

Case Study:

From the Basement to the Boardroom at Valero Energy - The Strategic Imperative in Talent Planning

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INTRODUCTION

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In less than a decade, Valero Energy has grown from "a small, good company to a big and great company", says Hilbert. It is a tremendous story. The transformation of Valero's staffing organization, enabling it to move from the basement to the boardroom in importance at Valero, is a "next practices" talent management study to be examined by every company's HR and staffing leaders.

BACKGROUND

Valero Energy has seen phenomenal growth over the past decade. In the space of seven years and through aggressive acquisitions, Valero has gone from a bit player with one oil refinery to a Fortune 15 company with the largest number of refineries in North America, filling stations

nationwide, and 22,000 employees. As late as the fourth quarter of 2002, Valero ran paper-based HR and recruiting departments. Today, it enjoys an innovative and strategic talent acquisition function that leverages cutting-edge technology, collaborative integrated processes and a workforce-planning model driven by a "labor supply chain business agent."

Dan Hilbert has a history of driving innovation and change wherever he goes. In the past two years, Hilbert has transformed Valero's staffing function into a state-of-the-art, business driven department, built upon technology, metrics, indices, best-practices and continuous improvement in all primary areas of staffing. But it wasn't a simple exercise. Hilbert drew on all of his 20 years of business, staffing, technology, business development and marketing experience to build Valero employment services into one of the elite staffing departments in the US generating:

- Industry-leading recruiter productivity
- Precision and thorough sourcing practices
- High-quality, culturally matched applicants
- Real-time, interactive customer service

OVERCOMING THE OBSTACLES

According to Hilbert, the nature of the energy sector is conservative and risk averse. This is the also case at Valero. The sector is exploding in growth, however, so new tactics and calculated risk is necessary. At Valero, values are important - not just hollow words. Integrity, hand shake agreements and a *no lay-offs* policy all represent founder and CEO Bill Greehey's old-school values in a world that has moved on and become a lot more cynical. Says Hilbert, "it's a phenomenal success story but it also makes rapid change difficult".

Regardless, Valero's expansion required fast and drastic action in the recruitment arena to keep pace with growth and customer demand. When Hilbert joined Valero, the department was mired in the day-to-day administration and processing of applicants and requisitions. There was no plan or strategy, recruiting was reactionary and always playing catch up. Worse, the organization's energies were being drained in trying to undo and improve on some of the patchwork fixes done over the four years prior while acquiring company after company and assimilating them.

Hilbert recognized the need for strategic planning immediately but in the face of pressing requirements from hiring managers and outstanding requisitions (on top of a culture resistant to change) finding the resources was a challenge. To get around the likely objections of more senior staff, Hilbert decided to start his work in a near clandestine manner. He called it a "pilot project" partly to deflect immediate scrutiny and to buy time.

THE PLAN

To start, says Hilbert "we mapped every single component of the recruitment business so we could understand it inside and out." This takes time and discipline to do correctly but Hilbert was convinced that reforms could not begin until he really knew what needed to be changed. Over the course of three months, Hilbert and his team mapped the entire recruiting process.

Hilbert knew first off, that the paper process had to end. The organization, with almost 18,000 employees at the time, was far too large and growing much too fast to function efficiently without advanced recruiting technology. However, he did not purchase a hiring management system straight off. "Once we were able to map all the processes I was able to see what we do holistically, what worked, what didn't, and then model what Valero needed in a system to support its new processes" says Hilbert. The new model was designed to empower near instantaneous adaptability and scalability to meet changing business requirements while containing long term fixed labor costs in the staffing department".

But the discussion of technology gets us ahead of ourselves. Hilbert's goal was to elevate the profile of talent acquisition in Valero. Hilbert understood how critical a world-class staffing capability was to Valero's success, growth plans and competitive position in its industry. In his words, he felt it necessary to move recruiting "from the basement to the boardroom" to accomplish this.

Hilbert's analysis of his business solidified some of the thoughts he'd been forming for years. "I am convinced we are undergoing a profound shift in the industry. HR, OD, Staffing, all the lines are going to be blurred. Every business is a supply chain, or a series of supply chains, so the labor supply chain will be the thing that feeds all the other chains." Says Hilbert. This thinking led to the next logical step. If recruitment is the forward part of a labor supply chain, one that is vital to all other supply chains in the business, it needs to be calibrated to those other chains. In other words, it must be strategic – it should be fully aligned with the needs and objectives of the business.

TIME FOR ACTION

Still, despite the logic in this argument, Hilbert knew he had to tread carefully. "If I had simply laid out the labor supply chain strategic model it never would have gone forward". Throughout his project, he and his team still had to operate in reaction mode. "One VP would say I want to go after these people and try a new sourcing strategy, so I would do that. Then another would be interested in productivity enhancement so I would implement components of manager self-service. Then the HR VP would ask for something maybe related to cost savings or efficiency. The master plan was rolled out piece-by-piece, customer request by customer request in this fashion".

What made the difference, according to Hilbert, was his VP of HR who understood the importance of the project from the beginning. When Hilbert requested access to years of data stored in the HRIS, that no one had analysed previously, and explained what he wanted to do with it, the VP HR, Mike Crownover, (a CPA) got his team the data it needed.

Despite the distractions, after only 6 months the pieces were in place and Hilbert's plan was presented more broadly. "It was all built on business principles and aligned with the corporate and business unit plans. It was designed to make HR look like it was a business. The HR VP embraced it as did his boss" said Hilbert.

Hilbert believes the adaptable, technology-based departmental model is the basic infrastructure upon which the successful labor supply chain will thrive. The holy grail, according to Hilbert, that will help you move from the basement of staffing to a partner in boardroom decision-making, is a first rate gap /needs analysis of the organization's human capital assets against the organization's needs now and in the future; and when you map this against the external workforce you can get to the projections.

Hilbert advises that "any staffing leader who hasn't completed (and maintained) a labor gap and needs analysis will never get out of the basement, that's the bridge to the Sr. Executives. I'm watching it unfold and it's exciting. They're sceptical at first, and then you show them the model, the formulas and their soundness. Once it's solid, any questions about the calculations are dismissed. Then it's about the data, how far back you can go to make it more valid and how can we use regression analysis and other methods to project trends forward? It is fun to observe their buy-in. Sound data in decision-making is very important to good senior executives, it is their language."

Added Hilbert, "Recent executive interest, partnership buy-in and support are an amazing occurrence for us in staffing to witness. When the traditional model of managers placing an order for new personnel to be filled immediately by the staffing department is replaced by a proactive labor supply chain mapped directly to business operations and future capital projects, a new business paradigm and value system arises for Staffing. The funding conversation is entirely different. It's not hard to get serious budgetary consideration to launch new labor supply channels when the impact is required to support systems essential for future acquisitions or running new complexes at our plants."

WORKFORCE PLANNING

Getting started, Hilbert consulted with a workforce planning company in Tampa who helped him lay out the system design. Having built database systems in the past, Hilbert led a team, originally comprised of a few smart IT, math and economics interns from a local university. They gathered information about demographics in the areas Valero operated and was planning new operations. It then projected needs and shortages across the enterprise by division and location. The interns built in standard deviation and variances and they addressed inaccuracies in the data, cleansing it and then re-applying their models. For the first time, it was revealed that up to 50% of key talent in a number of divisions would reach retirement eligibility at Valero within 6 years, for example. Hilbert's team addressed a series of questions that the data provoked. Primarily, will the talent be there, in the areas and with the talents, knowledge and skills needed for the projects planned? This effort mapped Valero's strengths and weaknesses in terms of its knowledge skills inventory. The team went further, department-by-department to determine retirement scenarios, succession possibilities and which were in the most danger.

Hilbert adds, "Tomorrow, and that tomorrow is actually today for Valero, our labor supply chains will map the specific characteristics of labor needs to the specific characteristics of various labor suppliers. In the coming challenging labor market, the manager of the corporate labor supply chain department will supply hybrid labor solutions that will include the likes of FTEs, both US citizens and foreigners on visas at locations throughout the globe, virtual temporary workers, offshore partners in former Soviet states working in conjunction with offshore partners in India working in conjunction with BPO specialists, all feeding gaps not provided by developmental college interns and new-hire graduate programs. Labor supply chain managers will also be responsible for finding and assessing alternative labor supplies such as productivity or labor replacement software and technology – pretty cool stuff and we get the honor to manage it all!"

He continues, "in the Human Capital Institute's terms...we are having to go through a preservation of human capital while transferring intellectual capital in order to survive, let alone, compete. We also have to understand the nature of bringing in foreign talent, this is a proactive project, and you have to have next year's plans filed with immigration by the previous October. The college hire is up to five years out and internal development needs up front planning also. Being reactive is no longer going to do it for Valero". And, says Hilbert, "this isn't just about a traditional company like Valero, it's about every small start-up to large 21st Century company having to compete for talent. Whether or not a company is in a preservation of human capital mode or one with a predominantly young workforce, your workforce will either be a supplier of talent (depleting your human capital intelligence) or needing to be on the forefront of creative and strategic sourcing for labor supply chains. Valero understands this challenge and is acting upon it. With Valero's superb executive management, human capital practices and proactive labor acquisition strategies, Valero is likely to dominate the refining industry for years to come."

THE OUTCOMES

This kind of thinking sounds like it might be music to senior executives' ears. So how has Hilbert fared since unveiling his new approach? In his words,

"No longer do they simply call you demanding 10 accountants, now you're sitting with the executives consulting on longer-term needs and strategies for talent. The ability to quantify and articulate your value is made easier also. If you have a project that cannot function without five

mechanical engineers, and it's a project designed to earn \$200m/yr in revenue, the human capital value to the project is \$40m per engineer, per year – that's what's at stake in finding the right people, quickly and efficiently. That's the value talent acquisition brings, they respect that."

With this project, Valero has gained a new appreciation for data analysis and forecasting. Says Hilbert, "the data becomes contagious, once you see it from one dimension, you're drawn to look at it from other angles and to drill down to see what it looks like applied to more narrow and specific questions. For example, we know certain engineering groups will be impacted by retirement, so, for example, we want to see if the phenomena is geographically significant. We're quickly able to drill down to see if problems are local, domestic or global and then we can act with more certainty."

THE BOTTOM LINE

In addition to winning a place at the strategic level in the organization, Hilbert believes that Valero is now "world-class" when it comes to hiring...and has caught up with his company's ranking as one of *Fortune's Top 100 Companies to Work For* over the past five consecutive years. He and his team have earned six awards already and they continue to innovate. "It's all about the team and the talent you surround yourself with" says Hilbert.

"The ability to build one of the best staffing groups in the country earned us respect, but that gap and needs analysis is what brought us to the boardroom. Having experts who understand the design of advanced labor gap analysis systems, along with a handful of technical wizards is crucial to building systems that executives will accept and bet the business

on. The results, after you've done the gap analysis, are what's amazing, when you have a massive new sales program or some new stores to open with plans for hundreds of millions of dollars in revenue, you can see the value of a well-oiled staffing supply chain. This model puts a quantifiable value to it."

WHAT'S NEXT?

Hilbert's next steps at Valero include a system to capture critical intellectual property and to propagate expert practices through a Knowledge Management System. He believes this to be critical because when a high percentage of senior people are leaving, it is vital to capture, store and share their knowledge. "Analyzing the critical knowledge of key positions and creating virtual 'Centers of Excellence' are a natural progression here. In addition to creating economies of scale for key knowledge workers and containing costs, centers of excellence will become incubators for continuous development of best practices and knowledge centers for propagation of these best practices." Says Hilbert.

Dan and his team have certainly earned a spot on the HCI watch list, we look forward to discovering and documenting future innovations at Valero.



Steve LaMotta, SPHR, is a senior executive of the Human Capital Institute's (HCI) management team, and presently serves as Vice President Development & Alliances with responsibilities for growing HCI through partnerships and alliances with market-leading corporations, distinguished business schools, and professional organizations. Steve is an advisor to several state and national human resource organizations and business advisory boards. He sits on the HCI national advisory board and most recently was a Director of SHRM's Employment Management Association (EMA) as Vice President Area IV (Southern U.S.), an EMA Foundation board member and SHRM's Area IV, Vice President and currently is a Special Advisor to the DFW-EMA. He also has co-chaired the HR Boardroom, a senior human resource executive group forum. A writer and frequent speaker on human resource practices, Steve is best known for his strategic solutions, talent management and human resource architecture as a service driven, client centric consultant.



Allan Schweyer has been involved in HR technologies since 1994 when he pioneered e-recruitment solutions for Human Resources Development Canada. From 1995 to 1999, Allan directed the award-winning National Graduate Register, Campus WorkLink and SkillNet.ca programs with Industry Canada, which introduced the concepts of applicant tracking and advanced screening to job boards and "career networks" to job seekers. In 1999, Allan co-founded the On-line Recruiters' Association of Canada. In 2000 and 2001, he worked with Reed Business Information in Boston to build information portals for technical professionals while attending graduate school at Harvard University. Allan is the Executive Director of the Human Capital Institute (HCI). Directly prior to joining HCI Allan was a senior researcher, analyst and consultant with HR.com and the editor of the HR.com staffing vertical. Allan's first book, "Talent Management Systems" was published by John Wiley & Sons in February 2004.

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