

HR Strategy and Service Delivery in Uncertain Times

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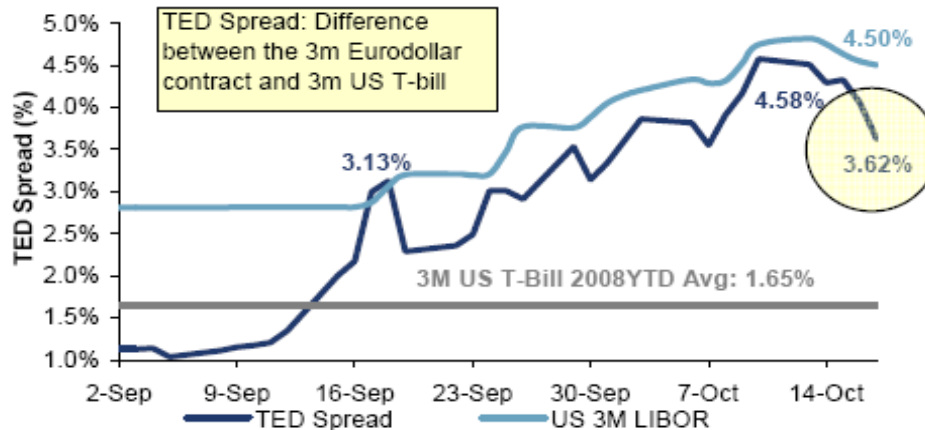
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Today's discussion

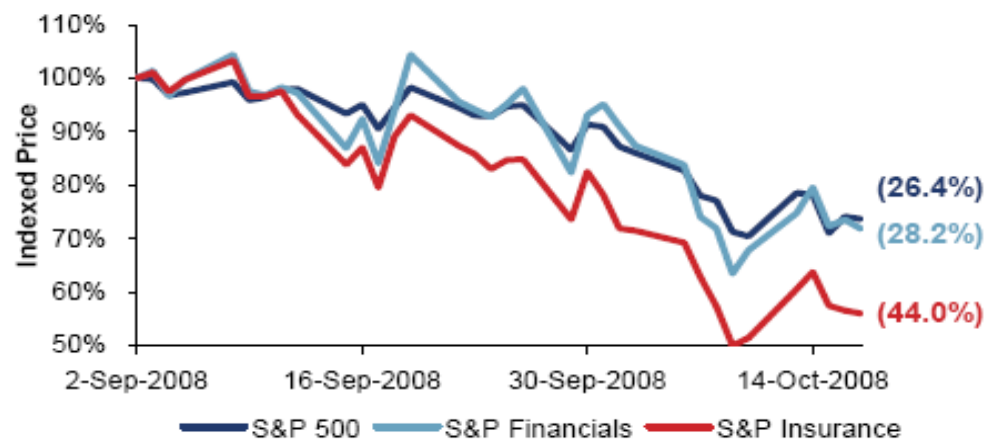
- The current environment: Business, people and program implications
- Identifying short-term opportunities for cost and risk reduction
- A suggested approach using an “HR-expert strike force”

Analysts suggest that the worst of the financial crisis may be behind us...

Paralysis of Short-Term Credit Markets

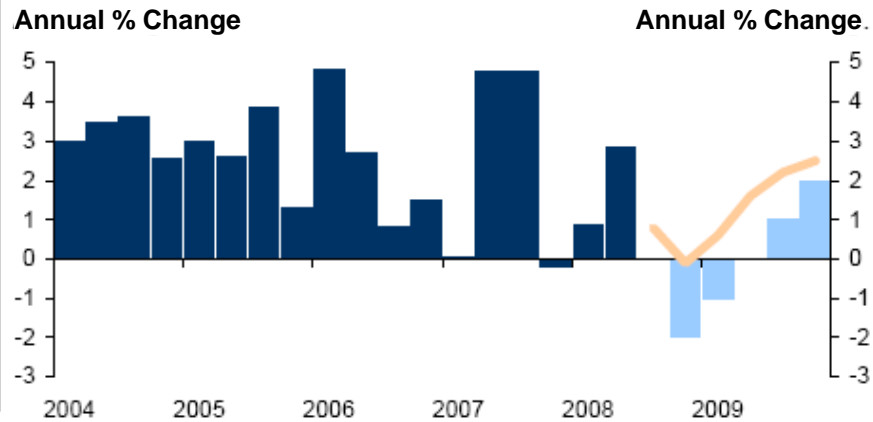


Pressured Financials Are Starting to See Improvement



...but economists appear unanimous that we are headed for a substantial global economic slowdown

Growth (Real GDP) to Slow in Near Term



Unemployment Rate to Increase



Actual Data GS Forecasts Blue Chip Consensus Forecasts (Sep./Oct. 2008)

Source: All estimates based on GS Research forecasts.

The impact on the workforce will be significant: Turnover and normal retirements are expected to decline...

Declines in Hiring

Manpower reports 10 consecutive quarters of declining employer sentiment on hiring activity: 13% of employers expect to reduce payroll
— *Manpower*, October 2008

Delayed Retirements

27% of workers say that the economic slowdown will prompt them to postpone plans to retire
— *AARP*, May 2008

Workers Hang On to Jobs

38% of employees say they will hang on to their jobs for at least another year
— *Career Builder/USA Today*, September 2008 survey
(6,100 private-sector employees)

Talent Shortages Even in the Current Market

24% of HR professionals reported open positions that they cannot fill
— *Career Builder/USA Today*, September 2008 survey
(3,000 hiring managers)

...as are expected workforce engagement levels

Variations From Average: Globally



Source: Towers Perrin-ISR Norm Database

Outline challenge for HR

- What is the optimal structure for HR during a period of prolonged economic uncertainty?
- Where should HR apply most of its focus for maximum effect?
 - employee head count reductions in the business
 - programmatic and policy changes impacting compensation and benefit costs
 - policy and process changes impacting talent acquisition and redundancy costs
 - HR organizational and process changes impacting service delivery and HR head count

Outline challenge for HR (cont.)

- What are key HR roles that cannot be compromised?
- How do you deliver HR services for less cost but still effectively and efficiently?
- How do you determine the most effective use of limited money for new technology investments, if at all?
- What are the change management implications?

Human capital optimization evaluates immediate opportunities for significant cost savings and helps ensure long-term success

Human Capital Optimization	Cost/Risk Reduction	Key Goals
Workforce Optimization	<ul style="list-style-type: none"> ■ Segment workforce into pivotal versus nonpivotal roles and define workforce reduction opportunities ■ Examine current staffing models for key sources of inefficiencies and target inefficiencies for staff reductions ■ Review individual staff performance and apply targeted reductions to low-performing groups 	<ul style="list-style-type: none"> ■ Ensure an adequate supply of the right talent focused on both long- and short-term goals ■ Restructure the workforce to optimize talent and achieve business targets ■ Drive and improve workforce productivity ■ Create a more engaged and focused workforce
Reward Optimization	<ul style="list-style-type: none"> ■ Optimize reward portfolio to meet specific cost and risk targets ■ Shift the mix of reward spend from fixed to variable ■ Redistribute and redesign compensation to reward performance and pivotal talent ■ Reduce benefit program costs and improve efficiency 	<ul style="list-style-type: none"> ■ Improve corporate cash flow and cost structure through reward redesign ■ Reduce reward investments while minimizing the impact on workforce engagement ■ Reward and retain high performers and pivotal talent
HR Delivery Optimization	<ul style="list-style-type: none"> ■ Rethink HR roles/structure and benchmark current staffing levels ■ Streamline processes, activity analysis ■ Tactical outsourcing of specific domains ■ Increase use of self-service ■ Vendor consolidation and renegotiation 	<ul style="list-style-type: none"> ■ Redeploy or reduce existing staff for better efficiency ■ Eliminate inefficient processes and touch points ■ Identify outsourcing opportunities to cut costs ■ Review existing vendor contracts for competitiveness and concessions ■ Increase Web usage to shift workload from HR generalists or service centers

Integrated Change Management and Measurement Plan

It is in tougher times like these that smart companies will build and prove their competitive edge

- Savvy companies may indeed need to change the way HR is organized, or the way they deliver HR services; keep in mind
 - changes to HR and the way it's delivered need to happen in concert with broader initiatives; examining the overall reward package will require special skills and experience
 - rather than merely attempting to retain key talent, HR might be asked to use the downturn as an opportunity to attract the “best of the best” away from competitors

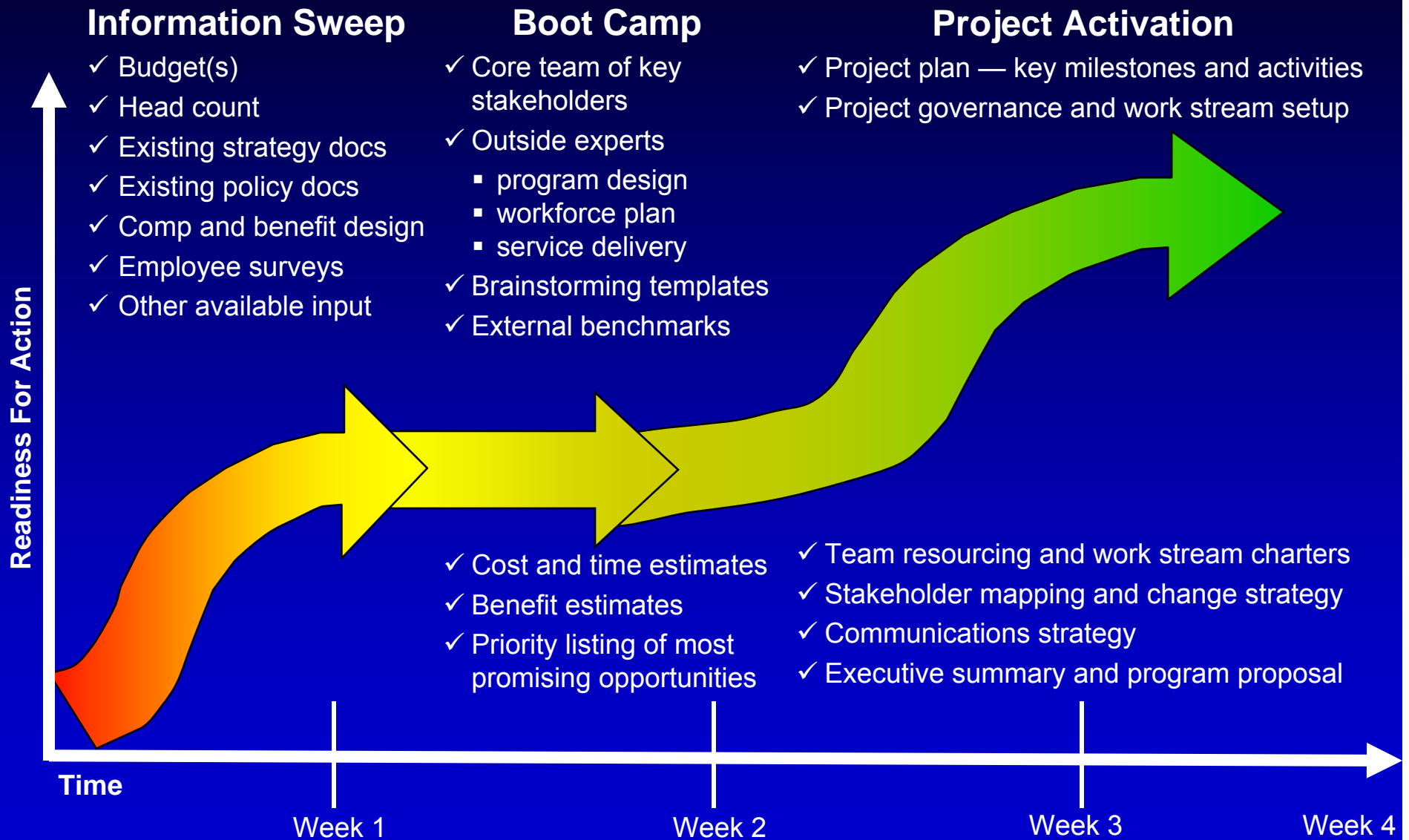
It is in tougher times like these that smart companies will build and prove their competitive edge (cont.)

- organizations need to look broadly at other changes they will be making, and then organize HR accordingly
- HR needs to be thinking now about how well equipped it is to manage such changes, including a major downsizing
 - Does HR have the right kind of capacity to support these initiatives?
 - How can HR move quickly enough?
- Organizations that will “win” will be those that build or acquire additional capacity to support the changes required with all speed

In tougher times, HR needs to go back to basics

- HR must understand the emerging business strategy, and the implications of that strategy for the workforce
 - How is the business planning to weather this period of economic uncertainty?
 - Is HR part of the business planning?
 - if not, HR will need to quickly come up with its own business-based action plan
- What can HR do right now to align its actions with the business strategy?
 - identify and quantify short- and medium-term activities that generate immediate savings and/or support essential business strategy
 - focus on rapid optimization

HR Expert Strike Force: An approach for rapid HR-related optimization



Inform the boot camp participants of the potential for HR function cost reductions by using available data

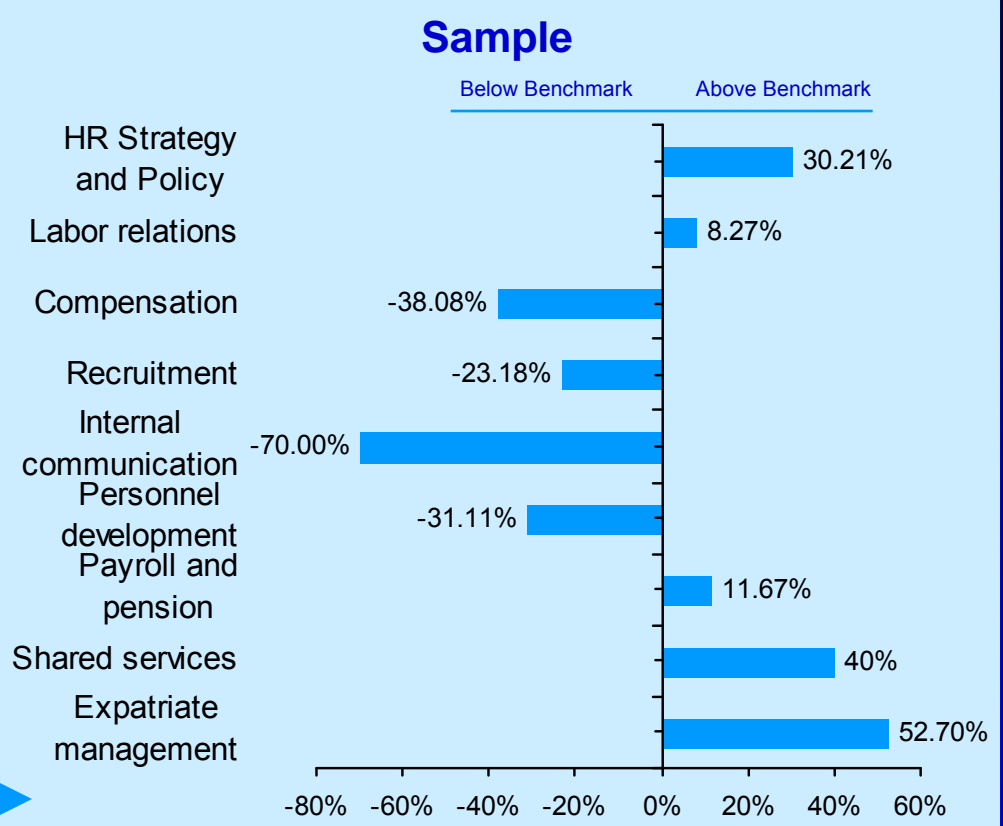
Benchmark data (internal and external) can provide a quick assessment of the **potential** or cost and head count reductions.

Metrics That Provide Insights

- Ratio of total head count to HR FTEs
- HR function costs per head
- HR function costs as percent of net operating costs
- Degree of self-service
- Cost per process
- Ratio of total head count to HR generalists
- HR outsource ratio
- Vendor costs

Sources

- Towers Perrin HRSD & HRO Surveys
- Towers Perrin Human Capital Metrics
- Saratoga
- Everest Research



Types of Comparison

- By company size
- By industry type
- By geography
- By sub-function

Provide boot camp participants with thumbnail estimates of the sources of cost reductions

- External data, quickly validated by information gathered internally during the “info sweep,” indicates the size of potential cost reductions
- Avoid the temptation to apply a standard percentage reduction across the whole HR function

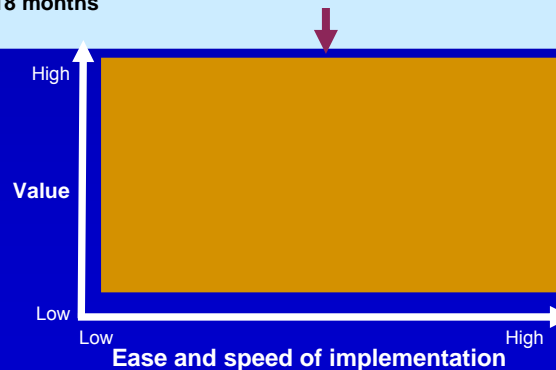
To	By	Which Could Save
<ul style="list-style-type: none"> ■ Alter total rewards mix and associated policies 	making changes to compensation and benefit program designs; implementing forced ranking for performance-based reward components	25%-40%
<ul style="list-style-type: none"> ■ Reduce volume of work 	eliminating low-value work, streamlining and standardizing processes	10%-15%
<ul style="list-style-type: none"> ■ Move work to line managers and employees (where this work is best done by them) 	introducing or extending manager and employee self-service	5%-20%
<ul style="list-style-type: none"> ■ Automate work 	using a “Web-rehab” approach to increase the functionality and value of existing HR technology	5%-10%
<ul style="list-style-type: none"> ■ Consolidate work 	moving more work into existing shared services — increasing the range of processes and/or geography covered or the level of advice provided	5%-15%
<ul style="list-style-type: none"> ■ Outsource work 	increasing the processes handled by current outsource vendors or renegotiating terms with them	0%-10%
<ul style="list-style-type: none"> ■ Offshore work 	capitalizing on existing offshore facilities (e.g., for other functions)	0%-10%

Prioritize and select the best cost-reduction opportunities

Sample Output

Summary of Potential Savings		Cost Reduction		Length of Implementation
		High-Confidence Target	Stretch Target	
Shared Services	Global alignment of HR data management	\$2M	\$3M	Long
	Intranet standardization – Web Rehab	\$3M	\$4M	Quick Win to Medium
	Program key system interfaces	\$1.5M	\$2M	Quick Win
Recruitment	Simplify self-service	\$5M	\$8M	Long
	Recruitment interview skills	\$1M	\$2M	Quick Win
	Recruitment marketing consolidation	\$3-4M	\$6-10M	Quick Win
Business Partner	Recruitment supplier rationalization	\$2-3M	\$3-4M	Medium
	Review business partner resource level in local markets	\$5-8M	\$8-10M	Medium
	HR business partner upskilling and alignment	\$1-2M	\$2-3M	Medium
L&OE	L&OE vendor rationalization and reduce spend	\$3M	\$6M	Quick Win to Medium
	Move from classroom training to e-learning	\$4M	\$8M	Medium to Long
	Centralize training	\$2-3M	\$1-2M	Long
Other	Reduce travel costs	\$0.5M	\$0.8M	Quick Win
	Increase span of control and decrease layers	\$2-3M	\$3-4M	Medium
Length of implementation Quick Win = < 6 months Medium = 6 months to 18 months Long = > 18 months		Total	\$35-43M	\$56.8-66.8M

Change time frames
 Quick Win = < 6 months
 Medium = 6 to 18 months
 Long = > 18 months



Color coding indicates
 Likelihood of achieving a cost reduction by the end of 2008
Green: Good opportunity
Purple: Possible candidate
Red: Unlikely

What business outcomes does the organization need to achieve during and after this period of economic uncertainty?

- Identify the potential for HR function cost reductions using benchmark data
 - using high-level benchmark data ensures a rapid review against external measures...and minimizes the amount of data collection required of your organization
 - What changes in behavior do HR initiatives need to drive?
- Identify the sources of cost reductions
 - cost reductions at this stage are directional, not specific, and can help identify the outcomes and guide the business case

What business outcomes does the organization need to achieve during and after this period of economic uncertainty? (cont.)

- Prioritize and select the best cost-reduction opportunities
 - this allows a more detailed review of the identified targets and a validation of the cost savings, timing implementation efforts, and change implications
- Implement — and don't forget change management
 - the steps and timing needed to realize the reductions will vary based on the path selected
 - remember that you can use external resources to shape the solution, if needed, and to expedite the implementation

Questions?

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