Facing the global opportunity

Insights from the 2007 IBM Human Resources Summit
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By Eric Lesser

The 2007 IBM Human Resources (HR) Summit assembled senior executives from around the world to evaluate globalization's impact on today's HR function. Roundtable discussions uncovered two important themes that organizations cannot afford to overlook: the need for globally standardized, yet flexible, HR processes, and the importance of stronger global workforce integration. Addressing these challenges effectively on a worldwide basis can result in lower costs through economies of scale, as well as enable the HR organization to make a larger strategic contribution to the business.

Historically, the human resources (HR) function has been viewed as a provider of local services – addressing individual employee questions, distributing payroll and dealing with employee relations at a particular location, plant or branch. As organizations have grown (both domestically and internationally), HR headcount and the number of localized HR regulations have proliferated as well. As a result, HR processes in many companies have begun to resemble tax codes – fragmented, poorly documented, and subject to the various interpretations of individuals located around the globe.

However, organizations are recognizing that they no longer can simply think, and act, at a local level. The war for talent is now being played out on a global scale, as companies are looking to tap into the best and brightest, regardless of their location. As Henning Kagermann, the CEO of SAP, stated in a recent New York Times interview, “It is foolish to believe today that the smartest people are in one nation.”

As a result, companies are now taking a harder look at how they are hiring, connecting and developing their employees on a worldwide basis. In addition, companies need to take advantage of economies of scale in managing costs and leveraging information technology to increase HR's efficiency and effectiveness.
Therefore, we see a central question facing today’s HR leaders: What does HR need to change to succeed in a globally integrated world?

It is with this question in mind that over 20 senior HR executives from the U.S., Canada, Latin America and Europe came together for the 2007 IBM Human Resources Summit, a series of roundtable discussions. The 2007 IBM HR Summit participants represented a range of both information-based and capital-intensive industries including financial services, oil and gas, professional services, consumer products and information technology. Many of the participants, while currently holding executive positions in the HR function, have also held other leadership roles within their organizations.

The discussions focused on two important themes related to globalization and the HR function. The first theme centers on the HR organization itself, and the rationale for standardizing HR processes on a global basis. As the HR function looks to simultaneously contain costs, maintain administrative excellence and bolster internal customer satisfaction on a worldwide basis, developing common platforms and procedures can help deliver on all three objectives.

However, as we will highlight below, it is rare that a “one size fits all” approach can systematically be implemented across a global corporation. Yet, understanding the opportunities and tradeoffs of standardization can be the first step in improving HR’s service delivery capabilities.

The second theme examines how HR can enable the rest of the organization to more effectively “go global.” As many organizations continue to increase their worldwide presence, the HR organization needs to find ways of building an effective global workforce. This includes a greater focus on issues such as talent management, expertise location, learning and collaboration – all challenges that require a greater strategic focus on HR. Executives in our 2007 IBM HR Summit recognize the need to build further depth and breadth of expertise in these areas within their organization.

As a result of these discussions, we see that HR organizations need to attack the issue of globalization on a number of fronts. From a standardization perspective, companies need to evaluate the relevant cost and benefits of various levels of conformity across different processes and geographies.

Further, when companies do decide to develop global standards, they need to consider the changes needed to the governance of global processes, as well as to address local budgeting and change management concerns. From a more strategic perspective, HR need to more actively develop a globally integrated workforce, facilitating the organization’s ability to identify, develop and connect talent around the globe.
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Standardization of HR processes: An albatross or looming opportunity?
With the demographic, geographic and competitive challenges facing today’s organizations, the need to standardize and harmonize HR processes has never been greater. In some organizations, the concept strikes at the heart of the philosophy of the business – whether it flourishes as the result of streamlined activity, or sinks under the weight of central standards and controls.

For many companies, processes such as performance management, competency management and recruitment are often developed and executed at a local level, with different sets of guidelines, performance standards and expectations. Not only does this cause confusion within the HR community, but it can lead to the perception among internal stakeholders that HR is unwilling, or unable, to maintain the same level of discipline expected from other parts of the business.

The challenges of standardization are well understood and numerous (see sidebar, Challenges of standardizing HR processes).

However, companies are realizing that despite these challenges, rationalizing HR practices on a global basis can help with a variety of objectives:

- Reduce administrative complexity
- Deploy new HR technology
- Manage talent at a global level
- Improve vendor management
- Increase legal and regulatory compliance.

Reduce administrative complexity
Most companies, as the result of mergers, acquisitions or simply corporate evolution, find themselves with a range of legacy HR practices. It is not surprising to see a host of processes reinforcing traditional HR silos. Often, these processes and their supporting systems are poorly integrated, if they exchange information at all.

Further, in many organizations, there has been a lack of enforcement in the standard application of HR processes, allowing for the proliferation of individual interpretations and arrangements. For example, one 2007 IBM

Challenges of standardizing HR processes
Among the key issues raised when attempting to standardize HR processes are:

- Regulations (either real or perceived) and data privacy laws in local geographies make it difficult to build consistent processes
- Various contractual agreements with unions and works councils require local variations to global activities
- Local country (brand) owners are hesitant to relinquish control over the budget/headcount assigned to their particular area
- It can be difficult to overcome the inertia of revamping legacy processes that are perceived to meet the expectations of local geographies, though these processes are potentially under-optimized for the organization as a whole.
HR Summit participant described their international assignments process as having “a 150-year history of individuals cutting their own side deals.”

As a result, the costs of administering and maintaining these complex processes continues to rise, not only eating away at HR budgets, but also taking HR departments’ focus away from more strategic issues. Standardization reduces the amount of procedural “clutter” and allows exceptions using clear guidelines and business criteria. In addition, several companies also noted that developing standards made it easier to simplify today’s organization, as well as to facilitate the future acquisition and/or divestiture of business units.

**Deploy new HR technology**

Many organizations have seen the value in introducing new HR technologies, in terms of cost savings, improved decision making and increased employee satisfaction. For example, employee and managerial self-service technologies are enabling companies to reduce the number of transactions and inquiries processed through either a local HR representative or a call center, while at the same time enabling employees to have greater access to information about themselves, their benefits and even their careers.

Further, globally integrated information systems can provide data regarding employee demographics and performance indicators that can enhance strategic decision making. However, for such platforms to be cost-effective, they need to be based on a common set of data standards and decision rules that can be easily maintained. Standardization also allows for the global rollout of new technology with a reduced level of customization and maintenance.

**Manage talent at a global level**

The first line of defense in the war for talent is an organization’s ability to identify and leverage the skills and experience of its current employees. However, without a common approach to skills definition, succession planning and workforce planning, leveraging the strength of a global workforce becomes next to impossible.

Standardization allows companies to tap into the strengths of individuals around the world. It also increases the transparency of global opportunities for employees. As one auto manufacturer noted, “One of our value propositions is the ability to build a career across brands and locations – we need global performance management, and talent management processes and systems to accomplish that.”

**Improve vendor management**

Building consistency in the way that vendors are identified and global contracts are handled can have significant impact on HR’s ability to manage costs. Many companies fail to consider their leverage in negotiating global contracts with a range of outside suppliers, including staffing agencies, compensation specialists, assessment vendors and contract trainers.

For example, one automobile services company participating in the 2007 IBM HR Summit identified US$11 million in unaccounted training costs after analyzing its global training spending patterns. Through
standardized procurement guidelines and contracts, firms can realize an increased ability to negotiate with their partners, while maintaining greater accountability over their own discretionary spending.

**Increase legal and regulatory compliance**

Today's regulatory environment is also driving HR organizations to focus on developing consistent practices and procedures. Frequently, when new regulations are handed down from governmental and regulatory agencies, it is difficult for organizations to determine if these regulations are being consistently applied across different geographies and business units. Standardization provides a common platform in which to both interpret and enforce these regulations, rather than relying on past practices in local regions.

**Approaches underway to standardize global HR**

Given the benefits that are driving companies to re-evaluate the level of standardization across their HR functions, 2007 IBM HR Summit participants identified a number of practices that enabled them to more effectively consolidate global HR activities:

- Focus on processes offering the greatest benefits
- Recognize that not all locations are created equal
- Develop appropriate and flexible governance mechanisms
- Cede budget control to global process owners.

**Focus on processes offering the greatest benefits**

When it comes to standardizing HR, not all processes are created equal. Some processes, such as expatriate management, performance management and succession planning have significant opportunities to apply common approaches and leveraging the synergies of global technological platforms. At the same time, processes such as benefits administration may need to be more tailored to the local needs of a specific populations and country regulations. Successful companies are able to prioritize the need to standardize their HR processes in terms of the potential benefits that could be achieved through standardization, as well as the associated risks.

**Recognize that not all locations are created equal**

Undertaking a standardization effort requires organizations to segment their regions according to several criteria. Clearly, the size of the affected employee population is one factor that influences the design of standard HR processes.

In companies where a high percentage of employees are located in a relatively small number of countries, the cost justification for standardization can be easily determined. For countries will smaller populations, however, it may not be cost-effective to require a complete alignment with global processes. For these areas, common guidelines or data reporting requirements may be sufficient to comply with the corporate standards.
While employee population is one method for determining which areas must adhere to global guidelines, strategic intent and areas for expansion should also be considered. For example, companies that are expanding into emerging economies such as China, India, Russia and Brazil may quickly find themselves unable to deal with the volume of activity in those countries if they do not have access to the same systems and expertise available in developed regions. Without accounting for these areas of rapid growth, companies may encounter processes that are misaligned with the direction of the business.

**Develop appropriate and flexible governance mechanisms**

Another key message conveyed by 2007 IBM HR Summit participants is the importance of involving global stakeholders in the rationalization and development of global processes. This is critical, not only to evaluate the tradeoffs and understand the implications of various standardized approaches, but also from a change management perspective. Including stakeholders in the decision making process promotes buy-in at the HR level, and may be critical in “selling” the standardized approaches at the employee level.

Further, organizations should be open to adopting best practices or systems that have been developed in smaller geographies, but may have greater capabilities than those used in larger areas. For example, one technology company said that it had previously managed 37 payroll systems in Europe, but ultimately decided that the best platform to use as a standard was developed in Belgium, one of its smaller locations.

The need for global involvement applies to the development of global processes, as well as to the ongoing review of exceptions to standards. As business conditions change, organizations need to regularly the review the service needs of different geographies and business units.

One financial services organization developed a change control committee that determines whether a specific country or geography can enact a variance from the common HR process. The committee – staffed by HR representatives from five countries representing the highest percentage of employees – verifies that there is an appropriate business case before allowing a particular area to deviate from a global standard.

Figure 1 highlights some of the key elements of a global process governance model. By developing a clearly articulated set of governance processes, and by placing central stakeholders in key positions within this model, it is more likely that decision making will be more effective, and that buy-in for standardization will occur.

**Cede budget control to global process owners**

For global processes to work effectively, the people responsible for end-to-end activities need to be accountable. Many organizations have found value in establishing global process owners, who have both budgetary and administrative responsibilities for the standardized HR process. By consolidating the process costs into one physical or virtual location, the global process owner can have a clearer view of the spending levels and investment requirements needed to meet the needs of various organizations. This also can facilitate the rationalization of third-party spending.

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A global process development model is critical to assessing how best to rationalize HR processes, verifying stakeholder buy-in and enabling effective change management.
However, 2007 IBM HR Summit participants recognize that relinquishing budgetary control may provoke resistance from individual country/region leaders, whose own budgets and spheres of influence are reduced in the process. Further, as organizations begin to standardize their HR processes, there will be some countries or business units where the total cost of HR may rise. Therefore, companies will need to review how changes in cost structure will impact different geographies, collaborate with their Finance organizations to confirm that new structures do not place an undue burden on smaller operating units, and work with local business leaders to obtain buy-in.

Globalization – Changing the direction of strategic HR

Another general theme that emerged during several 2007 IBM HR Summit discussions was the continually changing role of the HR function and the ongoing need to direct time, attention and resources to more strategic HR issues. For example, several companies indicated that their boards of directors are taking a more active role in focusing on talent and succession management issues. One participant stated, “What the board is interested in is the next generation of leaders – how do I know in the long-term this place is going to be OK?”

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**FIGURE 1.** Components of a global process governance model.

<table>
<thead>
<tr>
<th>Governance organization</th>
<th>Governance processes</th>
<th>Decision rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Reporting structure</td>
<td>• Relationship management</td>
<td>• Responsibility for key decisions</td>
</tr>
<tr>
<td>• Roles and responsibilities</td>
<td>• Financial management</td>
<td>• Documented RACI diagram</td>
</tr>
<tr>
<td>• Contract administration</td>
<td>• Performance management</td>
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</tbody>
</table>

**Committee structure**

- Strategic direction and decisions
- Linkage to business strategy
- Business representation

**Committee structure**

- Executive steering committee
- Customer council
- Strategic initiatives council

**Linkage to retained organization**

- Linkage to processes
- Critical client knowledge
- Retained workload

Source: IBM Corporation.
Others see the rising costs of employee and retiree benefits, particularly healthcare in North America, as another important driver in forcing companies to better understand their strategic workforce options. Finally, the continued war for talent, resulting from factors such as globalization and changing workforce demographics, is seen as another galvanizing force requiring companies to pay particular attention to workforce-related issues.

One key topic of interest was the need to develop new competencies within the HR organization regarding workforce and talent management. Several discussions focused on the need for global organizations to tap into talent and expertise regardless of location, to build a number of new capabilities (see sidebar, New and essential competencies to improve global workforce integration).

Lastly, the HR organization needs to work closely with other functions to address many of today’s key strategic workforce issues. Several 2007 IBM HR Summit participants discussed partnerships with their Legal and Compliance departments to develop tools and frameworks that provide employees and managers with the right information about reporting and regulatory compliance issues.

Others mentioned the importance of working closely with the Finance organization on data compliance issues and verifying that investments in human capital are measured and reported accurately within the organization. Finally, as highlighted in the next section, the HR and IT organizations need to form closer partnerships to boost the organization’s ability to collaborate, and share knowledge and expertise.

New and essential competencies to improve global workforce integration.¹³

- Understanding the demographics and capabilities of the workforce – Verify that the company understands the location and depth of expertise around the world
- Predicting future labor supply and demand – Enable appropriate decisions about sourcing and identifying future capabilities
- Utilizing social networks to increase the visibility and application of knowledge across the organization – Locate experts for both specific questions and longer term projects
- Enabling individuals to perform work regardless of location – Increase employee flexibility and expanding the talent pools
- Facilitating collaboration across traditional organizational boundaries – Allow workers to come together to solve problems regardless of location or affiliation
- Driving the rapid development of skills and capabilities to meet changing business conditions – Provide opportunities to address unusual challenges and re-tool their skills based on changing market demand
- Evaluating employee performance and providing appropriate feedback – Verify employees’ contributions are valued, and lessons learned are captured and applied to future efforts.
For several of the companies in the 2007 IBM HR Summit, the outsourcing of HR activities enabled them to focus on these more strategic issues. By establishing a common data platform, and serving as a catalyst to standardize many back-office processes, outsourcing enabled companies to obtain better data that could be used for more effective decision making. Further, it allowed them to free up HR resources from routine administrative tasks and enable them to focus on higher value activities.

**Facilitating learning, collaboration and innovation**

Another topic that generated extensive discussion during the 2007 IBM HR Summit was the emerging importance of learning, collaboration and innovation. Many companies are aiming to first understand, and then expand, the use of collaborative and social networking tools, within and across organizational boundaries. This can improve various capabilities, including:

- Locating individuals with specific expertise
- Developing a sense of connection and community among employees separated by time zones and cultures
- Delivering formal and informal learning to employees
- Identifying emerging trends and opportunities.

A related area of interest is understanding how to attract and retain the next generation of employees, many of whom have grown up in an era where social software such as blogs, wikis and personal Web spaces have become commonplace. As one participant noted, “Symbolic initiatives involving the younger generation get attention in today’s organizations.”

The use of social software has significant implications for the HR organization, ranging from the use of networking software to identify and recruit internal and external candidates, to the use of blogging as a management communication technique to support distributed teams.

In many organizations, however, many of these emerging areas remain in the purview of the information technology department. There is little or no input from the human resources organization regarding the governance of these tools, or training on how to use the technology to address various business issues.

Several companies are taking the first steps in examining how new collaborative tools, such as virtual worlds, can be applied to a business environment. For example, IBM is using Second Life, a virtual environment where individuals are represented by avatars, to conduct orientation programs. This and other 3-D Internet tools can bring together individuals from around the world to “meet” one another and facilitate the onboarding process. Other companies are considering the use of individual Web pages for employees as a way of identifying personal skills and interests.
Conclusion

The HR function can no longer afford to simply act as a local provider of employee services. Both cost pressures and the need to leverage talent on a global scale are forcing HR executives to both think, and act, globally. On the administrative front, this takes the form of re-examining core delivery processes to determine where and how economies of scale can be realized, and how service delivery can be further improved.

From a strategic perspective, globalization is more than simply achieving greater cost reductions. It is about the ability of an organization to more effectively source, develop and connect its employees, and take advantage of skills regardless of physical location. It is through managing the global requirements of both the administrative and strategic components that HR has the opportunity to further enhance its value and play an important role in the further growth of the organization.

To learn more about this study and the IBM Institute for Business Value, please contact us at iibv@us.ibm.com. For a full catalog of our research, visit: ibm.com/iibv

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References


