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Low cost route to Shared Services (Part II)

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By: Jim Whitworth, Director, HWML

Much debate has taken place over the years with some strong opinions that a Shared Service Center needs to be in a Greenfield location, picked for its specific suitability and sufficiently detached from the locations of the old, distributed business structure to shake off any historic organisational baggage.

A Greenfield site can be chosen with stakeholder consensus based on the best advice and detailed review of suitability. Individual premises can be newly built or refurbished to provide an ideal working environment for the planned SSC operation.

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By: Niamh Byrne, Online Editor, Shared Services & Outsourcing Network

As part of the HR series, SSON considers why it makes sense to bring some HR services back inhouse.

➤ Low cost route to Shared Services (Part II)

By: Jim Whitworth, Director, HWML

February, 2010

Part I of this article looked at how 'Program' and 'Process' were important when looking at a low cost route to shared services. In Part II, we look at 'Premises' and 'People'.

Premises

Much debate has taken place over the years with some strong opinions that a Shared Service Center needs to be in a Greenfield location, picked for its specific suitability and sufficiently detached from the locations of the old, distributed business structure to shake off any historic organisational baggage. A Greenfield site can be chosen with stakeholder consensus based on the best advice and detailed review of suitability. Individual premises can be newly built or refurbished to provide an ideal working environment for the planned SSC operation. But, acquiring, fitting-out and managing a new facility can be a hugely expensive endeavour. A Brownfield site (in this context an existing facility able or adaptable to accommodate the required number of office staff) perhaps doesn't send the same messages around the organisation that the SSC brings great change for the better nor does it necessarily help establish the concept of a separate operation providing improved administrative service to its internal "clients" (especially if the Brownfield site happens to be the existing regional HQ) but the set-up cost comparison with a totally new facility in a previously untried location could be overwhelmingly compelling.

As we emerge from the worst of recession, many multi-site businesses will have more floor space than they currently need, more than they can anticipate using in at least the medium term and probably more than they can hope to sell, re-let or extricate themselves from in any way that doesn't carry a high price-tag. Locating an SSC in current excess space may not only resolve a Real Estate issue but will do so with a positive impact on business costs beyond simply effective utilisation of space.

The actual process of selecting a Brownfield site will differ slightly from that of finding a Greenfield location. For the latter, emphasis is usually initially on geographical location, often starting with a blank sheet of paper, whereas the option of using an existing facility may be limited to little if any choice. However, the key selection principal is fundamentally similar in that the need is for somewhere where it is relatively straightforward and cost effective to hire

(and fire), employ and manage staff who are capable and motivated to perform the intended tasks to a high standard. This is the essence of an effective Shared Services organisation.

The biggest challenge in choosing an existing facility may be to focus the decision makers on the Shared Service Center requirement rather than the short term gain from solving a property problem. Strong sponsorship of the benefits sought from Shared Services will be put to the test over this issue. Unfortunately, excess office space is logically more likely to be a problem in areas that don't have much going for them in terms of growth, demand and motivated workforce so this part of the SSC program requirement is likely to need the most flexibility, probably the most compromise and possibly some difficult decisions.

If there is no real choice of Brownfield site or choice is limited to locations that are clearly unsuitable for an SSC, this may be an item where cost cannot be contained at its lowest possible level and an investment in a new facility may be the only answer. For example, an existing facility that needs major refurbishment but is located in a country where suitable staff are scarce and employment legislation heavily disadvantages the employer may be ultimately more detrimental and costly than reverting to a Greenfield location choice. If, however, there are some potentially good existing locations the question is simple – are the right staff readily available at the right cost and is the employment environment favourable? A simple comparison of each potential location based on a few key elements of these criteria should enable the choice. Co-location with a regional HQ or similar operation may give some impression of heavy handed control rather than an internal service oriented culture but it can be very convenient and reduce the amount of additional business travel (enabling visits to the HQ and SSC to be combined). It is also likely that an HQ function has been located in or near a regionally important city, providing the immediate availability of a sizeable multi-cultural, multi-lingual skilled workforce.

In terms of cost saving, a good existing facility may already be suitably fitted out with finished floors, walls and ceilings, light, power and communications connections available to desk spaces. The building itself probably already has connected services, communications and heating/air conditioning. Depending on previous use, there may even be sufficient or a good initial quantity of demountable partitioning, desks and chairs to set up the SSC. Where part of a large existing facility is available, catering, cleaning, maintenance and other support infrastructure may already be in place, operational and able to meet the increased demand. The cost of undertaking and providing all of this from scratch would otherwise be a major component of the overall set up and could add several months to the schedule.

People

In managing the reduction of the existing workforce, distributed across business units, the key elements are the proportion of staff that leave and the cost of their departure. Obviously, local employment legislation is a significant factor in the cost of the reduction and every precaution needs to be taken to avoid the additional costs of litigation or protracted disputes with unions or other representative bodies. Engaging HR and legal specialists at a local level is almost a prerequisite for this part of the programme.

Establishing the extent of the scope of the Shared Service operation is fundamental in determining how many existing employees are no longer required and at what level. If the SSC scope is confined to very basic transaction processing and/or leaves parts of tasks in the local business units, it may be difficult to reduce local staffing costs, particularly at higher operational and management levels. Whilst this may keep down initial costs of terminations and redundancies, it will not free up sufficient salary savings to enable the realisation of a good ongoing cost benefit from the SSC. It is essential to have sufficient SSC scope to allow the benefit of reduced management in local units. A basic principle of Shared Services is to create a single, relatively flat management structure for a sizeable group of staff in one location as a change from having multiple layers of management duplicated across several business units. Leaving the same managers in place locally but adding an SSC management structure centrally contradicts that principle and will almost certainly result in poor, if any savings.

Having established a potential local workforce reduction that will give sufficient opportunity for ongoing salary cost savings in the SSC, it is possible to look for cost savings in the process of that reduction. As above, any redundancy payments will need to be in line with local legislation and also, in most countries, with precedents set in any previous reductions in workforce. So, any saving in this area needs to come from reducing the number of redundancies whilst still achieving the reduction in workforce. If there is already a suitably skilled workforce in the chosen existing location to start populating the SSC, any transfers of that group from business unit to SSC will save redundancy costs. There is a very limited potential to transfer staff from other business units but the traditionally low take up of relocation opportunities (particularly moving country) and the difficulties of doing so without high relocation costs and transferring inflated salaries, suggests that the best result may be as low as 1% or 2% of the workforce.

Probably the most underused cost saving option is to look at internal transfer of staff from redundant roles into open positions elsewhere in the local organisation. It is essential

that such transfers are to genuinely open roles that would otherwise be filled through external recruitment. In companies that have managed to shrink in order to survive recession, a return to relative prosperity may leave a number of holes in the organisation and there could be some very good, experienced people available to fill those gaps. With all the right factors adding together, avoiding redundancies substantially or totally could even be possible.

The second largest cost item in program budgets relating to existing employees may be an amount allocated for “retention”. A substantial six or even seven figure sum may be the anticipated total for distribution across existing employees in return for them staying with the company for a given period.

As soon as a Shared Services program is announced or word spreads of its likelihood, there will be an increase in the job search activities of current employees. Almost regardless of the value of any retention incentive, good employees without good accrued redundancy benefits through length of service will actively look for alternative employment and probably leave at the first opportunity. This creates an unavoidable need for temporary staffing anyway and, where a retention scheme is in place, leaves payment going to the people who may have been lower priority to keep for the duration. So, the easiest way to save in this area is to simply avoid starting any retention scheme. Some people will leave earlier than would be preferred but that is part of the challenge of a Shared Services program.

Finally, the key to meeting operational performance and cost requirements in the Shared Service Center is in the recruitment of the SSC staff. Wherever in the world the SSC is to be based, it should be possible to reduce the overall wage cost of performing the tasks allocated to it in comparison with the previously distributed organisation. Unfortunately, it's also fairly easy to let that slip through missing too many opportunities during the recruitment cycle - a clear and well followed plan is critical to success.

The wage cost savings should come from:

- A significant overall reduction in the number of employees needed to complete the tasks –through streamlined processes, well managed workload and productivity/performance management. The two biggest risks to achieving this are while everybody is getting used to the new operation and a need to clean up some incorrect or incomplete work migrated from the local units. When the staff numbers need to exceed medium to long term plans, it is better to employ temporary staff and

review regularly with a view to reducing rather than increasing the permanent contingent in the hope that natural attrition will resolve the issue – it won't!

- A reduction in the number of managers overseeing each task and a productive hands-on role for most, if not all, managers. The reduction in cost can be significant if the number of managers is cut effectively in the local units. For example a transaction processing operation in 20 business units may have needed 20 managers. An SSC group undertaking the same tasks may need only 1 or 2.
- A different skill level across most employees – SSC staff will work following a pre-determined process whereas many staff in local business units will have adopted their own methods of working based on their level of skills and experience. Similar to the overall reduction in employee numbers, the reduction in required skills and experience can be initially difficult to achieve. Many new SSCs tend to recruit above the necessary skill level and often with language skills and qualifications that are not needed after a while, then struggle to motivate that overqualified staff.
- Salary levels payable when recruiting for the short to medium term. In many areas of an organisation, recruiters look for staff who could become long service employees. Staffing an SSC at an ongoing economic cost requires a continuous turnover of employees to prevent a build up of individual pay reviews distorting the cost of execution of a task. The potential monotony of performing a repetitive process will also generate an amount of staff turnover, which may be viewed positively in terms of creating a regular influx of freshly motivated and enthusiastic new recruits. In consequence, starting salaries may be set to meet the requirements of people early in their careers, maybe needing the experience and possibly only intending to be based in the location for, say, 1 – 3 years.
- A single managed pay structure that, as a major cost item of the service provided to the business units, is under continuous scrutiny from SSC management, executive management and business leaders across the company.

Although a Greenfield site in a low cost area may provide additional salary cost savings, the successful delivery of the above at a Brownfield site may compare favourably when the difficulties of recruitment, local practice, etc., in an unfamiliar location are taken into account.

➤ HR Challenges of Expanding Shared Services Multinationally

By: Tim Palmer & Huw Watkins, PA Consulting
March, 2010

"Pity the organization that gets the recognition of key religious events/holidays wrong or makes all company communications have a parentcountry slant, humor or style..."

You've established stable operations in your HQ country and demonstrated that you can be trusted; now company leadership has challenged you to extend your service multinationally. It's a familiar story, which can lead to unfamiliar territory. Organizations that have expanded service delivery outside their core locations have learned hard lessons about the people and HR challenges that can ensue. In hindsight, some of these lessons may seem obvious, but in the excitement of delivering a project, it is easy to be shortsighted.

The logic for expanding shared services multinationally is clear and has been well documented in Shared Services News. However, organizations considering establishing shared multinational operations need to tread carefully. People and HR programs that work well in home countries may well be alien overseas. Multinational organizations that we have spoken to experience unforeseen people and HR challenges in five key areas: cultural, legal, employee motivation, cost models and governance.

Cultural Context

Cultural differences between local and HQ countries are perhaps the most pronounced, and yet most underestimated, challenges that multinational shared services organizations face: In Europe, there is a range of decision-making styles. While the British, Irish and Finnish approach will be familiar to American business leaders, approaches with an increased focus on consensus-building and extended consultation timescales, such as those used in Sweden and Germany, will be new experiences.

Employees in both service center locations and served countries will expect different treatment and communication levels from their organization. For example, Indians typically like to receive instruction —

consultation may be perceived as a sign of management weakness; whereas Western Europeans want to be engaged in a discussion about the best way forward, and would likely reject anything imposed upon them.

The approach to business etiquette can be different, too. For example, in the Middle East a handshake indicates that the process of negotiation has begun, as opposed to the widely held Western belief indicating that the deal is complete.

Language differences are an obvious challenge, and can result in emotive reactions when handled incorrectly. One Belgian organization was shocked to find out that their service center worked only in Dutch (Belgians also speak French and German), as was a Swiss client, whose recruitment service was not delivered in the Swiss version of German.

Shared services leaders would do well to take the time to understand these issues and engage with their local colleagues. They should also research the people that they are working with, for example by reading the work of Geert Hofstede, first published in the 1970s, which identified cultural norms across more than 70 countries. And for anyone dealing with the English, we often give our non-British clients Kate Fox's book, *Watching the English* — an anthropologist's view of how the English behave!

Legal Challenges

Legal challenges are among the most predictable for an organization to face when setting up globally. Yet, even though it is well known that each country will have its own legal framework, too many organizations fail to prepare adequately.

US-based executives need to learn the hoops they have to jump through in order to get things done in Europe. The legal requirements for country-level and European-level consultation have to be understood and factored in before embarking on a program. For instance: all major business changes that result in employee severance, site closure or outsourcing need to be managed through a consultation process with an elected works council.

To complicate matters, European legislation is inconsistently applied. A majority of European employment law is based on European Union (EU) Directives, but implemented through country-specific legislation, case law and precedent, which gives rise to some unexpected differences.

For example:

Local interpretations of the Acquired Rights Directive will dictate what is done when transferring services through outsourcing. It governs employee rights to things such as continued employment, continuity of service, continuity of compensation and benefits and the right to consultation. But because each country has a different set of rules, it can be a minefield for any multinational organization to navigate.

Local interpretations of the Working Time Directive dictate how many hours people can and will work, along with mandatory rest breaks: in France it is 35, in others it is up to 48 hours per week.

Notice periods and severance payments vary by country—in Germany, notice periods for long employment can be statutory and up to seven months. Many European countries require organizations that are making people redundant to prepare a social plan, setting out the steps that they are taking to reduce the social impact of the change. This can include taking measures to preserve the employment of the more long-serving (and often more expensive) employees.

Key to making this work is to understand the intent behind the legislation, work with that intent and plan well ahead of any change with a realistic timetable. If the legislative environment is understood at the start, it can help to make the changes more sustainable.

Employee Motivation Framework

Employees are motivated in different ways. Companies establishing multinational shared services centers should review their motivation frameworks to create an approach fit-for-the-purpose of managing their services center team.

This may result in changing some established practices:

Having more career levels or salary points than would otherwise be usual, so that a relatively young and ambitious workforce can achieve early promotions. It is common in Indian service centers to be promoted within the first nine months.

Providing free language training after work to service center staff in Eastern European locations, even if it is not related to their work. Becoming active in the local community by supporting charities and events. This is important for organizations with a limited employer brand as a way to establish themselves as a preferred place to work.

And then there are the hygiene factors; making sure that demotivators do not become the biggest story in town. Pity the organization that gets the recognition of key religious events/holidays wrong or makes all company communications have a parent-country slant, humor or style.

The motivation framework and hygiene factors for each workforce will be different. They have a cultural and legislative dimension, but also reflect the age, experience and education level, aspirations and personal status of the employees. Each service center leader should create a tailored local workforce and motivation plan for their team.

Cost Models

Another surprise that organizations encounter is that the standard costs assumed in business cases rarely materialize: The salary uplift to take account of benefits and social security costs varies from country to country, making a full-compensation analysis important. For example, Swedish people have much higher social security costs than the Dutch.

There is also a need to understand the impact of skills on the cost of resources. In Eastern Europe, some expertise carries a premium that can dramatically drive up cost rates (by up to 100%), such as Dutch, Swedish, Finnish and Norwegian language speakers. Specialist roles which require professional qualifications, like tax managers, have a relatively common cost across the EU, so expected savings in Eastern Europe often do not materialize.

In setting up a multinational services center, there will also be expatriation and relocation costs to incur. The average cost of an expatriated employee is 300% of that in their home location.

These differing costs reinforce the need to analyze fully the total cost of the solution and be realistic about the total benefits that will be achieved.

Governance Framework

Finally, you cannot assume that someone who has successfully managed a local shared services team will be successful working multinationally. It takes a different kind of relationship to manage, by conference call, a team that you meet every six months, from managing one that you see every day by walking the floor. Leaders that do not understand this can either fail to raise their game, or burn themselves out on airplanes.

It is important to set up the right governance relationship between an HQ and its distant services centers. One organization established its India-based services center for US customers as an extension of its US operation. Every person in the Indian service center had a direct line reporting relationship to someone in the US. Naturally, the US “supervisors” could not cope with the requirements of the hiring process. The company learned the hard way and changed its governance model to one which, although captive and internal to the company, operated like an outsourcing relationship. The Indian leadership soon were managing directly, which allowed the Indian operation to flourish and take on additional work in a controlled manner.

Conclusion

All of the points outlined are pitfalls that others have fallen into. They are relatively easy to recognize with hindsight. However, there is an economic reality, too. If your shared services operation caters for every cultural and social eccentricity, then standardization and cost savings will never be achieved. Key to resolving this is to take the time at the start of the project to listen, plan and discuss. Document the assumptions that you are making and create a framework for accommodating people and HR issues into the plan. A small amount invested at the start to understand the perspective of others will pay dividends later.

➤ Contingent Workforce Management & Shared Services

By: Jamie Liddell, Contributing Editor, Shared Services & Outsourcing Network (SSON), Tim Palmer & Huw Watkins, PA Consulting
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One of the most profound changes to have taken place over the last couple of decades in this ever-changing business world has been the disintegration of what might be termed the “job for life” ethos: the idea that permanent employment with one or, at least, no more than a small number of companies over the course of one’s career was the most desirable of all professional options, and that mutual loyalty between employer and employee was something that could and should be a given (barring drastically deteriorating circumstances on one side or the other). This ethos - however genuinely embraced by

workforce and employer alike - has over the course of only a couple of generations largely given way to a new paradigm in which the relationships between employer and employee tend to be far more transient and based on immeasurably more complex foundations.

Whatever the causes of this development - and they are numerous indeed - its consequences have included a drastic reassessment in what constitutes a workforce and how closely connected that workforce is to the corporate body. The global business environment has witnessed the rise of a vast host of professionals whose ties to the individual businesses which pay them might last for only a few weeks or months but whose impact can go right to the heart of those businesses' operations: call them consultants, independent contractors, contingent labor or anything else you like, but the advent of this set of temporarily affiliated professionals has fundamentally changed the business landscape.

This is particularly true in the shared services and outsourcing space, of course, of which transformation - which implies a temporary state of being - is such a key element. The unique skills required to put a shared service implementation, or a similar change program, into practice might well be totally indispensable to an organization for a comparatively short period, and then relatively useless once the change in question has been made. It makes no sense for an organization to employ on a permanent basis the kind of specialists demanded by the parameters of the change; similarly, for those specialists the attractions of a short-term, high-value, challenging and interesting contract might far outweigh the appeal of a permanent, relatively undynamic position on a career ladder unable to tick many personal professional development boxes.

The advantages to a company of maintaining a significant quotient of contingent, rather than permanent, employees where possible have been especially prominent during the last few quarters following the sharp downturn affecting much of the world's business activity, during which the ability to scale operations down or up to match varying demand (scalability also being, of course, one of the great boons conferred by a well-functioning shared service organization, especially one operating on a global scale and able to cater simultaneously for very different economic climates according to geography) has been in some cases the difference between corporate success and failure. The capability of a global shared services body to cope simultaneously with, say, continued contraction in Europe, stagnancy in North America and an increasingly steep upturn in emerging Asia has been evident on many multinationals' balance sheets in recent times and, while it's probably going a bit far to say that shared services' scalability has been an engine of recovery globally, it's

certainly had a significant impact on many companies which might have faced much longer and more profound doldrums under their pre-SSO structures.

Both within and beyond shared services, an organization - especially one of significant size and scope - might now have engagement with dozens, hundreds or even thousands of these freelance professionals, active within all corners of the business in advisory or delivery capacities. While the benefits of this revolution have been immense, however, it has also resulted in a drastic increase in complexity in terms of working practices, terms and conditions, payroll and the employee relations environment generally, as well as calling upon businesses to have an immeasurably greater understanding both of the specific skillsets required for any given activity, and how to go about obtaining and retaining them. These requirements have given rise to the development of a strategic approach known as Contingent Workforce Management (CWM; also sometimes known as Contingent Labor Workforce Management, or CLWM).

CWM "is the practice of orchestrating the contingent labor supply chain to meet customer expectations with regard to quality, efficiency, cost, and risk," explains Jason Ezratty, Managing Partner at Brightfield Strategies. "CWM programs serve horizontally across the entire enterprise. Furthermore, CWM relies on the expertise and resource commitments of several corporate stakeholders including HR, Procurement, IT, Legal, Tax, Finance, and Security. CWM is typically administered through a software platform known generically as VMS, or Vendor Management Systems."

The crux of the matter, implies Ezratty, is that contingent labor has now become such a crucial element of so many different parts of a business that it needs to be addressed strategically in order to facilitate the kind of efficiencies and corporate coherence which are today a sine qua non of a successful organization. Allowing each individual department or location in a multinational corporation to manage its own contingent labor strategies and practices poses the same kind of problems as maintaining individual finance or HR organizations for each of those departments or locations - solving which has of course been a key aspect of the success of the shared services model. And where better to place implementation and oversight of a CWM strategy that within a shared service organization which already occupies such an integral position within the wider structure?

"Some companies are beginning to position their CWM program into their shared services hierarchy (versus Procurement or HR, specifically)," says Ezratty. "The logic and benefits of doing so are dependent upon many

internal factors, including culture, goals, skill types, and scope of service. [Meanwhile] outsourcing can be answered two ways: one, outsourced operations can be sourced and managed within the context of CWM; and two, one can outsource their CWM program operations to an MSP, or Managed Services Provider.”

The idea of running certain outsourced operations via a CWM framework is an intriguing one - particularly for companies in transition for which outsourcing might be a temporary state before full divestiture of a unit or a similarly radical transformation, or who have included as part of their outsourcing architecture roles which fit into the “contingent” rather than “permanent” category. However, a more common association of outsourcing with CWM is the outsourcing of the workforce management itself, either in part or end-to-end. This activity is often described as Contingent Workforce Outsourcing (CWO).

“There are,” believes independent MSP/RPO specialist Tracey Friend, “three choices a company may make: manage contingent labor and professional services on their own; self-manage part of it and outsource the other part; or completely outsource the management to a Managed Services Provider. Depending upon the spend under management and geographic reach, may also determine how this program is delivered. Just like large IT outsourcers, the MSP providers who manage contingent labor will create scale in their delivery models. The outsourcing of recruitment is tough because there is a transactional layer and a BPO layer. There are specialized companies that provide both; however due to cost compression, [they] must do it efficiently. Hence the outsourcers in this space that provide both Recruiting and Staffing outsourcing must continue to look at more operationally efficient models, and as corporations desire for these services to be global, must build help desk, customer service, supplier service models that can scale, and be culturally sensitive to the global needs.”

On the other hand, explains Friend, “if a company does not decide to outsource this function, they may roll components of this function into a HR shared services center. It may be as simple as a tier 1 helpdesk to provide transactional help (i.e. “change my password”), or it can be more advanced to handle contracts and onboarding. This approach will vary, by company culture, size, goals and overall objectives around how they manage both recruitment and staffing.”

While the theory behind CWM and CWO is perhaps nothing radically new, the trend towards embracing CWM at the heart of a company’s strategizing is certainly accelerating and practices are undoubtedly maturing at a

rapid pace (again, to a certain extent catalyzed by the economic events of the last couple of years as well as longer-term business trends). It is of course a trend with great relevance for the SSON community - both for those members who themselves are classed as “contingent labor”, and those whose roles may come to encompass oversight or operational management of CWM strategy and delivery. Implemented and managed correctly it can contribute towards the quest for process perfection and operational efficiency which underpins the entire space, while reducing risk on the part of the employer at the same time as formalizing the employer/contingent employee relationship according to corporate norms. It will be interesting to watch over the next few years how fully CWM is able to be brought under the shared services umbrella, and how this development impacts on both the shared services space and the ongoing move towards maturity of both CWM and CWO.

➔ When and Why an In-house HR Shared Services Solution Makes Sense

By: Niamh Byrne, Online Editor, Shared Services & Outsourcing Network (SSON)

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Participants:

Edward Golitko, Sr Director HR, EMC

Robbi Wendel, IS Applications Manager, Nissan North America

Jim Scully, President and Founder, Shared Services Institute

SSON: Afteryears of HR outsourcing, some companies are bringing certain HR services back in-house. Why do you think there has been this change? Jim, can I start by asking you?

Jim Scully: The Shared Services Institute just finished a pretty comprehensive survey on HR shared services practice, and this is one of the areas that we looked at. It looks as though it is a counter balancing trend; there is quite a bit of activity in both directions – both sides of the field, to use an American football analogy. First of all, I don’t see companies moving these things in-house for costs alone. There is some unfulfilled expectation underlying it. Some of that comes from decisions made at the very beginning of the decision to move to outsourcing when companies compared their current state versus a

future outsourced state. Organizations that built a capability for in-house delivery are actually asking themselves that same question and getting a different answer now. Now that they've implemented Shared Services, they are comparing the outsourced environment to the now future state of in-house, and they are deciding that the right thing to do is to bring it back in.

Robbi Wendel: I concur with that statement. A lot of that has to do with the technology, ease, security and comfort that comes with that having that in-house – and the knowledge and the benefits of having the data in-house, too.

SSON: At Nissan, are there examples where you have looked at outsourcing but you have decided to keep it in house?

Robbie: When we looked at Envisen, we were trying to consolidate disparate HR operations and that's why we wanted an in-house solution. We also needed to consolidate all our HR systems at the same time, so going to an outsourced model wouldn't have worked for us. The Shared Service model for Nissan meant not only a system for case management, but also for the knowledge center - consolidating policies and procedures and allowing employees for the first time to have that access and that 'touch.' Outsourcing wasn't going to provide them with that opportunity.

Edward Golitko: I think there are a number of reasons [why companies are trending in-house]. Around three and a half years ago, it was like a mandate: 'we must outsource a certain percentage of your operations' – it appeared to be all the rage. Even if it didn't make sense, you had to do it, because that is what everyone else was doing. But there are a number of reasons why we are looking to bring it back in-house:

- **Presence in China and India** and in lower-cost offshore locations. We have a payroll service center with ADP that we are running in India, so why do we want to be paying for the administration and everything else in another service center? Can't we bring it in-house and use the same thing?

- **Technology eases this transition.** You can think about it conceptually and actually convey it to your management team. The cost of doing this internally is less expensive, and once you have the model you get the synergy between the different areas of finance and HR where you can back each other up.

- **Ownership and control.** When you outsource to

someone else, you are giving control to them. We pride ourselves in running pretty good businesses, and having ownership and control.

- **Consistent Training**

- **Efficiency.** We use Wipro and Infosys in some of our other areas, and we are going through a whole HR change as we set up regional centers: one in Ireland, a mini one in the US for the Americas, and one in India.

In summary, we are finding that we can do Shared Services in-house technology consolidation in HR, and other areas such as finance are doing the same thing. It gets down to effectiveness, efficiency and cost. There's a little bit of momentum now. If you look three years ago, I wouldn't think it would be put together this well.

SSON: Jim, can I ask your thoughts on that? What elements do you think makes sense for a company to keep in-house and those to outsource?

Jim: In the survey I mentioned earlier, we asked our respondents to tell us for each functional area within HR, if it is entirely insourced, mostly insourced, mostly outsourced or entirely outsourced. As you might guess, the mix is across the board. If you find a group of people that outsource it completely, you will find a group of people that will insource it completely. However, there seems to be three categories that these functions fall in, and I think it is pretty instructive for how these decisions are being made.

- One category – call it "our way" – includes HR functions that are close to the core value proposition of HR: to attract, retain, reward and motivate employees. These are the kinds of functions that companies are saying, 'we're going to do this our way – we're not just going to take some other way of doing this, because it has got some serious implications about whether we deliver value.' They want it inside so they have control over it. Or, if they do outsource it they want the vendor to do it their way. Areas that in the survey tended to fall into this category are staffing, recruiting, training, HRIS, and employee relations

- Category two – which I'll call "their way" – is the opposite. It includes functions that are further away from the core value position of HR and are more driven by external standards or regulations. Things like, relocation, workers' compensation, unemployment compensation, and COBRA administration were more outsourced in the survey. I call this the "their way" category because the way they are performed is defined more by factors and trends outside the company.

• The third category crosses all areas and I call it the “better way” category. This is where the solution, whatever it is today – insourced, co-sourced or outsourced – is not really working to the company’s satisfaction and they’re looking for a better way of doing it. A good example of this would be the FMLA leave administration. Whereas a lot of it is in-house today, the survey shows a lot of interest in future outsourcing. This makes sense, since FLMA is very time-consuming and not working very well at many companies. So in summary, there is interest in both outsourcing and insourcing and our survey findings suggest that those decisions fall into the three categories I just mentioned.

If you try to outsource things that you really want to do your way, you have to realize that your vendor is going to have one arm tied behind their back in terms of being able to deliver value. It is difficult for an outsourcer to do things on a client-specific basis and really do it better and cheaper.

SSON: What technology and trends are encouraging you to insource?

Jim: One of the major things is software-as-a-service because if you think about it, the technology enabler has been a big part of value proposition for outsourcing. A great many of outsourcing decisions were made because there was a need to implement enabling technology, and companies looking at a buy vs. build proposition decided to take advantage of what the vendor could offer. SaaS is simply outsourcing that sliver of the whole delivery pie; it’s just taking the enabler piece and outsourcing that. An in-house provider is taking advantage of the functional capabilities as well as the economies of scale that an outsourcer would provide, so that’s definitely one trend. The other is that you just have to look at the sheer volume of shared services start-ups, particularly in the last three years. Organizations are building internal capabilities, and therefore insourcing becomes more feasible and attractive.

SSON: How is this HR model helping you to add value back to the business?

Jim: Many of the benefits that come out of Shared Services model are not the business benefits that were originally listed in the business case. They are the benefits that you really only get through an in-house solution. I’ll just give you a few examples. Say you build HRIS and project management capability in-house and an organization enters into a merger or acquisition. Part of your business case becomes the avoidance of contractor and consultant costs to manage that project. It can be

hundreds of thousands of dollars in some situations. The ability to integrate mergers and acquisitions and enhance the value of those is not typically stated in the business case. Other examples include being the driver of administrative best practices or being a driver of enterprise-oriented information and services. Those are things that come with the project’s maturity. I was part of a Shared Services organization that, when I departed, was already ten years old, so I have this experience. These are things that you don’t see initially, but they do come to pass.

Robbi: In the last few years, it has definitely been rewarding for us. We expanded initially from the US to Canada. And now we are looking to expand to Mexico, so it has definitely added value to our employees. We are expanding what we call our WIN HR portal, our employee portal. So anything that we can put at the finger tips of our employees is adding value to our employee. We are very excited to provide that value, too. And all the feedback that we have been given from the case management and the call centre in Shared Services is positive. So that’s further adding value to our employees, and therefore it is adding value to our company. It has been an overall positive experience.

Editores
Rodrigo Lang
Vanessa Saavedra
Conselho Editorial
Caio Fiuza
Eduardo Saggiore
Vitor Marques
Contato: pesquisas@visagio.com.br