Legendary PeopleSoft founder Dave Duffield may be on the road to doing it again.

Early last month, he officially announced his fifth startup company, Walnut Creek, Calif.-based Workday, and the first release of its built-from-scratch, multinational Workday Human Capital Management system, with five mid-market customers already signed.

Analysts and experts generally agree that by effectively using the most modern technologies and application architectures, Duffield has built a better mousetrap that can accomplish new tasks or old ones in new ways that no other HCM can do.

“Workday’s HCM reflects a fundamental rethinking of human resource management that’s focused on achieving real business outcomes,” says Naomi Lee Bloom, managing partner of Fort Myers, Fla.-based HR technology consulting firm Bloom & Wallace.

But Release 1.0 of HCM is only a partial first expression of Duffield’s vision for the next generation of enterprise applications, his business for nearly 40 years. He wants to change the game again, just as he did with the first client/server HCM at PeopleSoft in 1989. This time, he is creating what he calls “employee-centric” Workday Enterprise Business Services to replace current—“hard to change, use and integrate”—enterprise resource planning applications.

HCM is Workday’s first EBS suite and currently targets high-growth, service companies with 1,000 to 5,000 employees or revenues from $200 million to $1 billion. Duffield, who is largely self-funding Workday, plans to build the company from its current 65 employees and move it up-market to serve the largest global enterprise customers, ultimately taking it public.

Of course, that’s exactly what he did with PeopleSoft. And Duffield has partially recreated the competitive advantage he had in 1987, when he left his third company, Integral Systems, a successful mainframe vendor of HR and financials, to use what was then new technology at a new company. He had no legacy customers to migrate; no backward compatibility to worry about; no old code to rewrite.

Still, 2006 is different. Now Duffield’s not alone. Redwood Shores, Calif.-based Oracle, Walldorf, Germany-based SAP and St. Paul, Minn.-based Lawson Software are all using the same hot new stuff—Web services, XML, service-oriented architecture, object-oriented
programming—for their products. Of course, they all have those large installed bases limiting their freedom to innovate, but all three have been working with the new technologies for years and making steady progress.

The market question becomes: Who will get it all built out best? Workday still has a way to go. Release 1.0 is largely administrative, with much of the necessary “hire-to-retire” HR transactional functionality, but only two of the increasingly popular talent-management applications, with the rest planned for delivery over the next 20 months.

It is sold as a hosted subscription package, a delivery method not yet fully accepted for large HCM systems, though common in recruiting applications. Like all on-demand applications, companies will pay per employee per month with no up-front license fee. It includes the following services that allow it to be the HR system of record:

- Position/Job/Headcount Management
- Person Management
- Global Demographics
- Multiple Worker Types (full-, part-time, hourly, contingents, etc.)
- Person/Job Qualifications
- Staffing Management
- Onboarding (including lightweight applicant tracking)
- Internal Movement
- Absence Management (all forms of paid and unpaid time off)
- Compensation Management
- Plans, programs and packages
- Benefits management (including open enrollment)
- Performance Assessments (including full performance reviews)
- Action, Analysis, Auditing
- Reporting includes an embedded charting function from Adobe that lets users drill down into charts. Workday admits it’s similar to a feature in Lawson Software’s applications called “drill around,” but Holincheck says Workday’s feature is “more sophisticated.” Users can also drill down into every transaction and workflow. At the lowest level, drilling shows who took what action and new technologies and the new tasks they allow it to perform.

How Workday Works

The technology behind Workday is complicated, but here’s a basic explanation.

Programmers wrote Java computer code to create what Workday calls an Object Management Server. This is the last time any traditional code is written at Workday. Developers working on the Object Management Server build objects there that they assemble into what Workday calls “Web service operations.” Those can be as simple as how an address is handled in the United States or in France. Jim Hopp, Workday’s senior software developer, estimates the first version of HCM has about 200 Web service operations in it.

When operations are grouped together, they form a “Web service.” Full applications are again assembled, rather than written, by linking various Web services, which can be replaced when business operations require something different. That’s a task that Workday hopes a customer’s business analyst can eventually do without IT support.

“Workday’s architecture is a generational leap from code-heavy architectures of the past,” says Jeff Comport, Gartner’s one-time HR analyst and now its software architecture expert, “with the potential to free customers from the tyranny of upgrades and application inflexibility.”

In addition, Workday does not use a relational database, the heart of all enterprise applications for more than 20 years. Hopp says this allows for faster application development and eliminates the need for separate security. Instead, all customer data is stored in active memory, which Hopp estimates will require 10 gigabytes for a company with 10,000 employees, a standard server size. Workday does use an encrypted version of MySQL, an open source database, to hold the data as well “in case the lights go out,” he says.

Organization Management, a core service across all the suites, offers a new look at company structure by offering four different views of the organization: supervisory, costing, teams and geographic. Teams and departments were easily organized and reorganized in a recent software demonstration by Clay Tingley, Workday’s HCM product manager. “For the first time, you can map the structure of how your business actually operates,” he says.
when for each event—putting auditing throughout the system.

For the most serious audits, security reports show a trail of every action everyone has taken in the system during any period of time, which may be useful for Sarbanes-Oxley compliance. There is also a technical audit trail.

Could HR software ever be considered sexy? Holincheck thinks so. “Professional HR users will think Workday is sexy and slick,” he says. “But what are they doing to make the employee experience better? There’s no Web 2.0 sizzle to it yet. No content, no portal.”

However, Workday is planning a portal for next year in conjunction with Microsoft, an official Workday partner along with payroll provider ADP. Duffield says work has already started, under an integration agreement, for Workday HCM to use SharePoint (Microsoft’s portal server) and Office in “a more elegant way than Duet.” Duet is SAP’s use of Microsoft Office desktop applications to access their own.

**Workday’s Biggest Difference**

Workday has one competitive advantage that no other vendor can match: Duffield himself. Among hotshots in Silicon Valley, where getting rich sometimes seems like the only point, Duffield is legendary for being a member of the still-exclusive billionaire’s club. But among the people who have worked for him—from managers to directors and executive vice presidents—he is simply the best boss they ever had.

In interviews, a dozen former PeopleSoft employees at every level (most now at competitors) used the same words to describe him: “Makes everyone feel special . . . He is the most kind and thoughtful man . . . I was a nobody at PeopleSoft, and he talked to me like I was somebody.” The loyalty—even devotion—he inspires in employees has been key to his success.

There’s even an HR survey explaining the dynamic: Towers Perrin’s “Global Workforce Study” in 2005. Many recent surveys have shown U.S. workers to be utterly disengaged from their jobs—retired at their desks, basically. The Towers survey found that the single most important thing that engages employees in their jobs—No. 1 for all workers around the world from 18 to 64—is “senior management interest in employee well-being.”

Workday’s and Duffield’s “core values” are expressed as a simple list of six words. At the top is employees—not customer service (which comes second), but employees. The last of the six is profitability. In between, there is innovation, integrity and fun.

One recent event is telling. Five months ago, Workday was very close to signing its first client, a Fortune 500 company. Despite support from the organization’s entire HR community, however, a new C-level executive killed the deal shortly after coming aboard. Duffield sent a lengthy e-mail to everyone at Workday praising “what a small group of talented people” had done in getting so close to a sale and calling their full-day presentation at the prospect’s international headquarters “the finest sales performance of my all-too-long career.” He went on to detail the future benefits Workday would get from the failed eight-month effort.

Isn’t someone supposed to get blamed when a huge sale goes south? Evidently, not at a Dave Duffield company.

**The Big Question**

The most important question, though, is how soon Workday might pose a competitive threat to the ERP vendors, with their large-company installed base using their current products or soon moving to their new ones (such as Oracle Fusion).

“The market would prefer to have another alternative,” says Holincheck. “But Workday is not that alternative solution yet, except for customers that want HR today with a good design for supporting multinational requirements. They could be an ERP competitor in maybe three or four years, not one or two. They’ve built a better mousetrap that can do different things. But Oracle is adding Web 2.0 capabilities through Oracle’s Fusion Middleware. And SAP, with Duet and Adobe Forms, is also rethinking the user experience. The competitors are not standing still.”

With Workday delivering today at least part of what SAP, Oracle and Lawson are promising their customers for the future, the real question may be: Who gets to the finish line first?

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