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The logo for Mercer Signature Series, featuring the word 'MERCER' at the top, 'SIGNATURE' in large, bold, vertical letters in the middle, and 'SERIES' at the bottom.

September 19, 2008

The War for Talent

Retaining critical resources during
outsourcing transitions

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What we will talk about today...

- Setting the stage: Outsourcing means transformation
- The talent implications of outsourcing on the retained HR organization
- Identifying who stays and who transitions out during and post HRBPO
- Some case examples
- An approach for managing talent and next steps

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.”

“The top ten problems with outsourcing implementations”

Three of the ten relate to HR talent

1. Post-contract processes and decision rights not understood
2. Little or no support from client leaders receiving services
3. Poor mutual understanding of the contract
- 4. Client retained team not in place or too small**
- 5. Client retained team lacks required skills**
- 6. Loss of key talent and/or poor knowledge transfer**
7. Inability to meet pent-up demand for services
8. End-user resistance to adopting new methods
9. Culture clash between the client and service provider
10. Changes don't last

Source: Technology Partners International, Inc. (TPI), 2008

Getting it right

Outsourcing is an opportunity to transform HR

- If done correctly, outsourcing will enable HR to be more strategic and effective
- The real value of outsourcing 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
- New and enhanced HR skills and capabilities are required in order to realize the promise of outsourcing and to meet the increasingly complex human capital demands of business today

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

Getting it right is tough

HR's overall talent challenges

- In Mercer's *2006 Global HR Transformation Study*, HR leaders identified HR staff skills, in general, 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 outsourcing presents the opportunity for an infusion of new thinking
 - It can be healthy to bring in new talent periodically who will think beyond the established conventions of HR

Outsourcing success factor

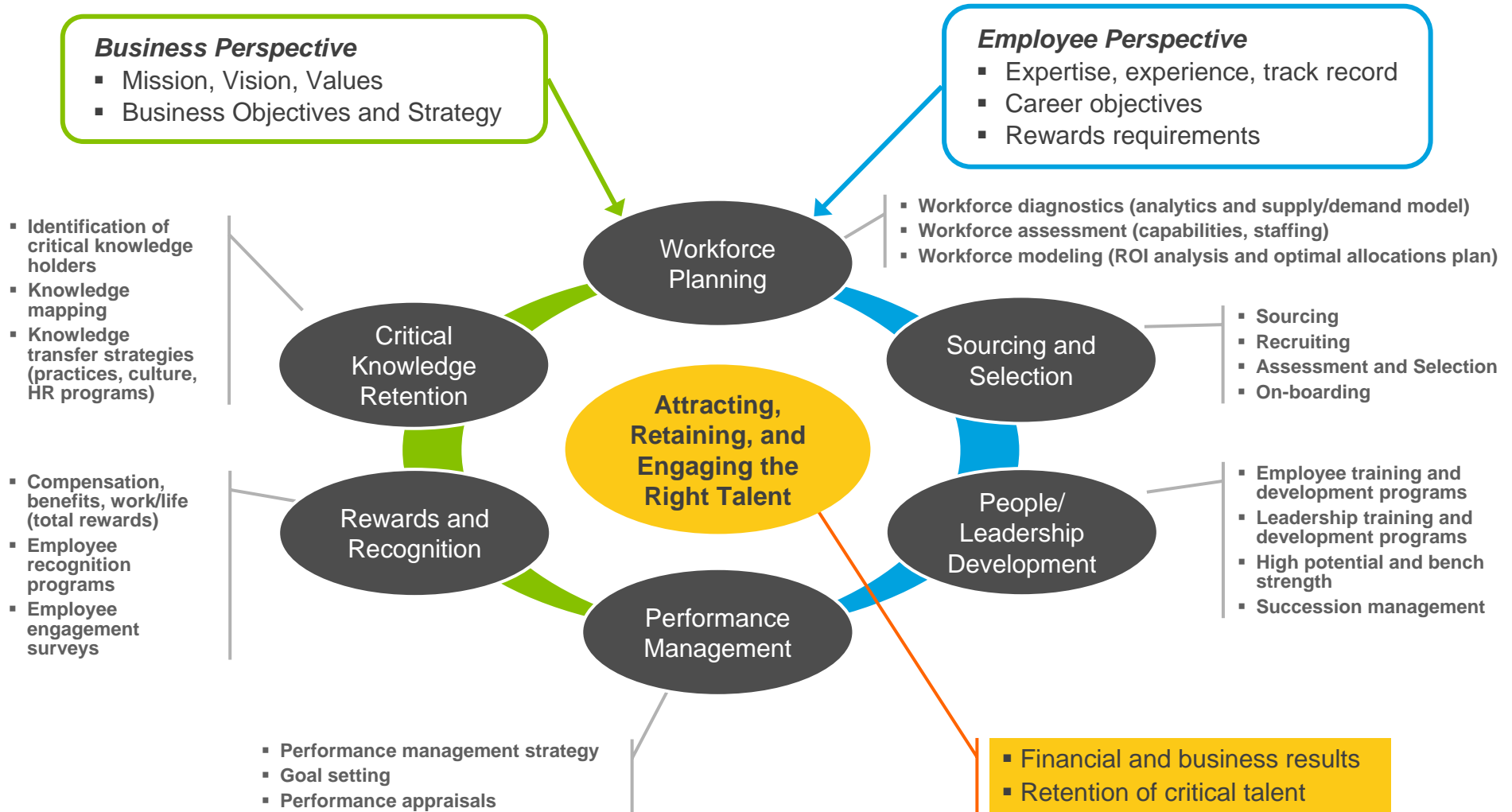
Deal head-on with the thorniest issue: talent

It's critical to know in advance what the retained HR organization will look like and what its accountabilities will be after outsourcing

- Outsourcing is far more effective when the roles and jobs within the retained organization are clearly defined within the context of the HR strategy – before implementation
- It is important to 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

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A perspective on talent management



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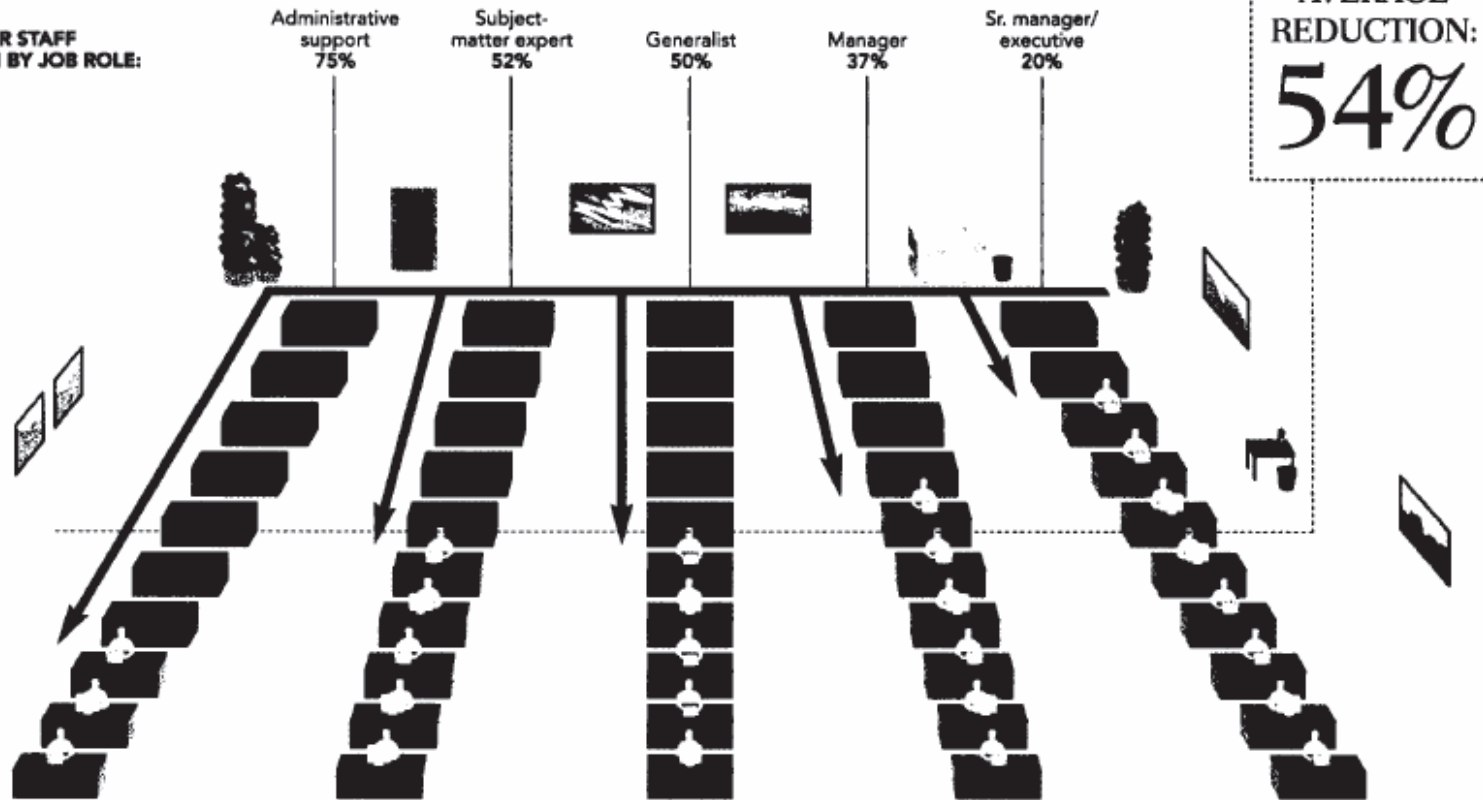
In HRBPOs who stays, who goes

Everest Research Institute

WHO STAYS, WHO GOES

Since the goal of HR outsourcing is to move routine tasks out of the organization, leaving HR to focus on more strategic issues, it makes sense that administrative support jobs are the ones most affected. Increasingly, the staffers that remain will be expected to expand or change their skills.

AVERAGE HR STAFF REDUCTION BY JOB ROLE:



Sample size: 10 HRO transactions with information across all job roles. Source: Everest Research Institute

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Assessing your population quickly during and post HRBPO transaction

- Three categories of “leavers”
 - Those who transition to the outsource vendor – roles stay the same but their environment changes (e.g., organization, brand, culture, relationships, rewards, career paths)
 - Those needed throughout the transition – short term, performance-based incentive
 - Those whose jobs are eliminated – carefully identify stayers and leavers

- For those whom you want to retain long term and for new talent recruited into the retained HR organization
 - Develop the vision and business case
 - Define role and career opportunities
 - Implement total rewards-based retention programs – compensation, benefits, development, environment

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Capturing the knowledge of those who leave the organization before they leave

- Anticipate a steep and protracted learning curve for the sourcing vendor to understand of the company's business and parallel process
- Develop a knowledge transfer process that minimizes extra workload
 - Create or refine training to support those colleagues who will need new skills and/or will use new processes to help support technology or procedure adoption (balance time and cost considerations)
- Typical strategies for successful knowledge management and transfer
 - Data capture and management – databases, policies and procedures, SPD's, etc.
 - Interviews and focus groups
 - Case discussion and workshops, stores
 - Roles and responsibility matrices and performance data

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Transitioning to new roles – observations from the field

“Too many companies have presumed that their business will carry on as it was pre-outsourcing with a third-party staff managing some of the business functions. However, in the majority of outsourcing efforts there is significant employee transition, and when this happens there are leading practices for both transitioning and restructuring the retained (i.e., "new") organization.”

“Experience demonstrates that those companies that proactively prepare their management effectively to (1) modify their roles, responsibilities and management styles, (2) view outsourcing as a strategic tool, (3) learn new skills and (4) even change their daily routine are those that are able to achieve value from an outsourced environment.”

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Strategies for staffing the new HR organization

- Retaining key HR talent is far more challenging in post-outsourcing setting – new roles require new competencies
- According to a recent survey...**
 - Managers suggest that 50% of the HR generalists will require new competencies
 - 46% of the generalists themselves agree
- There are several approaches – some controversial – to improving capabilities of the new HR function
 - 65% suggest replacing HR specialists from other functions – finance, procurement (most positive impact)
 - Replacing specialists with outside professionals (next most effective tactic)

** Towers Perrin Study.

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Strategies for staffing the new HR organization – more observations

“HR staff may feel pushed by top management to cut the cost of HR via outsourcing, but then face the need to change their retained organization through re-skilling or new external hires. And it means building your business case in such a way that the money that you're saving on outsourcing, or at least some portion of it, can be reinvested back into the future of the new HR.”

“... the change from transactional cost center to strategic business partner requires a new set of HR skills, often acquired through new hiring, retraining the retained staff and reassigning or (in some cases) laying off colleagues with purely administrative skills.”

Bottom line: High performing organizations consistently invest more in HR skills training than their counterparts...

- Consultative skills training—teaching staff how to diagnose, scope and contract with internal customers in order to make change happen
- Orientation sessions to introduce staff to their new roles
- The use of organizational assessment and diagnostic tools

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Helping retained HR staff transition to new roles

- Early execution of both short- and long-term targeted retention programs, with rigorous contingency plans, is essential
- The table below highlights the key considerations for the C-suite in their preparation for the pre-transition

Key Pre-Transition Considerations for the C-Suite		
Focus Area	Preparing To Transition the Organization	Preparing for the New (Retained) Organization
Employee alignment	Employee uncertainty	Unplanned attrition; correctly identified critical workforce
Communications	Negative PR (internal and external) and rumor mill	Alignment, change management
Knowledge	Critical knowledge flight	Knowledge transfer/transition management; managing distributed talent networks; getting more with less (talent shortages/premiums)
Culture	Career opportunities	Cultural integration
Skills/talent	Acquiring/retaining talent	Service provider resource skills; new and different skills (multidisciplinary/specialized)
Process management	Operational effectiveness and efficiency	Vendor governance and service-level agreement (SLA) management
Compliance	HR and legal compliance	SAS 70, Sarbanes-Oxley, etc.
Performance management	Compelling employment practices/performance indicators	Vendor relationship management, escalations
<i>Source: Deloitte Consulting LLP Outsourcing Advisory Services. © 2007 Deloitte Development LLC.</i>		

SHRM: Preparing Your Organization for Post-Outsourcing, September 2007.

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Helping retained HR staff transition to new roles

Training examples from the field:

- To ensure HR had the right skills in their new environment, International Paper created “Change Process,” an internal certification program for training HR and other employees in change management
 - As part of the program, participants spent one week in the classroom and completed a workplace project that demonstrated their newly acquired skills.
- General Electric’s Change Process, includes a number of elements – for example, setting up for success, shaping a vision and creating a shared need
- Some HR consultants / vendors offer a retained HR academy to guide clients through competency assessments and training, both online and in-person, in change management and analytical skills
 - Typically tailored to a company's particular needs

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Unilever Case Study

Situation

- As early as 2001, Unilever executives were talking about the company's need to transform HR. Because of the decentralized nature of the company, there were too many systems running and no standards in place.
- The company considered both a shared-services model and HRBPO. In either option, the role of HR managers was going to change.
- Unilever has a tradition of conducting functional training for its employees, particularly for finance and marketing, in an internal academy – HR applied this expertise to the HR transformation.

Approach

- Unilever's HR leadership team went to work on defining the future role of the HR business partners. They spoke to line managers about what they wanted from HR and conducted an analysis to identify the skill gaps in the department.
- Initial assessments determined that HR managers in general had administrative skills but didn't have a lot of expertise in organizational development, which Unilever recognized was going to be crucial if it signed an HRO agreement.
- HR managers had to understand their impact on the business, how to manage change and how to act as a consultant to their businesses. HR managers needed to use their knowledge and provide workforce data to managers in other areas to help them craft initiatives and meet business goals.
- With the help of Mercer Delta, an international consultancy, Unilever created four classroom modules. The first two focused on the shifting role of HR and understanding the business environment. The third module focused on change management, while the fourth centered on consulting skills.

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Unilever Case Study (continued)

Approach (continued)

- When Unilever launched the nine-day program, it was presented as an opportunity for its HR staff to educate themselves and prepare for the inevitable change in their role. Unilever initially introduced the courses to its 100 top HR managers and eventually extended it to 400 members of its HR staff and then expanded further to additional HR staff using e-learning.
- HR managers who were accustomed to spending their days processing benefits claims were on notice to learn new skills or risk losing their jobs.

Results

- The cost of delivering HR Academy, including travel, was £1.6 million (\$3.14 million) in 2006, dropping to £743,000 (\$1.46 million) in 2007 and estimated at £557,000 (\$1.1 million) in 2008. The additional savings come not only from expanded use of e-learning, but also because of the reduction of HR staffers. The company still offers master classes for high-level HR staff, but now tries to incorporate of that learning into orientation for new hires.
- Unilever is making a concerted effort to gauge the effectiveness of its HR Academy. Previously, the company measured how satisfied participants were with the program, but now it's starting to test them on what they have learned.
- The quality of HR service and cost to deliver has slowly improved although not without some “bumps in the road”.

Summary

An eight-step plan for retaining critical HR talent

1. Identify **critical jobs** in the retained HR organization based on HR strategy, the new service delivery model, required skills, and importance of knowledge
2. Conduct a **talent management and knowledge retention/transfer** gap assessment against future needs and “best in class” practices
3. Assess **reward/benefit programs** to support objectives
4. Develop **workforce plan** for each critical job in the retained HR organization based on flows in and out, future demand, and supply
5. Build a comprehensive **plan for action** with supporting **business case** – includes sourcing, succession planning, retention strategies, knowledge transfer
6. Decide on which initiatives to **pursue first**
7. Build a plan for **gaining/sustaining organization support** for action
8. Develop an **evaluation** strategy with metrics, KPI’s, and scorecards to assess effectiveness

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