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Expanding the view: Why HR outsourcing always means transformation

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Today's presenters

- Cynthia Donohoe
 - Vice President, Benefits
 - BAE Systems, Inc. (Rockville, MD)
- Susan Richards
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 - Mercer (Atlanta, GA)
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 - Americas leader, HR effectiveness consulting
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Today's agenda

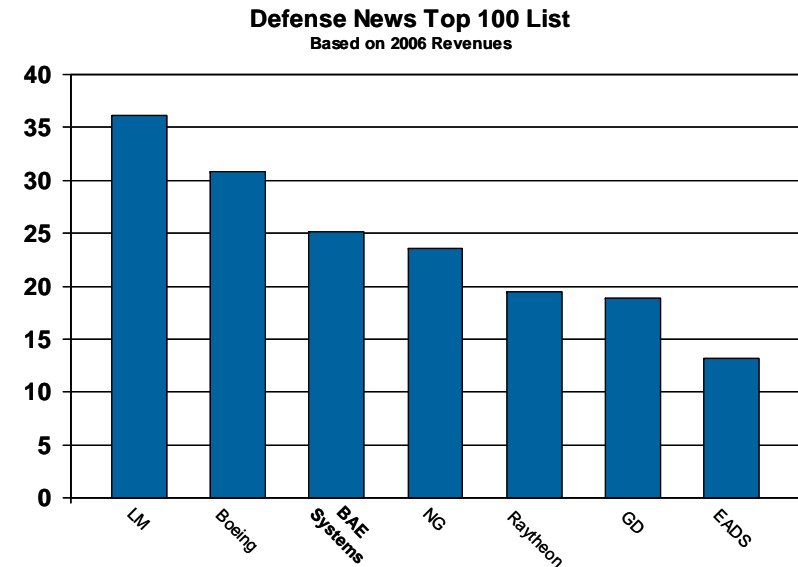
- Introducing BAE Systems
- Setting the context
 - The HR service delivery continuum
 - HR outsourcing trends
 - Outsourcing and the retained HR function
- The ripple effect in action
- The risks of getting it wrong
- A way to get it right
- Potential stumbling blocks
- Key principles for success
- Conclusion and Q&A

Introducing BAE Systems

One of the world's largest defense companies

BAE SYSTEMS

- BAE Systems plc
 - 97,500 employees
 - \$76B order book
 - \$31.4B annual sales
 - Third-largest global defense company
 - Top 10 US prime contractor
 - Six home nations
 - Presence in more than 100 nations
- BAE Systems, Inc.
 - ~ 55,000 employees (46,000 in the US)
 - \$15B annual sales
 - Major operations in 38 states, the UK, Sweden, Israel, Germany, Mexico, Switzerland and South Africa
 - A US company chartered in Delaware



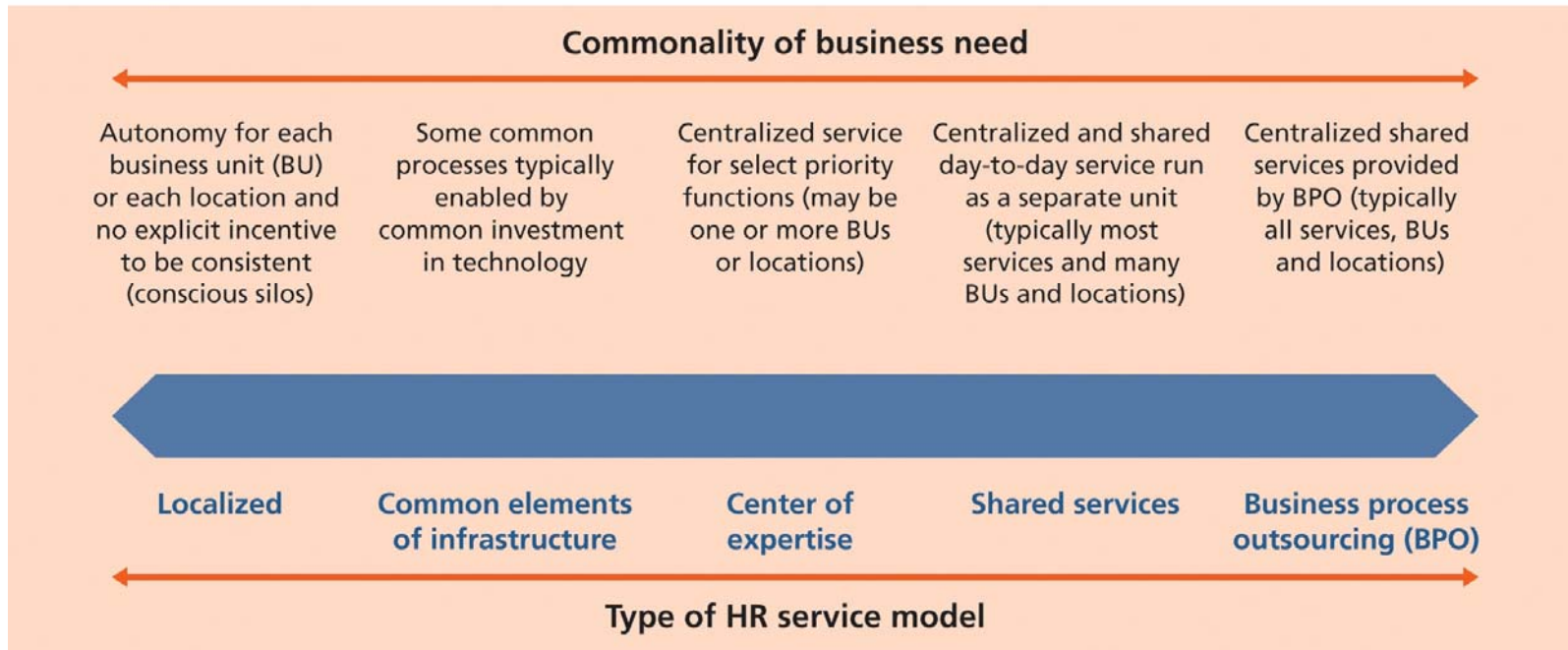
A truly global company with a balance of employees, shareholders and business portfolios in the US, UK and Rest of World (RoW).



Setting the context

The HR service delivery continuum

Continuum of HR services design



HR outsourcing trends

- Outsourcing is the “new normal”
 - It’s not a matter of “if” but “what now?” and “what next?”
- This is especially true for HR
 - Most organizations in most parts of the world have outsourced at least some part of HR

Trends in outsourcing



Outsourcing and the retained HR function

- The critical reality: Outsourcing is *always* transformational for HR
- Changes to HR structure and processes create a domino effect – for better or for worse – throughout the remaining HR function and even the broader organization

**“Transformation may not be the intent,
but it will be the result.”**

Outsourcing and the retained HR function

Expanding the view

Outsourcing should not be viewed as a stand-alone event

- The most successful outsourcing efforts are **holistic**, viewing outsourcing as one critical element of an overall effort to reshape the HR function and enhance its strategic role and contribution

Outsourcing should not be viewed as a one-time event

- It's an **ongoing process** of continually evaluating the operation of HR and capitalizing on new opportunities to improve the function's effectiveness and strategic value



The ripple effect in action

The ripple effect in action

The impact of outsourcing is felt across HR and the broader organization

- Day-to-day processes and operations
 - Work happens in different ways when the “nuts and bolts” of HR change
- Relationships and internal networks
 - Personal connections are eliminated or significantly altered
- Expectations of both employees and HR leaders
 - Employees: What services will be provided and by whom?
 - HR: What problems will outsourcing (realistically) solve for us?
- Strategic focus
 - What does it mean to be strategic? Exactly what do we *do* now?

The ripple effect in action

The impact of outsourcing is felt across HR and the broader organization

- HR skill sets
 - Existing skills may not be aligned with new roles and expectations
- HR organization
 - A new business model is needed, along with some new roles
- Measures
 - Now it's about business impact, not customer approval and satisfaction



The risks of getting it wrong



The risks of getting it wrong

Risk #1

Duplicated efforts

- Individual HR employees or entire groups continue to perform the same work or follow the same processes as they did before outsourcing
- HR staff members who previously performed an administrative or transactional role continue to spend too much time double-checking the outsourcer's work
- HR staff members are inappropriately serving in a problem-resolution role (for example, helping an employee resolve a rejected insurance claim) or as liaisons with the outsourcing vendor for employees who are not comfortable with a new self-service process

The risks of getting it wrong

Risk #2

Reduced return on the outsourcing investment

- If the outsourcing effort is not aligned with the retained HR function, the organization is not likely to yield the expected benefits and ROI
 - Cost savings
 - Time savings
 - Improved service delivery
 - More streamlined and focused HR staff

The risks of getting it wrong

Risk #3

Missed opportunity to transform HR

- If it's not done correctly, outsourcing will leave HR no more strategic or effective than it was before outsourcing
- Outsourcing is often seen as a cost-cutting initiative
 - In reality, it often doesn't save an organization money
 - Outsourcing may be cost-neutral or even more expensive
- The real value lies in helping to enhance the overall HR operation and, consequently, HR's value to the organization by "liberating" HR staff from administrative tasks and improving service delivery
- Outsourcing is a means to an end, not the end itself

“If all you do is outsourcing, you've missed the boat.”

The risks of getting it wrong

Risk #4

Minimized organizational impact

- Outsourcing is a significant investment, but relatively small compared to what organizations spend on human capital programs
- Outsourcing can **change employee behaviors** to make a difference to the organization in terms of engagement and productivity
 - Enhanced communication and administration systems (websites, call centers, etc.) can help employees better understand, appreciate and use their total rewards programs
- Outsourcing can **give HR a better way to access and interpret data** to support decisions
 - Better data helps organizations understand the health status of their employee populations and create targeted interventions to improve health and productivity
 - Better data allows organizations to develop targeted messages to help employees better manage their retirement savings

Cases in point: The risks of getting it wrong

Example 1

One company outsourced its relocation services but did not do an adequate job of communicating the change to managers and employees. Nor did it adapt its internal systems to align with those of the vendor.

Employees kept calling the old number and did not effectively use the new vendor. Cost reductions and efficiency gains were lost.

Example 2

A newly formed entity outsourced certain HR processes from the very beginning. But the HR staff it hired, accustomed to a more traditional HR role of processing forms and answering employee questions, undermined the outsourcer's processes and the new operating model – actually undoing or canceling transactions that had already been processed by the vendor, with a direct impact on employee paychecks and the functionality of HR.



A way to get it right

A way to get it right

Think about the retained HR function early and often

As soon as the organization begins to think about outsourcing, it should begin to think about the impact on the retained HR function

A way to get it right

Start with a broader strategic discussion

Engage company leaders to answer these questions:

- What are our organizational goals and priorities, and what are the talent implications of these?
- What do we want/need from the HR function in the future to support our organization and its human capital strategy?
- What should be outsourced to accomplish this vision? Conversely, what about HR is unique or of strategic importance and should therefore remain in-house?
- Which aspects of the HR function – such as its structure, talent, technology and processes – need to change as a result of outsourcing and our future vision for HR?
- How will we measure success?

A way to get it right

Start with a broader strategic discussion

- The right answers will be different for each organization and will evolve over time, but will provide a foundation for future decisions and actions
- Starting with strategy helps an organization redesign its HR structure, roles and processes, focusing on the outcomes it wants to achieve and paying sufficient attention to both sides of the equation

**What is
outsourced**



**What is
retained**

A way to get it right

Putting the plan into action

- Next, the vision can be **cascaded** throughout HR, giving each subfunction (benefits, compensation, employee relations, recruiting, training/development, etc.) the opportunity to determine:
 - What the change will mean for the subfunction
 - How the subfunction can likewise transform itself
- Because issues around the retained HR function have already been considered in conjunction with the outsourcing plan, the organization can move to enact the plan for HR as soon as feasible
 - The organization can be **proactive and prepared**, instead of being caught off-guard by the magnitude of change to HR after outsourcing has been implemented



Potential stumbling blocks

Potential stumbling blocks

Change overload

It's hard to execute two complex – and often politically and emotionally charged – changes at the same time.

Inadequate HR governance

Without strong governance, any sort of major HR initiative will not have the buy-in, support and guidance needed to be successful.

HR staff skills

The skill sets required in the new, post-outsourcing HR organization are often dramatically different than those required prior to outsourcing.

Change overload

- Outsourcing part of HR and transforming the HR function are each monumentally difficult tasks from a time, resources and employee/customer relationship perspective
 - Doing them simultaneously increases the degree of difficulty by a large factor
- Some organizations do not have the bandwidth, in terms of staff resources, to tackle both tasks together
 - Even if they do, it's hard for people involved to maintain the level of energy and enthusiasm needed over a sustained period of time
 - Most of them will continue performing their regular “day jobs” while contributing to the outsourcing and/or transformation efforts
- This is why so many organizations deal with outsourcing first, then turn their attention to reshaping the retained HR function later – almost as an afterthought

Inadequate HR governance

- HR governance refers to the process of broadly engaging key organizational stakeholders – the organization’s senior leaders (including HR), financial and technology leaders, line managers and others – in managing and operating the HR function
 - Together, they “own” the talent issue and the performance of the HR function
- Without strong governance, any sort of major initiative will not have the buy-in, support and guidance needed to be successful

HR staff skills

- In Mercer's *2006 Global HR Transformation Study*, HR leaders identified HR staff skills as a major concern
 - Staffs were strongest in traditional HR skills and weakest in the business-focused skills that will be critical to HR's future success
- Leaders must make difficult decisions about staff during any HR transformation, including outsourcing
 - While some HR staff will be retained, retrained or redeployed within the organization, some will be let go
 - Issue needs to be addressed early, honestly and compassionately
- Effective HR transformation requires an infusion of new thinking
 - It can be healthy to bring in new talent periodically who will think beyond the established conventions of HR



Key principles for success



Key principles for success

Principle #1

Have the right leadership and support in place

- Strong leadership is required to achieve the dual challenge of outsourcing elements of HR while also transforming the retained HR function
- It's a long uphill drive that takes vision, courage and persistence, along with a clear plan and the support of top leadership

Key principles for success

Principle #2

Treat it as a change management effort

- Outsourcing and related changes to HR may be met with resistance on multiple fronts
 - HR staff
 - HR customers
 - Other business leaders who do not understand the positive business impact that a transformed HR function can bring to the organization
- Successful transformation requires the organization to:
 - Identify all stakeholders who will be affected by the change
 - Engage them in the effort
 - Monitor their understanding and buy-in along the way

Key principles for success

Principle #3

Deal head-on with the thorniest issue: talent

- It's critical to know in advance what the retained HR organization will look like and what its accountabilities will be after outsourcing
 - Identify the skill sets and competencies needed for the HR function of the future and begin to map qualified candidates, either inside or outside the organization, to these roles – all before the outsourcing takes place
 - An HR talent review is an essential part of this process
- Identify and notify individuals who will be asked to stay so they can serve as change agents and do not begin a job search
 - Use retention bonuses to secure key talent
- Identify and notify individuals who are not likely to remain in HR after outsourcing to give them the opportunity to seek new positions either elsewhere in the organization or at another company
 - Offer incentives to stay if you need them through the transition



Key principles for success

Principle #4

Don't shortchange process redesign

- The redesign of HR processes may sound like a tedious and thankless task, but it is essential in order to change HR
 - Outsourcing and transformation efforts often fall short because new processes aren't clearly identified, communicated and enforced, so people revert to the familiar old ways of “doing” HR
- Process mapping also can be used as a change management tool for HR staff
 - Going through the exercise of remapping processes can help incumbents and new staff truly understand how the new organization is going to work and how each individual is expected to contribute to the success of the overall function

Key principles for success

Principle #5

Expect a stabilization period after outsourcing

- Depending on the magnitude of the outsourcing effort, stabilization could take a few months or as long as a year and a half
- It is critical to anticipate and manage expectations and reactions to bumps in the road during this period – and, above all, to partner with new vendors to identify and address any issues
- The stabilization period also affects how quickly an organization can turn its attention to implementing changes in the retained HR function and how to staff the project throughout the transition

Key principles for success

Principle #6

View it as a journey

- HR outsourcing and transformation efforts don't end – they are ongoing processes designed to support continuous HR improvement
- Organizations should reassess outsourcing decisions periodically – at least every year or two – in the context of their changing HR strategies and business objectives
 - What's working and what's not
 - How processes, service levels and vendor relationships can be improved
 - Whether the retained HR function has achieved the promise of delivering greater value
- Monitor the horizon for outsourcing trends
 - Don't dismiss any area of HR as a candidate for outsourcing
 - It may not be a viable candidate right now, but as rapidly and dramatically as the outsourcing market is changing, it could become viable in the future



Conclusion

Conclusion

- Transformative outsourcing begins with a deceptively simple commandment: **Do the hard thinking and planning up front**
- Define how HR should contribute to achieving the organization's goals and executing its human capital strategy
 - Determine how to organize HR and develop the right roles to support the objectives of the function
 - Determine what should be outsourced and what model should govern what is retained
 - This requires an understanding of which HR activities are of strategic importance and which are better executed outside of the organization
 - Select outsourcing partners accordingly
 - Connect all the dots in an integrated plan
- The global challenge is just beginning, as organizations are struggling to create highly effective global HR functions



Q&A

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