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## **FROM TACTICAL TO STRATEGIC: REDEFINING THE ROLE OF THE CHIEF HUMAN CAPITAL OFFICER**

Managing the work force in a proactive and strategic way

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Becca Goren contributed to this white paper.

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## Executive summary

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An organization's people represent a significant component of its total value – and an equally significant component of its costs. Yet few organizations manage this enormous and essential asset in a truly strategic way. Human resources (HR) departments have traditionally been mired in operational activities and viewed solely as a tactical support function. Chief Human Capital Officers (CHCOs) are taking action to change that, looking for ways to perform more strategically as part of the executive team and as a critical partner with business managers.

When the stock market values a company at several times the book value of its inventory and physical plant, it is acknowledging the value of intellectual capital. In an information-based economy, an organization's real value resides in the collective experience and skills of its people. The key to competitive advantage, therefore, is found in the people that are an organization's wellspring of innovation and renewal.

Is your organization maximizing that advantage, managing the work force in a truly strategic and forward-looking way? Few companies are. Less than 10 percent of CEOs believe their current work force has the skills necessary to perform at the level of industry leaders. Even if those workers were skilled by today's standards, one-half of all employee skills will be outdated in three to five years. And within the next two years, three million new jobs will be created that involve tasks that don't even exist today. Add to this the number of experienced workers who are retiring, coupled with the scant loyalty of the younger workers taking their place, and organizations face some serious challenges.

These realities require CHCOs and line-of-business managers to become far more sophisticated and strategic in how they manage human capital. They have to gain a holistic view of the work force – a comprehensive understanding of business issues and how human capital strategies can be implemented to support organizational goals. They must have a clear perspective on workforce strengths and vulnerabilities, insight into risk and competitive issues, and the ability to measure success for continuous improvement in support of organizational goals; this is what it means to be strategic.

Why then, do so many organizations manage the work force in such a tactical way focusing on here-and-now activities – fire drills and routine action items – rather than on optimizing the work force in alignment with organizational goals? Why do so many companies apply Industrial Age precepts and performance metrics that don't recognize Information Age values? Why do they tend to focus more on the cost of paying people than on the value of investing in them?

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■ While many organizations do a great job of defining what needs to be done, most can't show how the work force contributes to organizational goals or adds value to the organization.

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■ CHCOs of savvy organizations have discovered that the answers they need are often in information they already collect. The challenge is using that information to gain insight into workforce strengths and vulnerabilities, risk, performance, and productivity.

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## What prevents the human capital function from being more strategic?

In many organizations, it's easy to spot the obstacles. For example:

- **Tactical mindset.** Many organizations view HR as a support function rather than a strategic asset. HR teams themselves often fuel this perception by performing in tactical rather than strategic ways – spending more energy on the logistics of deploying a work force than on *optimizing* personnel assets in alignment with top-level business goals. Also, HR itself may be lacking the necessary skills to make the cultural shift needed to become more strategic.
- **A changing work force.** Baby boomers are retiring at steadily increasing rates, and they're being replaced by a younger generation more attuned to their own career ambitions than to any employer. Loyalty is at an all-time low at a time when organizations need veterans and champions more than ever. Many organizations are faced with the largest skills gap ever and are struggling to come up with good answers – not knowing with certainty whether to outsource, hire or train.
- **Business upheavals.** Organization change due to restructuring, mergers, downsizing, acquisition or growth can be helped or hindered by the workforce strategy. This strategy needs to be proactive to be effective, and that requires analysis and modeling scenarios to set the best course with the least risk.
- **Scattered data, no insight.** It can be a struggle to get all relevant and specific human capital information in one place. In fact, many organizations don't even know how many full-time employees are currently on the payroll, let alone have the workforce analysis to make more informed decisions. Managers typically pull relevant data from several sources, but this process is inaccurate, incomplete, time-consuming and, in the end, doesn't provide much insight.
- **Outdated technology.** About four in 10 companies still manage their human capital with Excel spreadsheets, Word documents or manual, paper-based systems. (*The Human Capital Management Spending Report, 2006-2007*, AMR Research). These systems were not designed for HR use and certainly not designed to analyze human capital information. HR groups don't have the time to focus on strategy while sorting through all these suboptimal systems that still don't answer the tough workforce questions business leaders ask.
- **Lack of accountability measures.** Nearly 40 percent of respondents in a recent survey said they had no formal measures to gauge the impact of HR and training efforts. Another 39 percent said they had measures in place but only for some initiatives. Barely half of respondents thought business-oriented metrics, such as profitability and revenues, were suitable measures of HR and training effectiveness (*The High-Performance Workforce Study 2006: Lack of Connection to the Business*, Accenture 2006). If that's true, it's not surprising that the rest of the executive team tends to view HR as a tactical rather than strategic function. HR does not have a way of proving its value or the value of the initiatives it has in place.

### Challenges HR leaders face today:

- To align the human capital strategy with organizational goals.
- To address workforce demands at every stage of the talent life cycle.
- To identify, assess and mitigate workforce risks.
- To proactively respond to changing workforce demographics and trends.
- To plan for business change, such as mergers, acquisitions and downsizing.
- To synchronize financial and operational workforce strategies.

Historically, the preceding challenges and obstacles have not been adequately addressed. It is time to redefine the role of the CHCO and empower HR teams with the decision support they need to bolster organizational goals and gain a seat at the executive table.

With readily available technology, HR leaders can reveal new insights and value from the data they already have, from systems that are already in place across the organization and from third-party data. They can then make confident and timely decisions to manage the work force in a truly strategic way – optimized for best-cost productivity in alignment with organizational goals.

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## **Align the human capital strategy with organizational goals**

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CHCOs struggle to respond to every business need affecting human capital. Identifying specific talent gaps remains a challenge for many organizations. In addition, few organizations today can accurately forecast the number and type of talent required to execute their business strategy. HR groups rarely have the full information they need to make confident decisions about issues the business will face tomorrow, and how best to manage the work force to drive the organization toward its goals.

In the last few years, we've seen business after business suffer huge layoffs, disastrous and harmful conflicts with labor unions, and senior executives dragged into court to justify bad or illegal labor practices. Many organizations learn the hard way – it is far less risky, less costly and more sound to ensure the workforce strategy fully supports short- and long-term business goals. The bottom line is that the risk of not embedding strategic workforce planning into organizational planning could result in business failure.

SAS recognizes the important role the CHCO plays in driving an effective workforce strategy that is aligned with business goals. Leverage the capabilities of SAS® Human Capital Intelligence to develop strategic human capital plans that support business units and the organization. By HR and for HR, the SAS solution comes with many packaged capabilities, but can be easily tailored to better address your specific business requirements. The solution can communicate human capital strategy, initiatives, alignment, key indicators and progress toward shared goals. It leverages data integration, business intelligence, workforce and predictive analytics – including a retention model, scorecarding and planning applications – to support an array of essential human capital strategic decisions.

With more than 250 prepackaged, cross-functional metrics (and the ability to create custom metrics), SAS makes it easier for you to measure and analyze relevant key indicators related to the work force. A built-in viewer shows the status of each key indicator relative to targets. At a glance, users can see important information, such as revenue per employee or absenteeism for a given employee profile, regulatory compliance or skills gaps that could inhibit the organization from reaching current or future goals.

Managers can immediately see what needs to change – where and by how much, within and across functions. The scorecard's dashboard can give executives an at-a-glance picture of workforce status and the impact of HR activities on performance. Users can see within seconds which results have the greatest impact, where to focus and where to drill deeper to find the root cause of an issue, such as excessive turnover in a critical research and development division, a skills gap for an impending project, or the impact of workforce trends.

### **Address workforce demands at every stage of the talent life cycle**

Effective talent lifecycle management means leveraging workers to meet business needs at every stage of the employee life cycle. Skills shortage is a major issue that increases the time, cost, and difficulty of acquiring the right talent. HR leaders need the means to identify future leaders and target the right candidates for closer consideration. Retaining critical employees is difficult without understanding why some resign, or who is critical to keep.

Today, there is too little insight to effectively take a strategic approach to each lifecycle stage. As a result, business units tend to conduct their own analysis, making HR less relevant and the CHCO less likely to be viewed as part of the executive team. Organizations need to be more effective in identifying, acquiring, growing and retaining the right people – and understanding how to deploy those people for maximum advantage.

SAS Human Capital Intelligence provides a holistic view of the work force that improves the ability to manage all aspects of it. The solution achieves this big-picture perspective by integrating data that currently resides in a multitude of silo systems and purchased databases, such as HR management systems, ERP applications, Microsoft Access databases, learning management systems, applicant tracking systems and payroll. You can also integrate third-party data, such as university recruitment lists, insurance data or salary surveys.

This information is loaded into a single repository – a human capital data mart – where it is continually updated, validated, reconciled, cleansed and managed for integrity. The data mart, designed specifically for personnel data, prepares the data for analysis within SAS Human Capital Management.

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■ “SAS Human Capital Management enables my staff to gather and consolidate HR intelligence that I can share with our CEO who, in turn, makes wise decisions critical to our workforce operations around the globe.”

**Jeff Chambers,**  
Vice-President of Human Resources, SAS

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The result is a timely and consistent version of the truth – an accurate and intimate understanding of the factors that influence workforce costs, requirements and performance. You get accurate and credible answers to fundamental questions about the work force and talent mix. This knowledge is delivered in a role-specific way, so managers and executives can track activity and outcomes in alignment with organizationwide strategy, not just department-level objectives.

Consider the possibilities:

**Acquisition:** *Match the right employee with the right skills at the right time, at the right cost.*

- Develop and then leverage critical talent profiles using a broad array of internal and external data.
- Analyze acquisition needs from the perspective of department, skills, geography, costs or business unit.
- Identify the best opportunities for recruitment spend, based on scientifically derived acquisition profiles.

**Growth:** *Develop essential skills for today's star performers and tomorrow's leaders.*

- Accurately evaluate the costs of acquisition versus training and promoting internal candidates.
- Understand your talent mix and potential skills gaps at any time.
- Be ready to deploy people into new roles at technical, managerial and leadership levels.

**Retention:** *Identify and retain critical talent.*

- Quantify replacement needs this year, next year and over the next five years.
- Track and analyze critical skills, and predict which skills will be lost and when.
- Identify who is likely to leave and who should be targeted for retention efforts.

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■ “Imagine: the ability to match some 16,000 individuals’ skills and potential to the needs of the organization’s corporate objectives, and the ability to adjust the HR profile to meet changing business requirements.”

**HR controller of a large Italian bank**

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■ “We can identify the regions that are most attractive to people with specific occupational qualifications ... This is information that can be used for trend analysis and planning purposes. It will have an impact on recruitment and training plans for the future.”

**Human resources consultant for a regional government agency**

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## Identify, assess, and mitigate workforce risks

You've probably heard your executives say at some point, "Our employees are our most important assets." But you know those employees can leave at any time.

Losing critical talent puts an organization at risk. But who is critical, and who is likely to leave? Which ones do you wish would go? Among the latter, should you dismiss or reassign? What is the profile of employees with a higher-than-average absenteeism? Are poor managers having a detrimental effect on performance? If you have solid answers to these questions, you can mitigate the risks or minimize the impacts.

Without a risk assessment tied to workforce insight such as seasonal absences, resignation trends, behavioral information or length of stay, managers could be blindsided by loss of critical workers, skills or leadership. The results could be serious: loss of competitive advantage, reduced efficiency and effectiveness, poor employee morale or diminished customer satisfaction. Take, for example, the employee who leaves your business to start his or her own – in direct competition with your business.

With SAS, you can prevent organizational risk by devising contingency plans based on insight and foresight into risk issues. With advanced analytics through easy-to-use interfaces from SAS, business users can extract new insight from existing data without having to become statisticians themselves. Users can assess risk on an organizationwide level by integrating workforce and relevant business and third-party data for comprehensive risk analysis. For example:

- Forecasting capabilities enable managers to accurately plan headcount and skills for any area, even as the organization and markets undergo changes.
- Descriptive and predictive modeling enables managers to analyze the past and look forward to spot trends in key factors related to voluntary termination, absences and other sources of risk.
- Optimization helps determine the best combination of resources within a given set of constraints. For example, you could determine how to allocate merit increases to maintain the best internal and external pay equity.

Consider the possibilities:

- Identify which employees are at the highest risk of voluntarily leaving the organization.
- Measure, monitor and predict the effect of risk factors over time.
- Build weighted risk factors into strategic human capital management plans.
- Recognize the strengths and vulnerabilities of your work force.
- Determine the impacts of organizational change on employee performance.
- Develop contingency plans based on trends such as seasonal absences.
- Mitigate risk by predicting where vacancies and leadership needs are likely to occur.
- Reduce risk by understanding workforce supply and demand patterns, and creating strategies with additional labor sources to meet that demand.

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■ "In an industry that otherwise reports 20 percent employee turnover, SAS' churn rate averages about five percent, saving us millions of dollars every year. Using SAS Human Capital Management, we make workforce decisions with facts. When we invest in the right employee initiatives, we are able to attract and retain the best talent, and workforce productivity increases. When people are more productive, SAS is more profitable."

**Don Parker,**  
Chief Financial Officer, SAS

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■ "[SAS' Predictive Analysis] retention model shows us that turnover currently stands at three to four percent, and that the rate is low because the people identify with the culture, the brand and the corporation; and this is very important because it shows buy-in with the employee relationship management concept. While low turnover is crucial, it is just as important to keep turnover from increasing, and the retention model from SAS helps with both issues."

**Employee development director  
of an Italian bank**

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## Proactively respond to changing workforce demographics and trends

In many industrialized countries, the average age of the population is steadily increasing, which means that more people in the work force are approaching retirement age. In addition to the changing support needs these employees bring, companies risk losing valuable knowledge and skills from these older employees. Often they have given many loyal years to the company, and honed skills specific to the organization's needs. New, younger employees may not be as dedicated or in tune with the business.

Executives seem to deny the significance of the aging work force. Based on a survey of 25 executives representing companies in five major industries and six countries in North America, Europe and Asia/Pacific, *The High-Performance Workforce Study 2006* (Accenture, 2006) reports that some 40 percent of CEOs, COOs, and CFOs said they do not believe the aging workforce will significantly affect their organizations. CHCOs know better.

As organizations struggle to acquire or build skills that are lacking, as veteran employees retire, as younger workers fill the work force, HR leaders have some serious questions: How can I ensure I will have sufficient talent in the upcoming year? Which workers represent the next generation of leaders two to five years down the road? How do we build the right skills within the organization for better succession planning? Who should be targeted for these programs? What demographic balance will our organization have in five years? What will the impact be, and will it result in noncompliance with governance or other regulations?

With a rich set of analytical capabilities, organizations can accurately measure, monitor and predict the effect of an aging work force or evolving talent pool. They can then respond to changing workforce demographics with speed, accuracy and an effective plan. Consider the possibilities:

- Provide a holistic view of changing workforce demographics – today and years into the future.
- Measure the financial impact of retirees and the cost of acquiring replacements.
- Create acquisition, training and succession plans that take into account demographic realities and trends. For example, build new skills in a young workforce or build management skills in women and minorities.
- Accurately determine which level and at what salary open positions from retirees should be filled.
- Build a risk mitigation plan tied to skill loss, vacancies and culture change.
- Identify opportunities to leverage new workforce skills.
- Implement more targeted, proactive acquisition plans based on future predicted skill needs.
- Ensure compliance to governance and other regulations.

- Advanced analytics and easy-to-use interfaces enable business users to identify and minimize risk by predicting workforce changes and analyzing associated costs. Only SAS® offers a predictive analysis retention model to indicate which employees are most likely to leave an organization, and why.

## Plan for business change, such as mergers, acquisitions and downsizing

Navigating organizational change can be a difficult challenge for HR professionals. Mergers, acquisitions, outsourcing, downsizing ... all of these upheavals have dramatic effects on the work force. The CHCO needs to be at business leaders' sides in planning and implementing strategic decisions that affect the work force. Business change without an effective human capital management plan can lead to disaster, or certainly increased risk.

How should an organization be restructured? Where should downsizing occur? Should we expand our offices on the East Coast and take advantage of the skill sets there? What skills will this proposed merger bring to the organization? Where will the overlap lie? What are the cultural differences, and how will that affect performance? The CHCO needs to be at the forefront to help business leaders make critical decisions. Being armed with workforce intelligence allows this to happen.

To get these answers, organizations need an accurate and comprehensive view of the potential effects across divisions and geographies, plus the ability to model what-if scenarios. With in-depth analysis, human capital decisions can be made strategically, so you avoid the risk of losing good workers and keeping redundant ones.

SAS begins with this comprehensive reality to serve as the basis for decision-making – even when it means integrating HR data from diverse organizations using seemingly incompatible systems. With SAS® Analytics, which includes forecasting and real-time scenario modeling, organizations can run simulations to evaluate strategic options, their impact on the workforce, finances and the business at large. A unique feature of optimization is its ability to identify the best possible combination of resources and conditions, given a broad set of weighted factors and constraints. This approach increases success as well as lowers the risk of implementing new strategies.

Consider the possibilities for managing large-scale change:

- Use third-party information to determine best practices in salary planning and organizational structure.
- Perform organizational and geographic analysis with greater accuracy and speed.
- Visually track, analyze and view change results over time.
- Evaluate the effect of planned changes on the organization, finances, employees and customers.
- Test alternate scenarios in modeled simulations before implementing a change plan.

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- Being able to anticipate change is one of the most difficult challenges organizations face. SAS® helps the CHCO be proactive to analyze and predict future workforce needs, develop strategies to address them and communicate the strategy throughout the organization.
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## Synchronize financial and operational workforce strategies

The work force should be managed in alignment with overall financial and operational strategies. However, it is a rare company that achieves this ideal. In the real world, most HR teams spend their time responding to immediate issues in recruitment, training and compensation. Very few can accurately predict next year's HR budget; more than 80 percent will miss the mark by more than 25 percent. Human capital planning decisions are then dictated by inadequate budget allocations, rather than from collaborative and strategic planning.

Historically, the HR budget had been framed on the most basic information, such as salaries and general workforce costs. HR leaders need this budgeting activity to reflect more granular understanding – such as detail related to absences, overtimes, training costs, headcount, salaries and other compensation – as well as a defensible position on how these costs drive value for the organization.

SAS Human Capital Intelligence leverages the capabilities of SAS® Financial Management (the SAS budgeting and planning solution) to create more granular, specific and comprehensive budgets and plans that best reflect the organization's goals. With this secure and targeted solution, HR teams can:

- Automate processes and workflow between human capital and financial data.
- Develop accurate acquisition budgets for current needs and the upcoming year.
- Produce indicators of budget misses at least six months in advance.
- Perform proactive and real-time workforce planning.
- Control the costs of absences and fully understand the correlation between absences and overtime.
- Accurately predict and simulate the budget and the impact of budget adjustments.

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- SAS® Human Capital Intelligence integrates data from nearly every source and loads it into a human capital data mart, where it is cleansed, integrated and made analysis-ready. The result is a single, trusted view of your work force.
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- “Expense trends are verified with benchmark analysis, and payroll simulations verify the impact on expenses due to organization structure modifications. There is better management of assigned personnel roles, and a better recruitment system. We can also now make yearly cost calculations. Further, we have the ability to perform analyses of absenteeism by operation unit and pinpoint absence peaks, as well as detail best attendance for use in a reward system.”

**Resources Consultant,  
a government agency**

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## SAS® Human Capital Intelligence

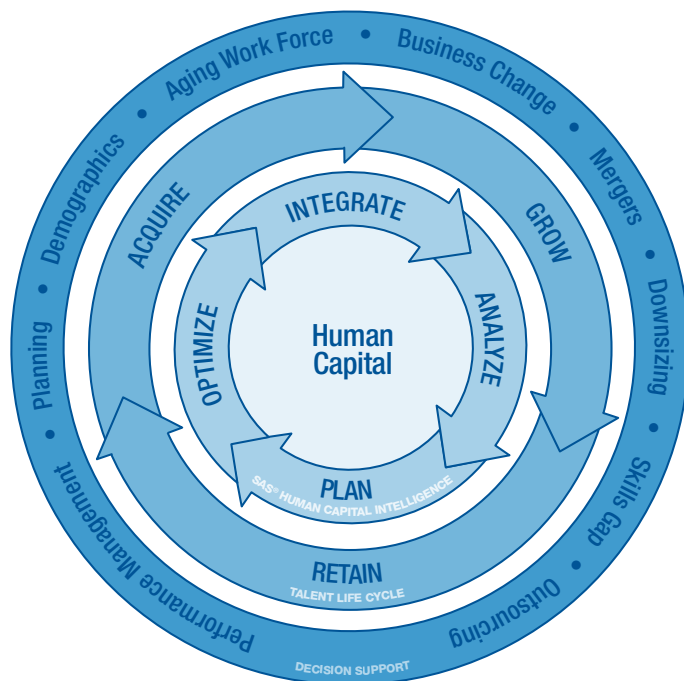


Figure 1. SAS® Human Capital Intelligence empowers the CHCO to align the human capital and organizational plans in a truly strategic way.

Organizations around the world use SAS Human Capital Intelligence to manage the work force in a more strategic way. With SAS Human Capital Intelligence, you can:

- **Integrate** the data that is scattered throughout the organization – and enrich it with third-party and benchmarking data – to gain a holistic view of the work force.
- **Analyze** workforce conditions, strengths and vulnerabilities on a departmental and enterprise level, to identify trends, risks and skills gaps, and to align the work force with current and future goals.
- **Plan** a human capital strategy that aligns with business objectives and market trends – then measure, monitor, prove and improve the effectiveness of that strategy over time, using a human capital scorecard.
- **Optimize** the work force with the ability to model and perform “what if” scenarios under various conditions and constraints, to develop and validate strategies in a low-risk environment before putting these strategies in action.

The potential gains are enormous. HR leaders can improve their organization’s performance, innovation, agility and competitive position. They can reduce the costs and risks while improving results. They enhance the value, productivity and esprit de corps of the work force. And, they gain the analytic insight to perform as trusted, strategic advisors to business unit managers and the executive team.

- Only SAS offers leading data integration, intelligence storage, advanced analytics and business intelligence applications within a comprehensive enterprise intelligence platform.

## The leader in business intelligence and analytics

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SAS provides every capability described in this document – from data management and predictive analytics to human capital and performance management. Solution elements are available individually but are all built on a single enterprise intelligence platform, so you can start with your most pressing need today and expand as your information infrastructure matures. Of particular note, SAS has the broadest range of analytical capabilities, enabling you to identify, quantify and prioritize opportunities, balance risks and resources with rewards, and measure results. By integrating advanced analytics, CHCOs can perform more strategically, with forward-looking perspective.

## About SAS

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SAS is the leader in business intelligence and analytical software and services. Customers at 43,000 sites use SAS software to improve performance through insight from data, resulting in faster, more accurate business decisions; more profitable relationships with customers and suppliers; compliance with governmental regulations; research breakthroughs; and better products and processes. Only SAS offers leading data integration, storage, analytics and business intelligence applications within a comprehensive enterprise intelligence platform. Since 1976, SAS has been giving customers around the world THE POWER TO KNOW®.



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