Creative HR solutions for tough economic times

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Abstract

Purpose – The purpose of this article is to discuss creative HR solutions that can support broader business strategy in a challenging economic climate. It also highlights the need to adopt a proactive and creative approach to avoid simply reducing the level of service delivery when budgets are reduced.

Design/methodology/approach – The article includes five typical scenarios, which illustrate creative solutions that can be used to address challenging HR issues in tough economic times. Two case studies are also included to demonstrate the potential for improving HR service delivery.

Findings – During difficult economic times, the HR function is likely to be faced with the double challenge of delivering a significantly increased level of support for the business but with a reduced budget.

Practical implications – The article offers guidance on how to succeed in difficult economic times.

Originality/value – The value of this article lies in its illustration of how being prepared to consider creative HR solutions can deliver practical, tangible and sustainable benefits to the wider organization, even during challenging economic times.

Keywords Human resource management, Service levels, Economic depression, Outsourcing, Recruitment

When the dynamics of the world economy change and periods of economic growth are replaced with decline and uncertainty, the implications are far reaching; this we all know. When change start knocking at the door of HR it typically does so in the form of supporting cost reductions in the business, followed shortly by the challenges of delivering services with reduced access to cash, revenues and profit margins.

Tough economic times focus minds on the need to adapt and it is vital not to overlook the potential that the HR function has to strategically support the wider organization in this task. The risk of failing to think strategically is of course increased due to the pressures on operational HR activities during turbulent times, but thinking both creatively and strategically can deliver significant sustainable benefits.

The HR function needs to be prepared to manage greater focus on people strategies and, specifically, an ever more entrenched requirement for two potentially conflicting HR drivers – reducing costs and raising service levels. The variety of creative HR solutions available to the world’s organizations in challenging circumstances are illustrated through the following five sample scenarios, none of which propose a knee jerk reaction to reduce costs simply by reducing service delivery levels. They are based on specific engagements in which EquaTerra has advised clients.

Scenario one: strategy of sustained growth

A company has grown both organically and through acquisition in recent years and has been following a strategy of sustained growth in multiple countries. This affects the
organization’s HR function, which has to continually grow to maintain service delivery to a larger organization and the HR functions of the acquired businesses. The growth strategy means the expanding organization should be supported through investment in HR. However, as the broader economic environment worsens, there is a sudden loss of appetite for the business to provide investment.

This reduction in funds is a common challenge for HR and could not come at a worse time, as the existing HR structure is increasingly stretched by the size of the business it is now supporting. Economies of scale in HR are not being fully realized either as the core HR function becomes bloated with acquired capabilities. Inefficiencies also frustrate service delivery as HR struggles to access the necessary data from the various parts of the business.

One solution would be to create a global operating model. This would create an HR function tailored to the new, larger organization. However, this is an expensive and time-consuming strategy to deploy internally and cannot be funded by the business in a recessionary economic climate. Another solution would be to outsource to an HR outsourcing provider. The provider would leverage existing technologies, processes and infrastructure and deliver benefits of access to skills, cost savings and speed of delivery. Some providers spread initial costs over the multi-year term of the relationship. Managing this process would require a new set of skills, but this is a well-trodden path and delivers sustainable benefits for many organizations. Outsourcing requires strong executive sponsorship and a committed effort to maintain stakeholder support for such a change. Any outsourcing project should be initiated with care and only when executives and sponsors are fully aligned.

Scenario two: decentralized HR structure

A manufacturing business operates a decentralized model throughout Europe – each country-based operation has little technology and operates to local processes. Each unit has a fully staffed HR function across all processes. In this scenario, each country-based HR function is capable of delivering the basic operational requirements, but at a relatively high cost. When the business needs require a reduction in HR costs and improved service levels, the current structure is unable to respond. Any reduction in costs would have an immediate impact on the delivery of basic services and each unit on its own could not afford to transform people and processes.

The creative solution for this organization would be to create a shared services center (SSC) in a low cost location to serve the region. This would mean bringing together the country-based operations to benefit from economies of scale and create an environment where resources could be directed to improving HR service levels. Creating a SSC is also likely to result in greater control of HR processes. Moving to this model would require having business partners tasked with managing strategy, service levels and relationships with the SSC. However, this framework should be flexible enough to embrace local outsourcing of services where relevant (such as local payroll) and creating centers of excellence for a specific function, such as learning or resourcing, in specific markets. As with any material change program, change management is critical to success. Clear, well-documented communication programs, appropriate and considered interactions with works councils, effective program governance and strong leadership all play their part.

Scenario three: inefficient recruitment process

A company has no technology solution for recruitment. Most recruitment accountability is in “the line” and the recruitment process is dictated by a given manager’s preferred method of
operation. This model typically relies on a line manager’s personal network of recruitment agencies. The net result? The organization has few internal hires, little direct external recruitment and a huge cost per hire due to the reliance on recruitment agencies. As HR has been tasked with reducing costs it has identified the excessive cost of recruitment. However, it has no internal mechanism or expertise to implement and manage a significant increase in direct and internal recruitment and a reduction in recruitment costs.

A creative solution to this pressure on recruitment costs would be to make use of a recruitment process outsourcing (RPO) service provider. A RPO organization would deploy technology and develop and implement new recruitment processes that would allow centralized control of hiring and the method of hire. As a result, the organization could, in my experience, anticipate reducing recruitment through agencies to 25 percent of all recruitment.

It is worthy of note that in early 2008 an EquaTerra survey of 450 senior HR decision makers cited being a leader in talent management (finding, attracting, retaining and training talent) as a primary strategic role for HR, yet the most frequently stated barrier to achieving this was the high cost involved. This area of HR, therefore, appears worthy of consideration for making use of alternative, more cost effective, service delivery models.

Scenario four: global conglomerate structure

A global company is structured as a conglomerate, with each unit in each country running its own payroll. In a strong economy, this status quo was tolerated, as were inefficiencies, such as not having a single data repository for basics like headcount and costs and no centralized control over hiring, variable pay and annual pay reviews. Operating in multi-markets also presents challenges in terms of compliance to local and corporate regulations.

In this scenario, a creative solution would be to outsource payroll to a specialist, which typically delivers significant improvements in service delivery levels, reduces costs and allows the deployment of global technology, global processes and global control. It would also free the organization’s staff from operational activities enabling them to concentrate on higher value, more strategic activity. Again, strong change management is critical to the success of an initiative such as this, coupled with intense focus on compliance (both statutory and corporate governance), attention to how the new service will operate and “look and feel” to both employees and line managers, and clear communications on local charging. This latter point is key; while the overall business case works financially it is likely some (especially the smaller) markets may experience an increase in local costs. Clear communications around this point will aid local resistance to the project.

Scenario five: decentralized learning and development

In both strong and challenging economic periods, the personal development of staff through providing opportunities for learning is essential. However, this global company has no centralized platform for managing and implementing learning. Most learning spend is led by line managers who make use of local trainers and classroom trainers for their needs.

When trading conditions become difficult, instead of reacting to the need for cost savings by reducing staff training activity, a more creative solution would be to outsource training to a specialist learning provider that would deploy a single learning management system, enabling effective control and measurement of learning services. The provider would also manage the learning mix across e-learning, distance learning, classroom-based courses and residential activities.

The theory in practice

The following case examples are based on EquaTerra’s work as an IT and business process advisor and demonstrate the business benefits that HR outsourcing can realize.
Case study: Rhodia reduces costs through outsourcing

Rhodia is a French company and is one of the world’s leading manufacturers of speciality chemicals with 15,000 employees and sales of around €4.8 million. Although worldwide sales topped €7 billion in 2001, the French company had struggled since due to a heavy debt burden (the result of its spin-off from French chemical and pharmaceutical company, Rhône-Poulenc, in 1998), coupled with a persistent slowdown in the global chemicals industry.

By 2006, there was pressure on all parts of the business to cut costs. 2006 had also been identified as an important stabilization year for the company and the best time to create a sound foundation for anticipated future growth. Turning to an outsourced business model, Rhodia became one of the first French multinational companies to embrace global outsourcing, and the first to undertake HR outsourcing on a global scale.

The company’s primary aim at the time was to achieve cost-savings of a further 30 percent on top of reductions already identified and underway. All regions and sectors of the business were consulted for ideas on how and where to achieve these savings. Optimizing the company’s human resources by outsourcing the administrative and support areas of key HR processes was identified as a critical step towards this goal and to facilitating further rationalization in the future.

Breaking new ground

EquaTerra conducted a comprehensive study of Rhodia’s HR activities and identified the best value methods of meeting objectives and providing the HR flexibility and scalability that it required. This process identified that in excess of 50 percent of Rhodia’s HR costs could be outsourced with both cost savings and service delivery benefits.

Rhodia had 7,500 employees in France and 3,000 in Brazil (where the company is highly regarded) and a strong foundation in China. The company also had a less significant presence in Germany and the UK. Although Rhodia had already reduced its headcount by the time that EquaTerra was engaged, one ambition was to further reduce operations in France – a highly sensitive issue for a company with strong French roots.

It was identified that the best value method of meeting all objectives was a dual supplier route (rather than using subcontractors). This would enable a clear distinction between scope of work on both sides and give Rhodia the future flexibility and scalability it required. The dual supplier route ensured that Rhodia achieved optimal solutions and costs in core payroll services and systems, as well as in the broader transformational outsourcing of HR services. As a result, for the first time ever on a global scale, two leading outsourcing providers were asked to work together. Despite the complexity of Rhodia’s existing IT infrastructure, and the inherent difficulty of achieving its desired state using two different suppliers, contract negotiations proceeded smoothly without any major delays.

Overcoming the challenges

Payroll data was critical to the success of the broader transformation project. A history of local market autonomy had created a fragmented administration structure with different payroll solutions in place in each market. Many of these were “best of breed”, which meant the company wanted to retain some of them while also providing staff with a new, seamlessly...
integrated global portal. This was just one of the many extremely tough IT architecture challenges that faced both providers.

Rhodia ultimately awarded two contracts to two separate leading global service providers in 2006. These were selected as they had the skills and resources to deliver the demanding multi-market service delivery requirements. One was awarded a contract to provide support for HR processes such as recruitment, training, compensation and benefits plus workforce administration and analysis and global systems to improve process standardization. A second was tasked with payroll and personnel administration processes globally and will leverage its existing platform with Rhodia to achieve this. The latter provider also supplied Rhodia with a global HR information system.

Overall, EquaTerra helped Rhodia create HR service delivery improvements as well as achieve cost savings targeted at reducing by 30 percent the cost of delivering HR processes – these savings being possible as a result of the new model delivering improved efficiency and reduced costs. Rhodia has shown that significant HR transformation and restructuring can be achieved in a mature and predominately European environment. Top level support and drive were key to this vision, combined with strong and effective management.

Case study: offshoring helps Thomas Cook remain competitive

Thomas Cook (UK) carries in the region of 3 million passengers annually, has around 500 retail outlets and 24 aircraft. Due to the increasingly innovative business models being adopted by competitors, such as low-cost online travel retailers, Thomas Cook like other established brands, had to respond to address this challenge. In 2002 it took action to maintain its high quality service levels while reducing costs. As part of this strategy the company decided to relocate its shared services center to India.

The company provided unrivaled service – but it had to reduce its cost base while maintaining and growing that service, enabling it to continue to create and improve customer service levels. One way to do this was to further reduce the cost of its back-office functions.

Support was needed from industry experts who could work with Thomas Cook to identify the best suppliers for the job and negotiate a deal that provided step-change cost reductions. The objective was to have a contract with additional savings built in over the life of the contract, while Thomas Cook maintained “as is” and “better” service levels regardless of the location of the supplier. EquaTerra was engaged to fill this role.

Building relationships that work

EquaTerra worked alongside Thomas Cook in the process of developing and negotiating the contract and associated schedules to ensure that they fully encapsulated the agreed upon scope and maintained the focus on continuous cost improvement. In addition, EquaTerra drew on its experience in the market and maintained executive-level relationships with the major service providers, ensuring that the most appropriate suppliers were selected and that they remained focused on the needs of Thomas Cook throughout the bid process. Transferring services offshore does involve risks, such as agreed service levels not being met and being harder to monitor and addressing issues such as data security and the transfer of knowledge, which is why it was vital to develop these relationships and communicate effectively.

Thomas Cook achieved a reduction of over 25 percent on its existing cost base. The contract with the supplier was sufficiently robust to mitigate risks associated with transferring the services offshore, it maintained ongoing flexibility for Thomas Cook, and it delivered continued focus on service and cost performance. The demands in offshoring remained with the supplier and its job was to manage risk to deliver the agreed service to Thomas Cook[1].
Multiple strategies available

There is no doubt that tough economic times bring investment into any general and administrative function into harder relief than normal. Yet, such market conditions simultaneously increase the need for improved service levels from HR to manage the organization’s current and future talent pool most effectively. Awareness of this requirement in an economic downturn allows a HR function to be prepared to respond in a proactive and strategic manner.

It is also a valuable insight for HR decision makers to be aware that there are multiple strategies and alternatives available to solve the issues presented by tough economic conditions – from HR outsourcing and creating shared service centers to point process outsourcing and hybrids of the above. Whatever strategy is chosen, it is important to ensure that all key stakeholders are involved, especially on the board and “in the line”. Finally, to ensure benefit realization, do not overlook having a governance model in place before implementation occurs. Typically around 60 percent of the forecast benefits of a major change program are dependant on the effectiveness of governance, and to ensure governance is adequately resourced, around 4 percent to 10 percent of a function’s costs should be budgeted for associated governance functions.

Note

1. The Thomas Cook case study took place prior to EquaTerra’s acquisition of Morgan Chambers in September 2007. All “Morgan Chambers” references have been changed to “EquaTerra” to reflect the new ownership and brand.

About the author

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