

EQUATERRA CASE STUDY

DuPont – Now reaping maximum value with 10 years of Governance experience

Founded 200 years ago, DuPont is known as a science company, delivering science-based solutions in varied sectors from electronics through to food and nutrition. The company operates in 70 countries and currently generates revenues of \$28 billion. Given that it is such a well-known name in the US, it might surprise some to learn that DuPont now conducts more of its business outside the US than in.

A recent EquaTerra webcast presented the opportunity to share some of the 'Governance Lessons Learned' by DuPont through the eyes of G. Frank Conway, its Director of Global HR Information Systems. Conway has been with DuPont for 30 years and, for the last two years, has played a key role in the company's HR transformation.

During the webcast, he spoke to EquaTerra's Mike Beals about DuPont's governance learning curve over the last decade.

His examination of the differences between DuPont's \$4 billion ITO deal in 1997 and its recent \$1.1 billion HRO transaction provided both salutary and encouraging insights. Although the deals had very different business purposes, Conway pointed out that the company ended up in the same – desired – place each time, albeit via different routes.

Mature Market, but Immature Governance

The earlier ITO transaction took place in a much less mature market. At that point in the multinational's growth, DuPont's aim was to achieve three key goals from the deal: (1) variability in spending (2) increased flexibility and (3) access to state of the art IT skills. DuPont's business model had changed significantly after a series of joint ventures and acquisitions in the mid 90s. As a result, spending variability, both up and down - without penalty - was critical to future development plans and to allow the business to respond quickly to change. Importantly, cost reduction was not a prerequisite of the deal but the company soon learned a sharp lesson about the true cost of managing such a deal.

"It became clear we were spending 6-8 percent of the dollar value of the deal to manage it. But, seven years on, after continuous renegotiation, the transaction now runs like a well-oiled machine at a cost to manage of around 4 percent." Conway explained. Beals confirmed that, for 'commodity' type deals of this type, this now represented the market norm.

Always Accountable

Early on, Conway also admitted that not only did such costs make it harder to sell the idea of further outsourcing to the Board, but that blaming the supplier when things went wrong was no excuse. "We realized that you are always accountable and that you have to be proactively on top of what's happening. This is why such cost ratios are fundamental to outsourcing success. Without this level of involvement you end up in an inadequately managed relationship and the transaction can fail.

When the company turned its sights to a global HR Transformation several years later, it now had the benefit of its own experience. The objectives this time was to (1) outsource all HR transactional and service delivery processes globally, 2) to provide a blueprint of best practices for process simplification and standardization 3) to integrate the HRIT platform using SAP-HCM and 4) to provide an Employee/Manager Self-service portal and call center using provider technologies. The deal called for call center support in 30 languages and HR IT systems support in 16 languages.

Notably, EquaTerra advisors were now on hand to guide the company through these complexities. DuPont could now benefit from access to an invaluable 'repository of outsourcing science'. Conway explained the difference the new resource made. "Just three months out from signing the '97 ITO deal we broke out in a cold sweat. We had no well-defined processes in place either for authorizing or validating a request from the service provider (CSC) for example, so we pretty much spent the next 18 months structuring and refining the 20 key processes required. This time around we started early and with the benefit of our own experience, plus that of our EquaTerra advisors and the mass of documentation now available, we got to where we wanted to be much better prepared and much faster."

As a result Conway now has a clear definition for Governance within the DuPont organization. "Governance is the glue and enablement that makes the process management work," he says.

A Question of Overkill?

The new transaction has now been running for six months, following 16 months' detailed preparation and negotiation. Mike Beals asked Conway if he felt the depth of preparation advocated by EquaTerra was really necessary - or had it felt like overkill?

"I'd like to say it's overkill but it's essential. It can be overwhelming initially but, with some help, most people can understand why it's needed. Even with years of experience behind us, DuPont still needs to do lots of explaining and I would also say it's important to recognize that staff on both sides need to train and retrain. Governance is dynamic, it's always changing and without a constant effort to internalize the processes, disarray and disillusionment can set in. Some degree of people continuity on both sides is always helpful too."

In summarizing his Governance 'success' checklist, Conway stressed the need to select the right team (the best people, not necessarily the most available) and to

always keep 'your future state in mind.' He also highlighted the need to refine financial models and to provide for ongoing governance. He strongly emphasized the importance of defining and selecting the retained organization whilst also insisting on continuity of personnel on the supply-side. Finally, he recommended hiring some external help, carefully mobilizing the change management team and seeking approval and proactive endorsement from senior executives.

When Beals asked Conway to sum up the lessons learned in the past decade, the DuPont Director didn't hesitate. "Once you're over the hump, people usually like outsourcing. DuPont is very happy with its outsourcing deals – they're hard work but we wouldn't go back. I would urge other businesses to remember that today's pace of change is quite exceptional and, therefore, the need to communicate, to focus and to provide training is critical. Above all, be cautious and careful in how your Governance is handled – then you will reap maximum value creation."

Summary of Lessons Learned

- > Start early with governance design and education and remember that governance is more than authority lines – it includes critical processes and decisions rights
- > Select your best governance team (not necessarily the most available)
Hire some external help experienced in outsourcing
- > Keep focused on the future
- > Shape your financial model around ongoing governance - getting value requires significant investment – don't fight it
- > Seek proactive endorsement from senior executives
- > Pay close attention to definition and selection of the retained organization
Mobilize the change management team
- > Carefully define the governance processes and transition plan
- > Insist on some continuity of supplier personnel
- > Remember that negotiations are continuing and constant
- > Don't underestimate counter-productive business unit behaviors – use 'rules of engagement'
- > Processes are necessary – DuPont had 20
- > You are accountable even though they are doing it
- > It takes three to tango – you (governance), the supplier and the customer
'Evergreen' can only be achieved with the right skills and personalities
Conflict is inevitable – you need to maintain the relationship throughout and despite it

About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their business processes. With an average of more than 20 years of industry experience in over 600 global transformation and outsourcing projects, our advisors offer unmatched industry expertise. EquaTerra has deep functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes with advisors throughout North America, Europe and Asia Pacific. Our people are passionate about providing objective, conflict-free advice to our clients, which has fueled our exponential growth. We help clients achieve significant cost savings and process improvement with outsourcing, internal transformation and shared services solutions. It is all we do.

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