

MERCER

MMC MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

**HARVARD
BUSINESS
PUBLISHING**



HR's expanding frontier: From local to global strategic partner

Consulting. Outsourcing. Investments.

Table of Contents

Introduction	2
Multinational transformation.....	3
The expanding role of HR.....	4
HR's global challenges.....	5
Employee implications	6
Imperatives for global success.....	7
Conclusion.....	7

Introduction

In today's world of global companies, with all their diverse cultures and geographies, many organizations are struggling to find a global service delivery model for the administration of their HR and benefit programs.

These companies know that the value of seamless service delivery – across benefit domains and international borders – lies in more efficient and effective management of their benefit programs. As a result, they are seeking global solutions that deliver HR cost efficiencies as well as higher levels of employee engagement, retention, and productivity. Such a solution, it appears, would be just the tool they need to sharpen their competitive edge in the global business landscape.

For a global service delivery model to become a reality, it's imperative that the HR outsourcing industry develop a deep understanding and clear vision of clients' evolving needs and challenges. To this end, Mercer's outsourcing business recently partnered with Harvard Business Publishing to conduct a research study to understand what would help multinational companies manage their benefit programs more efficiently on a global level.

This joint survey was based on nearly 60 interviews with senior-level HR executives – 70 percent of whom hold global positions – at corporate headquarters and regional offices across the U.S., the U.K., Europe, Asia, and Australia (Figures 1 and 2). The purpose of the study was to glean firsthand insight into the global journey companies are embarking on, the speed at which they are moving, factors that may be slowing their progress, gaps between their needs and available solutions, and their expectations for global benefits outsourcing providers in the short and long term.

Figure 1: Respondents by region

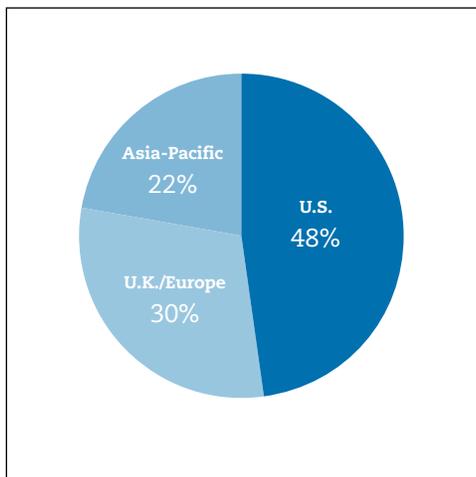
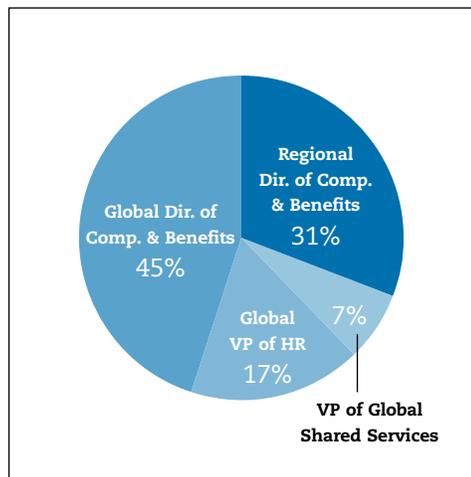


Figure 2: Respondents by title



Multinational transformation

Today, the HR function in multinational companies is in the midst of a complete operational transformation. Among the key drivers behind HR's evolving role is the acceleration of employee growth in emerging markets. In many cases, companies are finding, for the first time in their history, that more than 50 percent of their workforce resides outside their corporate home country.

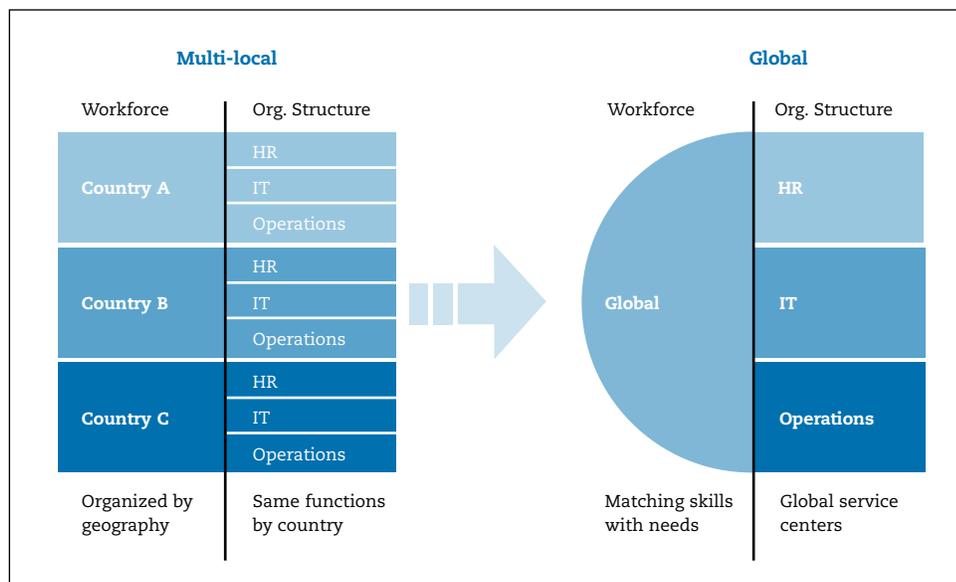
This globalization means an increased need for workforce mobility, more stringent governance and compliance requirements, and ever greater pressure to improve margins through process and policy standardization.

This trend is especially evident when looking at the evolving organizational structure of multinational companies (Figure 3). Moving from traditionally distinct HR, IT, and finance functions that operate in silos within each country, companies are now matching skills with needs and deploying talent to functional centers of excellence, resulting in a global shared services model.

Looking back to the 1980s and 1990s, many companies were rapidly growing across the globe through acquisitions, resulting in a large number of unaligned, decentralized businesses around the world. Within these companies – which were multinational but not yet truly global – HR operated in a largely decentralized mode, with local autonomy and management, and locally focused responsibilities.

The initial wave of HR transformation in the 1990s resulted in a gradual shift for HR from being a transactional support function to a more strategic partner role that drove and supported the implementation of core business goals. In the last five years, many multinational companies have taken this shift to the next logical level by applying their strategic HR focus across countries and regions, enabling them to leverage resources and streamline operations across geographies.

Figure 3: Evolving organizational structure



The expanding role of HR

HR is now transitioning from a local to a truly global business partner. As a result, many strategic business imperatives for HR are becoming global, including governance and compliance, risk management, benefits harmonization, talent management, and global mobility (Figure 4). Increasingly, HR executives are being promoted to carry out global responsibilities. Of those surveyed, 45 percent have taken on global roles within the last two to three years, while a full 40 percent have assumed such responsibilities within the last 12 months alone.

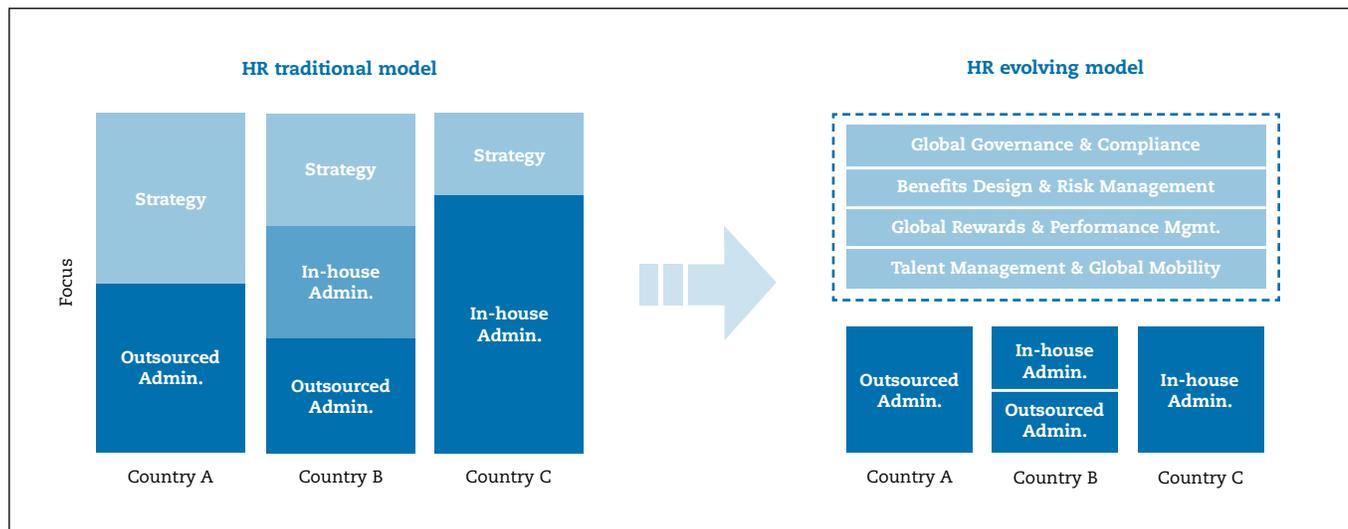
However, as HR leaders step up to fill their newly expanded role, many admit they still spend the majority of their time on local and regional issues. The reasons behind this include the lack of necessary support systems and internal resource constraints.

In addition, many benefits administration processes remain a local responsibility, with outsourced transactions varying by region, due to regulatory differences and organizational complexities. For example, in the U.S. and Australia, transactional HR work is mostly outsourced; in the U.K. and Europe, there is a mix of in-sourced and outsourced transactional activity; and in Asia, transactions are still primarily performed in-house.

Thus, administration delivery amounts to a patchwork of local systems and vendors around the world. A typical sourcing of retirement benefits, for example, is a combination of outsourced activities and in-house benefits administration by country, often with multiple vendors in each region, including local consulting firms, insurance carriers, and third-party administrators. Indeed, it is not unusual to see a single insurance carrier handling both defined benefit (DB) and defined contribution (DC) plan administration in, for example, Canada, while in the U.S., companies may use one recordkeeping firm for DB and another for DC. In contrast, Germany relies on a mixture of consultants and insurers to perform such functions, while many countries in Asia rely primarily on in-house administration.

The bottom line: Until systems evolve and companies progress further along the global learning curve, HR executives will continue to be pulled in both global and local directions – impeding their ability to quickly address global issues.

Figure 4: Shifting away from the traditional model



HR's global challenges

Whether companies are just beginning to deploy common systems and brands across regions, or are further along in their global transformation, they all face similar challenges – the most significant of which is the lack of centralized employee and benefits data.

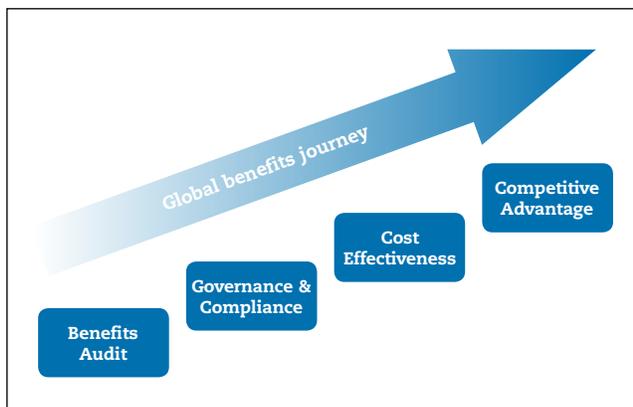
Data fragmentation

Even as companies gain global experience, their systems still remain largely decentralized. As a result, many cannot tell with any degree of accuracy the number of employees by location, the benefits offered in each country, and the total cost of those benefits. Compounding this problem is the ongoing need for HR to demonstrate its strategic value to the organization through meaningful metrics – and the fact that companies need both a global perspective and the ability to look deep within the business to get information and make those metrics robust.

Without access to basic employee demographics and benefit plan descriptions, companies cannot proceed to the next steps along the global journey. By understanding what they're working with across all of their locations, companies can determine if their benefit plans are in compliance with statutory requirements within each country. They can also determine whether these programs are cost effective and competitive within their industry or need to be enhanced to attract and retain employees (Figure 5).

“Business views HR as data rich, but we are poor in sharing this data in a meaningful way.”

Figure 5: Sample global roadmap



Lack of standardization

The lack of a consistent approach to governance and compliance, especially in Europe and Asia – where employment and tax laws vary widely in different jurisdictions – creates further challenges for HR leaders. Many companies find it difficult to ensure that they are up to date and compliant with legal policies in the many countries and regions within which they operate, while others cannot confirm whether they have implemented legislative changes that are a year or two old.

There is also a lack of standardization around the approach to global mobility, which hinders HR's ability to apply consistent procedures to the compensation and benefits of a workforce that has been growing rapidly. It is becoming even more important for companies to properly manage the logistics of moving these employees from country to country, as well as to track the costs and measure ROI on global mobility. Additionally, it is critical that companies ensure compliance with host country benefits regulations, and provide a total rewards package that is competitive with those offered by other firms in the same industry.

Immature global vendor market

In addition to dealing with internal barriers, companies also face an external challenge in their quest for benefits globalization. Most vendors are not yet operating effectively on a global scale and, as a result, are reluctant to establish global arrangements with their clients. In addition, vendors find it difficult to support a consistent delivery model when the existing level and type of service vary so widely among countries and regions.

“Administration is going to stay on the local level until the processes are ready for the global provider to take over. Right now we are all over the board on the way we administer benefits.”

Employee implications

These challenges extend beyond HR. They also have broad-reaching implications for employees, especially in the area of self-service, which ultimately affects employee satisfaction and, by extension, employee retention.

Today, the level of employee self-service varies greatly by location (Figure 6). For example, in the U.S., Australia, and Hong Kong – the most mature benefits outsourcing markets, representing approximately 80 percent of global spending – there is a strong emphasis on self-service to control or reduce costs and to ensure transactional accuracy.

However, within other mature markets such as the U.K. and Western Europe, organizations vary in relation to the adoption of self-service technology. On one hand, there are multimedia and financial services multinationals, which tend to be early adopters of technology. On the other hand, there are retail and manufacturing companies that often rely on in-house benefits administration and lack employee self-service altogether.

In such mature markets, there is often a clear return on technology investments. However, because processes are already well established, it is difficult to make the shift from traditional HR methods to a new self-service model.

In contrast, many parts of Asia and Eastern Europe are still relatively new to benefits outsourcing. Home to many multinational operations, these regions are eager to embrace self-service, but must balance the labor and technology costs of doing so. For this reason, it is difficult to make a business case for technology investments, which also helps explain why benefits outsourcing is not yet prevalent in these emerging markets.

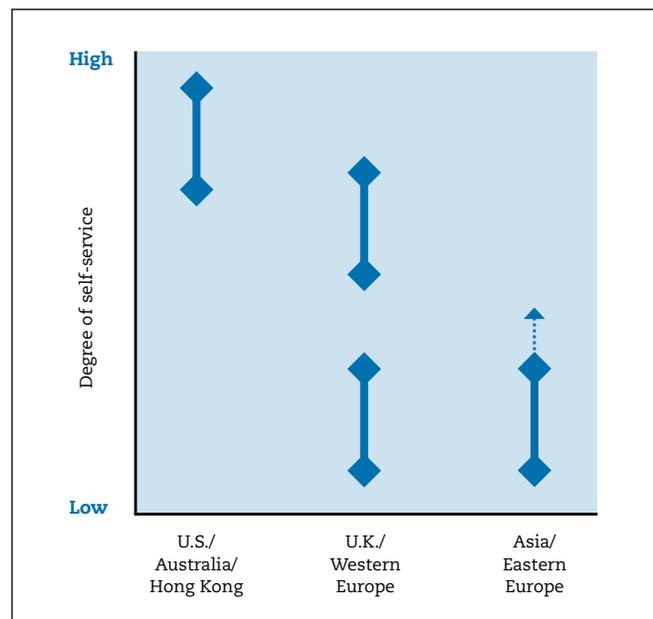
"We are held back by the lack of maturity and sophistication in the emerging markets. However, even in the U.K., the self-service is not there."

The lack of standardization across geographies especially impacts globally mobile employees who are unable to access the same self-service functions across locations. Without a consistent online system to answer their benefit questions, many expatriates find it difficult to get the details they need to make informed benefit decisions. As a result, they turn to HR, which must field employee inquiries instead of focusing on more strategic initiatives.

In an effort to improve employee interactions and simplify access to policies and programs, multinational companies – as they move toward a global shared services model – are focused on delivering streamlined and efficient services to all employees.

"Our strategy is to shift to employee self-service and to drive work to the lowest possible cost tier."

Figure 6: Employee self-service by location



Imperatives for global success

When presented with multiple global solutions that could help address companies' business imperatives, 90 percent of respondents in Mercer's survey chose two in particular. These solutions included a global HR manager portal to centralize employee benefit plan data, as well as a consistent and integrated global employee online experience.

A global HR manager portal could deliver global employee demographics, compensation and benefits data, industry benchmarks across those domains, as well as legislative and regulatory news by country. The value of this solution is clear: Through a centralized, multicurrency, multilingual HR manager portal, HR leaders would be able to access a single data warehouse, from which they could mine and analyze the data to most efficiently manage their workforce regardless of where they or their employees are located.

"We need consistent global reporting of employee demographics and benefits data. It would be great intelligence for our talent strategy."

Meanwhile, the global employee online experience – integrated across all benefit domains and regions – would make it easier for employees to access policies and programs, and conduct transactions in the most efficient ways. For HR, this functionality would make vendor management and employee communications significantly easier.

In the end, one solution leads to the other. With access to a global data repository that can collect data feeds on a provider-agnostic, multinational basis, companies can, in turn, offer employees access to all benefits information through a single sign-on process, with globally consistent navigation across all the benefit domains.

In the longer term, more than 50 percent of survey respondents expressed interest in partnering with a single regional benefits administrator, while more than 30 percent were interested in a single global outsourcing solution. The benefits to companies include receiving a consistently high quality of service, working with a single point of contact, and achieving greater economies of scale. Ultimately, the ideal partner is one that can access a robust global knowledge base and apply best practices around the world.

Conclusion

The Mercer survey reveals a range of perspectives that point to the need for a global benefits service delivery model for companies at all stages of globalization – a model properly focused on the twin prongs of employee self-service and HR manager data delivery. The expressed need for real-time global data and a single benefits view for both employees and HR would suggest that there will be movement toward integrated information reporting and, eventually, global benefits administration.

Behind this movement is the transformation of multinational companies from decentralized, locally autonomous business units to entities supported by global platforms and processes, and the subsequent evolution of the HR executive role from local to global business leader. Mercer's research shows that companies face a number of significant challenges along this global journey. In the end, however, responding effectively to these challenges helps accelerate the integration of global employee and benefits data – enabling companies to move toward a global shared services model.

All quotes in this document are from Mercer survey respondents, whose identities we have kept confidential at their request.

About Mercer

Mercer is a leading global provider of consulting, outsourcing, and investment services, with more than 25,000 clients worldwide. Mercer consultants help clients design and manage health, retirement, and other benefits and optimize human capital. The firm also provides customized administration, technology, and total benefit outsourcing solutions. Mercer's investment services include global leadership in investment consulting and multi-manager investment management.

Mercer's global network of more than 18,000 employees, based in over 40 countries, ensures integrated, world-wide solutions. Our consultants work with clients to develop solutions that address global and country-specific challenges and opportunities. Mercer is experienced in assisting both major and growing, mid-size companies.

The company is a wholly owned subsidiary of Marsh & McLennan Companies, Inc., which lists its stock (ticker symbol: MMC) on the New York, Chicago, and London stock exchanges.

For more information, please visit us at www.mercer.com.

About Harvard Business Publishing

Harvard Business Publishing is committed to seeking out, nurturing, and publishing those significant ideas that will have a major impact on business. We are the publisher of choice for those authors and content experts with important management ideas and a desire to improve the practice of management worldwide. Our association with the Harvard Business School affords access to the latest thinking in management.

We use a broad range of media, both traditional and cutting edge, to bring those ideas to executives, managers, educators, and students. Among our publications are *Harvard Business Review*, Harvard Business School Press books, *Harvard Management Update*, *Harvard Management Communication Letter*, *Negotiation*, *Supply Chain Strategy*, and the *Balanced Scorecard Report*. We also provide a number of online professional development programs, as well as our world-renowned case studies. With our events and audioconferences, we create gatherings that foster far-ranging exploration of the larger issues we face and the best practices leaders can bring to their organizations.

For more information, please visit us at www.harvardbusinessonline.com.

MERCER



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

For further information, please contact the author,
Julia Velixon, at julia.velixon@mercer.com.

www.mercer.com