

The recent pandemic brought to light key challenges that organizations face when managing employees in hybrid work environments. Human capital management (HCM), especially when linked with other enterprise applications, will rise as a major strategic asset.

# *Human Capital Management: The Need to Link People with Enterprise Processes in the "New Normal" Economy*

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## ***Introduction: The Need for HCM in a Changed Work Environment***

The changing nature of work now requires employees to operate in dynamic and reconfigurable teams that can quickly adapt to business demands and new market requirements — anytime and from any physical location.

The recent COVID-19 pandemic laid bare infrastructure, policy, and process gaps in many organizations as half of the workforce became remote almost overnight. According to IDC's February 2021 *Future Enterprise Resiliency and Spending Survey*, 49% of organizations expect remote and hybrid work will be an embedded part of their work practices.

In Europe alone, for example, 63% of surveyed organizations intend to maintain at least a partial remote work model. IDC predicts that organizations open and willing to shift their approach to remote and/or hybrid work models will be the most likely to recover rapidly.

The changing nature of work naturally is more predominant in the so-called "people businesses," such as professional services, not-for-profit, and education organizations and many public sector enterprises. For example, as a result of the pandemic, one large not-for-profit organization told IDC that the percentage of its employees working remotely had shifted from 5% to 95%. And while more people will eventually return to the office, a much larger percentage will choose to work remotely.

IDC believes the industry sector most likely to continue supporting remote working practices is business and professional services. With a largely knowledge worker employee base in this sector, virtual work may become even more of a standard practice than it is today.

This continuing collision of new work models and technology with the trend toward a more disparate workforce has created even greater human resources (HR) challenges for organizations. As a result, there is a growing need for enterprise human capital management (HCM) solutions that not only are flexible and powerful enough to support

## **AT A GLANCE**

### **WHAT'S IMPORTANT**

Simply managing employees is no longer enough. As a result, HCM will be an increasingly important part of any global organization, especially enterprises in the people business.

### **KEY TAKEAWAYS**

Organizations that consider the management of employees a critical strategic advantage will return to pre-pandemic growth levels faster than organizations that do not. In addition, better management of staff leads to more effective workers and more satisfied customers.

workers but also can be integrated with more traditional enterprise resource planning (ERP) solutions to allow organizations to take advantage of their greatest asset — their people. IDC predicts that the market for HCM applications will reach approximately \$23.7 billion worldwide in 2024, growing at a CAGR of 5.1%.

## HCM Market Drivers

As organizations continue to regroup after the pandemic, they need to adopt a new level of agility, including embracing a hybrid, mutable workforce. In this new work environment, human workers operate side by side with "digital coworkers," enabling them to focus on higher-value activities. As such, this evolution is underscoring the importance of people as an organization's most valuable asset — with skills such as imagination, creativity, and empathy gaining prominence.

The transition requires entirely new work environments, organizational structures, and metrics for success. IDC believes that HCM will play a critical role. The strategic need to better manage workers in a hybrid/on-premises work model is not limited just to large enterprises. Midsize organizations, for example, face the same workforce trends, but they often do not have the same resources as larger organizations. There still needs to be integration between workforce management, payroll, and finance, for example, for better operational and strategic outcomes.

HCM applications automate business processes that span an employee's relationship with the corporation as well as management of other HR activities used by the enterprise (e.g., contingent labor, contractors, and consultants). The center of HCM applications is designed for core HR functions such as personnel records, benefits administration, workforce management, and payroll. Increasingly, these functions are being delivered as employee self-service or manager self-service to automate record keeping and updating as well as consolidated reporting.

IDC believes the following trends are driving the growth and change in the HCM market:

- » **The uncertainty brought about by the global pandemic.** The pandemic showed that the current array of HR tools needs to be upgraded to cope with the evolving market dynamics. As a result, workforce management will become a larger issue.
- » **The need for more flexible work environments.** IDC predicts that by 2023, 75% of the G2000 will commit to providing technical parity to a workforce that is hybrid by design, enabling staff to work together separately and in real time. HCM will be critical in managing this workforce.
- » **HR transformation.** The shift to a hybrid workforce requires new workstyles and skill sets for both workers and managers, making HR transformation just as important as IT transformation.
- » **Hierarchical leadership and rigid organizations.** Traditional static, siloed organizational structures that are function focused rather than outcome focused inhibit consensus, limiting speed, agility, and business value. As such, the management of talent must create processes that deliver agility, intelligence, resiliency, and empowerment at scale.
- » **Security, privacy, and trust.** There is a constant tension between robust security and access to resources. As a result, managing security will continue to be a key component of managing the workforce. In addition, organizations are recognizing the importance of a well-managed, engaged workforce.

IDC predicts that by the end of 2021, 71% of organizations with mature employee experience (EX) programs will have returned to pre-2020 growth trajectories, compared with only 29% of organizations with immature EX programs. C-level executives have taken notice and are including HCM in business strategies.

## HCM Today: Challenges and Benefits

It is no surprise that enterprise HR departments are under pressure to help their organizations transform. More than ever, talent management is increasingly integrated with employee and performance management. As such, HCM suite-type solutions that cover the entire employee life cycle will remain top of mind for organizations.

IDC also is seeing a shift in enterprise emphasis from production-based goals to project-based goals, especially in service-oriented fields. This shift requires flexible movement of resources — such as employees — and involves the associated challenges of managing a fluid workplace, including the following:

- » **There are difficulties with organizational setup and management of payroll in global enterprises.** Different regions and countries have different tax and compliance rules. As employees shift between different projects and work locations, organizations must constantly assess whether they are complying.
- » **Project requirements and other data are not properly linked with HR.** Typically, staff skills and experience are anecdotal, with no accessible knowledge that could be related to a particular project. Such a link would improve team performance and employee satisfaction as the organization is assigning tasks. In addition, this streamlines the hiring process for specific skills.
- » **Staffing is based on informal networks and out-of-date information.** Employees often are not placed based on best fit because HR doesn't know what skills are needed for a particular job or project. It can be difficult to update employee records with new training, experience, performance data, and so forth.
- » **Learning is not treated as a strategic asset.** Employees are constantly learning, and their knowledge is not based just on what information the company pushes out to them. But organizations typically focus on only their company training. In addition, most organizations do not include mentoring and coaching as strategic resources.
- » **Managers struggle working with a distributed workforce.** It can be difficult enough for managers to track productivity, learning, job satisfaction, project progress, and so on when staff members are in one location. In cases where staff members are assigned to different locations and time zones, the task becomes even more daunting.
- » **There is a lack of continuous measurement.** Quite often, organizations measure only at the beginning, middle, and end of a time period or project. This approach does not enable managers to shift resources or modify team focus in real time.
- » **There is an inability to leverage collective knowledge.** While learning is important, individual and team experience can be more valuable to the organization.

Perhaps the biggest challenge is the fact that most of the data generated and used in HCM is not linked to other enterprise management applications. Employee performance, skills, and experience tie into project performance. In addition, project performance is linked to the overall success of the enterprise. Therefore, it makes sense to link HCM to enterprise applications. For example, business managers continuously demand analytics to show performance, while HCM traditionally focuses on functions such as onboarding, payroll, and benefits administration.

But the ability of HR departments to produce useful HCM analysis is critical for HR to become a strategic function with a seat at the executive table. This linkage will produce multiple benefits. Quantitative and qualitative data generated by HCM can be used to influence business outcomes via actionable data and the use of IT-driven processes for the entire employee life cycle as well as a project life cycle.

In addition, IDC has seen many instances of increased employee satisfaction through better assignments, use of skills, training, and so forth. This employee satisfaction translates into better work and project completion, which leads to higher customer satisfaction. Linkage between HCM and ERP, for example, gives managers greater insight into how workers directly affect enterprise functions. As a result, managers can make better business decisions.

## Considering Unit4

Netherlands-based Unit4 is a global provider of enterprise software and applications for finance and HR, with related professional services. The company has over \$600 million in revenue and more than 3,000 employees in 26 countries across Europe, North America, Asia/Pacific, and Africa.

Unit4 solutions are based on the company's People Experience Suite, which includes applications for Human Capital Management; Financial, Project, and Procurement Management; and Financial Planning and Analysis. These cloud-based applications are closely linked in an ERP environment to ensure industry-based functionality and automation between applications. Incorporation of the user experience is a key feature because the applications are primarily designed for people-based businesses, such as professional services, public sector, not-for-profit, and higher education organizations.

The company's HCM application is based on the concept that HR processes should be closely linked to other enterprise processes, such as financials and project management. Unit4 believes this approach is especially important for multinational midsize organizations that have the same ERP needs as the largest enterprises but do not typically have the resources.

The core of Unit4's HCM application is a comprehensive HR system that includes employee, absence, and expense management. This core is supplemented by a payroll system that streamlines and automates payroll processes, eliminates data duplication, enables the creation of custom reports for enterprise decision making, and manages the myriad of rules and regulations facing global businesses. Talent management helps HR manage employee performance, better engage employees by spotting trends in an organization or a project team, enable an environment of continuous learning for employee development, and provide talent- and skills-based recruiting.

Reporting and analytics are captured on an easy-to-read dashboard to help HR, as well as the enterprise, make better decisions, such as deployment of staff on projects. In addition, this approach helps an organization track, manage, and grow workforce skills and capabilities to create an adaptable, flexible employee base.

Unit4 has incorporated significant employee development processes into its HCM application. For example, instead of just pushing out learning and skills development to employees, the HCM application enables employees to add their skills and knowledge to overall organizational knowledge. This capability, combined with an ongoing analysis of experiences gained on tasks and projects, provides a growing knowledge base from which to determine the most appropriate resources for any project or assignment.

## Challenges

Unit4 faces some challenges. The global pandemic led to a renewed focus on employees and their importance to the organization. As a result, competition in the employee experience and HCM markets will continue to heat up. Similarly, as competition increases for vendors serving large enterprises, many will begin to target midsize organizations. It is important that Unit4 stress its successes, differentiators, and expertise to stay competitive.

In addition, while Unit 4 plans on incorporating more advanced technologies such as artificial intelligence (AI) for automated analysis of employee information, the company needs to adopt these technologies sooner rather than later.

## Conclusion

If the pandemic taught us anything, it is that the future of work is already here, with many organizations needing to manage people in multinational hybrid environments. It is imperative, therefore, that managing people become an even more strategic component of an organization. HCM is a necessary tool that enables traditional staff management plus the new skill development and project/organizational oversight that is crucial in an intelligent and dynamic environment unbounded by time or physical space.

Critical to people-based businesses — and all enterprises are essentially refocusing on their personnel — is the ability to link HCM with the other strategic processes essential for organizational success. Employees are stakeholders in business, and effective management of people is rapidly becoming a huge competitive advantage. As such, HCM is rising to the same level of importance as ERP, business process management, supply chain management, and so forth. It is essential that HCM be tightly integrated with these enterprise applications to give executives a full suite of tools to manage the organization.

Therefore, IDC believes that enterprises looking for an HCM solution should consider the following questions:

- » Does the organization have an enterprisewide strategy for managing its people that aligns with its business goals?
- » Does the organization plan on integrating HCM into its other enterprise applications? If so, how?
- » How important are staff expertise and experience to the delivery of products or knowledge/services to customers?
- » How does the HCM application manage people in a variety and a mixture of scenarios — remote, onsite, and traveling — in multiple countries/regions?
- » How does the HCM application handle payroll, tax, and compliance issues in the countries where employees work?
- » How are employees trained, and how is their collective knowledge added to the organization?
- » How is the HCM application managed on an enterprise basis? A line-of-business basis? A project basis?

The truth is that the pandemic sped up where technology was leading the work environment anyway. Organizations must continue to adapt to this new environment by supporting a hybrid workforce and work culture. Regardless of physical place and time, the global workplace will be increasingly dynamic, intelligent, and connected through multiple methods. As a result, HCM will play a larger role in helping organizations make their greatest resource, their people, a strategic asset. To the extent that Unit4 can continue to overcome the challenges described in this document, the company has a significant opportunity for success — especially with midsize enterprises offering people-based services.

## About the Analyst



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Lisa Rowan is Research Vice President for IDC responsible for global research on human capital and talent management software and services. Ms. Rowan provides expert analysis focused on both the business services and software used to address HR and talent-related dimensions. Her research addresses developments in human capital and talent management applications, HR consulting, and HR outsourcing services.

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**About Unit4**

Unit4's next-generation enterprise solutions power many of the world's most people-centric mid-market organizations. Our state-of-the-art cloud platform, ERPx, aligns the capabilities of HR, Financials, Procurement, Project Management and FP&A onto a unified cloud platform that shares real-time information and is designed with a powerful, people-centric approach. Employees benefit from deeper insight while automation and a better user experience helps free them from administrative burden.

Unit4 serves more than 6,000 customers globally, including people-centric organizations such as Bravida, Havas, Migros Aare, Americares, Save the Children International, Action against Hunger, Metro Vancouver, Forest Research, Southampton City Council, Habitat for Humanity, Selkirk College, FTI Consulting, and the Surrey County Council.

For more information on Unit4's HCM solutions, please visit [www.unit4.com](http://www.unit4.com).



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