integrated information system.
- Additional features of the SAP HR system address today's changing technology and legislation.

Key Terms

Error log	Remuneration elements
Human capital management (HCM)	Requirements
Job	Short list
Payroll run	Statutory and voluntary deductions
Person	Succession planning
Position	Task
Qualifications	

Exercises

1. Describe a position in a company that you would like to have. What type of information must be collected to determine if a candidate is appropriate for this job? List the skills that you think would be required for this position. Suppose you are designing a system to summarize information from resumes submitted to a company's Human Resources department. Create a list of the information that you think would be useful to collect from the resumes.
2. Describe a position in a company that you would like to have after five years of work experience. List the requirements that you think would be necessary to hold this position. List the qualifications that you currently possess. Describe how you plan to obtain the qualifications necessary to hold the position.
3. Suppose you are a manager of Fitter Snacker's Sales department. What Human Resources information do you think you would need to manage your sales force?
4. List the steps in a typical recruiting process. Highlight the steps that involve interaction with the potential job candidate. Identify problems in the process that might lead a candidate to develop a negative opinion of the company. How might an effective information system reduce the potential for these problems? Incorporate into your answer experiences you may have had in looking for a job.

For Further Study and Research

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