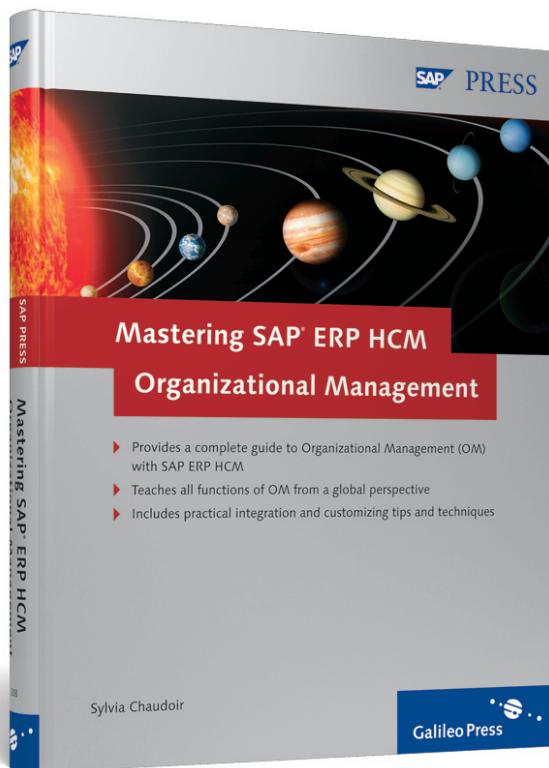


Sylvia Chaudoir

# Mastering SAP® ERP HCM Organizational Management



  
**Galileo Press**

Bonn • Boston

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*Of all the applications in the SAP ERP software, Human Capital Management (HCM) can be the most complex. Rich in functionality and complicated by country regulatory and process requirements, SAP ERP HCM offers a wide-ranging structure and design options. In this chapter, we'll give you a brief overview of SAP ERP and the specific offerings in SAP ERP HCM.*

## 2 SAP HCM Overview

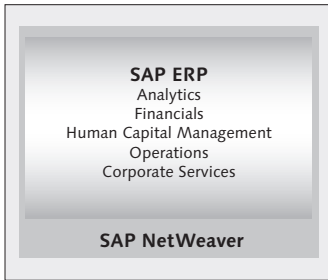
The SAP Business Suite is a comprehensive collection of business applications, which includes core enterprise applications, industry-specific solutions, and composite applications. These applications are based on the SAP NetWeaver® platform, which is both an integration and application platform.

### 2.1 SAP Business Suite: Enterprise Applications Overview

One of the primary marketing messages for the SAP Business Suite is that it's a comprehensive family of adaptive business applications, rapidly adjusting while continuing to perform well to meet the needs of the customer. SAP provides best-of-breed functionality in a variety of different business areas, each built for complete integration with the others and including industry-specific functionality and virtually unlimited scalability.

Because business requirements change regularly, application software changes frequently as well. To help customers adapt easily to these changes, SAP provides product version updates regularly to keep up with regulatory changes and to enhance production functionality to help customers manage their business processes more effectively. However, keeping track of these new versions and names can be somewhat confusing, so throughout this book, we'll refer to the naming conventions SAP adopted for its products from 2007 onward. For example, the new application name SAP ERP 6.0 was previously known as SAP ERP 2005, which was named for the year in which it was released. Similarly, SAP NetWeaver 7.0 replaces the name SAP NetWeaver 2004s.

So let's take a look at SAP ERP 6.0 (Figure 2.1).



**Figure 2.1** SAP ERP Overview

### 2.1.1 The SAP ERP Foundation

The SAP ERP applications provide functionality for enterprise resource planning, including the core business functions that most customers think about when they first implement SAP. Generally, these functions are targeted toward large enterprises, and can apply to companies regardless of their global presence or industry.

SAP provides a complex range of solutions through these various products. The solutions are meant to provide both back-office and front-line user software applications. With them you can run virtually any and every aspect of a business. SAP ERP is a tightly integrated global software solution that gives customers a better way to manage corporate processes and assets.

	End-User Service Delivery				
Analytics	Strategic Enterprise Management	Financial Analytics	Operations Analytics	Workforce Analytics	
Financials	Financial Supply Chain Management	Financial Accounting	Mgmt. Accounting	Corporate Governance	
Human Capital Management	Talent Management		Workforce Process Mgmt.		Workforce Deployment
Procurement and Logistics Execution	Procurement	Supplier Collaboration	Inventory and Warehouse Mgmt.	Out- and Inbound Logistics	Transportation
Product Developmt. and Manufacturing	Production Planning	Manufacturing Execution	Enterprise Asset Management	Product Development	Lifecycle Data Management
Sales and Service	Sales Order Management	Aftermarket Sales and Service	Professional Service Delivery	Foreign Trade	Incentive & Commission Mgmt.
Corporate Services	Real Estate Management	Project Portfolio Management	Travel Management	Environment, Health & Safety	Quality Management
SAP NetWeaver	People Integration		Information Integration	Process Integration	Application Platform

**Figure 2.2** SAP ERP Solution Map

While the solution map in Figure 2.2 outlines various functions included in the SAP ERP solution, there are really four main application functions that make up the product:

- ▶ **SAP ERP Financials** includes financial accounting, financial and management reporting, corporate governance and compliance, capital management, and corporate performance management. SAP ERP Financials applications have been at the core of most U.S. and global implementations of SAP systems, and will likely remain so for some time.
- ▶ **SAP ERP Human Capital Management** includes employee management processes for human resource management, personnel administration, and payroll functions. The various functions take a person from applicant to hired employee, through the employment life cycle, and all the way to retirement or termination.
- ▶ **SAP ERP Operations** incorporates processes for companies to provide products and services to customers. Procurement and logistics execution, product development and manufacturing, sales, and service delivery are among the functions supported.
- ▶ **SAP ERP Corporate Services** includes many corporate functions that typically fall outside the above three groups. Real estate management, asset management, product and portfolio management, environment, health and safety management, and quality management are some examples of these functions. Whether centralized or decentralized, these corporate administrative services can be managed within SAP ERP.

In addition, **SAP NetWeaver** is the integration and application platform upon which all SAP Business Suite applications are based. It's composed of multiple technical components and tools for running the SAP applications.

These core components make up most of the functionality provided by SAP ERP and are marketed and sold through a variety of different mechanisms.

### 2.1.2 SAP Specialized Business Solutions

In addition to SAP ERP, SAP also provides products for enhanced functions in the following areas.

► **SAP Product Lifecycle Management (PLM)**

Functionality to manage, track, and control product-related information over the product lifecycle. SAP PLM provides enhanced product development and manufacturing processes designed to get products to market faster.

► **SAP Customer Relationship Management (CRM)**

Functionality for marketing, sales, and service functions. SAP CRM gives companies tools to help obtain and retain customers, build relationships and gain insight into customers, and implement customer-focused strategies to help improve customer loyalty.

► **SAP Supply Chain Management (SCM)**

Functionality to enable adaptive supply chain networks. SAP SCM changes traditional supply chains from linear or sequential processes to more demand-driven and proactive network processes.

► **SAP Supplier Relationship Management (SRM)**

Functionality to optimize procurement operations, improving sourcing and purchasing processes.

In each of these specialized products, SAP has taken specific process requirements and developed application functions beyond the base SAP ERP solution to meet the needs of each process. In all cases, very tight integration is built into the new functions with the core application areas in SAP ERP. This allows customers to leverage any existing implementation of SAP ERP solutions and extend the functionality where it is most needed. Because these products are newer, many are implemented well after the initial SAP ERP implementation.

**Example**

Many customers implementing SAP in the 1990s implemented Sales and Distribution components. With an initial release in 1999, customers are enhancing their sales functions with further implementations of SAP CRM. Similarly, many customers that have implemented SAP ERP Financials components are now enhancing their SAP solution by implementing Enterprise Buyer Procurement or Strategic Enterprise Management. In either situation, the later release of a component is well integrated into the base component, helping customers get the most benefit out of both.

In any case, it works well regardless of when the components are installed. It's really just a matter of implementation timing.

So let's take a look at the SAP ERP HCM components to get an idea of how they can each help improve your business processes.

## 2.2 SAP HCM Components in Depth

Throughout this book, we'll be focusing on the SAP ERP HCM component. SAP ERP HCM is used for managing all aspects of the employee lifecycle. From attracting and hiring employees, training and ongoing personnel and event transactional management, to payment and termination, the SAP ERP HCM solution is a unified suite for all people-related processes.

The SAP ERP HCM strategy is similar to SAP ERP in that it provides a comprehensive and global solution that can be utilized by companies of virtually any size, geography, or industry. Similar to the SAP ERP components, SAP ERP HCM is made up of multiple major functions. The various SAP ERP HCM components can be implemented together, or they can be implemented independently or sequentially one after another. To increase HR process efficiencies, SAP ERP HCM automates what SAP refers to as three key processes:

- ▶ **Workforce Process Management**

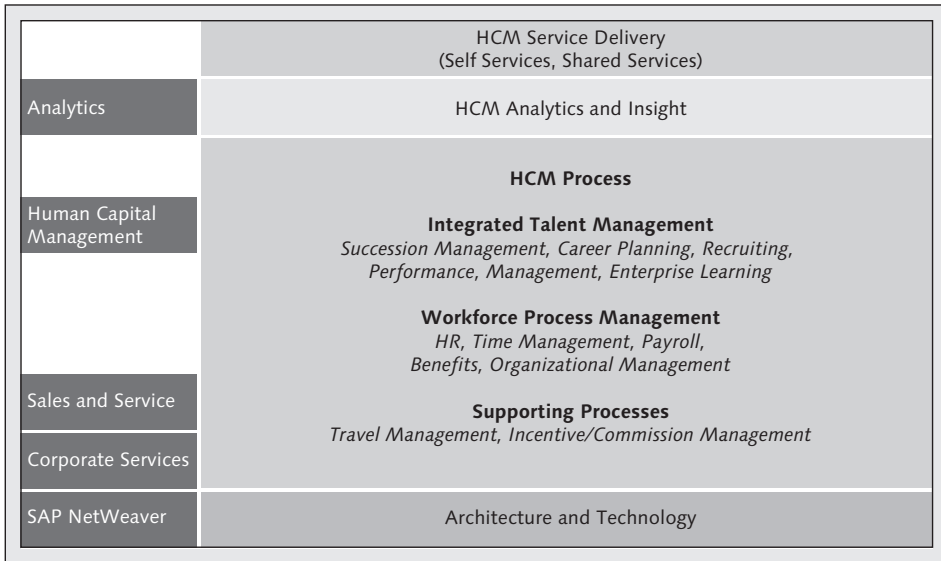
These are the "core" HR transaction functions most people not only think of first but also implement first in SAP ERP HCM. Employee or personnel administration, organizational management, benefits administration, time management, and payroll are among the processes included.

- ▶ **Talent Management**

These enhanced people-management functions range from recruitment and applicant management, training and event management, to personnel development and compensation administration.

- ▶ **Workforce Analytics**

These are reporting and analysis options associated with HR, and come in the form of hundreds of predefined reports and key performance indicators (KPIs).



**Figure 2.3** SAP ERP HCM Solution Map

Figure 2.3 shows an overlay of SAP ERP HCM functions on the SAP ERP Solution Map in Figure 2.2. This overlay identifies where the various functions or SAP ERP HCM components fulfill and integrate with other areas of SAP ERP, providing more rich functionality in those areas.

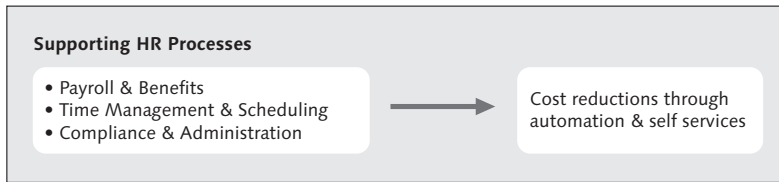
Let's take a look at each of these components and examine their basic functions a little further.

### 2.2.1 Workforce Process Management is "Core"

Workforce Process Management is the core component of any SAP ERP HCM implementation. These transactional functions provide support for all basic employee and personnel information management. The SAP ERP HCM solution uses a central database approach to establish the identity of a person, typically an employee, and to relate all information that HR and the company may need to perform transactions and record data for that person.

People are assigned a sequential person number that is typically system generated but can also be entered manually. It is around this central person ID concept that

the information is entered and stored and later accessed for reporting and analysis (Figure 2.4).



**Figure 2.4** Workforce Process Management Enables Cost Reductions

## Employee Administration

*Employee Administration*, also referred to as Personnel Administration (PA), includes the personnel management processes that take an employee from “hire to retire.” Employee personal and job-related information is tracked through the various events that occur in the employee’s lifecycle, and is stored in a number of different records, called infotypes in SAP ERP HCM, which collectively make up the employee’s personnel file in the SAP system. The infotype concept is discussed more thoroughly in Chapter 4. These personnel records are referenced, linked, and enhanced throughout the various components within SAP ERP HCM to perform the functions in those areas.

## Organizational Management

*Organizational Management* is the component that we will focus on in this book, but at a high level it’s basically a mechanism to depict your organization in SAP systems. The organization from an HR perspective is created and managed, allowing organizational group differentiation to be represented in the other HR processes. All organizational units form the basis of the structure, whether it’s a company, division, function, department, or work unit. The level of detail or granularity is completely up to you to define, so the system is very flexible. Jobs and positions are defined to represent the various types of roles that exist within those organizations.

## Benefits Administration

Employee benefit plan enrollments and participation are managed via *Benefits Administration*. Benefits plans are first configured to include all details of the plans

offered. This includes plan types and options, such as a medical PPO versus HMO plans, with individual or family coverage. Financial components of the plans can incorporate employee and employer costs and varying coverage levels, and can take into account flexible credits that the company may offer. Benefits can be grouped for different populations within the company into different benefit programs that the employee can select to enroll. Employees enroll in the various benefits through annual open enrollment periods or through event-related transactions, such as marriage or the birth of a child. The company can then report on participation, interact with benefits providers or carriers through interfaces, or pay and bill for benefits through integration with SAP ERP Financials third-party remittance functions. The component also includes functions for managing retiree benefits and COBRA administration for after employees are terminated or otherwise lose benefits coverage.

### **Time Management**

Time off as well as time worked is tracked and accounted for in *Time Management*. Functions exist to create and assign various work schedules to employees, defining both their working hours and nonworking hours, such as holidays, breaks, and meals. Time can then be recorded by the employee directly or for the employee by another person. Time recording is done a number of ways, depending on the operations of your company. You can record time actively, meaning that all working time as well as time off is entered into the system. In the United States this type of time reporting can be completed by nonexempt personnel, who have to report time worked in order to be paid correctly.

You can also record time on an exception basis, meaning you are assumed to be working your scheduled hours unless you say otherwise. In this scenario, you typically only report absences, such as sick time or vacation. Additionally, the SAP system can accept time from other systems, such as time clock or card systems. A number of SAP partner organizations provide time entry solutions that integrate data into SAP ERP HCM. Once the data is entered, it's then processed to validate the entries against rules that have been configured in the system. The various time rules ensure that employees aren't entering time when they shouldn't and that if an employee works certain hours, they are credited appropriately. Time Management includes capabilities to charge time to projects, orders, or other cost elements, providing a means to do labor-related accounting.

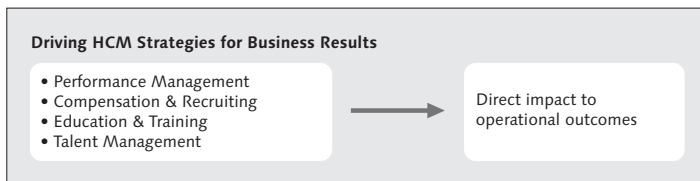


## Payroll Processing

Finally, employees are paid through country-specific *Payroll Processing* routines. In the payroll component, additional personnel records are created that provide information on the various payments, deductions, and taxes that apply to the employee. These records, along with information from the other personnel modules (Employee Administration, Benefits, Time Management), are read and processed according to complex payroll functions and rules. There are more than 50 country-specific payroll programs provided that allow companies to pay employees and ensure legal compliance and reporting for the countries in which they do business. Fully integrated to SAP ERP Financials, the payroll results are transferred to banking, general ledger, accounts payable, and cost accounting functions to provide end-to-end employee finance processing.

### 2.2.2 Talent Management is about Managing Talent

*Talent Management* encompasses enhanced functions of SAP ERP HCM (Figure 2.5). Many customers don't implement these components with an initial SAP ERP HCM implementation unless they are replacing an entire HRMS platform that also included these functions. This is probably because these components require additional configuration and process setup beyond the general employee processing.



**Figure 2.5** Talent Management Puts Talent to Best Use

## E-Recruitment

*E-Recruitment* and applicant management begin person-related processing before the person is ever an employee. E-Recruitment is where requisitions for open jobs or positions are created and posted for applicants to apply. Depending on how the opening is defined, the applicant can be evaluated systematically against the requirements of the requisition and ranked or selected for applicant processing. Applicant Management takes the recruiting functions through all stages of can-

didate screening and selection. Once people are selected for hire, the candidate information can be passed via integration programs to PA.

### **Enterprise Learning Management**

*Enterprise Learning Management* is a multifunction component that encompasses everything training related, from designing and creating training content to classroom delivery and results measurement. Authoring tools are used to create training courses and tests and to conduct online virtual learning events. SAP provides its own tools and partners with other companies offering this software. The learning solution provides a learning environment for all of your organization's training needs.

### **Performance Management**

*Performance Management* allows companies to align team and individual goals with corporate goals and strategies. Employee reviews and appraisals can be standardized and uniformly processed throughout the organization, allowing you to tie compensation to employee performance results. The functions provided are targeted to support a performance-oriented compensation process.

### **Compensation Administration**

*Compensation Administration* allows you to administer multiple pay strategies: stock and other long-term or incentive payments, variable merit and bonus pay plans, and performance- or competency-based fixed pay. You can use Compensation Management to create both centralized and decentralized budgets, and plan and administer compensation adjustments within those budgets at the manager level. Pay grades and salary structures are defined to identify the internal value of jobs and positions in your organization. Internal salary data analysis and external salary survey participation tools enable companies to conduct comparative salary package evaluation to ensure marketplace competitiveness.

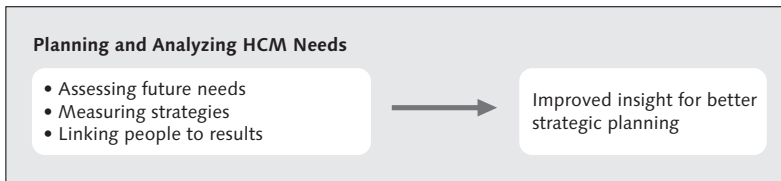
### **Personnel Development**

*Personnel Development* incorporates both career and succession planning. Career planning allows you to plan and implement specific personnel and training measures to promote the professional development of your employees. Qualifications

for general or specific roles in the organization can be specified. Personnel development sets out to ensure that all of the employees in all of the functional areas in your company are qualified to the standards required at present, and will remain so in the future, all while taking into account the employees' qualifications, preferences, and aspirations. Succession planning uses this same information to create, implement, and evaluate succession planning scenarios.

### 2.2.3 Workforce Analytics Reporting

*Workforce Analytics* delivers workforce analytical and reporting tools, as well as strategic planning and alignment functions. Components include standard reports, ad hoc reporting, and evaluations based on KPIs. These tools empower companies to develop workforce strategies, analyze results, and perform ongoing monitoring via a wide range of reports and analyses to ensure optimal performance (Figure 2.6).

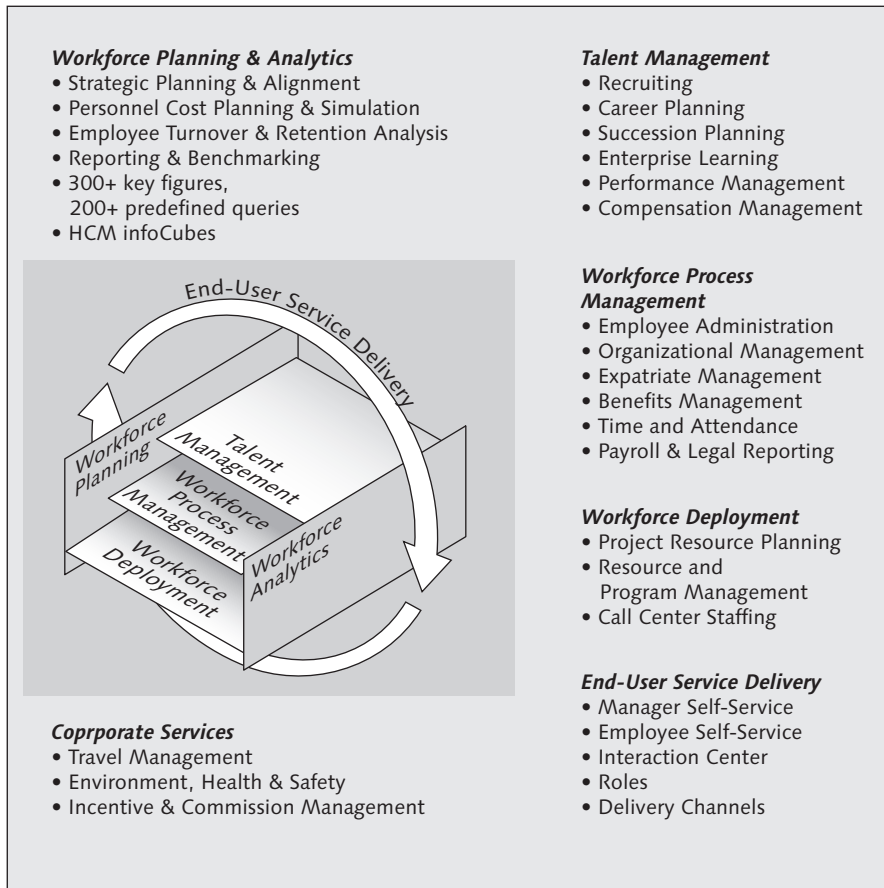


**Figure 2.6** Workforce Analytics Provides Insight

SAP provides some important figures such as time to hire, employee turnover and retention rates, progress against corporate goals, training program effectiveness, and compensation program measures. One of the key benefits of the Workforce Analytics components is that data is up to the minute, providing direct visibility into the workforce and its operations. Integration with the other SAP ERP components is another key advantage for SAP ERP HCM analytics. SAP HCM processes are better planned and designed up front through financial and operational data integration. Additionally, allowing integration of actual financial and business results into the HR analysis provides complete transparency into opportunities and measurement of the strategy performance. Rather than hoping you have the right information at the right time to make critical business decisions, SAP ERP HCM analytics ensures that you do have it and can answer whatever challenges and questions come your way.

### 2.2.4 The SAP ERP HCM Big Picture

At the end of the day, the important thing to remember about the SAP ERP HCM solution is that it is a complete solution (Figure 2.7). A carefully designed and properly executed SAP ERP HCM solution can offer far more than transactional cost reductions.



**Figure 2.7** SAP ERP HCM Functions

SAP ERP HCM allows you to transform your traditional HR functions into a comprehensive human capital program. This can achieve employee productivity enhancements, and it can impact business results by ensuring that all employees contribute their full potential and further the objectives of the business. Whether

you implement all or parts, the functions provided can help HR deliver value to the company through the SAP ERP HCM processes in a program that integrates people, process, and technology.

## 2.3 Conclusion

We've discussed the SAP ERP HCM components at a fairly high level, but clearly, a significant amount of functionality is provided by these components. In the next chapter we'll begin to take a closer look at OM, its design principles, and the data elements that make up the organizational plan.

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