

Case Study: DuPont – Reaping Maximum Value with 10 years of Governance Experience

EquaTerra Helps Guide Governance Planning

At a Glance

Company Profile

Industry: Founded 200 years ago, DuPont delivers science-based solutions in sectors ranging from electronics to food and nutrition. A well-known U.S. brand, DuPont conducts most of its business outside the U.S.

Size: Operates in 70 countries and generates revenues of \$28 billion.

Services Featured

- Assessment
- Governance
- Transformation

Business Processes Involved

- Information Technology
- Human Resources
 - Payroll
 - HRIT
 - Benefits
 - Learning
 - Recruiting
 - Domestic Relocation
 - Expatriate Administration
 - Compensation Administration
 - Performance Management

Executive Summary

A recent EquaTerra Webcast gave G. Frank Conway, DuPont director of Global HR Information, the opportunity to share ‘Governance Lessons Learned’ with EquaTerra’s Mike Beals. Conway has been with DuPont for 30 years, and for the last two years, has played a key role in the company’s HR transformation. This case study highlights some of the key points from that Webcast.

In this discussion, Conway compares the differences between DuPont’s \$4 billion ITO deal in 1997 and its recent \$1.1 billion HRO transaction, which provides both salutary and encouraging insights. Although the deals had very different business purposes, Conway points out that the company ended up in the same desired place each time, albeit via different routes, and he shares DuPont’s lessons learned from these experiences.

Business Challenge

The earlier ITO transaction took place in a much less mature market. At that point in the multinational’s growth, DuPont’s aim was to achieve three key goals from the deal: (1) variability in spending (2) increased flexibility and (3) access to state of the art IT skills. DuPont’s business model had changed significantly after a series of joint ventures and acquisitions in the mid ‘90s. As a result, spending variability, both up and down - without penalty - was critical to future development plans and to allow the business to respond quickly to change. Importantly, cost reduction was not a prerequisite of the deal but the company soon learned a sharp lesson about the true cost of managing such a deal.

“It became clear we were spending 6 to 8 percent of the dollar value of the deal to manage it,” Conway explained. “But seven years on, after continuous renegotiation, the transaction now runs like a well-oiled machine at a cost to manage of around 4 percent.”

Beals confirmed that, for ‘commodity’ type deals of this type, this now represents the market norm.

Always Accountable

Conway admitted that such costs made it harder to sell the DuPont Board on the idea of further outsourcing, but that blaming the supplier when things went wrong was no excuse.

“We realized that you are always accountable, and you have to be on top of what’s happening,” he said. “This is why such cost ratios are fundamental to outsourcing success. Without this level of involvement you end up in an inadequately managed relationship and the transaction can fail.”

When the company turned its sights to a global HR transformation several years later, it had the benefit of its own experience. The objectives this time were to (1) outsource all HR transactional and service delivery processes globally, 2) to provide a blueprint of best practices for process simplification and standardization 3) to integrate the HRIT platform using SAP-HCM and 4) to provide an employee/manager self service portal and call center using provider technologies. The deal called for call center support in 30 languages and HRIT systems support in 16 languages.

Notably, EquaTerra advisors were on hand to guide the company through these complexities. DuPont could benefit from access to an invaluable ‘repository of outsourcing science’. Conway explained the difference the new resource made.

“Just three months out from signing the 1997 ITO deal, we broke out in a cold sweat,” he said. “We had no well-defined processes in place either for authorizing or validating a request from the service provider for example, so we pretty much spent the next 18 months structuring and refining the 20 key processes required. This time around we started early and with the benefit of our own experience, plus that of our EquaTerra advisors, and the mass of documentation now available. We got to where we wanted to be much better prepared and much faster.”

As a result Conway now has a clear definition for Governance within the DuPont organization. “Governance is the glue and enablement that makes the process management work,” he said.

Question of Overkill?

The new transaction has now been running for six months, following 16 months of intense preparation and negotiation. Mike Beals asked Conway if he felt the depth of preparation advocated by EquaTerra was really necessary - or had it felt like overkill?

“I’d like to say it’s overkill, but it’s essential. It can be overwhelming initially, but with some help, most people can understand why it’s needed,” he responded. “Even with years of experience behind us, DuPont still needs to do lots of explaining, and I would say it’s important to recognize that staff on both sides need to train and retrain. Governance is dynamic, it’s always changing. Without a constant effort to internalize the processes, disarray and disillusionment can set in. Some degree of people continuity on both sides is always helpful, too.”

Summarizing his Governance ‘success’ checklist, Conway stressed the need to select the right team (the best people, not necessarily the most available) and to keep “your future state in mind.” He also highlighted the need to refine financial models and to provide for ongoing governance. He strongly emphasized the importance of defining and selecting the retained organization while also insisting on continuity of personnel on the supply-side. Finally, he recommended hiring some external help, carefully mobilizing the change management team and seeking approval and proactive endorsement from senior executives.

Buyer Insights

When Beals asked Conway to sum up the lessons learned in the past decade, the DuPont Director didn’t hesitate. “Once you’re over the hump, people usually like outsourcing. DuPont is very happy with its outsourcing deals – they’re hard work but we wouldn’t go back. I would urge other businesses to remember that today’s pace of change is quite exceptional, and the need to communicate, to focus and to provide training is critical. Above all, be cautious and careful in how your governance is handled – then you will reap maximum value creation.”

- Start early with governance design and education and remember that governance is more than authority lines – it includes critical processes and decisions rights
- Select your best governance team (not necessarily the most available)

- Hire some external help experienced in outsourcing
- Keep focused on the future
- Shape the financial model around ongoing governance - getting value requires significant investment – don't fight it
- Seek proactive endorsement from senior executives
- Pay close attention to definition and selection of the retained organization
- Mobilize the change management team
- Carefully define the governance processes and transition plan
- Insist on some continuity of supplier personnel
- Remember that negotiations are continuing and constant
- Don't underestimate counter-productive business unit behaviors – use 'rules of engagement'
- You are accountable even though they are doing it
- It takes three to tango – you (governance), the supplier and the customer
- 'Evergreen' can only be achieved with the right skills and personalities
- Conflict is inevitable – but maintain the relationship throughout and despite it

DuPont is pleased with its outsourcing deals. "We wouldn't go back," Conway said. "I would urge other businesses to remember that today's pace of change is quite exceptional and, therefore, the need to communicate, to focus and to provide training is critical." He advises other organizations to be careful in how governance is handled in order to reap maximum value creation.

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, 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.

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