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UNLOCKING THE DETAILS BEHIND **HR TRANSFORMATION**

Exigencies

Anthony Hesketh

Lancaster University Management School, UK

T: 00 44 (0) 1524 593451
M: 00 44 (0) 7932 585634
E: A.Hesketh@lancaster.ac.uk

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One of the nice things about being an academic is executives tell you more about their organization than they would perhaps normally let on to their competitors, the media, or even what they might divulge to their consultants. These discussions since the downturn have taken on decidedly more of a therapeutic offering on my part as senior managers charged with the responsibility of managing their organizations through these difficult times, offload their concerns about future directions. As one executive put it to me on the phone recently, ‘It’s nothing but exigencies, Ant. You constantly have to deal with things not of your own making or under your own control. And, boy, you have to move fast, *very* fast.’

Control is something senior executives have gotten too use to. The events of the past 24 months or so have rocked this inflated sense of autonomy over business strategy and operations as the speed of operational reaction has taken over from the eloquence of strategy formulation—or ‘strategic bullshit’ as one market analyst has recently described CEO presentations to me. Mitigating these challenging circumstances was the focus of a fascinating conversation by senior executives comprising the Board of the Human Resources Outsourcing Association (HROA) I recently chaired in London.

There were primarily three topics covered by the debate. Not surprisingly, the first theme was devoted to the economic crisis and the repercussions of this for the human resources (HR) function. Attention then switched to the evolving structure of outsourcing deals currently under discussion. That the financial crisis has undoubtedly shaped the propensity of some companies to come to market was taken as a given. What we were interested in, however, was unpacking how deals were being structured to meet organizations’ evolving strategic requirements in a recession. Finally, despite all of the stresses and strains of the current climate, organizations were still focused on how to obtain best value from their talent systems, both now and, crucially, in the future when the upturn arrives. The challenge, it seems, is one of spending money where it matters.

‘Don’t Be A Victim’ – HR in a Recession

These were the wise words offered to HR professionals by Jack Welch at last month’s Society for Human Resources Management conference in New Orleans. Welch has been reviewing much of his leadership mantra of late, not least his subscription to the Holy Grail of competitive advantage. It appears he has been through a similar change of heart over the HR function.

Once one of the biggest critics of what he regarded as the most bloated of bloated back office functions, Welch informed the SHRM’s membership they, ‘have the most important jobs in America.’ He didn’t stop there. ‘Get out of the picnics/birthdays/insurance form business,’ he urged them. ‘Nobody wants to see some crazy cheerleader in there while [the organization’s] leaking.’

It appears Welch’s meandering down the road to Damascus has enabled him to catch up with what is already going on in the Function. ‘I’m glad we did our transformation when we did and not under the present circumstances,’ suggested Mark Blatchford of Unilever, referring to the global HR outsourcing deal with Accenture signed back in late 2006. ‘In terms of the function’s ability to meet the targets that are now being set for all the support functions we would be really struggling had we not undertaken the decision to outsource two years ago. If we hadn’t achieved what we have in the last three years, we would now be a major target for internal restructuring and we wouldn’t have had any of the transitional budget we have to do it with.’

Whilst other organizations are still deliberating over whether to postpone their service delivery strategies, Unilever’s proactive move has enabled them to stand up to the inevitable scrutiny they have been subjected to since their new CEO, Paul Polman, announced to the market he was not providing any earnings projections for the foreseeable future. For Blatchford, the corollary of the recent economic turmoil has been different sorts of challenges, which outsourcing has enabled them to meet:

‘This has meant that we and the market have put a much greater focus on where we are, on what we are spending, and how we are spending our money. We’re not giving market forecasts every three months because the market’s too uncertain. [...] What our CEO did say, though, was that we’d reduce our costs, we would reduce our travel– and Unilever is a big traveller, and we would not be hiring managers this year unless they were critical to the business. All this has had

a huge impact on HR in terms of our current [outsourcing] contract, how we manage it and continue to roll out the service.'

Unilever are not alone. At BT, Sarah Manning has also looked sideways at different functions in the business and reached the conclusion that the hard work undertaken by her colleagues in HR since the roll out of the 2005 outsourcing contract has put the Function in a stronger position:

'Compared to colleagues in other regions with shared services we are ahead of the game in nearly everything. From a budgetary perspective, we've already slimmed ours down and given money back on areas where we know we can make savings. It might be luck more than judgement, but we are in a relatively strong position.'

Beyond The Bunker – Evolving HR Outsourcing Strategies

There is a view, quickly gaining ground, that the appetite for outsourcing in the boardroom is growing. The bunker mentality after what Bill Thomas of Equaterra labelled, 'six months of shock in the boardroom,' is giving way to the new strategic positions boards have thought their way through in recent months and are now seeking to action. For Thomas, much depends on how outsourcing service models align with these overarching strategies now being put in place. For executives, it's a case of thinking twice and acting once:

'There's an interesting weighting of the decisions. One is, is the decision [to outsource] directionally right, or is it absolutely contra? The other one is, "Am I likely to achieve it, or do I know I'm going to achieve it?" The model now is, "If I know I'm directionally obviously right, I'm pretty confident I'm getting 80 percent of what I could do, and I'm confident I've got a contract behind me making it happen." I'm seeing a whole heap of activity where if a distressed client can get 80 percent best solution with a provider balance sheet behind it, and provider cash behind it, if it's directionally right, by which I mean executives who are saying, "Despite what I've told the market, I don't really know where my business is going to be by this time next year, if it's directionally right, if it's good versus best, and if I've got other people's cash, other people's risk and others' balance sheet supporting it, then it's a 'go'"; And then they say, "By the way, make the decision quick. If the decision itself is going to take more than x months, I'm not going to take on something that's going to take a year to work.'"

Not all organizations, it appears, are quite so clear about their strategic directions. For some it is a matter of timing, and in the present economic circumstances, the timing isn't right. For others, a more softly-softly approach is being adopted. For Tim Palmer of PA Consulting, the decision to outsource is not simply a function of the dominant view of the boardroom, but is rather one determined largely by the differential impact the economic climate is yielding upon different business sectors:

‘There are different kinds of organizations in terms of how they have been hit by the recession and how liquid they are. So what we are seeing in financial services and retail who have been hit by the recession, unless they have got into discussions about outsourcing pre last September, they are not going to go there. Organizations sitting in the Pharma, Life Sciences and Communications sectors, and are still relatively resistant to the recession, have started off discussions on outsourcing. I have one client in Life Sciences who is very interested in a multi-sourcing strategy. They have started the discussion and are slowing things down, but they are not stopping. Some of them are saying, “We need to do this because it's a way of keeping investing in our working capital in a proper way, but we are taking a much more cautionary stance and we will make a decision on this on a quarter by quarter basis depending on how our business responds to the recession.”

John Hindle of Accenture suggests an even more granular approach on the basis of the conversations his organization has been having with clients. Boardrooms are opening up strategic directions on different fronts which converge on a similar theme: enabling the organization to redirect resources away from capital outlay in order to continue to meet shareholders' expectations of growth:

‘We're seeing three things happening across all of our outsourcing business, with some relevance to HR in particular. First, cost: everybody is talking about that. In-year payback: no heavy-capital outlays. Second one is cash. Obviously cash is king, “so what can you do for me to help me conserve cash rather than spend it?” Clearly, taking advantage of your provider's licences rather than having to buy your own is an opportunity to conserve cash in the business. But I also think people are still focussed on, “What we are going to be when we come out of this thing?” so there's an emphasis on growth. So it's about cost, cash and growth. On the growth side, they tend to be either tactical or M&A related. Tactical stuff can actually be quite cost effective and deliver very quick paybacks. Unilever has some examples in emerging markets which are very tactical in nature, very affordable, but can also give you year-end very quick payback. So there are things you can do in HR to help the growth equation. So the smart people who go through this are thinking, “What are we going to look like when we go through this?”

Contrary to popular opinion, the transformational nature of outsourcing is not off the agenda. New modular and sequenced models of transformation are under construction for those clients who want to adopt the long view, and have the capability in the boardroom to think through the long game and engage in strategic patience. For Sonia von Ballert of IBM, quick financial gains are still being publicly prioritised, but executives are also seeking to compliment these with more transformational aspects:

‘The transformation agenda has grown old but it hasn’t gone away. Strategically, companies are looking for projects that pay back within the year, are not capital intensive but, still, when you string them together, will drive strategically in the right direction. In the long run, we are getting smarter about how transformation strategies are put together. Rather than having a three-year roll-out plan, what we might see is transformation programmes with components and assets built into them.

But there are some harsh financial realities, and some perverse outcomes. For Equaterra’s Bill Thomas the stars of some of the high flying executives of recent years are in decline, whilst the “steady-eddies” of business units who have delivered solid, if not exponential revenue growth year in, year out, are suddenly back on their CFO’s radars again. With such recognition, comes newfound power, which is not always a positive force for the HR function:

‘The climate of the boardroom is changing. There has been the rise of the “grumpy old cash cow,” so the poor person whose been running the rather unsexy part of the corporation that’s throwing off all of the cash, who never gets invited to the chairman’s parties, and never gets to speak to the shareholders because it’s the same old thing they’ve been doing for 30 years, is now actually the most powerful person on the board beyond the CFO, because if she or she says, “I’m not spending any darn money on a new global HR operating model – I want to spend it on x instead,” the CFO’s response is, “We’d better do that.” All of the people who were driving the innovation, the sexy re-engineering of the business, who used to make the influencing decisions in the boardroom are probably not employed anymore!’

One or Many Functions? The Rise of Multi-Tower Sourcing

Bill Thomas suggests different outsourcing providers have reacted to the changes in the demands of the market in different ways. ‘Some of the providers have acted sooner than others. Those whose sales capabilities are centered on very strategic messages, or real talent agendas, are not necessarily as well positioned as those who are centred on a really ugly commercial play of, “What can I do for you this [financial] year?” For IBM’s von Ballert, this creates a new dynamic favouring HRO’s potential clients:

‘Clients are looking for solutions and will quickly evaluate the merits and make decisions on the scale of weeks and months and not years, which we had seen previously. This puts providers on their toes because they have ready-made solutions not ones they’re cooking up, but this drives a good dynamic in the market.’

Clients do not have it all their own way, however. For Accenture’s John Hindle some potential clients are choosing not to outsource because they have set the bar too high in terms of risk. This is particularly true of those companies considering outsourcing single functions at a time, who overplay their focus on the mitigation of risk at the expense of the performance of the company at large”

‘In single-tower decisions, the individual making that decision wants a 100 percent guarantee of success. So they are imposing a much higher level of risk reduction than the business would otherwise take in its core business. They are establishing a much higher level of requirement and a much higher level of success in the support function than they would for their core business. So there is a real differentiation in risk tolerance between an individual and a function that’s exposed if something doesn’t work and therefore wants a 100 percent guarantee of success, hence the kind of HRO contracts we see, as opposed to the core elements of the business where it’s normal to take higher levels of risk. The challenge is how you align those two risk tolerance levels to something that’s reasonable.’

For IBM’s von Ballert, clients are reducing their levels of aversion to risk in terms of their consideration of consolidating two back office functions in one vertical solution. The main driver here is the CFO:

‘I think what IBM have seen is more of an appetite to talk about several functions at the same time. Clients think more about SGA, the back office, as one problem to tackle. So much so, that we have vertical solutions which pay back on separate items, which makes for an attractive proposition. Right now it is the CFO who is setting the agenda, so we usually hear FAO and HRO in one breath.’

The level at which this convergence is taking place in the back office, however, is still very much at the transactional level. Even with board relations in place, argues Bill Thomas, complexity across combined deals is avoided:

‘It depends on what the relationship between the executive and the board is like. If it’s one which is embattled, it’ll never happen. If there’s one where HR *and* IT goes in to see the CFO or COO regularly, and there’s definitely more multi-tower activity, it’s almost already there. Again, it comes down to what the relationship is like between the players on the board? What’s the structure of the board? That’s one piece. And then in terms of the depth of some of the things that are harder to write down and require strategic development, constant innovation, or executive leadership, doesn’t seem to be remotely discussed. It’s much more like technology, transactions, core handling, broad scope but the real foundation layer.’

The War For Talent (Budgets)

In the pre-crunch world talent was a major target for investment by those companies who claimed to recognise the value of the people proposition. The extent to which companies have paid mere lip service to talent management and those who will continue to invest, even in the face of a severe downturn. For Sarah Seabury of TPI, ‘when there was plenty of money sloshing around it was simply a question of going out and buying and developing talent. Now that things are much tighter, there is a greater emphasis on getting talent for value. The business still wants the talent churning out on the sausage machine and there’s some interesting challenges ahead about how HR budgets can be deployed much more effectively than they have in the past for the talent machine.’

For Unilever’s Mark Blatchford, data management services provided by the vendors affords greater control, not just over costs, but also in enabling the strategic gravitational centre of the company to exercise control and wield impact – operationally *and* financially – over what is going on:

‘I don’t think people understood how little control the centre had in terms of the HR team prior to the transformation. This is a line operating much more globally in terms of understanding global processes, standard ways of working and working cross-border. There’s over 100 companies mentioned in the scope of the contract in terms of in-sourced and outsourced countries, but they have moved to 25 multi-country organizations. We wouldn’t have been able to do that with the HR data and the HR processes working properly as they are

now. I'm glad we did our transformation when we did and not under the present circumstances.'

For Sonia van Ballaert, investing in HRO actually enables organizations to build competitive advantage via systems of information providing greater control to manage the agility of the organization and to locate where its greatest sources of value generation are:

In difficult times, you have to have a razor sharp view of what is talent and what is not in order to make the right decisions. What you need most of all is data. "Who do I have? What do I pay them? Do I get performance out of them where they are today?" To have your operational store in order so you have available to you the right information is really important. It's about getting your house in order.'

Being this strategically proactive about talent is certainly attractive. The reality for many companies, however, is a different story. 'It's not just about cost reduction,' argues Bill Thomas of Equaterra, 'it's also about getting fixed costs to variable.' But in reality, observes Thomas, 'some firms have no idea what they're headcount is going to be next week, let alone by the end of the year.' He goes on:

'Organizations are walloping their workforces where a pay freeze is as good as it gets, pay cuts and downsizing are the norm, and we're asking HR to capture the challenges around rewarding people, motivating them, developing them engaging them and driving their performance. Outsourcing deals with the emphasis on costs and is also an opportunity of liberating HR from transactional activities to wrestle with those roles.'

Perhaps Welch is right: HR professionals really do have the most important jobs in America. The Function needs more support now to focus on what really matters and where it is located than ever before.

AJH

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