

Anatomy of an HRO Deal

IT MAY BE THE SINGLE MOST COMMON HRO MISTAKE—INADEQUATE ATTORNEY INVOLVEMENT (OR INADEQUATE ATTORNEYS). SO *HRO TODAY'S* PUBLISHER WOKE UP EXTRA EARLY TO MEET WITH HRO'S MOST-PROMINENT LEGAL TEAM ABOUT AVOIDING THE COSTLIEST FLUBS. HERE IS A HINT—MOST OF THE BEST LEGAL LESSONS COME FROM M&A. BY JAY WHITEHEAD

Getting a half dozen of the world's top HRO attorneys in one room simultaneously is like swatting a Randy Johnson fastball. Either way, you gotta be quick. So when I heard that the swift six were gathering early morning in Manhattan, I jumped on the dawn train and crossed the Hudson River, notepad in hand.

If Morgan Lewis' outsourcing law team is not the world's highest-power assembly of global HRO legal experience, it is darn close. These six partners, led by Akiba Stern, Ed Hansen, Michael Pillion, and Barbara Melby in the United States, with European counterparts Richard Barratt from London and Florence Guthfreund-Roland from Paris, along with their several associates, have captured significant market share since joining forces earlier this year. *HRO Today* wants them to proffer as many pain-saving tips as possible. (At no charge, of course.)

"What is the ideal anatomy of an HRO process?" I asked. I expected them to argue this point among themselves. I was not disappointed. After a fair amount of haggling, they decided the classic HRO sourcing process has nine phases, many of which happen simultaneously.

- Phase 1:** Strategy—deciding if HRO is the client's proper path.
 - Phase 2:** Internal team-building.
 - Phase 3:** Project definition, scoping, and defining success.
 - Phase 4:** Identifying potential vendors—a process of inclusion.
 - Phase 5:** Request for proposal, or RFP.
 - Phase 6:** Proposal refinement.
 - Phase 7:** Down-selecting vendors—a process of exclusion.
 - Phase 8:** Contract negotiation and signing.
 - Phase 9:** Implementation.
- Then we started on the pricier problems.

Barbara Melby volunteered that the most expensive flubs are ERP system implemen-

tations that go over budget and overtime, and ensnare the HRO project in its sticky and horrifying web. "Separate HRO from any ongoing IT projects," she exhorts. "Phasing the two separately is critical."

Akiba Stern chimed in with his most expensive lessons, "Saving money means leveraging supplier processes and technologies. Any time a legacy, non-standard process is preserved, cost savings go out the window." He continued, "Remember also that each one of these HRO providers' service is influenced by the first deal they did. That means that if the first deal was low-cost IT-oriented, the service you are buying from them will be low-cost IT-oriented. In that situation, do not expect a high-touch, high-service orientation."

Then it is Richard Barratt's turn, with the European view of two types of trouble. First, he said, "Attorneys come in too late to identify outside factors that will impact the deal, especially tax, IT, and mergers and acquisition activities. This results in money leaking out of the deal. It is all about understanding the business and knowing the noise in the machine." Second are the "emotional issues, those associated with the legal obligation to consult with employees—meaning the Acquired Rights Directive and its other country-by-country counterparts." Michael Pillion agreed. "During the due diligence process, new facts always pop up. Thinking like a business person is critical to identify nuances with significant cost impact."

Ed Hansen thought that seeing ahead to the post-HRO contract environment saves a lot of money, very similar to the advice he would give to a company going through a merger or acquisition. "It is difficult for an HR leader to envision life after the HR department has been outsourced. Find people who have seen the before-and-after pictures. Because if you have never seen it before and you structure a deal



based on imagination alone, you can waste a lot of cost savings in readapting to the realities."

Stern pointed out that, just like in the M&A world, costs associated with paying inadequate attention can be large. "This [HRO contract process] is a full-time job. Without the quantity of dedicated resources, pieces get neglected. Then reinserting them gets expensive." Richard Barratt agreed, "Any change post-contract is a little deal within the deal."

Florence Guthfreund-Roland, the group's Paris partner, observed that balance between provider and client is the most important factor in keeping cost savings intact. "Getting the proper balance between a vendor's standardized processes and the client's unique needs keeps everyone in harmony. Especially in government, we in Europe have been outsourcing business processes longer than anyone in North America. And we know that ultimately, there is an ideal mix between universally-applicable processes and those that are organization-specific." HRO