

Inside outsourcing

Exploring the personal impact of outsourcing and shared service centres on finance professionals around the world

Many surveys have shown the rationale behind using either a shared service centre or outsourced function to improve business processes. In its 2010 survey of global chief financial officers, *The New Value Integrator*, technology giant IBM found that the use of alternative delivery models, such as shared services centres or outsourcing, for financial transaction processing is 69% more common in efficient finance organisations than their counterparts.

Where the projects have been successful, they will be built upon. Accenture, in its 2009 review of global shared services, *Achieving high performance through shared services: lessons from the masters*, found that seven out of 10 respondents with shared service centres planned to expand the geographic coverage of their shared service centres (SSCs) within the next three years.

Continue to succeed

But this same report highlighted something that needs to be constantly addressed if the business process outsourcing (BPO) and SSC movement is to continue to succeed. It said: 'Shared service centres face a number of challenges once the migrations are over, including stabilising the service after the go-live date, establishing a service culture quickly, creating compelling shared services career paths and building continuous improvement with material results, regardless of how the external environment changes.'

In other words, SSCs and outsourcers need to invest in their people if benefits are to continue to accrue to their 'parent' organisations.

At the same time, there is clear evidence that as outsourcing and SSCs mature, the level of work carried out in those centres will shift up the value chain so that more companies will

use them for high value, knowledge based processes. This presents both a challenge and an opportunity for those working in such environments.

As Michael Corbett, chairman of the International Association of Outsourcing Professionals, says: 'Companies are outsourcing to do more than cut costs but to add value, increase business flexibility and prepare for future growth.'

The IAOP has found that knowledge-based outsourcing is becoming more important to companies, and the industry is filling this demand. In both the autumn of 2009 and January 2010, in a survey of its members,

'There is a significant effect, and it is different by region. In central and eastern Europe, you see traditional university towns with a growing population of students who are more aligned to BPO or working in SSCs. You also see the influx of diversity into these cities, where clients want to have European language skills.' Atkin cites as examples Prague, Budapest and Krakow, where financially literate professionals have migrated, working and setting up home there.

However, despite this influx and the availability of local talent, there is still a shortage of suitably qualified accountants to carry out some of

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more than 40% indicated that outsourcing at their organisations was increasingly focused on knowledge-based activities, compared with less than 30% who said they were increasing the outsourcing of lower-skill-level positions.

Arguably, the finance function, either outsourced or in a SSC, onshore, near-shore or offshore, should lead this movement, so it is more important than ever to focus on 'people' aspects.

There are, of course, socio-economic effects of SSC and outsourcing hubs. Many cities have benefited from providing the staff for these services, enjoying economic prosperity.

As Nick Atkin, PricewaterhouseCoopers partner in finance business services, says:

the high-end functions that SSCs and outsourced functions are looking to deliver. Upward pressure on salaries, and therefore costs, follows.

'The story changes in India,' Atkin says, 'where the scale of the population means that those sorts of skills are more readily available. Large BPO organisations are working with universities a year or two before students graduate to train them in financial management, and to provide support for talented people. They will sponsor them through the latter stages of university so they go to work for the likes of Infosys, Wipro or Genpact.'

But that said, Atkin observes that really good, well-qualified accountants are still hot property. 'BPO providers and their clients don't want to give up

Diageo has offices worldwide, including its headquarters in London

individuals very readily so therefore the price goes up, attrition rates go up, and these can cause problems for BPO providers and shared services.'

Chris Davies, managing director of Diageo Business Services – the financial shared service centre for the drinks giant, based in Budapest, Hungary – has seen first hand the effect the improved financial capabilities can have in a particular location, and how that can be of benefit to that location. He now argues that cost is not the driving factor in locating a BPO organisation or SSC in Budapest. 'Hungary is starting to get out of the trap of wage arbitrage; it now competes on the quality of the labour pool,' he says.

Effect on local economies

Rick Sturge, director of business development at the London School of Business and Finance, says: 'There is an aggressive war for talent.' Sturge, as a former director of outsourcing and SSC provider WNS, is familiar with the effect that the sector, and demand for particular skills, can have on local economies.

'But it is providing opportunities for people in developing countries to get jobs and develop themselves.'

Sturge's colleague, Peter Stewart, director of corporate business at the LSBF makes the point that such mobility possibilities are improved by internationally recognised qualifications such as those provided by ACCA. 'If you are battling for talent, then life is easier if you can say that you want someone that meets a recognised standard; uniformity is no bad thing.'

Yet there is still a concern that once a part, if not most, of the finance function is moved out of the core operation and into either a SSC or outsourced entirely, then it becomes out of sight, out of mind – training and continuing professional development

* CASE STUDY: DIAGEO

Diageo's shared service centre (SSC) in Budapest, Hungary, has evolved from being a transactional-based function to one capable of delivering high-level and high-value financial services throughout the global drinks giant's worldwide network. In doing so, it is helping to create a highly skilled and mobile financial workforce in Hungary, ready to do business around the world.

'We have a large captive centre here in Budapest that we opened towards the end of 2001,' explains Chris Davies, managing director of Diageo Business Services. 'We were one of the first SSCs in the country, and now employ 700 people. About three years ago we extended to an outsourced delivery centre in Manila and small centres in Shanghai, Bucharest and Prague, primarily for languages that can't be accommodated out of Manila.'

DBS primarily has finance services in Budapest – order to cash, procure to pay, record to report. But then it also houses the treasury, direct and indirect tax, statutory accounting and board level reporting functions.

'In a nutshell, we want to get as much as makes sense into shared services, but put it in the right place,' Davies says. 'Anything that we can standardise and scale is located in Manila, where we get a 40% salary arbitrage. Where it requires more customer contact, nuance and flexibility we locate it in Budapest – effectively upskilling the workforce here.'

In effect, the group finance function is almost entirely based in the Hungarian capital, with only a couple of senior positions remaining in London. As Davies says, this has some very significant implications for both movement and recruitment and can create huge opportunities.

'Someone can join us out of college in an accounts processing role, develop their overall business skills, pick up some accounting training, move across into a financial planning and reporting role, and then cross over into a market-facing role.'

'So it really creates some mobility,' he says. 'There is a lot of zigzagging up and through the structure; this is one of our real retention factors – we have three directors here who joined at a grassroots level in 2002.'

Davies says while there is a handful of people from Brazil and the Netherlands for language purposes, the lion's share of his staff are Hungarian. The average age is 27, higher than it once was, as DBS has taken out the transactional roles and put in more strategic roles. 'We are recruiting fewer graduates and hiring more experienced professionals, but we are still recruiting at all levels,' he says.

As in other countries, a large amount of accountancy training takes place in the Big Four firms. But Davies sees benefits to the wider workforce by recruiting these employees: 'Because we are increasingly recruiting staff that have worked in these firms, they are having to recruit and train more. But we certainly keep up with our staff's training, we invest in keeping people current.'

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AB OUTSOURCING

Outsourcing has opened up opportunities in finance in places such as Budapest

could fall by the wayside, careers are stalled, and opportunities to move back into the central organisation will be limited, if not non-existent. Not so, says Jackie Gittins, people and change director at PwC. 'The large organisations are doing a lot of things virtually.' Gittins adds that progress can be monitored through staff surveys – most high-performing organisations will carry out surveys at least once a year. 'Engagement is really important; high engagement drives value to the business,' he argues. In other words, those that are prepared to invest in their people will reap the benefits. If people feel they are not being developed, coached or given opportunities they usually say so. 'FDs are asking what is happening in the business, what they think of the finance function,' says Gittins.

Increased value

Peter Stewart develops this point, saying how the increased value of work carried out in SSCs and outsourced functions has developed. 'If you join a Big Four firm as a trainee, your career is mapped out for you. Originally, this might not have been the case in SSC or BPO, where the work was basic transactional work. But now you can think about it as a career,' he says. Global mobility raises a number of issues. There is no doubt that the outsourcing movement has opened up opportunities that previously did not exist for professionals in emerging economies.

As Davies says: 'My junior staff are hugely sought after and are in demand all around the world.' But he adds that at more senior levels, people might be at a different stage in their lives. And he also believes that the start-up or growth-stage finance SSCs' leaderships skills that are required of more senior professionals might not be as finely tuned as they could be.

Marieke ten Houte de Lange, Shell's human resources manager for finance operations, says it might not be necessary to travel to get international experience: 'There is an element of increased global exposure for finance professionals, but we tap into local talent markets, which is one of the drivers of moving into a shared services environment.'

Global environment

Her colleague, Karthik Selvaraj, in Chennai, India, agrees: 'It has increased the exposure to global, multinational, multicultural customers, but the reason why there might not be opportunities [for physical mobility] is that activities are migrating to a centralised, consolidated Shell Business Service Centre environment. Jobs are getting done in fewer locations. But the exposure is tremendous.'

In terms of the importance of working with an outsourced function and SSC as part of career development, ten Houte de Lange is clear. She says: There are four dimensions of experience a well-rounded finance professional requires here. These are: professional, business, leadership and stakeholder management experience.

The people that have the best potential to become future leaders in the organisation should have experience both in the operations environment in shared services as well as in the business and in the central function.'

Philip Smith, journalist

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Out of Ireland

Ian Slattery, senior executive and head of outsourcing at Accenture, Ireland explains what Ireland can offer the global outsourcing industry

Q. What's Ireland's big selling point in outsourcing?

A. We have a highly skilled and available workforce; English speaking; business friendly and politically stable; good work practices with a strong focus on innovation and continuous improvement; a natural enthusiasm to collaborate; and delivery. All these factors, which exist locally, make Ireland attractive as a location for outsourcing providers such as Accenture.

Q. What can Ireland offer that can't be found in lower cost economies?

A. All too often the debate on outsourcing is on location rather than on an overall solution. Industry, both in Ireland and abroad, is struggling to regain competitiveness and outsourcing can play a leading part in resolving that challenge. It is true that services that are price sensitive are difficult to deliver from Ireland, but where Ireland can, and does, take the lead is in the provision of value-added services. So the question should be: 'What is the right solution?' rather than 'The answer is Ireland, what is the question?'

Q. Are there sectors Ireland hasn't exploited yet?

A. Ireland has been very successful in attracting a large amount of foreign direct investment. Looking forward, we can continue to be attractive as a location but only for certain services, namely high value-added ones. For example, Ireland has a good story to tell in the outsourced R&D space and we are improving our capabilities all the time. The IFSC is an excellent example of a dedicated service sector, in particular the funds industry. There is a lot of emphasis on greentech and the green economy, and Ireland should be at the forefront of this market, especially the service aspects required to support the green economy.

Q. Can companies be incentivised to locate activities here?

A. The simple answer is yes. Besides State support and grants, Ireland has a lot to offer. Ten years ago, Accenture chose Dublin over a lot of other European cities in which to locate its European Service Centre, which manages all finance and account services, as well as a number of other functions for many Accenture operations across Europe and the world. Ireland's highly skilled and available workforce with good language, functional and technical skills, continue to be key factors for organisations deciding to locate activities here.

Q. What activities are being outsourced in Ireland?

A. Over the last couple of years, the industry has witnessed a significant rise in the level of outsource activity in Ireland across a range of functional areas, namely CRM, customer care, outbound and inbound call management, sales and order fulfillment, HR Services, IT including application and infrastructure and across the finance service spectrum of order to cash and procure to pay, procurement and learning. This increase in outsourcing activity has not been limited to one market segment, indeed, outsourcing is playing a part in companies' strategy across all

industries, be they public or private. Ireland's key strength is an experienced and skilled workforce, which is essential for the more value-added and strategic activities.

Q. What impact is the current downturn having on outsourcing?

A. We have seen a definite shift in client focus since the market has become so dynamic. It's not surprising that 'cash is king' right now. Companies are looking to maximise cash from their current operations and cost savings are an absolute must to deliver real P&L impact.

Unsurprisingly, we are also seeing that those companies in 'survival mode' are reducing or even suspending investments on what are perceived as 'growth projects' and are laser-focused on taking out cost from their businesses. Speculative projects are low on the priority list and business cases are under scrutiny – those with a committed saving or cash return within 12

months are capturing executive attention. Outsourcing is a valuable strategy in this market and there are three key areas, in Accenture's view, where it can make a direct, immediate impact on company results: cost management; cashflow and liquidity improvement; and growth. The last one is often overlooked in the struggle to survive. Outsourcing can also help speed growth by

helping companies drive new revenue, improve workforce productivity, and prepare for and assist with post-merger integration.

