

Case Study: Chevron UK – Crunch Time for Payroll Outsourcing EquaTerra Helps Create a Rock Solid Contract

At a Glance

Company Profile

Founded: 1981

Headquarters: Aberdeenshire, Scotland

Industry: Chevron is one of the largest integrated energy companies in the world. Conducting business in approximately 180 countries, Chevron is engaged in every aspect of the oil and natural gas industry.

Size: This UK subsidiary holds interests in more than 30 fields in Denmark, Norway and the UK. Output from its Britannia Field in the North Sea meets 7 percent of the UK's total demand for gas.

Services Featured

- Service Provider Selection
- Negotiation and Contracting

Business Processes Involved

- Payroll

Executive Summary

Chevron's UK business was facing intense pressure from both the newly enacted Sarbanes Oxley regulations and the company's aging HRIT systems. Symptoms of the problem included low staff morale and high turnover. With four solutions in mind, Chevron UK management turned to EquaTerra for an objective evaluation and strategic recommendations.

Business Challenge

In 2005, oil giant Chevron (formerly Texaco Chevron) made the decision to overhaul the company's HR and payroll systems. A series of internal audits had highlighted several big compliance weaknesses. In addition, the company was paying out vast sums per month to keep a temporary systems team in place to ensure effective day-to-day operations, so there was added incentive to reduce high interim management costs. With just 2,000 employees in the UK, what started out as a relatively limited transformation exercise soon became a high-profile corporate project.

According to Chevron's Peter Brand, regional manager of HR Shared Services, Europe, West Africa, Eurasia and the Middle East, "By 2005, we already knew that our HR systems were old and somewhat creaky, and we were also in a real muddle with payroll. The arrival of Sarbanes Oxley (SOx) put us under enormous pressure within the company, and the only solution was to rapidly replace our HR systems and, at the same time, do something about payroll."

By this time staff morale was low, resulting in high turnover and a subsequent loss of knowledge and skills. Permanent staff found themselves working alongside disillusioned temps, and all were struggling to make poor processes work.

To resolve the issues Chevron was facing, management considered four possible solutions:

- Offshoring to the U.S.
- Fixing in-house operations and then using a transformation consultant
- Outsourcing combined HR and payroll services
- Outsourcing payroll

Because Chevron also wanted an answer that would improve prospects for its payroll staff, the company decided that outsourcing was the best option. It promised modern technology, data encryption, good management systems, clear career paths for dedicated staff plus guaranteed compliance – the key ingredient that the company's U.S. stock market listing demanded.

In the UK, Chevron had no experience of outsourcing and Brand acknowledges there was antipathy toward the idea. In order to ensure the company received the support and guidance it needed to handle the business-critical compliance issues, plus detailed TUPE transfers, Chevron turned to EquaTerra.

How We Helped

Brand explained, “The prime reason for turning to EquaTerra was for help in negotiation. Our advisor was highly knowledgeable and seemed to have a gift for drawing on just the right resources from within EquaTerra at just the right time. Their intellectual property resource was also extremely impressive. EquaTerra pushed the transactional focus less than the relationship focus, which was perfect, and their experience highlighted the pitfalls for us. We also felt their expertise would help secure the best value from the market.”

Within one month, EquaTerra’s advisory team had drawn up the RFP, and a shortlist of suppliers soon followed. It soon became clear that one of Europe’s largest payroll providers had the systems and the expertise to fulfill the multiple demands of the contract.

The provider’s SAP platform was already SAS70 type 1 compliant in the UK (the European standard), but as this is not strict enough for SOx, the provider had to commit to acquiring type 2 certification before it could fulfill all of Chevron’s demands.

EquaTerra consultant, Rudi De Roeck, explains, “Most European outsourcing providers weren’t SOx ready in 2005, but U.S.-listed businesses, such as Chevron, were coming under increasing pressure to comply, which put SOx center stage in Europe. This meant quite a lot of investment for the service provider, but the company has since used the lessons from Chevron to adapt and refine processes and standards for the rest of its business.”

The final contract ran to 250 pages and included 30 annexes to the master agreement. Such detailed documents are not common within the industry, but EquaTerra was determined to create a rock solid deal, given Chevron’s historic compliance issues. After six weeks of tough negotiations, the deal was signed and both client and supplier say they were pleased with the end result.

Lessons Learned

Looking back, Brand acknowledged that the timelines were far too tight. “We put ourselves in an impossible situation by trying to achieve the deal in just six weeks. At one point, it felt like we were meeting every day. EquaTerra, however, understood the process much better than we did. Looking back, we probably over-engineered the deal, but we were both new to the process and cautious, which meant we opted to include just about everything, including the kitchen sink.”

The service provider’s Managing Director noted, “EquaTerra has rigorous service level agreement methodology, so there was a lot of discussion about service levels. Negotiations ended up taking longer than you might expect even for a global deal, but this gave the client confidence that they were getting the best possible deal.”

EquaTerra also insisted on penalties for missed targets and measurements. De Roeck explained, “We developed a good pricing mechanism that prevents the client from losing money, and we were able to strip a lot of costs out of payroll. The service provider was given a three-month grace period during which they reported on and measured SLAs but were not penalized for missing them. Many companies do not offer this, but working any other way is clearly impractical.”

Results

Dedication by players on both sides was instrumental to the success of the deal. Although Brand preferred built-in flexibility to a heavy-handed contract, everyone testified to the important role played by Chevron’s legal advisors, who were willing to find solutions, to put in long hours and to understand fine detail paid dividends. In addition, Chevron’s Procurement Officer was key to the success of the deal. He knew how to get things signed off internally and by whom, which significantly speeded things up. He started working with the team just a few days after joining Chevron but soon became the internal hub for the deal.

The ultimate testament to the work of all parties involved is the fact that by month two the service provider had completed a full payroll run for 2,000 employees with just a single error.

About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their IT and business processes. Our advisors average more than 20 years of industry experience and have supported over 2000 transformation and outsourcing projects across more than 60 countries. Supporting clients throughout the Americas, Europe, Middle East, Africa and Asia Pacific, we have deep functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes. EquaTerra helps clients achieve significant cost savings and process improvement with internal transformation, shared services and outsourcing solutions.

www.equaterra.com

Contact Us

If you would like to know more about EquaTerra please contact us.

Asia Pacific
+91 80 4022 4209
infoasia@equaterra.com

Americas
+1 713 470 9812
infoamericas@equaterra.com

Europe, Middle East, Africa
+44 (0) 845 838 7500
infoemea@equaterra.com