GlobalHRNews™
Globalization's Effect on Company Strategy, Employees & Cultures

Guest Editorial: Will Relocation Co's Survive?

SIMON SAYS ...

GLOBAL HR NEWS : Hello JIM SIMON... please tell us about yourself; give us some background, and, how did you enter the mobility business?

JS: I grew up in New York City, both of my parents were from Greece and I had the benefit of growing up with an extended family all around me. you learned to take care of the generations which preceded you.

My first job after college was in the corporate trust department of Chase Manhattan on Wall Street. I had to drink double espressos all day- before they were so popular here- so I wouldn't fall asleep from boredom. I entered the relocation business by joining PHH-Homequity, the forerunner to Cendant/Cartus. It was a great company and an exciting time - the industry was just beginning; it was a time of explosive growth and learning. I stopped drinking the espressos.

GLOBAL HR NEWS : What is your favorite book? What are you reading right now?

JS: The most influential book for me was "Man's Search For Meaning" by Victor Frankl. The author was a psychiatrist and Auschwitz survivor. The book, however, is incredibly inspirational and, in it, Frankl asserts that "the will to meaning" is the most basic motivation for human life. It's an important lesson for corporate leaders. Right now I am reading "Blink" by Malcolm Gladwell, an interesting look at how people make instinctual decisions - sometimes they are brilliant, other times disastrous.

GLOBAL HR NEWS : What are your favorite foods?

JS: Sushi, spaghetti and meat balls. Not together, of course.

GLOBAL HR NEWS : Now, lets get into it. What are your thoughts on today's business of Relocation?

JS: First of all, there are two critical issues which have, unfortunately, become clichés in business today: people and customer service. There has been so much written and "publicized" about the importance of "people" and the delivery of "great, passionate, exceptional, outstanding," service that all the meaning has been stripped out of the words.

Every company in the relocation business, for example, promotes service levels that are never lower than, say, 92%, and never higher than 98%. The first number is the lowest you can get by in an RFP or proposal without being laughed out of the business; the second number is as high as you can get and still be credible. Yet, when you speak with the customers (transferees and expats) and corporate clients, very few people are really happy or overjoyed with the service from their mobility providers.

Maybe it's because most customers don't respond to the surveys. But, something is wrong here. Very few, if any of the major competitors, have truly differentiated themselves through service delivery - even though they all talk about it all the time.

Similarly, every mobility company talks about the importance of their people. Yet, I am sure that the satisfaction of the associates in the industry has badly deteriorated (in the US, at least) over the past ten years. With the explosion of research and business writings, every company's leadership now knows how to express the "right" things like "people" and "service." It has become too easy to "talk the talk" without really doing what's required to create a good work environment.

The relocation industry has allowed itself to fall into a negative spiral: it doesn't value its services adequately, it descends to the pressures of the "purchasing" mentality, it frequently builds up too much infrastructure (now, globally) so it becomes dependent on any revenue (versus profit) to feed its engine, the margins keep slipping - and "people" can't be valued in that environment. So then you see organizations fail to support their own associates - they cut benefits, they don't train them, they overwork them, vacations go unused (which is truly absurd in the US since we take less vacation than any other workforce), and it just goes on and on to become a slow but steady deterioration of support, morale, and a resulting lack of engagement in the workforce.

In a service business, if your employees are not emotionally engaged, you're dead. But, some of this undermining of associates is more subtle.

Today, for example, it has become popular for service providers in the industry to brag about how they stay at cheap hotels on business trips. Obviously everyone needs to be prudent about costs but there is a point where we can carry things to an unproductive level. For example, if the ultimate standard in this respect was to save money on T&E, people on business could sleep in their cars. Obviously, that's ridiculous. But somewhere, there is a point where it also doesn't make sense to have your associates - many of whom in the mobility business travel 50-80% of the time - sleep in barebone, discount hotels.

Whatever happened to making your employees feel valued? What about the image of success they should portray?

Sure, corporate clients want to see that their service partners are discreet and careful with how they spend - but, deep down, I believe everyone also wants to do business with people and organizations that they perceive are successful! I don't feel good - and I don't feel incredibly successful - when I leave a Motel 6 to attend a meeting or a negotiation.

It probably can't be measured - but I believe performance improves when an employee has a great nights' sleep, in comfortable and perhaps slightly luxurious surroundings. I'll bet that associate feels better about her job, her company, about being away from her family. I believe that associate is in a better position to represent their organization - and may even feel like she's got some power. Imagine that as a backdrop to attending a meeting where you are in a difficult negotiation or a major sales presentation.

All of this, however, goes back to the industry and businesses not valuing profitability. You have to cut everything to the bare bone if you give your services away. It's a vicious cycle - you underprice and undervalue, you then cut resources and support. Your own employees aren't treated as well, service becomes mediocre, there is even less organizational or competitive differentiation and, therefore, even less ability to price the business profitably.

***GLOBAL HR NEWS* : Why do companies have problems?**

JS: To start, a great analogy to this is the human body. A person is generally healthy or sick due to genes and DNA - things you can't control - and, secondly, upon conscious lifestyle choices (smoking, drugs, diet, exercise) that you can control. Corporate success is also dependent upon the things you can't control - such as the overall economy and the markets you operate in - and the things you can control - leadership, values, strategy, execution, communication. In both situations, the things you can control are supposed to help you overcome any of the negatives that you can't control. A good, executed strategy should allow a company to flourish in a bad economy or declining market. The opposite is just as common, poor leadership can sink a company even in a thriving marketplace.

***GLOBAL HR NEWS* : OK, how would you fix the problems?**

JS: Contrary to what a lot of people in the industry think about this, I think it starts with ensuring that you create a business model and strategy that is focused on making money. The relocation business, in particular, is filled with great people who care about doing the right thing - for associates, for the customer and clients. The typical mobility associate is a true, caring "people" person. The typical corporate client is in human resources.

This leads to hesitancy to value profitability as a necessary, if not primary objective. Obviously, these are generalizations, but the question is a general one. I consider profitability in a business the way a politician has to think about getting elected. You can't help your constituency if you don't get elected. You also can't help your associates - or your customers - if you don't have a strong, profitable company. So, the first step in fixing the fee and profitability malaise, in this particular industry, is to address the need to make money before any of the other good things can happen. That has not been the culture of the industry. This culture has led to low-balling on fees (if any!) and overly customized programs at unprofitable levels. This, in turn, has led to the industry becoming, to a great degree, a "feeder" for mortgage, transportation and real estate. Once you zero-in on the need to make a reasonable - if not an excellent! - profit, good things start to happen.

It requires change and tremendous discipline on the part of the leader. It is also a culture shift for some organizations. Frequently, popular, charismatic, people-oriented leaders think they are doing their associates a favor by stressing and communicating that the organization's priorities are the client and the associate first - and the shareholder or investors second. It all sounds good - and it can work as long as you are making money.

The catch, however, is that nothing lasts for long unless you are really earning a quality profit. Eventually, services will suffer and your associates will be undermined and unprotected unless you have sustainable, quality profitability. A profitability discipline would also have prevented many of the mergers that have occurred - eighty percent of which we now know have been disasters for the shareholders, the customers and the employees!

***GLOBAL HR NEWS** : Lets talk about "corporate success." Is there a magic formula?*

JS: Formulas are great for interviews, speeches, management consultants and, most of all books. The turbulence, complexity and speed of change in the business world today means that leaders have to be able to adapt a strategy and a leadership style to the situation and the specific environment around their organization.

Clearly, you need a roadmap or a general philosophy so that you're not reinventing the wheel each time. But a leader today has to be able to move out of her normal comfortable, proven styles and be ready to adapt quickly to different circumstances or realities. The first thing you need is an honest and accurate assessment of the current situation. You need to ask yourself: "What are the strengths and weaknesses of the business?" Without this assessment, you're dead.

Daniel Goleman in his book, Primal Leadership, writes about the need for leaders to break through the information quarantine that surrounds them. Emotionally intelligent leaders need to actively seek out positive and negative feedback. Profitability is the oxygen of any organization. If you're making money and a reasonable return, you have the luxury of time to look at the various elements of success and failure: strategy, business model, the quality of your senior leadership team, the financial architecture, marketing, your product mix, differentiation, market positioning, etc. If you're bleeding, however, you have to move quickly.

Whether a business is doing well but needs to do better, or is in trouble and needs to be turned around, the first place to start is with people. You have to build trust, create connections, nurture emotional ties - once you do this, starting with the senior leadership team, you can go anywhere. It sounds so simple that we all seem to search for more technical answers but, as Jim Collins wrote in Good to Great, the ability to get and keep the right people is the single most critical issue in building great companies.

***GLOBAL HR NEWS** : Please define CEO Leader - HR relationship.*

JS: Leadership is absolutely critical. The leader selects the team, ultimately sets the vision and the strategy, and sets the tone for communication and the message.

The leader sets the boundaries of an organization, where it should and, just as importantly, where it should not venture.

The leader determines whether internal communication to associates is straightforward and honest - or public relations fluff. That, by the way, is a critical factor in whether employees are emotionally engaged in their work - or just there to do a job.

The leader determines where, for example, human resources (HR) stands within the organization.

Is HR marginalized? You can tell a lot about how a company feels about its people by where HR is in the hierarchy - does it report to the CEO or up through the CFO?

Just as key - is HR a transactional bureaucracy or a vital strategic player?

Do the HR people actually engage associates or just clean up, sanitize and ensure that internal associate communication is safe and meaningless?

Does the CEO enable HR to drive recruitment?

Does the CEO recognize retention is the end result of Succession Planning, Coaching and Mentoring and inter-active communications?

Where is the CEO organizational leadership and team development?

Does the CEO motivate HR to think about associate loyalty, or has the CEO/Leader just given up on that because he can't "guarantee jobs" for life anymore? And has this resulted in HR losing its soul, i.e., the ability to counsel associates and the ability to tell the rest of the leadership team what employees are really thinking? And now we have to ask, Is HR even still a part of the organization - or has it been outsourced?

The CEO/Leader ultimately needs to make the determination about what the organization is going to focus on, excel at - to the exclusion of other options. The leader is ultimately responsible for determining what the true differentiation of the organization will be.

Leadership is the leverage point that brings the other critical success factors into play. So, in the final analysis, it all begins and ends with leadership. That's where we all need to drill down much deeper. The great news is that, of all the factors we have spoken about, leadership is one of the most controllable!

***GLOBAL HR NEWS* : From your deep background, describe Leadership and its impact on company culture.**

JS: Organizational culture in business is the equivalent of the human soul or conscience in a human body.

You can't touch it, it's hard or impossible to measure - yet, it may really be what drives and defines who the person really is and what is the essential character of the organization. Strong cultures drive superior performance. Strong cultures usually are associated with a certain style of doing business, a shared set of values and beliefs. This leads to organizational alignment - everyone pulling in the same direction, and provides an additional operating structure in which to get things done efficiently, outside of a bureaucratic structure. Strong cultures usually also lead to greater employee satisfaction, motivation and, therefore better performance.

Companies and senior leadership, human resources in particular, try to engineer or reengineer corporate culture. Competent senior leadership has been shown to be the single most important factor in successfully molding and changing a corporate culture. Although it requires the support from mid and senior level managers, culture and cultural change is driven from the very top.

Values are the starting point. Great power is required to drive or change culture, generally that resides at the top of an organization. The problem develops when either the leadership is not candid with associates and tries to force-feed the organizational culture as they would like to see it - and those leaders do not themselves display the necessary supporting characteristics of that desired culture or, the desired culture simply does not reflect reality - the reality of the associates, the leadership, the company's attributes, a realistic awareness of what the company is really great at, the values which have already evolved.

People have an ingrained sense of what is true or honest. If associates sense that a leader or HR is trying to genetically reengineer or steer a company's culture towards an artificial place - one that isn't based on either the values which the leadership acts on (not just talks about) or that is a reasonable extension of where the organization is or where it could be - employees will resist that change. The effort to mold a new culture will fail and the organization will simply fall back to its existing culture or, cultural chaos. The key, really, is for the leader, the CEO, to be honest with himself and candid with associates.

Although accountants' eyes will glaze over when you speak about a company's unique or strong culture, it is one of the primary drivers of performance. It's easy to discount because, like character, you can't measure it on the P&L. It's the huge stuff under the iceberg - and it will sink you if you just look at the tangible, visible things above the surface. Tom Peters accurately said, you can't copy the soft stuff. Yet, it's frequently the soft stuff - like culture, ethics, drive and motivation - that drives the hard stuff you see measured (P&L's, customer satisfaction, etc). This is an area where, as the expression goes, we think too much and feel too little. Leadership has to not only think this through, they also need to feel what's right for the company. It's linked to the issue of emotional intelligence. A leader's ability to define and shape company culture is more dependent on emotional intelligence than it is on IQ. Almost everyone who runs a company can think; not everyone can combine and balance thinking with feeling.

***GLOBAL HR NEWS* : How does globalization impact corporate culture?**

JS: Global expansion is an exciting development - but we all have so much to learn. Most US companies greatly underestimate the cultural issues and overestimate the synergies. We tend to get excited about expanding the brand, the global reach, the global footprint but forget about what it means to build a global company or a truly global corporate culture. We make foreign acquisitions and talk about a new global culture - but a global corporate culture is one where there must be respect for local cultures. It requires a lot of work, an open-mindedness, the ability to deal with uncertainty, with grey, the ability to keep learning.

So many organizations make an acquisition and don't achieve the anticipated results. It also should begin with a very protracted courting period allowing the major participants from both organizations extensive and intensive time to interact, an informed and disciplined due diligence and a realistic assessment of the expectations and the work required to achieve them.

Finally, any organization seeking to do business across cultures, must invest in a sustained global leadership training program. Global leadership is a core capability for success.

***GLOBAL HR NEWS* : What do companies need to do in order to ensure global leadership capabilities?**

JS: Global leadership is not just about expats or business travelers. It's an inherent, learned skill - some will learn better than others - that needs to be formally taught and nurtured throughout any organization doing business across borders and cultures. Again, it comes back to the CEO and senior HR leadership, to recognize the need and instill and support a priority of building global leadership talent within the organization. To be successful in a globalized business, a company must build global leadership skills as a core competency.

This is a core function of HR - to identify the need and promote and create the strategy within an organization to build this competency. Fons Trompenaars pointed out that one of the most serious mistakes organizations make - not just US-based companies, although we are the most prominent and notorious at this - is to assume that the culture within the domestic headquarters will work throughout the world and that HR can simply export its various tools without serious problems. This is such a fundamental problem today. I blame senior HR leaders for failing to grasp and lead on this issue. Unfortunately, many of them are equally unprepared for the challenges of international business. HR, in its rush to outsource so many of its supposed "transactional" processes was supposed to be able to really focus on the real, strategic issues of recruitment and retention.

Well, here is a real, major diversity challenge. It requires courageous leadership by HR professionals to take an historically domestic organization to a place it will not naturally want to go. How we learn, how we attract, motivate, retain, how we reward talent - these HR "tools," so to speak, vary by culture. If a company is going to compete in the "war for talent" it's now competing on a global stage. HR needs to lead the way in recognizing that what works in Chicago - may not work in Milan.

HR needs to lead the change.

***GLOBAL HR NEWS* : Thank you - Jim, for your insight and lessons.**

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WHY RELOCATION COMPANIES DON'T MAKE MONEY...

Corporations are increasingly putting their procurement experts in the driver's seat in the selection of outsourced service suppliers, such as the global mobility companies. This has resulted in the continuing decrease and elimination of management fees. It has reached the point where some service suppliers are actually offering to pay the corporation a significant upfront fee for its business!

This is not a win for the supplier who, nevertheless, usually will find a million rationalizations to justify accepting unprofitable or low-return business (i.e. Trying to penetrate an industry, part of the country, the world, can't afford to lose the account, excess capacity, need the revenue, foot in the door to a larger account, expecting a change in the mix of services, etc. etc.).

Accepting this type of business leads to the "normalization" of low-returns. In other words, it tends to get easier and easier each time you do it since you have established the precedent.

Also, since few service firms can actually distinguish between their low and high paying clients (in terms of financial return or margin as opposed to revenue), it results in watering down the level of service delivered to all clients. As a service providers' financial performance deteriorates, service levels must also deteriorate as the firm begins shedding all the elements that made them successful in the first place - such as training, proper staffing levels, paying for quality people, investments in technology, and reward programs for high achievers.

This leads to perhaps the real surprise: aggressive fee cutting or elimination by a corporate client also results in a loss to the corporation. Ultimately, you get what you pay for. The deterioration in the returns to relocation companies for example, follows the exact path and timing of the deterioration of consistent service satisfaction.

The corporation and its employees are the ultimate losers.

The typical purchasing process for corporations in our industry involves a "good cop" - "bad cop" routine. Human Resources, the ultimate user and "owner" of the ultimate relationship turns the RFP and negotiation process over to Procurement after assuring the potential vendor that HR is really the decision maker and service quality will be a major factor. Procurement then takes over and assures the vendor that, ultimately, low price will reign supreme. Once the preferred supplier has been beaten down (often by their own insecurity, lack of focus on profitability or simply misplaced, irrational exuberance), and the selection made, HR emerges again to take charge of the ongoing relationship - only to be surprised at the resulting mediocre or unacceptable service delivery!

What is the answer? For the service providers there are two keys to turning this situation around.

First, service companies must ensure that they place sustained profitability as their top priority. Misguided leaders who stress the client or the well-being of the employees as the reason for existence are doing neither of those parties any favors.

A company that does not create sustained profitability cannot, ultimately, help its own people or its clients and ultimately loses both.

Service companies in the HR-related industries have a natural reluctance to verbalize the profitability priority. Their inability to do just that, however, results in mixed messages to its own associates and undermines its negotiating position with clients.

Sustained profitability as the primary objective also requires an organization to be selective about the business it pursues and the pricing it will accept. That discipline alone requires courage on the part of the leadership since, in so many organizations, the goal has always been revenue, market share or growth. All of these are good - but not at the expense of acceptable margins.

The transition to a Profitability Priority frequently requires the organization to go through a challenging transformation. In the short term that may result in shedding or renegotiation of unprofitable accounts, a

slowdown in new business signings, and a disgruntled or confused salesforce (which may have been used to being able to sign anything that breathes!).

In order for this strategy to work, however, the service organization must engage on the second step. Whether you're running a company or selling a product or a service, you have got to figure out whether you represent a business that is unique, that has distinct or unique selling proposition (USP) and is, therefore, differentiated from your competition - or one that is similar to other companies, services or products.

In the latter case, you have become a "commodity." The sure-fire indicator of this is when you have multiple competitors offering what customers perceive to be similar products (despite what you may think) and you seem to be relying on price (lower prices!) to win the deal. Another indicator that you are really in the commodity business is when the leadership of an organization cannot consistently -and quickly - verbalize that differentiation.

It's very simple: if you can't differentiate your organization or product, you go down the long and sometimes deadly price spiral. If a customer can choose amongst several products or services that all seem basically alike - they have the luxury of driving the price down.

You've got to pick a lane: trying to straddle both sides for very long puts you in "no man's land". Failure to differentiate yourself (your company, your product or services) is one of the most common causes of corporate failure. It's a very common failure of companies who were once dominant in their field, they get used to having the superior product and being relatively unchallenged. They get set in their ways, they become resistant to new ideas, they resist outsiders, they tend to downplay and underestimate new, small competitors, and they miss the clear problem indicators of slowing growth and lost customers. They become, in short, complacent. They frequently begin the bureaucratic march to metrics which causes a fundamental shift in how the organization looks at itself. It begins measuring success against its own internal quantitative indicators and minimizes how it truly looks against competitors - who may have totally redefined the relevant metrics. According to former CEO Lou Gerstner commenting on the decline he inherited at IBM:

"My view is that the company had been so successful for so long it stopped comparing itself to competitors and started gauging itself by internal measures."

Sometimes a great team spirit or culture that was a part of the earlier success can also breed blind spots as vulnerabilities or weaknesses get covered up by the sheer strength and positive attitudes of the front-line employees. For senior management, positive attitudes can become a great way of avoiding the realities of the organization and the marketplace.

They drink their own kool aid and adopt delusional attitudes about the superiority of their products or services. Differentiation may be in their own minds hence they are clueless as to why they are in a commodity-oriented race to the lowest price.

All this goes on while new competitors are struggling to build their niche. They look for the "soft underbelly"of the dominant company and attack there. It can be a product feature, service quality, price, or numerous other ways that a new organization struggling to survive and make a living finds to attack. It can be something as "soft" as an engaged leadership and front-line people - as opposed to the industry giant which becomes arrogant ("we never see their president, even though we're one of their biggest clients. . .). Whatever it is - it will find you! The very success that any incumbent leader enjoys - contains the seeds of future failure. Those seeds can usually be summarized with two words: complacency and arrogance.

One of the big fallacies about differentiation, however, is that it's not as difficult or impossible as it may seem- as long as the organization's leadership remains open to new ideas, to constructive critiques and, to some degree, takes to heart Andy Grove's mindset phrase, "only the paranoid survive!" Paranoia can be an antidote to complacency and spur an organization into a mode of constant improvement and innovation in order to prevent commoditization.

According to Theodore Levitt in his classic "The Marketing Imagination, "anything can be differentiated." A great example is American Standard which took one of the most mundane products - the toilet bowl -

and changed the shape, offered it in multiple colors, added water-saving features and, ultimately, turned the entire bathroom into an entertainment center. If you can differentiate a toilet bowl why are so many service businesses having such a difficult time differentiating their services from that of their competitors?

Tom Peters points out that everyone has better technology and more sophisticated rides than Disney - but no one can copy the "soft stuff" they do. Differentiation can be the intangibles and not always the obvious factors. Do you really believe, for example, that most people who buy a Mercedes Benz do so because of the great engineering or powerful engines? I would guess that most buyers never even raise the hood in the showroom. They buy a Mercedes for how they feel when they drive down the block and their neighbors see them! This is differentiation through an aura or perception that has been created of luxury and, more importantly, success.

The effort to stay above the competition has to begin while you're still on top and before your competitors start closing in on you. It's also the time when you probably have the fatter profits to fund the effort to find better ways to perform. Ongoing innovation allows an organization to keep staying one step (or more!) ahead of those hungry competitors. Most companies just don't try hard enough -until it's too late.

Differentiation is the key to retaining the high ground, maximizing your pricing potential and continuing to earn a quality profit. It also tends to be a lot more fun than being a commodity.

I believe that one of the reasons most service organizations cannot solve their profitability deterioration issue is that they have not been willing to recognize that they are selling a commodity and to then take the difficult actions necessary in order to make money in that environment.

If you are in the commodity business - you had better put your resources into figuring out how to cut your costs. Once you go down that road, operating efficiency and "low cost supplier" become key guides to your strategy. You will have to limit your customization and ensure you have a culture throughout the organization that supports the efficiencies necessary to sustain a likely high-volume and low price environment.

Either strategy, well executed can work. They key is to figure out which one you are capable of succeeding at and pursuing it with unwavering discipline, ensuring that you have a profitable business model , and, finally, that everyone understands that profitability is the prerequisite before anything else good can happen.

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