



***Managing HR Remotely:
Continuing your HR drive from
an offshored location***



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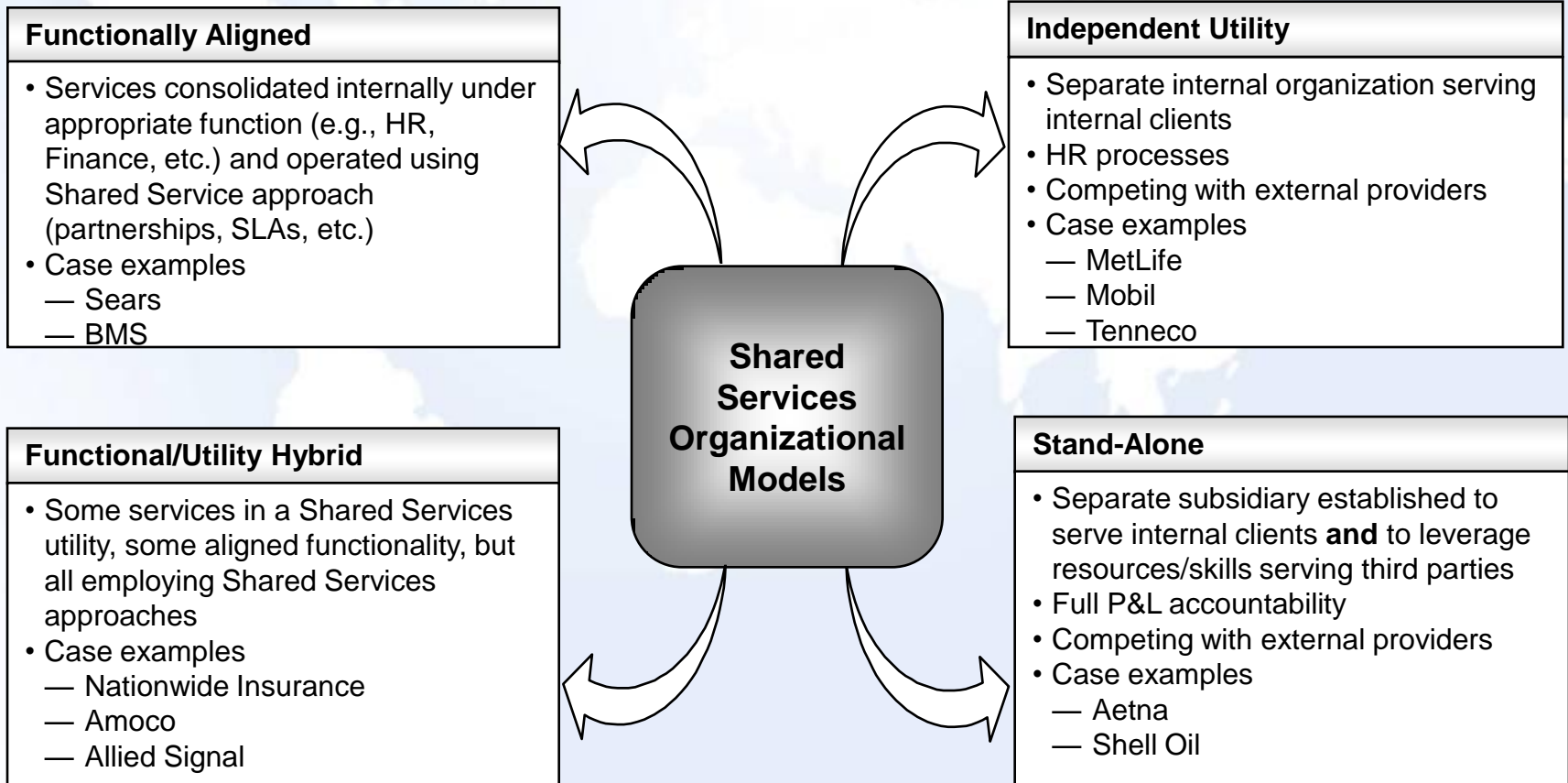
London, September 12, 2008

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Retaining Control

Understanding Governance Options

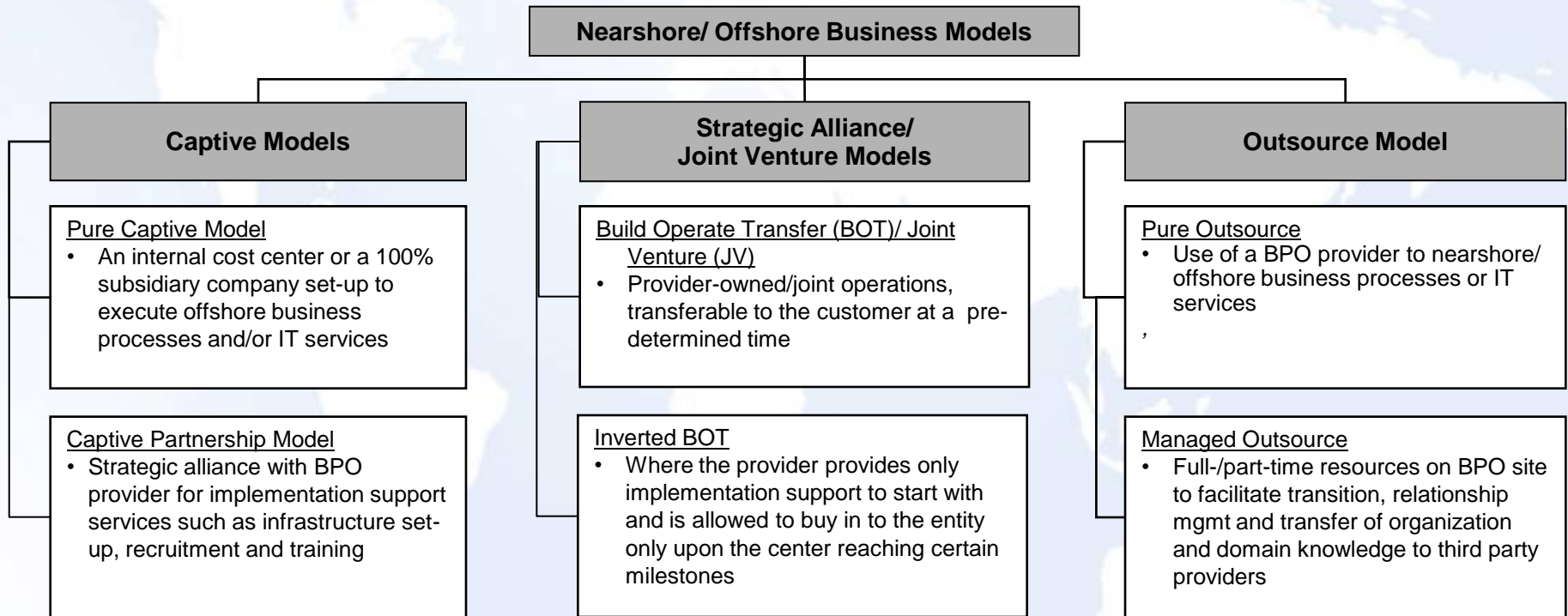


Retaining Control

Understanding Governance Options

The sourcing strategy is not a black or white decision – outlining the options and understanding potential combinations enables defining the best strategy

Illustrative



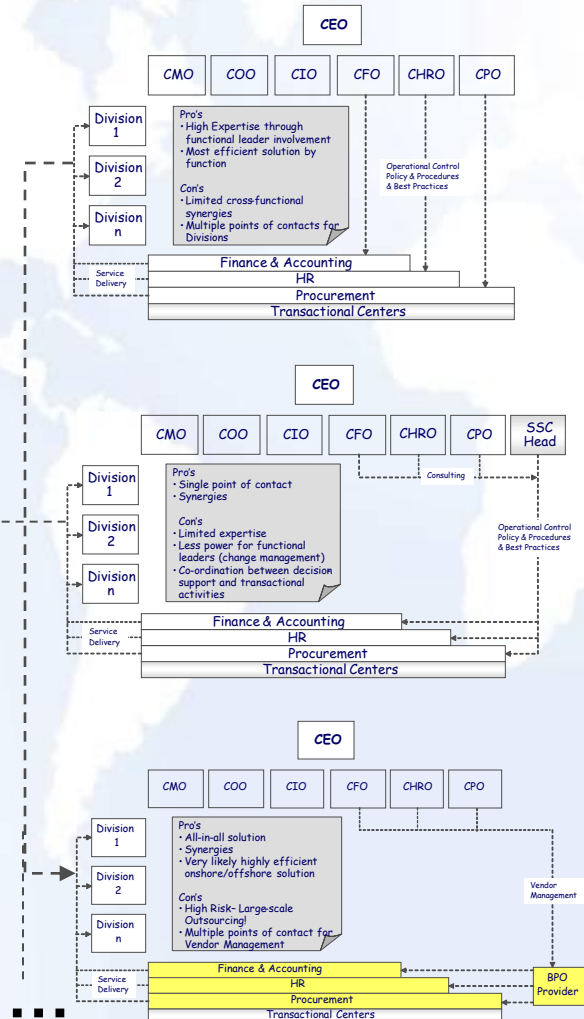
Nearshore/ Offshore models can be a combination of the concepts above – models to be applied can vary by business unit, region, location, function, and process

Retaining Control

Understanding Governance Options

Effective Governance through conscious strategic corporate decision-making

Alternative Organization Models
- number of design alternatives is unlimited



Comments

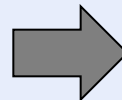
- ➔ Shared Service Governance is a strategic decision
- ➔ Shared Services / Outsourcing operations need to be managed from a Corporate perspective
- ➔ A holistic approach is required in order to be efficient and to truly transform the back office
- ➔ Neither individual functions nor individual divisions should search for ideal solutions alone – however, pilots might be launched in individual approaches in order to test the concept and to “familiarize” the organization with the idea of Shared Services (and – of course – to demonstrate quick wins!)
- ➔ Shared Services Governance is a power play – its organizational integration determines roles, responsibilities and power of key senior management

Retaining Control

SSC Concerns and Potential Levers

SSC engagements need to overcome multiple concerns and obstacles – key is senior leadership support but also outlining key benefits for others involved in the process

Typical concerns in SSC projects
<u>Open issues (examples)</u>
→ Process stability is at risks
→ Complex company-specific processes can not be handled by SSC
→ Language and/or cultural issues (in particular in re-location cases)
→ Not sufficient leadership support
→ Risks of non-sufficient business support (business impact)
<u>Hidden issues (examples)</u>
→ Shift of power – corporate accounting and subsidiary accounting are losing power – SSC is gaining power
→ Administrative functions gain power versus business functions
→ Managers fear nearshoring/offshoring re-locations



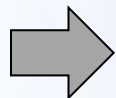
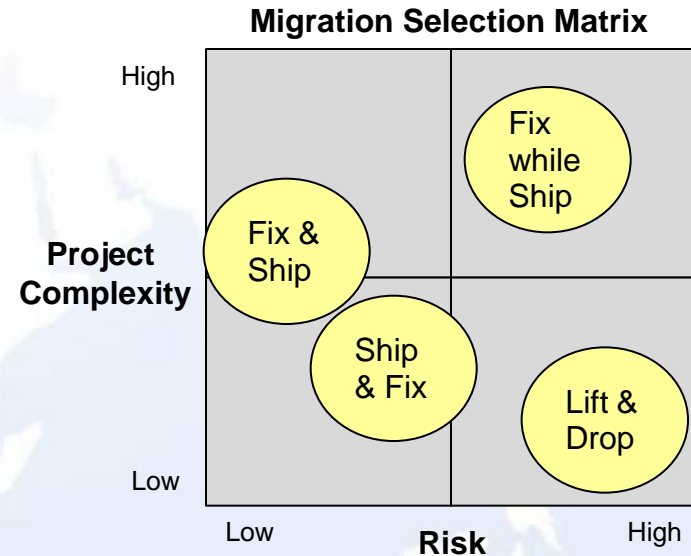
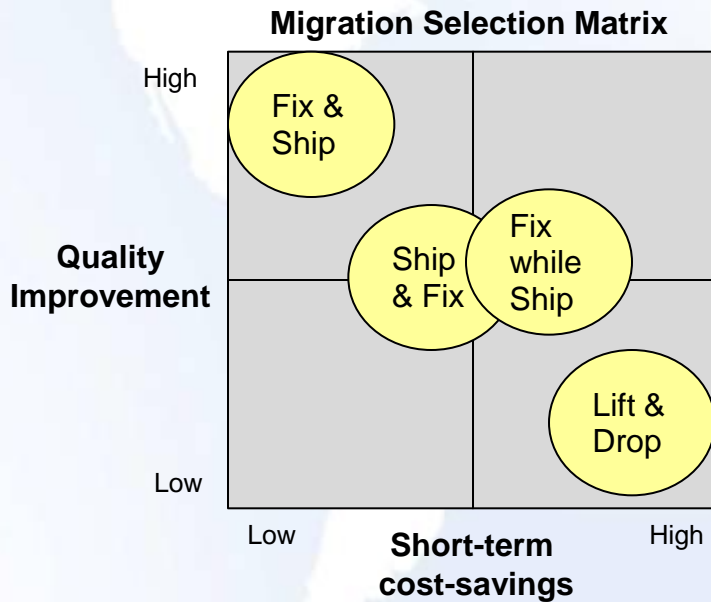
Building trust
and managed hidden issues are by far more difficult to identify and to solve
<u>Potential levers</u>
→ Outline the future governance model early enough in the process
→ Specify, how and with whom will competencies for processes, IT and standard setting be aligned
→ Identify the A-Team early → this team is supposed to stay on board, support the project, and manage the SSC and SSC relationship to the internal clients
→ Communicate early enough who will be impacted by the SSC engagement and how people can qualify themselves or which other option they have
This all can work only with major senior management support!

Retaining Control

Migration Strategy

Besides “readiness” aspects such as quality, savings, complexities, and risks are important. Also, change management aspects should be considered

Illustrative



Lift & Drop is clearly very simple but doesn't yield improvement potentials whereas “Fix & Ship” is more complex and takes longer but is much more beneficial in the long-term

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Maintaining the Standard of Customer Service

Total Cost of Ownership



In assessing the financial impacts of a SSC the Total Cost of Ownership need to be considered

Challenges for SSC

- Demonstrate higher cost efficiencies than the As-Is situation (with often very decentralized finance operations)
- Demonstrate higher quality levels than the As-Is situation → often existing processes are fairly non-transparent and depend on experience and tacit knowledge of process owners



Consequences

- Environment before SSC is perceived as being more efficient → e.g. lead times are felt being quicker as individuals are used to existing process models
- Existing processes are perceived as being better adjusted to the company-specific situation
- Quality is perceived higher before SSC simply because individuals are used to the process

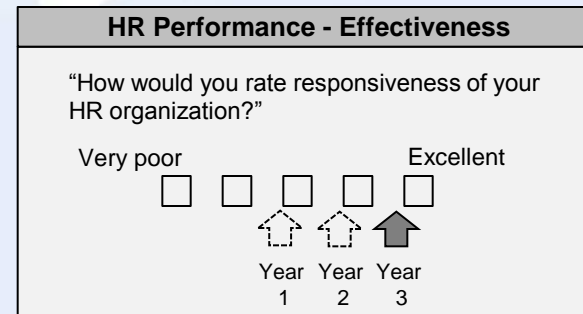
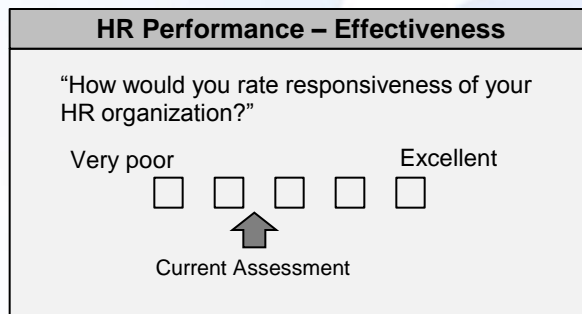
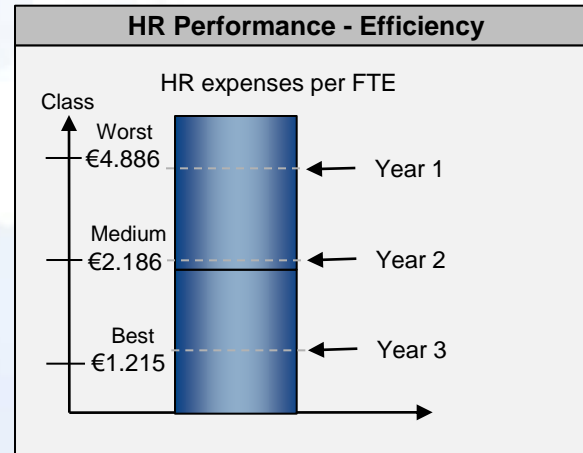
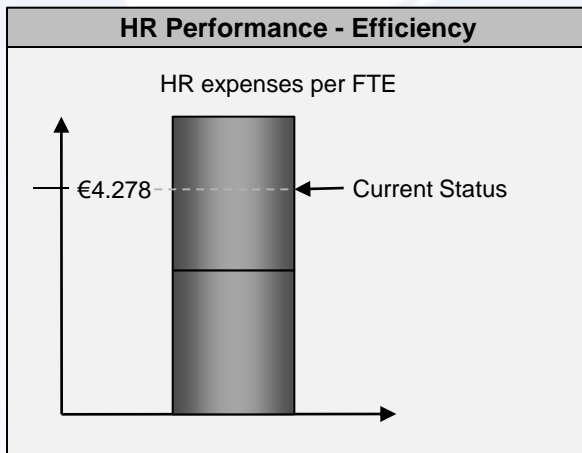
Maintaining the Standard of Customer Service

Total Cost of Ownership

Key is benchmarking of efficiency, quality and service orientation prior to SSC

Before SSC
(HR decentralized with Legal Entities)

With SSC



Comments

- Understanding performance prior to establishing SSC demonstrates improvements of total cost of ownership and quality
- Also, knowing benchmark performance before setting up and while operating SSCs over multiple period helps identifying cost and quality targets for BPO considerations

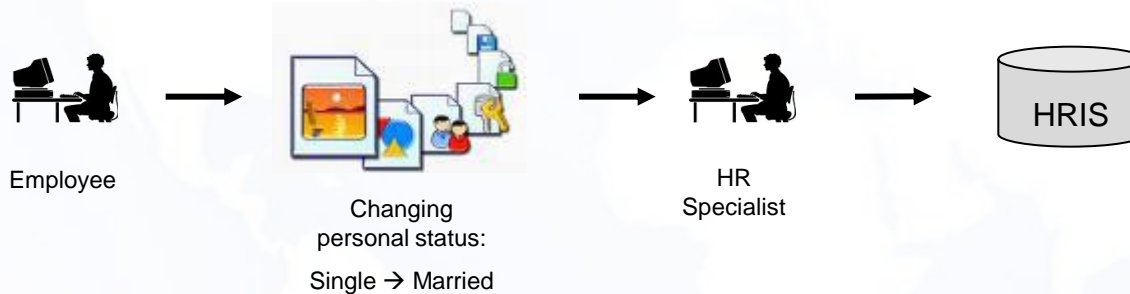
Maintaining the Standard of Customer Service

HR and IT



HR processes have changed from being manually and HR specialist input to being personally and online handled

Example: Changing personal data – before (till end of 90's)



Example: Changing personal data – nowadays (from 2000)



Comments

In order to guarantee the proper acceptance and function of the online tool it is necessary to:

- Ensure proper and sufficient training
- Provide guidance and assistance in particular for implementation period
- Encourage employees to regular usage of online tools

Maintaining the Standard of Customer Service

HR and IT

Monitoring of the HR services provided before establishment of a SSC strategy would lead to an objective maintenance and further improvement of the services quality

Typical issue in HR SSC implementation	Example	Before	After	Continuous
	<ul style="list-style-type: none"> • HR FTE Ratio (FTE overall/HR FTE) • HR Expenses per FTE • HR Costs per HR Employee • HR Costs as Percent of Revenue • Training Costs as Percent of Revenue • Training Costs as Percent of Average Workforce compensation costs 			

Typical Perception → *“HR services were better before SSC”*

Ideal HR implementation approach	Example	Before	After	Continuous
	<ul style="list-style-type: none"> • HR FTE Ratio (FTE overall/HR FTE) • HR Expenses per FTE • HR Costs per HR Employee • HR Costs as Percent of Revenue • Training Costs as Percent of Revenue • Training Costs as Percent of Average Workforce compensation costs 			^^

↑ Objective comparison

→ Ensure benchmarking prior to HR SSC implementation

Maintaining the Standard of Customer Service

Project Ownership and Reporting Procedures



Reporting and governance of the offshore HR Shared Services Center requires clearly defined modules

Illustrative

	Steering Committee Reporting	Regular Monthly Reporting	KPI Reporting
Frequency	Monthly/Quarterly	Monthly	Weekly/By-weekly
Content	<ul style="list-style-type: none"> ▪ High-level strategic performance indicator ▪ Key Issues ▪ Strategic decisions 	<ul style="list-style-type: none"> ▪ Standard performance indicator ▪ Staff Statistics ▪ Performance according to SLAs ▪ Issues and resolution suggestions 	<ul style="list-style-type: none"> ▪ KPI performance ▪ Detailed SLA performance ▪ Key statistics
Recipient	Steering Committee	Business Service Unit	<ul style="list-style-type: none"> ▪ Client ▪ Business Service Unit ▪ Functional Head Unit
Focus	Internal/External	Internal	Internal/External

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Assessing Cultural Differences

Location Strategy

Qualitative decision factors for shoring options in location selection are also important and are driven by company-specific requirements and preferences

Illustrative

Decision Factors	Low	High	
Cultural Empathy			
Languages Affinity			
Geographical Proximity			
Time Zone Immediacy			
Regular Staff Traveling			
Project Urgency			
Management Retention			
Basic Conclusion (simplified)	Offshore	Nearshore	Onshore

Comments
<ul style="list-style-type: none"> • These assessments deliver immediate input for the weighting of the respective criteria • Whereas talent pool and labour cost are usually consensual factors other factors such as language and cultural affinity need to be determined by company specific preferences • This tool allows to include non monetary factors or other figures

Assessing Cultural Differences

Talent Pool

Only few of the college graduates in low cost countries are qualified enough to support international business operations



Source: McKinsey Global Institute

Comments

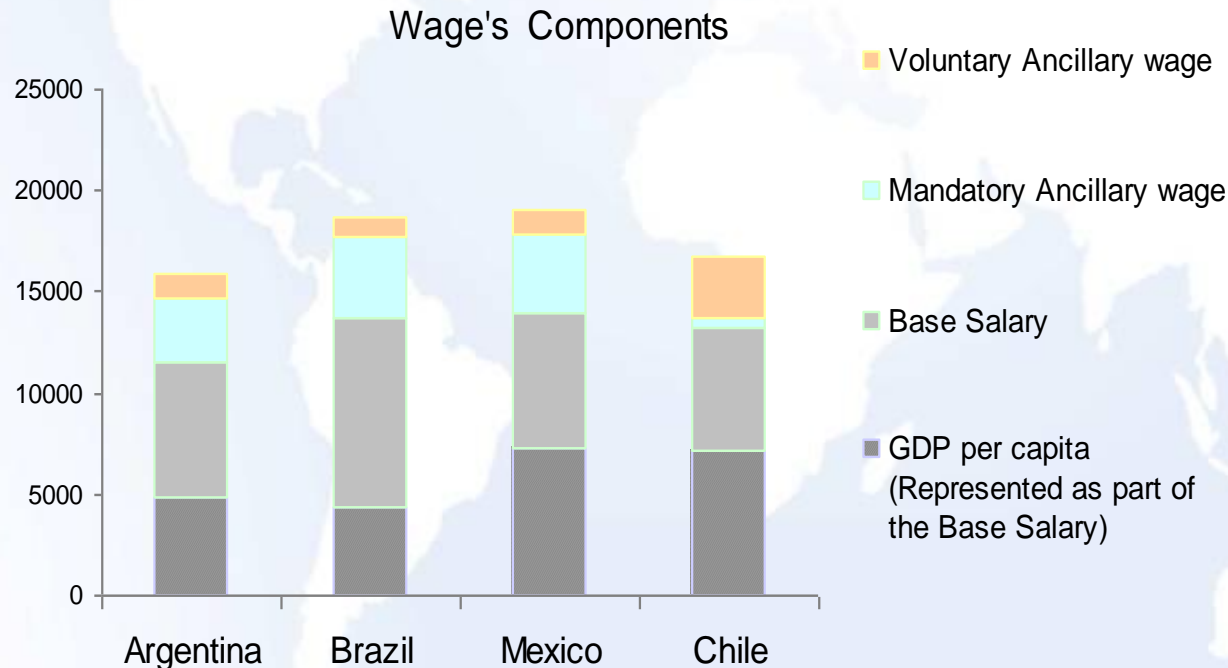
- Lack of suitability for international business because of various reasons
 - Language
 - Cultural background and adaptability
 - Quality of education
 - Lack of personal skills (e.g. teamwork, leadership)
 - Missing focus on international requirements (accounting standards, laws and regulations, etc.)
- Only few of the highly educated work force are willing to work in shifts

Assessing Cultural Differences

Identifying Hidden Costs and Ownership

Total wage component for some locations in Latin America

Offshoring Institute



Comments

- Each country has different mandatory ancillary wage costs
- The non mandatory ancillary benefits for the workers go accordingly to cultural, regional or economical features of the location
- In some countries attrition is directed linked to ancillary wages

Assessing Cultural Differences

Low cost Country Managerial Talent Shortage

Salary gaps in low cost locations between managerial and clerk level are usually much higher than in high cost ones due to talent shortage of managerial staff

Salaries comparison between the different level for an HR unit

Level	In % of employees	Berlin	Bucharest	Bangalore	Shanghai
Director	0,7 %	€61.589	€30.395	€52.335	€28.360
HR Manager	1,3 %	€57.102	€26.157	€24.074	€17.945
HR Specialist	9 %	€29.702	€9.201	€6.447	€11.261
HR Clerk	89 %	€26.957	€5.665	€3.077	€8.424

Comments

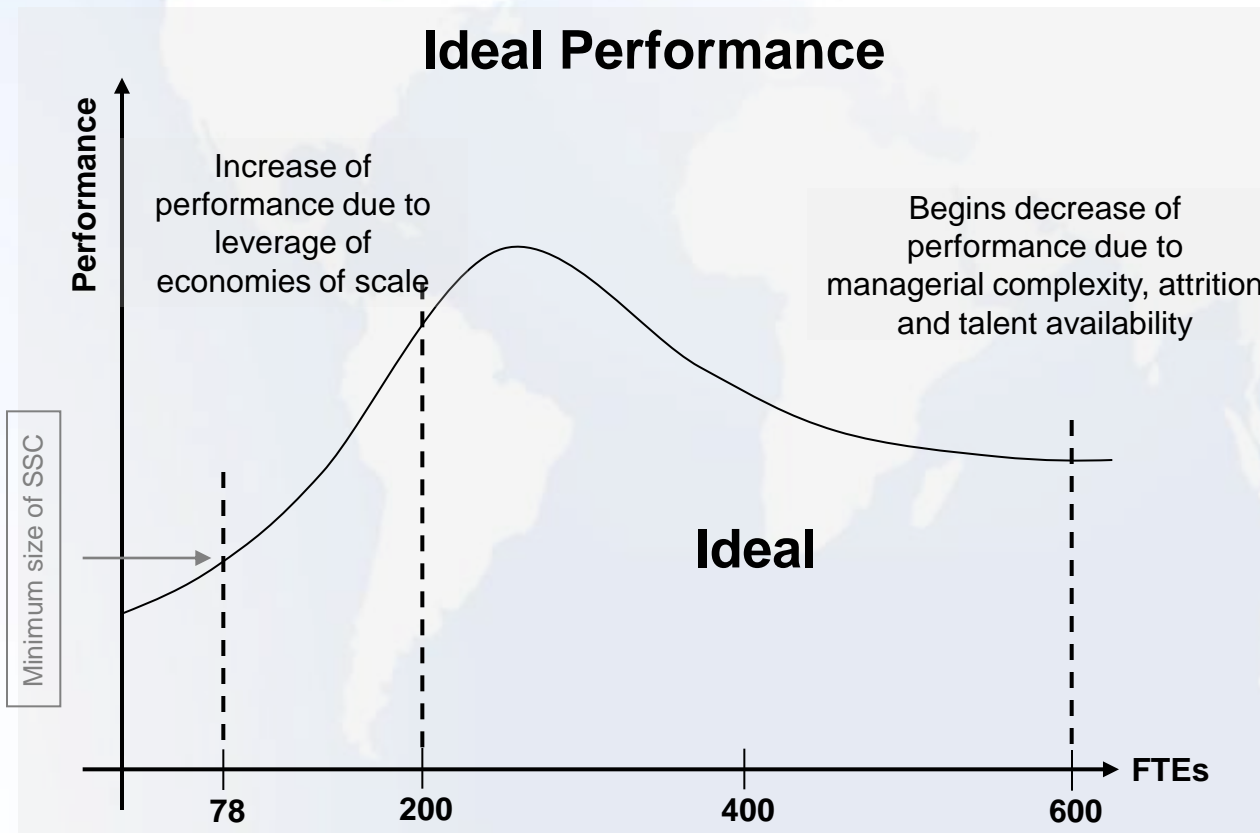
- Directors in low cost locations enjoy salaries similar to those in high cost ones
- These differences can be of the order of tents of times
- These high differences usually lead to high attrition levels

Source: Offshoring Institute

Assessing Cultural Differences

Matching location to the function

The right size of a captive services center is determined by the company's requirements vs a quality/quantity performance equilibrium



Comments
<ul style="list-style-type: none"> • An acceptable performance of a captive centers starts typically after 80 FTEs. • After 600 FTEs technical and managerial problems start. • Governance and Talent Pool availability, attrition and teams coordination are among the main difficulties when handling a services center

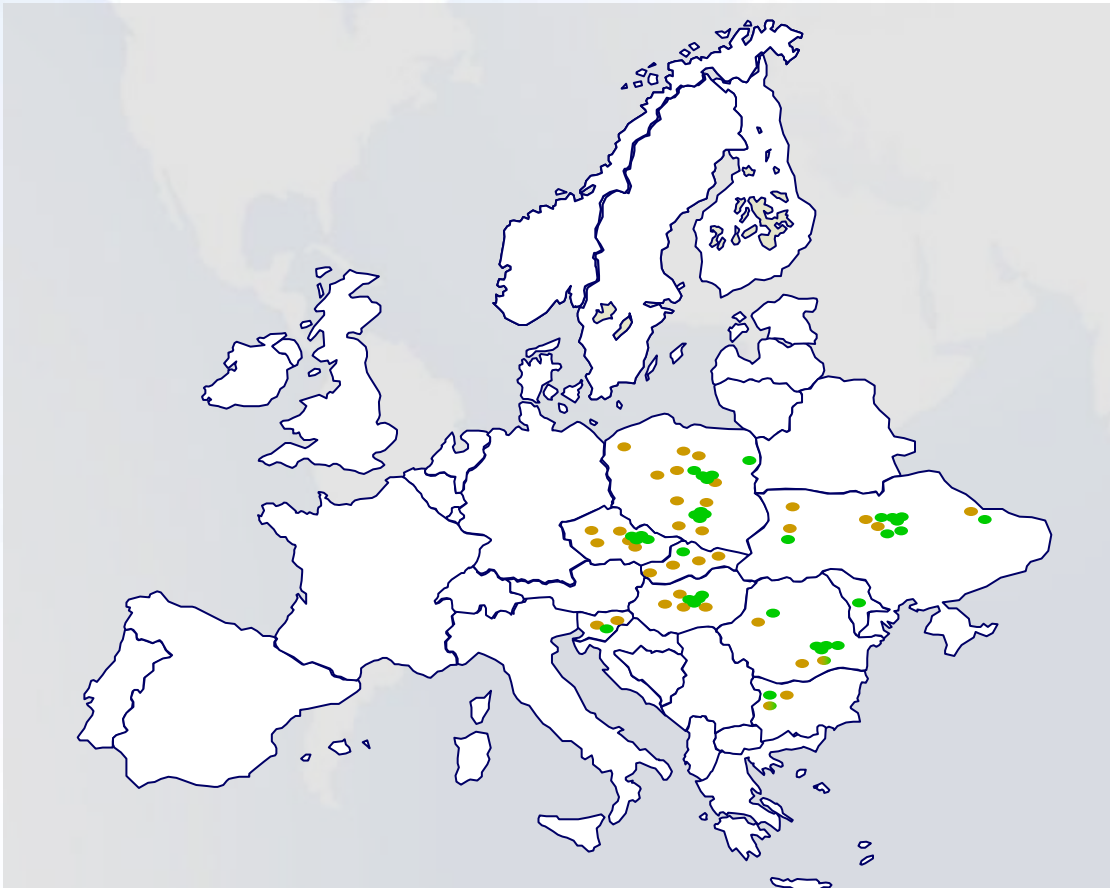
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Considering the Current Location Hotspots

Brownfield vs Greenfield

Despite text book recommendations of greenfield sites, in practice brownfield solutions are the preferred way in setting up nearshore centers



Brownfields / Greenfields - Key facts

- From the companies' point of view, a brownfield locations is where the latter has already ongoing operations (production mainly).
- A high number of companies shore their operations to brownfields.
- Nevertheless the benefits of brownfields are quickly exhausted and greenfield operations need to be taken into consideration.

Considering the Current Location Hotspots

Onshore, Nearshore, Offshore



Many trends are not driven by rational – Therefore, shoring solutions often bear significant risks that need to be managed (1/2)

Location trends observed in the market	Issue/Rationale	Risk
Browfield instead of greenfield	Brownfield selection by production/distribution criteria	4= Not sufficient talent pool available
Fear of Offshoring/ Reallocating jobs	Public pressure prevents senior executives to locate jobs outside the country (media, unions, political parties, etc.). Nevertheless, jobs losses due to technology are still bearable/acceptable.	4= Corporation in high cost countries lose strategic flexibility due to inappropriate cost structure of the back-office. Technology often does not yield the same cost advantages than offshoring solutions
Shoring solution proposed as part of a trend	Companies often develop and execute a captive solution without a real in-deep process analysis obtaining negative results during the first operations years.	3= Unfixed processes may turn into a burden for the corporation increasing the planned cost benefits.
Captive solution aiming at providing external services	A captive solution is aimed to cut costs, but when top performance is reach the center can return profit due to external services sell.	4= The financial plan of the SSC is often based on the economical benefits of the outsourcing services. When

Low risk = 1 High Risk = 5

Considering the Current Location Hotspots

Onshore, Nearshore, Offshore



Many trends are not driven by rational – Therefore, shoring solutions often bear significant risks that need to be managed (2/2)

Location trends observed in the market	Issue/Rationale	Risk
Shoring decision driven only by cost-cutting factor	The urgency of developing a cost-cut strategy leads to execute a captive solution due to its accurate cost-cutting effect.	5= The captive solution may fail if important factors like cultural affinity, language capabilities, talent pool, etc. are not taken into account.
Shoring solution to hot-spot	Most companies shore their back-office to already well established offshoring destinations.	4= Lack of suitable talent pool is one of the main problem of the well-established offshoring destinations. When this problem appears, the benefits of the solution turn into negative outcome.
Captive solution for each business region	A SSC for each one of the business regions shall be more suitable due to regional and cultural affinity, time zone and geographical proximity.	1= The risk is mitigated when centralization comes by steps.

Considering the Current Location Hotspots

Matching SSO Goals



The breakdown of the location selection criteria provides and comprehensive and exhaustive platform in order to balance the various location options

Illustrative

Financial	Infrastructure	People	Environment
Taxation	Real Estate	Languages	Economy (National Level)
Specific Tax Regulations with regards to BPO/SSC/ITO/Call Center Industry	Downside Office Rent p. sqm (p.a.)		Inflation Rate
City/Office Rent p. sqm (p.a.)	Downside Office Sales Price p. sqm	Population Speaking English	Member of Regional or International Commercial Trade
City/Office Sales Price p. sqm	Downside Office Vacancy Rate	Population Speaking Spanish	GDP per Capita (PPP)
City/Office Vacancy Rate	City/Office Rent p. sqm (p.a.)	Population Speaking French	GDP (Real Growth Rate)
Tax Incentives	City/Office Sales Price p. sqm	Population Speaking German	Index of Economic Freedom (1 = repressed, 10 = free)
Other Investment Incentives	City/Office Vacancy Rate	Population Speaking Russian	Foreign Direct Investment Confidence Index (0 = worst, 3 = best)
Regional Taxes	Metropolitan Area Office Rent p. sqm (p.a.)	Population Speaking Chinese	Corruption Perception Index (0 = corrupt, 10 = best)
Social Benefits	Metropolitan Area Office Sales Price p. sqm	Population Speaking Japanese	Economy Outlook
Pension	Metropolitan Area Office Vacancy Rate	Other Languages	Exchange Rate: 1 USD =
Health Care	Availability of Business Parks	Specific language areas	Exchange Rate: 1 Euro =
Other Social Benefits	Business/Technology Parks Office Rent p. sqm (p.a.)	Size of Labor Market	Political (National Level)
Summary Social Benefits	Business/Technology Parks Office Sales Price p. sqm	Labor Market Size (Total)	Political System and Trade Issues
Wage Cost (p.a.)	Business/Technology Parks Office Vacancy Rate	Labor Market Size	Last Political Hazardous Event
Cost of Executives/Directors	Office Rent p. sqm in Metropolitan Area (p.a.)	Unemployment Rate	Actual Conflict (Year)
Call Center Manager	Office Sales Price p. sqm inside Metropolitan Area	Unemployment Rate for Graduates (University Level)	Government Effectiveness Index (0 = worst, 5 = best)
Call Center Supervisor	Average Vacancy Rate	Attrition Rate in Administrative Professions	Capital
Call Center Operator/Agent/Telemarketer	Average Office Rent p. sqm (p.a.)	Attrition Rate in BPO/ITO/SSC/Call Center Industry	Country Population (Bk)
Engineering and Technical Manager	Average Office Sales Price p. sqm	Holidays and Vacations (National Average)	Cultural Compatibility (City Level)
Engineer	Total Office Build-up Area	Nationwide Public Holidays	Reluctance About Specific Countries
Technician	Telecommunications	Paid Leave	Geographic Proximity (City Level)
Accounting/Finance Manager	Telephone Communications	Average Days of Absence per Year	Time Zone
Financial Analyst	Phonecall to USA per Minute	Education	Closest Biggest Economy
Accounts Clerk	Phonecall to Central Europe per Minute	Number of Graduates per Year	Average Travel Time (4h) from Central Europe (Frankfurt)
Human Resources Manager	Internet Availability	Number of Higher Educational Institutions	Average Travel Time (4h) from USA (New York)
Human Resources Specialist	Cost per Month	List of Higher Educational Institutions	Security of IP (City Level)
Human Resources Clerk	Speed	Graduate Population from University and Higher Degreees	Established Regulations for Data Transfer Security

Languages

- Population speaking:
 - English
 - Spanish
 - French
 - German
 - Russian
 - Chinese
 - Japanese

Wages

- Engineer and Technical Manager
- Engineer
- Technician
- Finance Manager
- Financial Analyst
- Accounts Clerk

Considering the Current Location Hotspots

Matching SSO Goals



Reliable location data are difficult to obtain but extremely crucial in order to match your SSO goals

Example

Wage Costs (p.a.)	Berlin <input type="checkbox"/>	Bucharest <input type="checkbox"/>	Bangalore <input type="checkbox"/>	Shanghai <input type="checkbox"/>
Human Resources Manager	57.102,00 €	26.157,85 €	24.074,37 €	17.945,93 €
Human Resources Specialist	29.702,00 €	9.201,67 €	6.447,75 €	11.261,02 €
Human Resources Clerk	26.957,00 €	5.665,71 €	3.077,33 €	8.424,93 €

Languages	Berlin <input type="checkbox"/>	Bucharest <input type="checkbox"/>	Bangalore <input type="checkbox"/>	Shanghai <input type="checkbox"/>
Official Language	German	Romanian	Kannada	Mandarin
Population Speaking English	48,00 %	39,00 %	70,00 %	5,50 %
Population Speaking Spanish	7,00 %	3,00 %	0,04 % <input type="checkbox"/>	0,40 %
Population Speaking French	13,00 %	24,00 %	0,01 % <input type="checkbox"/>	0,80 %
Population Speaking German	93,00 %	16,00 %	0,02 % <input type="checkbox"/>	0,60 %
Population Speaking Russian	29,00 %	10,00 %	N/A	0,40 %
Population Speaking Chinese	2,00 %	0,50 % <input type="checkbox"/>	0,06 % <input type="checkbox"/>	97,50 %
Population Speaking Japanese	0,50 %	0,20 %	N/A	0,80 %
Other Languages	Turkish <input type="checkbox"/>	Hungarian, Roma	Hindi, Tamil	Shanghai dialect
Specific Language Areas	Kreuzberg (Turkish) Charlottenburg (Russian) Lichtenberg (Asian)	None	None	None

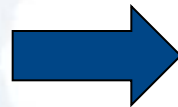
Considering the Current Location Hotspots

Matching SSO Goals

Raw location data need to be converted through a location model in order to get a comprehensive location ranking

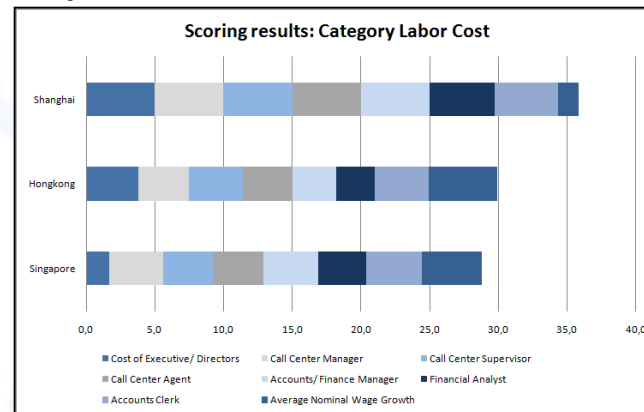
Step 1: Research data

Category/ Criterion	Singapore	Hongkong	Shanghai
Labor cost			
Accounts/ Finance Manager	17.775,90 €	17.598,14 €	21.440,97 €
Financial Analyst	51.195,80 €	50.683,70 €	55.532,10 €
Accounts Clerk	43.515,79 €	43.080,93 €	46.666,26 €
...
People			
Size of labor pool overall	2.590.000	3.336.500	14.038.500
Unemployment rate	2,70%	3,60%	4,40%
Attrition rate in administrative professions	3%	16%	16%
...
Infrastructure			
Downtown Office Rent p. sqm (p.a.)	530,89 €	952,50 €	340,59 €
Downtown Office Sales Price p. sqm (p.a.)	7.897,01 €	17.115,00 €	1.816,45 €
...
Environment			
Corruption Perception	9,4	9,6	3,5
Government Effectiveness	4,7	3,6	3,5
Population of the City	2.980.000	6980412	8.008.690
...



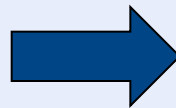
Compare criteria and score them from "1" (worst) to "5" (best)

Step 2: Score Locations

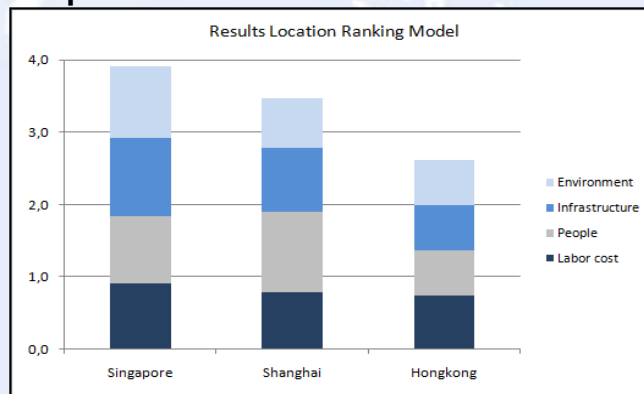


Step 3: Weight criteria and categories

Category/ Criterion	Executive 1	Executive 2	Executive 3	Average
Labor cost				
Accounts/ Finance Manager	30%	40%	35%	35%
Financial Analyst	20%	25%	30%	25%
Accounts Clerk	30%	30%	20%	27%
...
People				
Size of labor pool overall	25%	20%	25%	23%
Unemployment rate	40%	40%	50%	43%
Attrition rate in administrative professions	30%	20%	30%	27%
...
Infrastructure				
Downtown Office Rent p. sqm (p.a.)	20%	15%	30%	22%
Downtown Office Sales Price p. sqm (p.a.)	80%	50%	70%	67%
...
Environment				
Corruption Perception	20%	25%	10%	20%
Government Effectiveness	40%	30%	25%	25%
Population of the City	40%	30%	45%	38%
...



Step 4: Summarize and rank Locations



Thank you for your attention

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Director



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