

Excerpts of Glenn Davidson's Remarks
HR Outsourcing Awards Dinner
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For the past few months, organizers of this event have been calling me from time to time to ask my advice on a keynote speaker. It wasn't my intention to pull a Dick Cheney and take the job myself, but I'm humbled by the recognition and I thank you.

During our discussions of keynote speakers, I recommended to Harry that he ask Thomas Friedman, the columnist from the New York Times who writes extensively about global economic issues. He has authored "The Lexus and the Olive Tree," about globalization in the 1990s, and a new book, "The World Is Flat," about the sourcing revolution.

Harry responded that he didn't think we could afford to pay Friedman ... but if I was willing to read his book, plagiarize as much of it as possible, and talk to the group about it, he'd be more than happy to put me on stage.

I suspect that anyone in this audience that picks up "The World is Flat" will have a hard time putting it down. That's because the world Friedman describes – a world where global sourcing barriers have collapsed, time zones have disappeared, work days have extended to the horizon, and work has been transformed into pieces that can be constructed and deconstructed at will – is a story we've all lived.

On a personal level, I was pleased and gratified to see Friedman make the linkage between the telecommunications and fiber optic wave of the late 90s and the outsourcing wave of the past several years. Pleased ... because he credited the two for the current sourcing revolution. And gratified ... because not only was I part of the telecom wave (my firm, Viatel, built, owned and operated fiber optic networks), as a principal in Accenture HR Services, I've been helping to drive the outsourcing wave as well.

It's funny how life can seem coherent in retrospect. Isn't it?

That said, I want to talk today about how this new flatness has defined the HR outsourcing industry since its infancy, how it will continue to shape it for years to come, and how it will affect all of our missions going forward, including my own. And in turn, I'll talk about how we've helped create that change, not only in our industry, but in all industries that have been touched by the sourcing revolution.

Think back to three years ago – or even two years ago – and remember how you had to talk about HRO with potential customers. Back then, there was basically no industry data, no understanding of best practices and no accepted profession. There was no research. No one had any interest in covering us in the business press – let alone create publications for us. As for conferences and trade shows? We were lucky to keep the attention of our parent companies.

Today, this conference is a testament to how far we've come. There are scores of analysts – industry and securities – who write about this space.

There are dozens of programs devoted to the promotion and education of HRO – and two magazines – HRO Today and HRO Europe -- dedicated to the topic.

Thanks to the publishers of these magazines, the organizers of HRO World, and the pioneering members of the HR Outsourcing Association, HRO will soon be a must-have discussion in every company and government organization. What's more, every trade and professional association will feel the need to focus on HRO as part of its program agenda.

The change has been dramatic and swift. Let's recap.

Let's start with the simple stuff. When all of us got into the industry and we tried to explain to our former colleagues what we were getting into, we saw a lot of blank stares. I'm sure you know what I mean – we've all been there. You're leaving the telecom industry ... for what? The banking industry ... for what? Is this a software venture? A dot-com company? Temp staffing?

Today, our old employers are in the queue for our services. They come to our table throwing around terms like HRO and strategic sourcing with a bravado we never dared to show only two years ago. Give it time and this language will become common in every boardroom in America. No new project will be proposed without considering the sourcing options.

We started with just a handful of commercial firms and progressive governments kicking our tires. Most had no intention of outsourcing ... they just saw this fancy new vehicle in the showroom and figured it could be worth their time to take a test drive.

Things are a lot more serious today. All major providers are aware of hundreds of serious buyers, including governments. Providers can no longer keep up with demand.

Within the past year, off-shoring switched from being an issue of concern to being an issue of imperative. Once the political heat of 2004 died down, customers saw that global sourcing wasn't just about labor costs, it was about making a 24-7 business a reality. Off-shoring provides access to skill sets and language capabilities not available in home markets. Coupled with the cost savings, these tools help global firms remain cost competitive on a global scale.

The reason why off-shoring will eventually die down as a political issue is that, inevitably, the forces pushing jobs off shore will bring them back. The talents that have been unleashed in India, the Philippines and China are in turn fueling ambition. Companies in these countries are not content being bit players in the sourcing universe, they want to be winners.

And so, in this new flat world, the 24-7 economy will inevitably reach back home as these companies need to find footholds in our home market. Smart elected officials will anticipate this trend and work to capitalize on it. I'll have more to say about this later.

Dealing with the off-shoring issue may seem daunting, even today, but it's nothing compared to the effort it took to get customers to consider integrated, comprehensive HRO in the first place. At first, only very large companies made the leap. The very small customer also found a way to embrace integrated HRO via the PEO, co-employment model.

Today, middle market companies want integrated HRO and, in many ways, they are the ideal customers for these services because they cannot afford the expensive insourced models of integrated HR. These companies have the same needs, wishes and wants of larger firms and in the past year, they've been moving strongly to HRO.

Some providers are being more aggressive in this space than others because the middle market may be the road to their survival and success in the HRO marketplace. In the end, perhaps the industry is shifting based on the size of firms providers feel comfortable reaching.

It's amazing to see how quickly customers have redefined providers. In the HRO early days – say, the year 2000 – HRO was provider driven. We went to prospective clients with some amazing charts, concepts and value propositions. Often customers didn't know how to make heads or tails out of what we were saying, but a courageous few bit and kept us going as the market matured.

Today, HRO is customer driven. Customers have the knowledge to drive the process. They walk the walk and talk the talk.

When we began, there was little understanding among potential buyers of the HRO practice, it often took several sales sessions just to educate decision makers and get them comfortable with the idea of HRO before any specific sales talk could begin. Also, there was no process in place to identify, select and manage vendors.

Today, HRO education is a big business. University curricula has now been built around our industry. Perhaps even more importantly, a whole new industry has emerged -- sourcing advisors – and this segment of HRO is already worth hundreds of millions of dollars.

Going forward, sourcing advisory and outsourcing management services are going to play an even larger role. As providers and customers become global, the ability to understand and leverage HRO will become increasingly difficult. Sourcing experts will soon become a vital part of every business consulting firm ... at least for those not conflicted.

With the accounting scandals of recent past still on everyone's minds and Sarbanes-Oxley hovering above us, customers will be very wary of advisors with conflicts and this could force some important players in our industry to make a decision down the road whether they want to be BPO players or consultants.

There's one final way that HRO customers have changed – they speak a little differently than they did in our early days. I'm not talking now about jargon, but rather about accents.

Early on, when we did talk to customers, it was more often in the Queen's English than the American brand. The major HRO clients – BT, BP and BAE Systems – we're all UK-based companies.

However, American firms, in typical fashion, not only understood the market opportunity and quickly embraced the concept, they actually claimed it was their idea!

And to form, Asian companies are fast becoming an increasing important part of this mix.

So too, global customers have awoken -- almost at once – to the imperatives of the new flat world.

In all these ways, customers have changed and they're driving provider innovation.

The first wave of outsourcing customers came to us with simple, some would say simplistic, imperatives. They had specific processes they wanted to make efficient and needed the best total cost for the engagement.

Today, we're seeing end-to-end HRO take hold, under the "one throat to choke" principle that it's just easier to manage one big relationship than a series of outsourcing arrangements.

The new mantra of the outsourcing industry is "it's the data, stupid." Just as customer data revolutionized business 10 years ago, internal data has significantly altered the way enterprises analyze sourcing. Integrated solutions make it possible to put these oceans of data to work.

With this change in HRO customer needs comes a very different breed of HRO provider.

In our industry's infancy, the providers were all pure play. HRO was what e-peopleserve, Exult and Xchanging did. But as things started to heat up, the consulting firms started to get interested. Next, the IT outsourcers. And, then benefit firms. It almost seemed as if anyone who had a "piece of the HR pie" suddenly felt the need to expand its scope of services.

In order to meet customer demands, some of the larger firms are now on a buying spree. They're looking for strategic acquisitions to flesh out capabilities, increase margins, expand geographic scope and acquire customers.

Other firms have begun offering total human capital management, with HRO as part of it. While still others are now offering multi-tower BPO, handling all of firms' back-office operations

And now some other very interesting things are happening. The new competitors may be government organizations, who are establishing shared services centers and delivering services at a profit to departments and agencies.

So too, unions are considering joining the fray as HRO providers as a means of maintaining and growing membership.

When we started out, industry-specific expertise was non-existent – and worse, it was frowned upon. Potential customers feared the competitive risks of taking on a provider that served one or more companies in their industry.

While it's unlikely that the HRO industry will ever become so tailored that all companies break down on an industry-specific basis, I do believe providers will begin to specialize in industry verticals, including some that focus exclusively on governments and non-profits.

As our industry has evolved, so too did the enterprise software industry. At first, ERP vendors perceived themselves in the catbird seat. They refused to modify software or change their sales and financial models. And why should they – their industry was outrageously profitable and the whole world thought that anything was possible with the right software.

Today, that bloom is off the rose. Companies still know the importance of ERP ... now more than ever. But they also understand that they have options and after the great ERP War of 2004, those options look more like an insurance policy than a risk.

IF SAP's announcement today is any indication, the ERP community is getting the message that HRO is here to stay and it needs to change its model to accommodate it.

We had a lot of work to do within the HR profession in the early days as well. We weren't especially well liked by HR professionals a few years back – we were feared and loathed. It was widely assumed that we were there to deliver the last rites to the HR industry – automate everything and send them home without jobs.

Clearly, we had a lot of work to do within the HR community ... and, for that matter, still do ... to earn its professionals' trust and respect.

As a result, HR professionals have adapted – and some are thriving because of it. Those with experience or training in outsourcing are highly sought out. Many have made the transition to our companies and have found that their careers are even more rewarding. Others have stayed at their parent company and have taken a more strategic seat at the board table.

Inevitably, as the flat world hits home for all corporations, artificial employment barriers will drop. Teams ... or the effectiveness of the team dynamic ... are inevitably going to be more important – and the people you work with most intimately will probably not be the ones inside your own corporate walls.

Delivery centers have also seen radical change. The old model for HRO delivery centers was to locate them as closely to customers as possible. A lot of this was a mere comfort issue – knowing that your HR is still close to home. But of course, in a flat world, distance is relative. Physical proximity isn't the issue – responsiveness is the issue. And so today, HRO providers have become more and more comfortable with lower labor-cost locations for sitting their facilities.

And yet, there's still some tension in the marketplace to this approach. Much of it is political ... and as a lifelong political activist who has worked for some prominent elected officials, I'm distressed to acknowledge that elective politics is largely responsible for this tension. Inevitably, this tension will ease ... just as American consumers adjusted to the non-Detroit auto industry, so too will the country grow and accept the virtual back office.

Smart government officials will learn to work with the industry to their advantage. Rather than “fight the outsourcing trend,” individual states and localities -- not to mention whole countries – will eventually provide incentives to firms to locate their outsourcing services delivery centers within their jurisdictions. We saw this in the auto industry when major non-American car companies built manufacturing plants here and we'll see it again when India, Chinese and Pakistani outsourcing companies close the loop by expanding their operations to North America, creating full-service, 24-7-365 solutions.

So now that I've taken you through this journey, I want to talk for a few minutes about where it leaves all of us. Friedman writes in his book that the sourcing revolution underway is creating a national crisis that must be solved one person at a time. While America and American business has for decades had substantial natural advantages, we cannot be complacent that these advantages will hold up for long – not when work can move seamlessly to the lowest cost and the best talent.

Friedman says that the dirty little secret no CEO wants to tell you is that companies are outsourcing not just to save on salary, they are doing it because they can often get better-skilled and more productive people than their American workers.

For the HRO industry, this is a major opportunity. Human resources has moved front and center in the global economy. The clarion call we've sounded for years may finally be heard. Now how are we going to respond?

I, personally, know how I have to respond.

When looking at my personal responsibilities, I have to peer at the public sector and the political culture – where I've spent much of my career – and wonder what I can do to make sure America is ready for the new sourcing future.

I've worn many hats in my career – sometimes I think I've had as many jobs as Homer Simpson – and most of them have been in the public sector. I not only served as a gubernatorial chief of staff and a Congressional aide ... I've been an association executive and I have worked with universities. I've helped the computer and telecom industries interface with the federal government and even served as public affairs advocate for energy companies ... which I suppose is another close tie to Homer Simpson.

My experiences in the outsourcing industry make it clear to me that we must encourage sensible sourcing strategies in government. We must do this so that elected officials can see its benefits first hand and can become just as fluent in the language of outsourcing as our customers have become in the past few years.

But it's not just government that needs our help. Colleges and universities need to find ways to hold the line on tuition increases. Non-profits have to make the most of every grant and donation and their overhead must be as lean as possible. Public utilities are under greater scrutiny than ever in the post-Enron world. And citizens are insisting that government improve services without increasing their tax burden.

So what can I do about it? Well, to be perfectly blunt, the solutions in the public sector go beyond the reach of any single provider in our industry. The public sector needs to take advantage of the full breadth of sourcing options. Total outsourcing is not always the right choice for public organizations. Sometimes shared services in-sourcing is best. Sometimes co-sourcing, as in a public-private partnership is the answer. Often a blend of the three is best.

In many instances, off-shoring is not an option ... for economic and political reasons. But there are alternatives that make sense. Perhaps governments should consider locating shared services delivery centers in a distressed area of the country to give it the economic boost it needs?

Given my understanding of the work that must be done and my commitment to making it happen as quickly as possible, the time is right for me to jump into the global public sourcing economy head first.

And so I'm pleased to announce that I will soon be assuming the role of President of Equa Terra Public Sector – a sourcing advisory organization focused on the unique needs of governments, educational institutions, non-profit associations, charitable foundations and public utilities.

I'm also pleased to note that two luminaries of our industry -- Jeff Shooter and Mark Stelzner – both formerly of Convergys – will be helping me. I'm delighted to be joining them and can't wait to get to work.

Why Equa Terra? Because the intelligence and passion of its leadership team is unequalled! And because I believe EQ has what it takes to help the full breadth of public service organizations.

That said, EQPS, as we will become to be known, will be global in scope and focused on making all aspects of sourcing work – whether the solution is HRO, other BPO or ITO ... whether it be outsourcing, in-sourcing, or co-sourcing.

That said, I want to thank David Clinton and the leadership of Accenture HR Services for the unforgettable experiences of the past four years and for keeping their commitment to being a leader in this market space. Without their leadership, much of the positive public attention that has shined on our industry would be fainter.

And to all my colleagues in the HR outsourcing community ... this is but a continuation of a beautiful friendship.

Thank you.