



**Mercer's
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Consulting. Outsourcing. Investments.



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When to outsource?

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Creating an effective HR delivery model

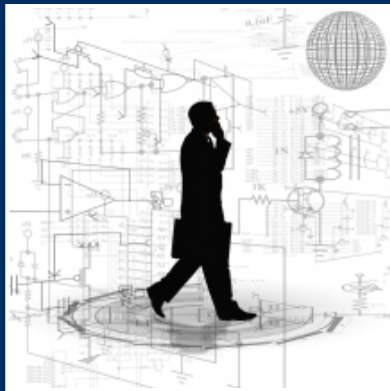
The many challenges that HR faces...

- How do we reduce expenses and right-size HR by focusing on core HR work and high-impact priorities and eliminate non-core, non-essential work?
- How do we optimize our HR delivery model – people, process, technology and structure – to improve efficiency and effectiveness?
- How can we focus HR work on developing and driving the strategies and activities that strengthen the business?
- What functions to outsource and how do we challenge vendors to increase the value of their services?
- What will drive improved HR individual and team performance – are new skills and capabilities needed?
- Which processes can be refined to minimize variation and redundancy, and ensure full leverage of technology?
- How can we mobilize HR teams to be able to quickly develop and deliver solutions?

Aligning HR service delivery to the business

Optimal HR delivery requires strategic alignment with business objectives

Business strategy



Business strategy is driven by several dynamic factors:

- **External market** factors that create demand and shape the competitive environment
- **Organizational factors** including core competencies, products, structure and composition of the business
- **People factors** including the ability of the organization to develop and retain talent

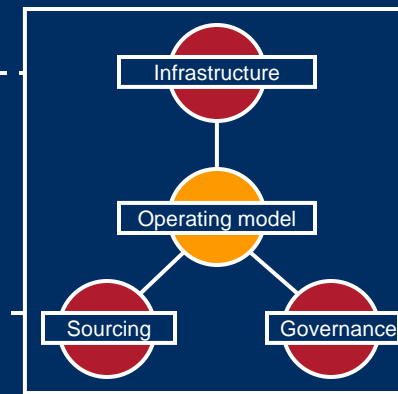
Human capital strategy



Human capital strategy drives the people side of business design:

- Is centered on the selection, deployment, motivation and management of people
- Is proven to be a key driver of business success
- Almost any significant changes in market dynamics or business design will require changes in an organization's human capital strategy

Business design for HR

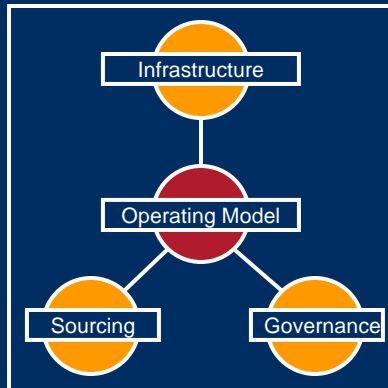


Business design for HR executes and delivers on the business and human capital strategy:

- Responsive to the organization's business strategy and designed to support attainment of results
- Align with and support the implementation of its human capital strategy
- Structured to deliver services in a manner that is understood and appreciated by its customers

The HR delivery model

A deep dive into understanding better HR delivery



The HR delivery model

Infrastructure

What capabilities are required to deliver on the HR strategy?

Processes

- Workflows
- Data flows and data privacy
- Quality and risk controls
- Work and life events
- Unit interdependencies
- Speed and approval authority

Technology

- HR/payroll applications
- IT support infrastructure
- Lawson design Issues
- Web services
- Intranet and Internet workflows
- Systems integration
- Information interfaces
- Data warehouse and reporting

Talent

- Staff skills, knowledge and competencies
- Talent development
- Job/role design
- Performance management
- Knowledge management
- Performance practices for HR
- Delivery accountability

Organization

- Structure
- Roles and responsibilities
- Activity and service groups
- Reporting relationships and coordinating mechanisms
- Staffing ratios and mix
- Goal specification

Sourcing

What activities will we do ourselves/have others do?

- Vendors, contracts, licenses and partnerships
- Service centers and distributed functions

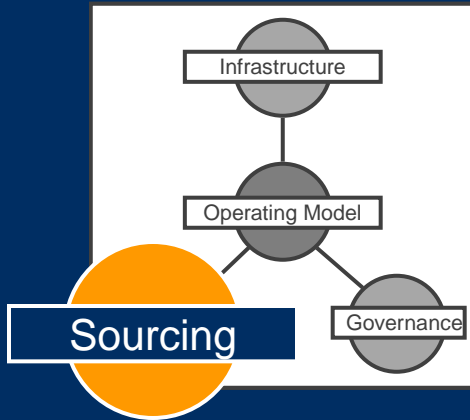
Governance

How will we lead the function and manage related investments?

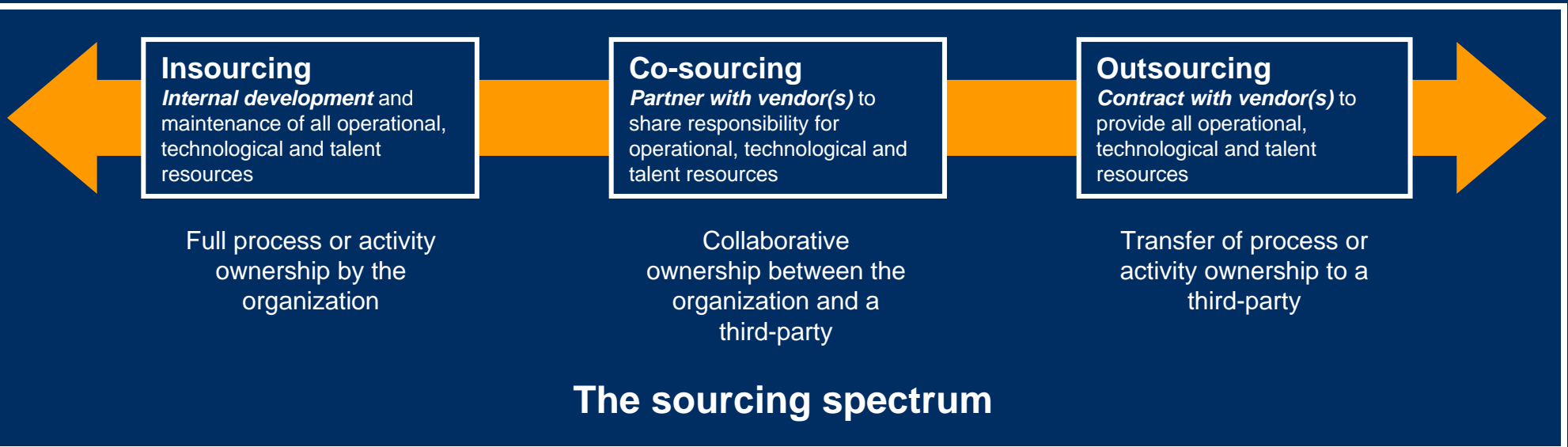
- Executive team effectiveness
- Vision, mission, strategy
- Functional governance protocols
- Functional, financial and productivity metrics
- Strategic management systems
- Decision making accountability
- Communication

Sourcing

Opportunities to maximize returns on HR delivery



- HR sourcing decisions are strategic and must be made in the context of business and HR objectives
- Using an objective sourcing decision model and quantitative data enables HR to demonstrate the return on investment



Advantages and disadvantages for various sourcing options



Advantages

- Leverage existing in-house capabilities
- Maintain resources for future additional shared services
- Direct control over service standards and employee experience
- Greater influence to manage costs
- Internal control over data

- Access to “best-in-class” technology
- Leverage the strengths of vendor while optimizing the capabilities of in-house staff
- Maintain consistency over organization culture
- Control over operational cost management
- Maintain control of data at the most appropriate source

- Provide access to cutting-edge technology and best-in-class processes
- Leverage large client base for technology enhancements and scalability
- Greater cost certainty
- Enable HR to focus on core business functions by redeploying existing staff

Disadvantages

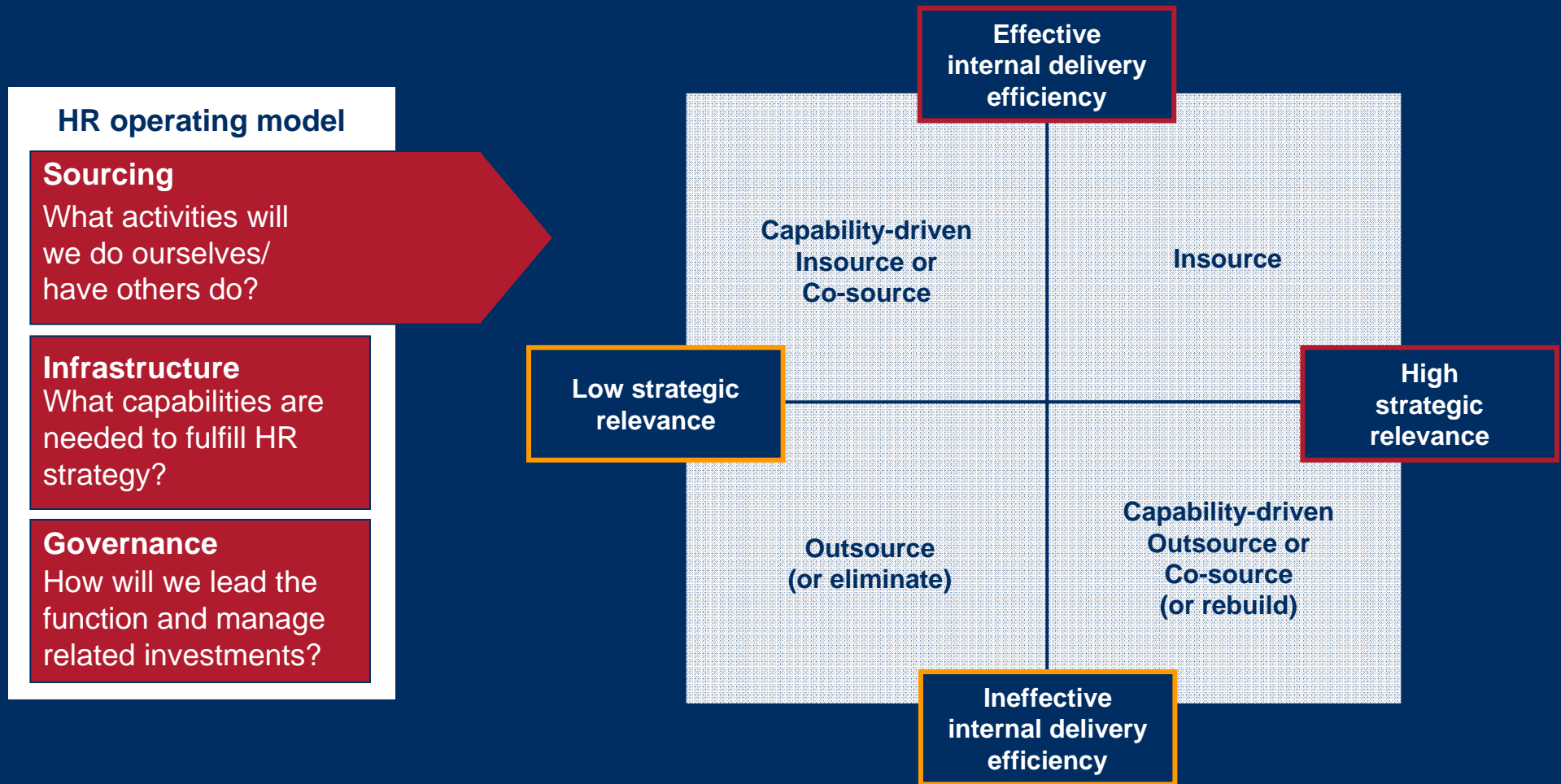
- Potential cost, risk and uncertainty over investments in technology, staffing and implementation
- Difficulty in achieving a perfectly scalable model – fixed cost can remain high regardless of economic conditions
- May be costly to maintain constant improvements and proactive enhancement of services delivered

- Potential to duplicate technology and/or resources
- Requires continual executive support to implement and maintain
- Insourced components and associated costs remain regardless of economic situations
- Delineation of responsibilities require constant vendor management

- Abdicate control in certain areas – service standards, mismatching cultures, internal data
- Customized solutions can be cost prohibitive
- Lock-in period of contract
- Vendor management depends on the degree of transparency

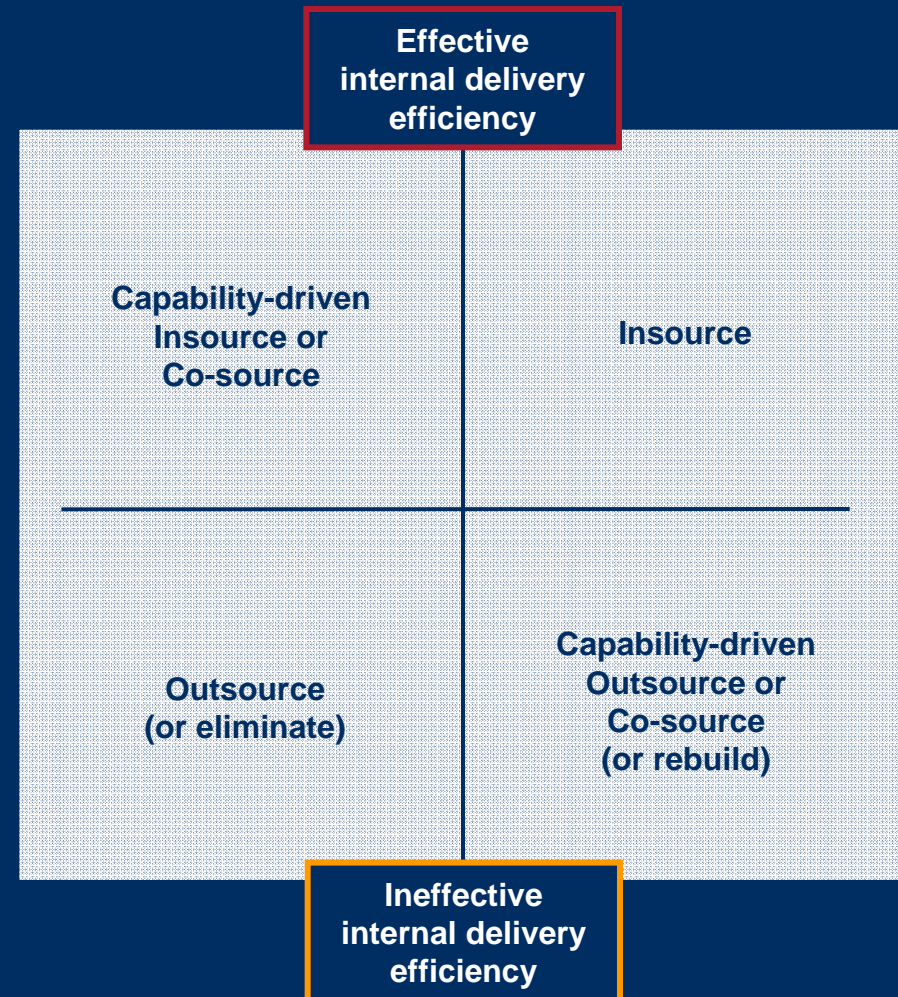
Finding the right sourcing model

Efficient delivery and strategic relevance



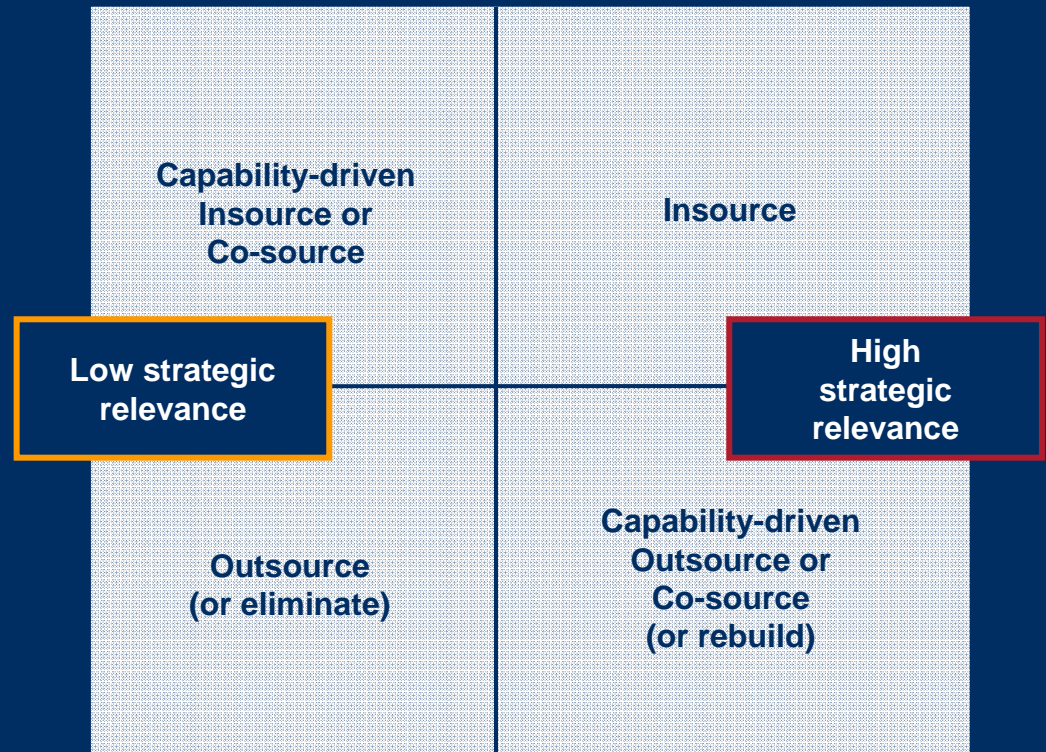
Delivering efficiency

- **Staffing and expertise**
Are the right people with the right skills in place to do the right jobs; can the internal infrastructure be maintained and/or scaled?
- **Processes**
Are processes operationally efficient; do they incorporate best practice methods; are they clearly defined, consistent and well-documented?
- **Technology**
Can the current technology support the current and future business needs; is it flexible and scalable enough to support a merger, acquisition or divestiture; does it enable process efficiency?
- **Performance**
Are HR's customers satisfied with the quality of delivery?
- **Operating costs**
What are the current costs? What are benchmark costs? How do they compare to the alternatives such as insource, outsource, or co-source?



Business alignment

- **Business impact**
Does the delivery of this HR service have a direct connection to the achievement of strategic business objectives?
- **People strategy requirements**
What are the human capital attributes and “people skills” needed to achieve the business strategies/objectives?
- **Competitive differentiation**
How does the delivery of this service differentiate the organization from its competitors?
- **Uniqueness**
Do the service requirements demand a high level of customization to support the business?
- **Desired culture**
Does service delivery impact or contribute to the organization’s desired cultural attributes?
- **Core business**
Is the activity considered core to the business or key to the services offered to external customers of the organization?



What is right for you?

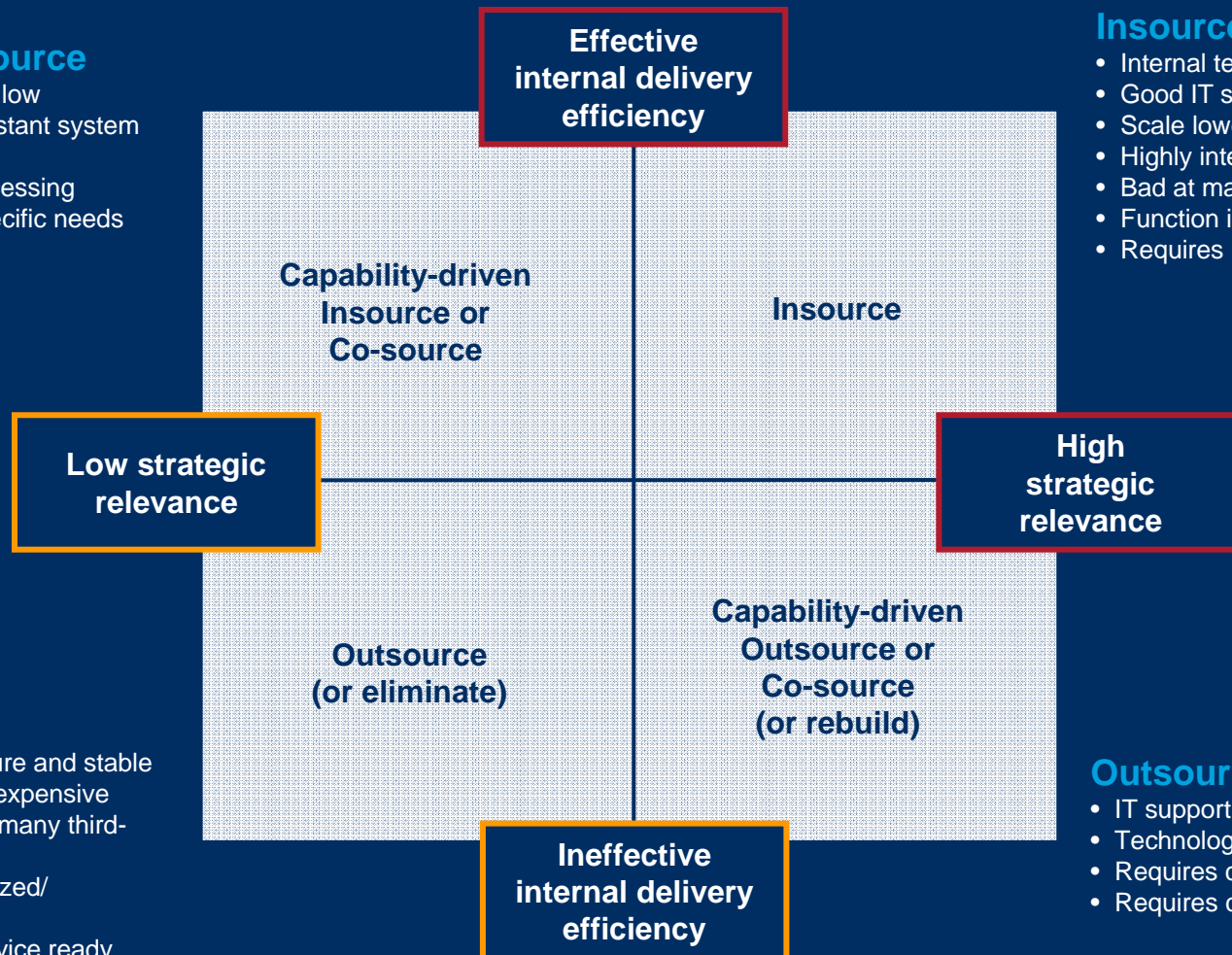
A quick diagnostic

Insource or co-source

- Ability to standardize is low
- Internal demands for instant system updates
- Lots of "exception" processing
- Many business-unit specific needs

Insource

- Internal technology is mature
- Good IT support (now and future)
- Scale lowers PEPY costs (50K ees)
- Highly integrated with non-HR systems
- Bad at managing third-parties
- Function is strategic
- Requires unique customizations



Outsource

- Provider market is mature and stable
- Developing features is expensive
- Requires integration to many third-parties
- HR has already centralized/transformed
- Employees are self-service ready
- Managers are self-service ready

Outsource or co-source

- IT support is low
- Technology needs to be replaced
- Requires constant regulatory updates
- Requires call-center management

Summary

Lessons to be learnt from sourcing

- A well-designed sourcing model *maximizes the effectiveness of your HR delivery model* by enabling employees and staff to focus on strategic, value-added functions
- Sourcing solutions most often result in new capability requirements:
 - **In-sourcing**: Enhancements to the operational infrastructure (processes, technology, knowledge and skill requirements)
 - **Outsourcing**: Establishment of an effective vendor management methodology (performance standards, measurement mechanisms, etc.)
 - **Co-sourcing**: Operational infrastructure enhancements and effective vendor management methodology
- Sourcing decisions that are strictly cost driven are more at risk to fail
- The ROI on sourcing investments will not be realized unless the service delivery model and scope of services are clearly defined up-front
- Outsourcing is always a transformational event



Questions



Thank you

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