The year ahead...

1 Delayed deals go ahead – Many outsourcing deals were placed on hold during the downturn, but companies are now moving ahead with confidence.

2 Seeking value – Pricing pressure on outsourcing deals renegotiated in 2008–09 will lead some companies to realise that deep pricing cuts have damaged relationships and the business value that outsourcing brings. Providers and customers will renegotiate contracts more collaboratively to regain innovation, flexibility and value.

3 Contracts flexibility – With uncertainty over the economy continuing, companies will hesitate to make long-term commitments with providers.

4 Uncertainty sparks consolidation – Economic uncertainty, currency fluctuations and other market forces encourage M&A on a global basis.

5 Hiring returns – Expect to see growth in new graduate hiring in emerging outsourcing locations, as well as wage increases of 8–10% in India and other Asia Pacific locations. The US and Western Europe will see smaller raises.

6 Market share – Central and South American countries will eat into the market share of traditional outsourcing countries such as China.

7 Emerging destinations – Competition among outsourcing providers will intensify, leading some regions – namely the BRIC (Brazil, Russia, India, China) nations – to differentiate themselves through certification schemes and training/education programmes.

8 Technology – Companies will use advanced management practices, tools and technologies – such as outsourcing relationship management and cloud computing – to improve value and operational flexibility and performance.

9 Social responsibility – Outsourcing practices will be impacted by increased environmental awareness and corporate social responsibility (CSR). The industry will be called upon to step up its role as a leader in global CSR.

10 Political shifts – Increased government regulation and the need for compliance will affect outsourcing in the coming year.

Source: International Association of Outsourcing Professionals

The global outsourcing market almost doubled in size over the last decade. Outsourcing might not have always lived up to its promises, but experts are predicting more expansion and new trends.
When Microsoft began its global One Finance BPO programme in February 2007, it knew that it needed to create clear roles for the finance group’s processes across the business; internal controls and accountability needed to be consistent and clear; necessary investments needed to be identified for optimal delivery; the right information needed to be delivered to its business partners at the right time; and, finally, there was a need to standardise global processes and systems.

‘We were looking at three areas of our business,’ recalls Dermot Igoe FCCA, finance director of Microsoft’s EMEA operations, based in Dublin. ‘These were accounts payable, accounting transaction recording and procurement. Before this project, there were 92 subsidiaries around the world. There was a lot of decentralisation and it was inefficient.’

Over the last three years, Microsoft has outsourced these areas to its outsourcing partner, Accenture, in four locations: Dalian, China; Chennai, India; Warsaw, Poland; and Buenos Aires, Argentina.

‘We have taken the finance team controllers out of their comfort zones – the transactional activity – and let them focus on the commercial activities,’ explains Alan Byrne, Microsoft’s service deliver director.

It is this ability to free up staff so they can add value to the business that is driving the decision to outsource or centralise processes. For many multinational companies, the advantages are clear, but even small- and medium-size enterprises (SMEs) are enthusiastic.

Offshore benefits
According to SLASSCOM, the development body for outsourcing in Sri Lanka, around a quarter of UK SMEs are considering offshoring elements of their business, partly as a result of the recession, and partly due to the cost of labour and skills shortages.

Madu Ratnayake, general secretary of SLASSCOM, says: ‘Interest in offshoring in the SME sector is both a symptom of the need to cut costs and a recognition that one country doesn’t always have all the skills needed for success.’

So what should you weigh up when considering outsourcing? First, consider that any function which is a possible candidate for outsourcing will typically fall into three categories: pain, quality and strategy. Pain could be caused by cost reduction or organisational inertia. Quality covers areas such as improving business model flexibility, improved customer relationships and performance, and access to talent. Strategy includes a focus on core activities, new product development and geographic expansion.

Once the imperative to outsource has been established, the decision about what to outsource needs to be taken. Is it a front, middle or back office? Where should it be located? What form should it take? How and by whom should it be managed? For instance, if it is to be a captive or shared service, where should it be located? If it is going to be a joint venture, who should be the partner? Should it be a subsidiary company or should it be managed by a third party?

Most organisations will not be wedded to a particular option; rather, they will look for results. As Graham Pascoe, outsourcing partner at PricewaterhouseCoopers, says: ‘75% of clients ask how they can improve their functions; only a quarter will want to outsource and then ask how to do it.’

And some will not see the need, preferring an inhouse solution. For instance, when Darren Shapland became chief financial officer of UK supermarket giant Sainsbury’s, outsourcing of the finance function was still on the agenda. ‘We’re not doing it... Over the last four-and-a-half years we’ve been able to improve our IT but also, more importantly, improve our process,’ he says. ‘That means most manual roles – core clerical roles – have now largely gone. So the argument for moving that to, say, India, which was being looked at when I first joined, is largely gone.’

Philip Smith, journalist
Here are some key questions you should ask, whether you are setting up an outsourcing contract for the first time, are already in an ongoing deal, or are about to renew your service.

New arrangement
* What is the rationale? Does it fit the current and evolving business model?
* What will be the impact on brand, customers and people?
* Have risks and outsourcing challenges been identified and a mitigation plan put in place?

Ongoing arrangement
* How is governance and relationship management being conducted?
* Has the retained organisation been adapted to the new contract environment?
* Is the quality of services and the price paid still of the required standard and appropriate for the current needs of the business?

Renewal
* What went well and what lessons could be learned from first wave?
* Should you use the same provider, retender, use multisource, rescopo, or bring back inhouse?
* What is the linkage with other outsrcings and specific future business outcomes?

\*WHY OUTSOURCE?

The International Association of Outsourcing Professionals offers the following arguments in favour:
* **Cost savings/cost restructuring** – Lowering the overall cost of the service to the business will involve reducing the scope, defining quality levels, repricing, renegotiation and cost restructuring. Outsourcing changes the balance of operating leverage, creating a move from fixed to variable costs and making variable costs more predictable.
* **Improved quality** – Leveraging the cultural and societal emphasis of process management and quality culture for higher productivity and better results.
* **Knowledge** – Access to wider experience, knowledge and intellectual property.
* **Operational expertise** – Access to operational best practice that would be too difficult or time-consuming to develop inhouse.
* **Staffing issues** – Access to a larger talent pool and a sustainable source of skills.
* **Capacity management** – Addressing the traditional issue of peaks and troughs in volume by engaging a provider to manage the capacity.
* **Catalyst for change** – An organisation can use an outsourcing agreement as a catalyst for major step change that cannot be achieved alone. The outsourcer becomes a change agent in the process.
* **Risk management** – An approach to risk management for some types of risk is to partner with an outsourcer that is better able to provide the mitigation.
* **Leveraging time zones to create greater service window** – A sequential task can be done during normal day shift in different time zones to make it seamlessly available 24/7.
* **Leveraging time zones to reduce time to market** – Using the ‘follow the sun’ principle, engage teams across time zones to speed up the delivery schedule and reduce time to market.
Great expectations

We explore the drivers behind the outsourcing and shared services revolution, assess its future and find out why it makes finance chiefs nervous.

The first 10 years of the 21st century have seen outsourcing come of age. Driven by advances in technology, and increased access to that technology, the growth of outsourcing has been remarkably consistent, apart from a small dip during the uncertain times of the past year. And despite the vagaries of the global recession, experts are predicting the sector will continue to grow in the coming years.

In 2000, the market for outsourcing was estimated to be worth some US$232bn. According to Gartner and Accenture, $152bn of that figure was IT outsourcing; the remaining $80bn was business process outsourcing (BPO).

By 2008, the total figure had hit $443bn, with estimates for 2009 dipping slightly to $424bn, of which $156bn was for BPO. Forecasts suggest the market will pick up in 2010, reaching $518bn in 2013.

In terms of offshoring, consultancy McKinsey expects the global market for offshore business and technology services to grow to about $500bn per year by 2020, from a current $80bn.

Outsourcing and offshoring hubs have developed in many locations around the world, including India, Sri Lanka, Malaysia, the Philippines, China, Ireland and Eastern Europe. At the same time shared service centres (SSCs) have become popular, with many multinational companies consolidating their operating functions.

Alongside these developments is the transformation of the finance function, which in many organisations is being remodelled to create an environment that allows finance professionals to partner with their organisations, a trend highlighted in ACCA study Accountants for Business.

The study showed how finance professionals were aiming to add real value, with the growing use of SSCs a key feature. Then there have been trends to bring outsourcing closer to home, either by taking direct control over the function again, or by bringing it into the same region, nearsourcing rather than offshoring.
So what have been the drivers in the explosion of outsourcing and SSCs in recent years? Undoubtedly cost has played a significant part; for instance, Gartner says that shared services can cut the cost of enterprise content management by up to 20%. This desire to control or cut costs has become more marked during the recession.

Cost controls
According to Mike Salvino, group chief executive of business process outsourcing at Accenture: ‘Most organisations turn to outsourcing providers with cost-reduction goals in mind. The potential for savings is great: 20–40% savings are typical.’ Labour cost is a major contributor to cost savings. For instance, Budapest-based Janos Babos, managing director of outsourcing provider Process Solutions, says that staff

By the end of 2008, India made up roughly 50% of the world’s offshoring market, but this is expected to fall to 40% over the next decade as it faces increasing competition from other countries that are growing their outsourcing capabilities – such as China, North Africa and Eastern Europe. Egypt, for example, has been developing university programmes to provide the industry with 32,000 employable graduates this year.

According to consultants at McKinsey, China currently accounts for less than 10% of the global market for offshoring and outsourcing. Yet by implementing an aggressive strategy to develop talent, China could capture opportunities worth US$56bn a year by 2015. Its two million Japanese and Korean speakers should help it increase its lead in the North Asian market for the near-shoring of IT application and BPO services. But a limited number of workers who can manage international projects and have strong English language skills will make it harder for China to become a leading provider of services in Europe or the US, McKinsey says.

In the past, many finance organisations focused on a handful of proven locations for offshoring, such as Manila, Krakow and Budapest. However, as the practice has grown in popularity, these high-profile locations have become crowded and less economical. As a result, there are now more options than ever, so companies can think more in terms of capabilities and risk rather than physical location.

**North America** – Midwestern US offers high-quality services; shared language; access to a large market.

**Eastern Europe** – Strong specialist and multilingual talent base; excellent infrastructure; multitiered markets within close proximity of one another.

**South America** – Argentina and Brazil have different infrastructure specialities; European languages.

**North Africa** – Low-cost countries such as Morocco and Egypt feature government support; improved technical skills; potential source for balancing other, more saturated, scale locations.

**China, India** – Large multiskilled talent pool; high concentration of research universities; scale centres.

**Southeast Asia** – Philippines offers strong English-speaking talent pool; Malaysian government is active in cultivating strong research base; Vietnam and Indonesia are both low-cost locations.

Source: McKinsey
costs in Eastern Europe are between a half and a third less than in Western Europe. And quality is not an issue for Babos as many of his staff – the company operates in Hungary, Slovakia, Romania, Czech Republic and Poland – have an ACCA qualification. ‘But finding a good accountant is still difficult,’ he says. ‘There is still a war for talent.’

Driving force
There are other drivers behind the growth in outsourcing: the desire to improve quality and control; to streamline and standardise processes; and improve hiring and retention while allowing the organisation to focus on its core activities. As a result, organisations expect to see a direct cost impact, with labour cost reductions and productivity improvements; a business impact that sees a reduction in working capital, as well as reduced risk; and a strategic impact, including business transformation. In other words, costs are only the beginning of the process – a process that has matured over time.

This ‘maturity curve’ applies just as much to shared services as it does to third-party outsourcing. In a recent study, KPMG highlighted how the initial attraction of SSCs – that of cost – has over time been supplemented by other benefits, including creating a centre with the right processes to take advantage of scale without compromising quality; running it so efficiently that it exceeds previous service levels; growing the SSC’s size and scope to take on tasks that can bring savings to many parts of the organisation; and, where appropriate, moving towards optimisation and making decisions on whether to outsource or offshore.

But this same study revealed that even the top-performing SSCs have not comprehensively provided either the scale or flexibility anticipated, or freed finance to concentrate on value-add activities. This difficulty in meeting expectations has created a backlash against outsourcing, but not to the extent that outsourced functions are being taken back inhouse.

As Graham Pascoe, outsourcing partner at PricewaterhouseCoopers, says: ‘Bringing a service back inhouse is quite rare. It is more likely there will be a change in service provider. Bringing it back has a lot of high risks associated with it, unless it is really going wrong, or you change your business model.’ Pascoe has found that roughly 75% of all SSCs and outsourcing arrangements work at least to an adequate level. Of the remaining 25%, Pascoe reckons around half have failed.

‘Those that failed,’ Pascoe says, ‘were carried out by the wrong people. They weren’t skilled enough and made the same mistakes as those before them.’
Graham Pascoe is an outsourcing partner at PricewaterhouseCoopers. One of the key issues that needs to be considered is how organisations deal with their people during an outsourcing programme.

‘Some do it in a very good way; others less so. So what are the characteristics of a good organisation? Being honest, being fair, being suitably transparent and keeping away from rumours. Also, being supportive and aware that this is a corporate decision that has personal consequences.

‘I have had every conceivable reaction: some will say it is a fantastic move, saying they will now be able to expand their abilities and have a better chance of promotion. At the other end of the spectrum, there are those who feel they are being treated like a piece of meat – and every bit in between. If you handle it in a sensitive way, then people come out of it understanding the drive for efficiency and what is happening, feeling they have been treated fairly. Redeployment doesn’t necessarily mean job losses.’

Energy giant Shell has two ‘mega’ centres – in Manila, the Philippines and Chennai, India. It also has centres in Kuala Lumpur, Malaysia; Krakov, Poland; and Glasgow, Scotland.

‘We started with transactional activities in accounts payable/receivable processes and then brought in higher-end activities, such as group reporting, business modelling, management information, budgeting, planning, data mining and specialist data support,’ says George Connell, head of strategy for finance shared services at Shell.

The Shell model was originally regionally based, with the five centres supporting their immediate regions. But now it is moving towards concentrating particular processes in specific locations.

‘We made a conscious decision to keep our finance shared service organisation inhouse as captive status, and furthermore, as a branded captive. We benefit from our strong corporate brand and brand all the centres as Shell. This helps us to attract and retain the required talent. As we continue to balance the reward and risk of concentration, our five centres give us a good strategic network balance, and provide scalable concentration options.’

*PEOPLE: THE VIEW FROM A CONSULTANT*

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*SHARED SERVICES: THE VIEW FROM SHELL*

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Growing the role - lessons from Ireland

Gearoid McDermott FCCA tracks the journey of local subsidiaries seeking to add value, and draws lessons for all service providers

The main attraction of doing business in Ireland is generally considered to be the favourable tax regime, access to markets and skills availability at a relatively competitive cost. As other countries replicate the ‘Irish’ model, however, Ireland is no longer unique. Nevertheless, a number of subsidiaries which have anchored themselves in Ireland are unlikely to move in the medium term, having expanded far beyond their original mandate and become strategic to their parent company’s interests.

Among operations that have been successful in this regard, the common thread emerges of a leadership culture within them not content to carry out a single mandate and seeking to constantly grow their local organisation, whether by identifying opportunities within the corporate framework, or the more subtle and intangible work of building and nurturing personal relationships, and, critically, getting the timing right in terms of bringing ideas forward for consideration. Indeed, the subtleties of managing the corporate relationship cannot be underestimated. While Government incentives are helpful, they are not unique to Ireland. Undoubtedly, Ireland’s tax regime also presents a distinct advantage but it is through vision and leadership that opportunities can be capitalised on and vital parts of the value chain secured. Without it, an organisation is relying on corporate boards to select an Irish operation over other locations with little influence in the decision making. The aspirations of the leader must permeate throughout the leadership team so that all aspects of the local operation serve the cause.

Building credibility
Inevitably, the second most important factor is credibility. In order to gain credibility, the everyday business of the organisation needs to be conducted in an efficient and effective manner and be seen as such by the key stakeholders. Rapid start-up and the flawless fulfilment of the initial mandate are all examples of this. Operations that deliver quickly and successfully and then go about implementing a culture of continuous improvement gain credibility. From that credibility comes the right to be heard.

Influencing decision makers
Having laid the foundation of aspiration and credibility, being able to connect with decision makers is the next critical factor. High aspirations and credibility will not result in progress if decision makers are not engaged.

AB SPECIAL REPORT OUTSOURCING
makers cannot be influenced. The means of doing so can be summarised as follows:

* Identify key decision makers;
* Plan regular interaction with them, for example, link each member of the local leadership team with one or more decision maker;
* Regularly review progress as a team; and,
* Monitor moves at corporate level so that changes to decision makers are known.

**Timing**

Finding the right opportunity and knowing the right time to bring it forward are critical to success. Local management may be very excited about a potential opportunity that appears to serve all interests positively, however if there is not an appetite at corporate level, the idea may not get an airing. It is important to be mindful of current corporate priorities and pick the right time to bring forward potential opportunities. If the organisation is taken up with an all-consuming activity, for example a product recall, rationalisation or merger, there is little point in bringing forward an idea that may be seen as a distraction.

Bear in mind, this may be true even if you believe the financial argument is compelling. The evidence suggests that availability of Government funding or supports through IDA Ireland or Enterprise Ireland are not seen by organisations as a critical factor in their overall decision making. On the other hand, the corporate tax rate is undoubtedly a major influencer.

**Culture**

Compatibility of business culture has been the cornerstone of foreign direct investment (FDI) in Ireland. The ‘can do’ attitude, willingness to take on new ventures, innovative ideas and ability to act autonomously are all part of the Irish culture and attract businesses, particularly from the US. It is worth remembering, at a time when Ireland Inc. has suffered bad press internationally, that this culture is built on and demonstrable in real results. Take the case of the Irish start up that was the quickest and most successful in the history of one corporation, or the evidence of many subsidiaries outgrowing their initial manufacturing mandate, often within five years of the initial start up.

**Links to academia**

Links to universities are increasing and seen as very important as we move to higher parts of the value chain. R&D is the main link to academia. Here, experiences differ. For some companies, the links have helped enormously in furthering R&D while for others, the length of time taken to agree the scope of work and intellectual property rights was far too long, to the point where the project could have become unviable. In another, the experience was one of indifference at levels below the college president. In areas outside of R&D, for example, financial shared services, one subsidiary found a lack of willingness to engage. Given our aspirations for a knowledge economy, the fostering of these links need to be prioritised.

**Framework**

The figure below shows graphically a general framework to help FDI and outsourcing leaders in their quest to secure more parts of the value chain. The foundation for seeking to become more strategic depends on the vision of the leader and building the right to become more strategic through solid results. The turning point to help win the game lies in building relationships with key decision makers and spotting opportunities that are beneficial for both the corporate and the local operation.

The catalysts, along the way, include growing local talent so that ‘readiness’ is not an issue and being flexible and not afraid to proactively divest. The close relationship with the parent or client company helps in understanding when to bring forth ideas and plans. The importance of timing is emphasised again and again by those who have been successful.

Advantage should be taken of the rich collaborative culture that exists in
Ireland, sometimes referred to as the ‘Irish cadre’. The leaders of FDI subsidiaries, for example, are very willing to share their experiences. Conferences are regularly held by interest groups, where specific experiences can be shared without infringing on business confidentiality, while IDA Ireland and Enterprise Ireland are well respected and pro-active in building relationships and ensuring that Government support is obvious.

Local leader
Once again, it’s important to stress that taking a leadership role is paramount. This means demonstrating the dual ability to carry out today’s activity impressively, along with identifying opportunities for the future. The engagement of the management team is necessary so that both of these tasks can be accomplished. External consultancy and working with other FDI subsidiaries and outsourcing companies in Ireland, through representative bodies, can act as catalysts. The key to survival is being involved in as many parts of the value chain as possible.

Gaining credibility, fostering the culture that attracted investment in the first place and building a network are the main ingredients to securing this.

Gearoid McDermott FCCA is general manager of Alza Ireland Ltd.
To this day, bank reconciliations are still time consuming and predominantly manual operations, which must be done before posting the resulting analysis of receipts and payments into the firm’s accounting package to produce a set of accounts,” says Robert Whelan, managing director, Woods Whelan Ltd. Whelan and his business partner, software developer Brendan Woods, have harnessed the power of the office scanner to ‘greatly reduce the time taken to do bank recs. By using OCR technology and combining it with a visual basic program, we have pioneered the use of scanning to recognise the debits, credits and descriptions on the bank statements and sort them by date or description as required.’

Whelan now offers an outsourced solution whereby accountants can scan their clients’ bank statements locally and send them to his firm. ‘We would do the bank rec and analysis, including creating the cheque journals by “working backwards” from what hit the bank statement.’ Whelan says the AutoRec technology is highly cost effective and time efficient with a 24-hour turnaround in the process.

Described as Ireland’s largest indigenous outsourcing provider, FEXCO was established in 1981 in Killorglin, Co Kerry. Today processing more than 20 million financial transactions every year, it has annual revenues of almost 200m and provides innovative and alternative solutions to more than 11,000 organisations worldwide. The company provides a wide range of outsourced services and products. Shared services include corporate payments, expense management, financial transaction processing, credit management and third-party administration. Customer services range from customer acquisition, customer care and credit management to consumer care lines, outbound sales, and escalations.

FEXCO has three contact centres in Kerry, employing more than 400 customer service representatives who answer 2.7m telephone calls every year in a range of languages. ‘We understand that our contact centre represents the public face of our partners, which in turn fuels our passion to deliver outstanding results,’ says David Beausang, head of business development, FEXCO.

In 2009, FEXCO, together with Bord Gáis Networks, secured the overall CCA UK (Customer Contact Association) excellence award for ‘best customer experience’ in the UK and Ireland.

‘A key factor in making the decision to outsource is the management of transition risk in the transfer or sharing of services between service providers and the client,’ Beausang says. ‘Our approach is to identify and manage them, enabling the economies and efficiencies of the project to be realised.’