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BONUS! HRO WORLD EUROPE MAGAZINE SUPPLEMENT, P. 36

Just Say HR Transformation (Not HRO)

Surrounded by HRO success everywhere, Electrolux's Sunita Malhotra faces the question of to outsource or not.

THIS COVER STORY IS AN *HRO TODAY* FIRST, IN THREE WAYS. NO. 1, IT FEATURES A MULTINATIONAL COMPANY WHICH, LIKE HUNDREDS OF OTHERS, HAS YET TO EMBARK ON AN HRO INITIATIVE, AND MAY NEVER DO SO. SECOND, YOU WILL NEVER READ A PROFILE THAT MORE VIVIDLY CONTRASTS ATTITUDES ON HRO AMONG TWO DIRECT COMPETITORS. AND THIRD, THIS STORY IS AN INTERNET-ERA CHANCE TO GIVE YOUR OPINION ON WHAT YOU THINK OUR COVER SUBJECT'S NEXT HR TRANSFORMATION STEPS SHOULD BE. BY DENISE DOIG AND JAY WHITEHEAD

One of the benefits of reading HRO Today *is the amazing business trivia you pick up. For example, since you read this magazine, you surely can name America's largest appliance manufacturer. After all, its innovative HRO contract with Convergys was the subject of our September, 2006 cover story. (Can't remember? Can't find the September issue in that stack of stuff on your desk? Here's some help. The company is Whirlpool.)*

But do you know the globe's current No. 1 appliance maker and the world No. 1 in vacuum cleaners? Here's a hint: Hoovers.com says the company "has a 100-country hunting license for dust bunnies." (Translation: a "dust bunny" is one of those dust balls that you find under your bed.) And it owns one of America's best-known ice box brands, Frigidaire. Ok, we'll end the suspense. It's Electrolux.

In Whirlpool's case, it undertook its transformation-via-HRO effort smack dab in the middle of embarking on a buyout of its rival, Maytag. As *HRO Today* reported in that groundbreaking September 2006 cover story, "To undertake a multi-tower HR outsourcing deal is no small task, but try taking it on for more than 80,000 employees. To make life even more difficult, roll it out while you're in the midst of your largest global acquisition ever. Kind of like moving a refrigerator on your back, huh?"

When we read this passage out loud to Electrolux Director HR Europe Sunita Malhotra at the Conrad Hotel in Brussels, Belgium, where she was a speaker at the November, 2006 HRO World Conference, she smiled. While Malhotra was a conference presenter, like many HR pros, rather than speak of HRO, she prefers to discuss the less-specific term "HR transformation." Malhotra's company has undertaken "HR transformation" initiatives from time to time. But *HRO Today* understands that using HRO as a transformation tool at Electrolux right now is, as they say in America, a "third-rail issue" (Translation: most American urban train systems use a high-voltage third rail for power—touching the third rail means electrocution and instant death).

For sure, Electrolux's quest for HR transformation help is not yet a Harvard Business School case study. But for those who have either completed an HRO effort, are contemplating one, are trying to duck the issue, or are HRO providers or consultants, Electrolux's situation is an object lesson. This cover story is unlike any we have ever done. It tells the story of a European company far from undertaking HRO initiative—juxtaposed against that of its major American rival, which counts itself as one of HRO's growing group of raving fans.

ELECTROLUX AND WHIRLPOOL: COMPARE AND CONTRAST

A financial comparison of Electrolux and Whirlpool sets the stage. While Electrolux was once the world's largest appliance maker at more than $16 billion in revenues, Whirlpool is now the reigning champ with more than $18 billion in sales (it reported a 25 percent bump in its fourth quarter following the completion of the Maytag buyout). Sweden-based Electrolux makes vacuum cleaners, washing machines, stoves, refrigerators, and freezers. Michigan-based Whirlpool does the same, plus and air conditioners, microwaves, trash compactors, and air purifiers.

Both companies are in pretty thin-margin businesses—in the 5 to 6 percent range. Whirlpool gets more of its revenues from the U.S. than does Electrolux, while both sell products in more than 90 countries. Like most heavy manufacturers worldwide, both are rapidly shedding employee headcount and outsourcing more assembly functions.

The big financial difference among the two companies is their growth profile. Whirlpool's net income for 2005 is over double that of Electrolux. And Electrolux's sales shrank over 10% in 2005, while Whirlpool's was up over 8%. Take a look at this comparison.

Financially, the two companies are comparable in many ways. Headcount-wise, since 2001, Electrolux has reduced almost 20,000 workers worldwide in an effort to cut costs, a number which is nearly matched by Whirlpool. In the most recent quarter, Electrolux reported a fourth-quarter profit almost twice as large as analyst estimates, $206 million, compared with a year-earlier $50 million loss. The company's shares are trading at a five-year high. On the day of the results announcement, February 14, its stock was the best performer on the Dow Jones Stoxx 600 Index of leading European companies.

By contrast, Whirlpool said its fourth-quarter profit dipped 13 percent to $109 million, apparently hurt by a slowdown in U.S. housing starts. Revenue trends between the two companies may grow further apart. In January of 2007, Electrolux spun out its Husqvarna lawn mower line, further shrinking its top line and its workforce and narrowing its focus on household appliances.

While financial comparisons of the two white goods makers are close, culturally, the two companies are as different as Venus and Mars. Whirlpool is a largely American company, with its roots in outsourcing-friendly Michigan. Electrolux is essentially northern European, with its roots firmly planted in socially conscious Sweden. The contrast is as stark as that between American pro soccer, in which games must end with a winner (even if it takes a sudden-death shootout), and European football, where tie-games are acceptable.

In her conference presentation, Malhotra characterizes her employer as a quintessentially Scandinavian company rooted in Nordic corporate culture. She described the culture as "lifestyle, freedom, intuition, and caring." Her company is famous for its decentralized decision-making structure, which makes consensus on change initiatives rather

Whirlpool	
2005 Sales (in billions):	$14.3
2005 Sales Growth	8.3%
2005 Net Income (in millions)	$422
2005 Net Income Growth	3.9%
2005 Employees	66,000
2005 Workforce Growth	-2.9%
Brands: KitchenAid (made for Sears), Baukencht, Roper, Speed Queen, Maytag	
Founded: 1911 in Michigan	

Electrolux	
2005 Sales (in billions)	$16.3
2005 Sales Growth	-10.9%
2005 Net Income (in millions)	$190.8
2005 Net Income Growth	-54.8%
2005 Employees	69,523
2005 Workforce Growth	-3.9%
Brands: Electrolux, Frigidaire, Zanussi, Eureka, AEG	
Founded: 1912 in Sweden	

Malhotra speaks at the HRO World Europe conference last November

rare. To compound the company's complex HR picture, historical acquisitions have introduced a diverse workforce. The company acquired German firm AEG in the 1990s and Italian Zanussi in 1984. With workers representing 65 different nationalities at Electrolux's Brussels location alone, the workforce's stunning level of diversity often presents speed bumps on any road to rapid structural change.

Facing rising manufacturing costs and mounting debt, Electrolux's CEO Hans Straaberg has decided that the company's best competitive option has been to innovate with new products while moving plants to low-cost Poland and Mexico. With its strong fourth-quarter financial results, the plan seems to be working.

While new products seem to give the company some newfound pricing power, shareholders and analysts wonder out loud whether the company's innovations can extend beyond product design to how it manages its all-important workforce. With major rival Whirlpool already benefiting from the cost savings and service improvements from its 12-year HRO initiative that covers 80,000 employees, leading Wall Street analysts have noted that in its corporate overhead, Electrolux finds itself comparatively cost and capability disadvantaged.

IT'S OK TO SAY HR TRANSFORMATION, NOT HRO

When Malhotra raises her hand in a conference crowd, heads turn. By her own admission, she came to where we met her—the November, 2006 HRO World Europe conclave at Brussels' fabled Conrad Hotel—with one goal in mind: learn as much as possible about what other multinationals are doing to improve HR productivity and manage costs. Thirsty for success secrets, she jotted dozens of pages of notes. She asked questions of nearly every speaker, often questions followed by additional questions. She was a woman in search of HR transformation tidbits—news she could use.

As she described in her presentation, back home in her European HR management role, Malhotra is responsible for a group of 26,000 extremely diverse employees, or just under half of the company's global workforce. Before joining the Swedish appliance manufacturer, Malhotra worked in three industries: pharmaceuticals, retail, and consumer durables. The 14 years prior to Electrolux she spent at Bristol Myers Squibb and KRAFT/Phillip Morris International (PMI). But not all of that was in HR; she is no HR purist. Malhotra also has six years of sales and marketing experience, which she says allowed her to understand how to really influence an organization's business strategy. In Electrolux's case this means finding a market-aware means to meet the needs of an increasingly diverse employee base. For Malhotra, ongoing HR transformation is a necessity. But transforming using HRO as a tool is, barring future orders to the contrary, currently off the table.

Malhotra has heard about HRO's promising risk-reward profile and even has some experience with it in her previous posts. She has heard the stories of positive transformation using HRO at BP, BT, BEA, Unilever, Whirlpool, Belgium's Elia, GM Europe, P&G, ISS Netherlands, IBM, RBS, Lloyds, Bayer, and many others.

But for Electrolux, HRO now represents more risk than reward—only questions with no certain answers. How can it overcome the legal hurdles to outsourcing HR functions in every one of Electrolux's core European countries? How can it overcome union and works council objections to tossing-out time-honored processes? How can it turn its back on Nordic paternalism? How can it abandon expensive software systems, even if they are less than perfectly effective? After creating a global HR organization, how can it justify cutting HR headcount? Would HRO-related changes load more decision making burden on line managers? How could it justify bringing outside providers in to replace its own staff? And worst of all, how can it sell an HR strategy that is decidedly British or (worse yet) American?

Both Electrolux and Whirlpool, like many other manufacturers, face technology and HR platform challenges that threaten to stymie growth. Both have expensive old "point solution" software that does not integrate with the company's enterprise systems. Both face expanding HR support costs that draw precious resources for more mission-critical needs such as product development, sales or marketing. Whirlpool, American-style, went HRO in an effort to address all issues in one big bang, despite the fact that it faced simultaneous ingestion of 20,000 employees and 12,000 retirees along with the Maytag acquisition. By its action, Whirlpool's management is telling the market that its time of greatest change is its moment of greatest opportunity.

Of Whirlpool's HRO decision, Electrolux's Malhotra refuses comment. Yet her unspoken message was clear. At Electrolux, the time is right for HR to watch its rival's progress with interest, without any hint of following their lead.

Malhotra's charges are in Western and Central Europe, and Turkey. Most are members of 15 different labor unions. Electrolux, like many of its peers, is HR platform-challenged. Its systems include two global resume databases and many Excel spreadsheets, among other country-specific point solutions. The company has zero financial appetite for investment to acquire a centralized HRMS.

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In doing the complex calculus of HR transformation, Malhotra weighs her options. On the one hand, she knows the benefit of a standard global HR system and its ability to drive increased productivity. On the other, she understands the costs of pushing a change-challenged culture and the lack of an HR capital budget.

Without the tools to measure results and a system with which to see the whole picture, Malhotra knows she may be operating partly in the dark. During her presentation, she confirmed that there are probably several global vendors who could solve Electrolux's issues without requiring significant capital outlays. She knows that transforming HR cost-wise, platform-wise and results-wise answers a competitive imperative. But absent an HR capital budget or an appetite for HRO, Malhotra has focused on cross-cultural training to unlock value and avoiding costly miscommunication. In 2005, Malhotra, organized European key group employees for a multi-day learning event focused on how to use a client's own culture to help deliver results among international key accounts.

AN ADVISOR SPEAKS

One sourcing advisor agreed to speak with *HRO Today* about Electrolux's situation. But, reflecting his perception that Electrolux sees HRO as a controversial issue at the moment, insisted on anonymity.

"Face facts," the advisor said, "even though there has been significant consolidation in appliances, there will be more. For example, in consumer packaged goods, nobody thought that P&G and Gillette would merge. But they did. These days, no two companies are too big to get married. So by undertaking an HRO project right now and making itself more competitive immediately, Electrolux would be increasing its enterprise value. And by enterprise value, I mean its attractiveness to another buyer, or as an acquirer itself. I think Whirlpool did the same math, and realized that having a scalable HR platform increased the likelihood that it would be an acquirer rather than an acquisition target."

AND NOW, YOUR TURN TO WEIGH IN

What's an HR leader to do? We invite your advice. Would you use the company's recent strong financial results to provide fuel to make the company more competitive in a rapidly consolidating segment, knowing you'll have to sell HRO and HR transformation hard within a paternalistic Nordic corporate culture? Or go with the flow of this past quarter's strong financial results and keep the HR organization's profile low? What's the right choice?

HRO Today's 30,000 subscribers want to hear your thoughts on what path Electrolux should follow. If you think Electrolux should lay low and stay the course without HRO, e-mail your thoughts and comments to: LayLow@OutsourcingToday.com. If you think Electrolux could use HRO as a competitive advantage, email your comments to: GoHRO@OutsourcingToday.com. We may publish select results, but we'll keep your identity anonymous. Go ahead—your ideas will go to benefit everyone, maybe even yourself.