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The concept of global sourcing is gaining interest now as physical, economic and virtual borders decline as barriers. Because global sourcing occurs in an endless mixture of forms and combinations, it is not easy to typify. Just consider the uniqueness of all the companies involved and you will readily understand that one common best practice for global sourcing doesn’t exist.

The advantages of global sourcing are overwhelming: cost benefits thanks to ultra-cheap labor or greater efficiency, technological expertise, high quality, around-the-clock working hours, high productivity and flexibility. Despite these advantages global sourcing is still only on the agenda of relatively few organizations. This is partly because it requires new directorial competences, while the fear of job reductions reverberates hesitantly. It also requires a clear strategic vision and an enormous amount of practical preparation.

We cannot provide one common best practice, but we can offer the most recent cross-section of global sourcing possible. In this publication we tackle the subject from the pioneers and the late developers on the business side, from the neutral position of an observer who understands the issues, and from the suppliers’ side.

Accenture does not pretend to have a monopoly on wisdom, even though we obviously have wide experience when it comes to global sourcing. As always we are happy to share our insights with the market, just as we want to keep learning from that market.

Bas Telgenkamp
Partner Accenture

Marco Gianotten
Managing Director DigitalBoardroom
Being truly global as ‘One Company’

International companies are often organized as lines-of-business or in-country organizations, driven primarily by results per operating company. This model has worked well for decades. But large companies are increasingly being confronted with the limitations of ‘every man for himself and the financial holding for us all’.

In the world of business-to-business clients are increasingly buying across borders, and no longer wish to deal with the adverse effects of a fragmented supplier. Clients want one standard for invoicing, one type of product numbering and one way in which service processes are organized. This requires standardization of processes and the underlying systems. World-class operations imply that where necessary, companies exhibit unity and that clients recognize the best practice everywhere in the processes across the decentralized units. The rise of shared services has already led to internal support functions being equalized. This trend will continue in the years to come, through to processes which are part of the core business such as production, logistics and services. Process chains will be standardized internationally and integrated to convert the vision of One Company into reality.

One Company and global sourcing

The impact of the One Company concept on IT is huge; centralizing IT organizations, internationalizing ERP systems and globalizing the sourcing of shared service centers and project tendering. For companies which are actually One Company, it is possible to organize the development, administration and particularly the clustering of competences optimally and irrespective of location. When you no longer need specific competences in each country, not only can you take to India or other emerging countries those loose development projects or administrative activities which can be isolated, but you can also organize the processes closely interwoven with the business in the best possible location. In a certain sense you are collecting competences from various countries, which you bundle together on the basis of expertise per country, cost levels and risk.
Companies are abundantly busy with converting the vision. That One Company is a current boardroom theme is proved by the utterances of many top managers. One Philips, One Unilever, One TNT, One Océ, One Siemens and Downstream-One (Shell) are expressions the CEOs of these multinationals use in their communications about the future and the provision of new added value as a large company.

**The facets of One Company**

Top managers indicate that their companies must form more of an entity to produce added value in areas such as costs reduction, service, market policy but also innovation. With Philips the One Company emphasis lies with cross-over innovations in lifestyle technologies, in which divisions such as light, medical and consumer electronics work closely on new products such as ambient intelligence. One Company encompasses more than consolidation, given that the decentralized benefits, such as the profit responsibility and entrepreneurship, must not disappear. One Company will translate into brand experience, compliance, collaboration in the supply chain, innovation across borders and the integration of sales channels. What can be removed from the decentralized back-offices must be standardized. You must not centralize sales, but for example certainly the service-oriented processes such as virtual warehousing in which the physical stock locations are managed as an entity across countries. When a spare part is not in stock in one country, it can quickly be checked which location can actually deliver it overnight.

**One Company at Océ**

Océ transforms back-office processes to produce a unity towards clients across the various countries. Special applications for large format printers and the step towards document management requires a reversal. The IT organization made a 180-degree turnabout. IT staff has worked hierarchically in a national organization, in which they operated on behalf of France, Germany or another country. This has changed now that they report directly to the Holding and have direct responsibility to the CIO, Peter Hagedoorn. With One Company the IT Governance also changed in terms of the business. Alignment occurs from the process chains and no longer from the country organization. A reference board of top managers now becomes the owner of the entire IT budget. The unity lies above three steering groups each with a process cluster: (1) commercial with all client processes, (2) supply-chain with R&D, production and logistics and (3) corporate with staff processes such as finance, HR and reporting. Each steering group is linked to an IT group where the processes and applications can be clearly connected. In this way Océ has a natural alignment and no longer hundreds of separate processes which all demand an IT budget.
The transformation of IT
Establishing profit responsibility at a low level in the organization has led to a diverse and comprehensive portfolio of applications. At the end of the day each business unit was free to organize its own processes. Even when a standard package such as SAP was chosen, generally no two implementations were identical. The management costs of maintaining such a comprehensive portfolio are high, as are additional costs for the many interfaces and maintaining a diversity of expertises and thus positions. Much has been done for the high costs of IT in recent years through standardization of administration and outsourcing. The diversity in the portfolio has however remained, because the organizational form of the business has not changed.

Run-up to One Company migration
The top management in countries will not relinquish autonomy without a struggle, certainly when One Company is viewed as an IT project. In recent years purchasing and financial processes have been equalized across countries, often prompted by a strong focus on cost reductions and the requirements of supervisors on the control and transparency of all processes which influence the financial reporting directly. The ‘lite’ version of One Company falls under the responsibility of the CFO. You must understand the entire breadth of the business if you want to take a step further and equalize processes such as production planning, stock management, supply, logistics and after-sales service. Most company processes can be standardized within continents or even worldwide, with the exception of legal and fiscal issues and specific client service because of national cultures. In the ideal situation the standardization of the business already begins several years before systems are actually migrated. Contracts with clients, credit conditions and delivery conditions must be made uniform with only the odd variables, given that the legal documents influence the payment processes. Perfect delivery is difficult when you use a standard ERP system for various business units and countries each with their own conditions. Then under-delivery or over-delivery can rapidly occur, with the associated extra efforts arising from credit entries. All documents which determine the working methods of a company influence processes. The range of delivery conditions to quality requirements makes up the first stroke on the road to standardization. The consequence of this is making the process models uniform and establishing dependences in the process chains. These models are supported by data models and master reference data which lie in two systems for a short time during the go-live. The run-up to a migration is thus a serious task which cannot occur without the compelling

“You absolutely need the best people for a One Company migration.”

This situation stands in the way of lean and mean operating, not only for IT but also for the business. The time-to-change of business processes is hindered by the time and costs associated with changes to systems. Increasingly the speed of change is becoming a weapon in the competition battle. Thus the step towards One Company is a major drive for the business as well as for IT. The major difference with earlier rationalization drives is that these do not occur within the high walls of IT itself, but from the transformation of the business. The implementation of GSAP or global SAP is not an IT project, but a complete reorganization of the business processes which are now standardized end-to-end. This requires an entirely different approach than the classic method of project management where time, budget and functionality are central and not the company model of an organization and the migration. You must tackle country organizations, given that they lose their autonomous status to a degree. Having one’s own back-office meant being the boss in your own house. It is seen as a demotion when someone is transformed from managing director to commercial director. It is however necessary in order to work better and more efficiently.
power of the top management guiding the business – also because segregation of responsibilities within the new systems changes the working methods on the factory floor and for the management. This requires not only training but also the determination that the work is indeed to be carried out differently.

After a go-live per region, country or company section, various technical optimization efforts follow, along with the phasing out of integration so that operations are increasingly carried out on the new platforms. New applications are also possible, such as advanced planning through integral chain management. An entire operation often takes several years.

**Success factors**

Leading a large-scale IT project usually is not an attractive career prospect. Without thorough business knowledge and therefore line managers you will not succeed with a worldwide migration. A team with managers from both IT and the business must be granted far-reaching powers. Thus during a freeze period – prior to the migration – no further changes may be made to the old systems, because this could influence the master data. If you shake the business so thoroughly to its core, reporting to a CIO or CFO is not enough. Direct channels to the highest top manager of the business are essential, given that conflicts of interest always occur; the implementation team works towards the future, while the business has today as its first responsibility. A real top team is necessary with people you take out of the business for several years. After the project they return to the business. Participating in a major transformation project team is otherwise too much a tour-of-duty and too little an employee value proposition. IT is often regarded by the business as a dumping ground. Because there is a possibility of failure and you are outside the business for a while, all of this together is not attractive. Yet you do need the best people for a One Company migration. For those who participate in a temporary project team with such an important task, a top job must lie on the horizon.

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**One Company at Shell**

Shell was primarily a federative company with subsidiaries with strong autonomy. Problems in valuing oil reserves, relatively high costs and the heavy demands imposed by compliance produced the incentive to introduce homogeneity. Because of the strong autonomy of the country organizations Shell was a patchwork quilt with 150 different ERP systems which were relatively separate from each other. The strategy is to achieve a worldwide standard and even single instance for Downstream. Simplification of the business is a process to be followed by the introduction of Global SAP. Peter Blauwhoff is responsible for this transformation.

The implementation of GSAP is only partly an IT project. In fact it is a business migration to One Company. Before processes are migrated to SAP, standardization and simplification of the process map must occur with the various parts. This occurs in phases in which complete organizational country units are transferred to GSAP. It is an extremely controlled and even a forced environment. Before and after the migration the project team lays down a no fly zone, in which the business may not introduce any changes itself. The project team has direct access to those bearing the highest business responsibility for Downstream, because there are always
Vision

conflicts of interest. The business is assessed on the quarterly figures and therefore wants freedom in its dealings. As the go-live of GSAP draws near, this forms a risk for the migration and thus for strategic objectives such as more transparency and lower costs through standardized processes. The project team is also involved after the go-live.

Given that the migration occurs in phases there are many links with connected platforms which are phased out over time once the project is almost completed. The integration is thus an extremely dynamic process which repeatedly changes over the project period of several years. A second reason to continue to exercise control over GSAP as a project team is the optimization of planning and production chains. Together you can carry out increasingly improved benchmarking and best practices identification. Then it is quicker to transform these into common practice. When, eventually, everything really is global, suggests Blauwhoff, you can largely withdraw your expertises from the countries and organize location-independently. This contributes enormously to the professionalism of IT within Shell, while also producing a cost benefit.

“One Company will translate into brand experience, compliance, collaboration in the supply chain, innovation across borders and the integration of sales channels.”
The Global Sourcing Maturity Model (GSMM)

Maturity and ambition in global sourcing

We distinguish four stages in outsourcing to Eastern Europe and Asia. These are incorporated into the so-called Global Sourcing Maturity Model (GSMM). These four GSMM maturity phases have been developed on the basis of the interviews in this publication.
<table>
<thead>
<tr>
<th>Phase</th>
<th>Phase name</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>Exploratory</td>
<td>Offshore is a consideration and is on the agenda for the future.</td>
</tr>
<tr>
<td>1</td>
<td>Ad-hoc</td>
<td>Possible offshoring per project is considered and included in the RFP for projects such as system development and management which are already externally contracted. The choice of parties depends largely on the purchasing department, which indicates the supplier via tendering.</td>
</tr>
<tr>
<td>2</td>
<td>Partnering</td>
<td>The project is carried out with fixed parties, in which offshore makes up a structural component of the services these parties supply. This can involve Indian and Western suppliers with offshore capacity. Jobs within the organization do not disappear for the time being.</td>
</tr>
<tr>
<td>3</td>
<td>Structural</td>
<td>Parts of the existing portfolio of services which the IT organization supplies, such as system development, management and support of basic services, are converted structurally to an offshore construction. This causes jobs within one’s own organization to decline on a small scale, as well as amongst parties who currently execute these services within the Netherlands (or other Western countries). Offshore makes up a substantial component transferred in phases to other countries in Asia, Eastern Europe or Latin America.</td>
</tr>
<tr>
<td>4</td>
<td>Optimized</td>
<td>The far-reaching standardization of primary company services in the business means processes can be covered end-to-end within consolidated and shared IT systems (such as single instance ERP). The sourcing of all IT services for providing these services to the business are contracted location-independently within the global market, with capacity, quality and price being decisive in the choice of partners. This includes technological innovation (migration of platforms, application of new technology, company-wide integration, service-oriented architecture). The global market is utilized optimally and the individual approach is world-class.</td>
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Cross-cultural communication

The next big challenge in global sourcing

Global sourcing has become a widely accepted business practice, enabling companies to minimize costs and maximize performance whilst working across multiple geographies. Now that the physical obstacles to offshoring have largely been overcome, companies are turning their attention to the challenge of ‘softer’ issues such as cross-cultural communications (C3) and human resources. This article will focus on C3 issues and how to overcome them.
Offshoring has become a mature activity in the business world. Analysts estimate that “by 2015, 30 percent of traditional professional IT service jobs will be delivered by people based in emerging markets.” This growth in offshoring is redefining the IT industry. Focus was initially concentrated on overcoming physical obstacles like infrastructure; but with these generally resolved, attention has been redirected to ‘soft’ issues such as culture and communications.

Analysts and industry leaders agree
Industry analysts believe C3 issues appear to be by far the greatest challenge clients face when working with an offshore provider. A breakdown in cross-cultural communications can cause project delays, reworking and frustration for the onsite and remote site teams. A survey of managers and senior executives at a global firm involved in offshoring activities revealed that they believe 50 percent of all issues faced could be attributed to cross-cultural miscommunication. Poor communication and cultural challenges consistently rate highly among offshore providers when questioned about the challenges they face.

Industry analysts of Ventoro reinforce this belief: “Contrary to the marketing efforts of a few offshore outsourcing vendors, communication and cultural issues still have an impact on the overall success of offshore strategies. We found that 9 percent of the time an offshore strategy fails, it is directly due to cultural or communication issues between the onshore and offshore teams.” Gartner adds that effectively managing C3s can provide companies with immense benefits such as decreased cycle times and reduced staff requirements.

Cross-cultural communication explained
Working with different cultures is a part of global sourcing daily life, whether it is project teams collaborating across a number of geographies or liaising with a client based in another country. In all work-based interactions it is of the utmost importance to understand how certain aspects of culture can affect people and their behavior. To help understand communication styles and where issues occur, it is useful to consider cultural traits in terms of the following four dimensions. With an understanding of these four dimensions, it is possible to identify colleagues’ communication style and subsequently tailor behavior to avoid cross-cultural miscommunications.

1. Risk vs. caution cultures
Those belonging to a risk-based culture will make decisions quickly, based on information available at the time, and they are willing to try new methods and innovative approaches. On the other hand, people from a cautious culture require a great deal of detail and instruction when approached with a task and look to past precedents as guidance for the future. Consider the following scenario: in an attempt to determine which company is most capable of interacting and meeting project requirements, a client gives three companies incomplete specifications for a pilot project – what is commonly known as a ‘bake-off’. Company 1 receives the specifications and immediately contacts the client to request the missing appendix. Company 2 waits four weeks before calling the client to ask for the appendix, and Company 3 never contacts the client at all. This is a clear illustration of risk and cautious communications styles. Company 1 took the risk of alienating the client by inquiring if the complete document had been provided. Companies 2 and 3 reflect variations of the cautious communication approach, where decisions require extensive consideration and the client is not readily questioned.

2. Individual vs. group cultures
An individual culture is driven by initiative, and individual interests can prevail over those of the group, whereas a group-based culture is guided by collective goals and cooperative behavior. Issues can arise between the two cultures when someone from a group-based culture requires additional time, meetings and consultation before decisions are made. Similarly if an individual-based culture team member pursues a bright idea without consulting the team, and ultimately changes the direction of the project, other team members may begrudge their lack of involvement in developing this new idea.

“C3 requires the full attention of companies engaging in global sourcing.”

3. Task vs. relationship cultures
In task-based cultures, deadlines and schedules are ‘set in stone’, plans are not easily changed and working relationships are normally quite basic and work-oriented. On the other hand, relationship-based cultures believe relationships and keeping people happy are more important than time, and that the future cannot be planned. With relationship-based cultures, people often come before tasks, and as a consequence they will put greater emphasis on team calls, group meetings, and getting to know team members. This can clash with task-based cultures, as they consider getting to know people a secondary matter and would rather focus on the task at hand.

4. Direct vs. indirect cultures
People from a direct culture will openly confront issues and communicate concerns in a straightforward manner. They are frank and will engage in conflict when necessary. On the other hand, indirect communicators avoid difficult or contentious issues and express their concerns tactfully. Look for example at the confusion and miscommunication that can occur using a simple word like ‘Yes’. A manager inquires if an assignment will be delivered by Friday. The answer is Yes. Upon asking next what might prevent this delivery by Friday, a list of forty items is presented to him. It is obvious that the deadline of Friday cannot be met. The word ‘Yes’ can be interpreted differently across different cultures. In a direct culture the word ‘Yes’ exchanged between two people making an appointment means the same as a verbal contract. The actual meaning of the same answer in the same situation in an indirect culture could vary from ‘Yes’, or ‘Maybe’ to ‘I hear you, but don’t agree with you but am embarrassed to say no.’ This ambiguity also occurs with the phrase ‘I will try’.
### A solution

Accenture is keenly aware of C3 importance and has developed a comprehensive program entitled Effective Cross-Cultural Communication (EC3). The program provides practical, real-life solutions to C3 issues when working across multiple locations and cultures. This course is derived from real-life situations and helps to recognize miscommunication issues at an early stage and manage them effectively, resulting in both time and cost savings. It also serves the purpose of retaining employees and increasing productivity in the workplace. EC3 teaches a remedial communication technique called LEAP (listen, empathize, ask, propose) useful in many day-to-day situations. Key Tips are provided in a specially designed, easy-to-remember format, and the four cultural dimensions explained above are explored in greater detail to better understand why issues occur in the first place. To ensure the course is practical and interactive, the course instructor provides and solicits recommendations on how to adjust behaviors to avoid and resolve communication challenges. Poor and corrected behavior is demonstrated through role-plays, which have been real experiences. Finally, recommendations provide focus on solutions which can be implemented immediately.

### Full benefits

C3 is the next big thing in global sourcing; it is integral to the success of offshore operations and requires the full attention of companies engaging in global sourcing. Understanding communication cultures is imperative to avoid miscommunications which can be costly in terms of project delays, reworking and aggravating relations between employees and externally with clients. C3 training such as that implemented by Accenture will become a mainstay in the industry, bringing companies one step closer to realizing the full benefits of outsourcing.

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**Activity** | **Direct** | **Indirect**
--- | --- | ---
“Yes” | Verbal Contract | Yes; Maybe; I hear what you are saying
“I Will Try” | Difficult, but possible | Will try, but with no indication of outcome
Remains Silent | Agreement/Nothing | Showing respect; to be added
|  |  | Not wanting to disagree publicly

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1 Gartner, Gartner’s Positions on the Five Hottest IT Topics and Trends in 2005, 12th May 2005
2 The Forrester Report, The Coming Offshore Services Crunch, September 2001
3 Ventoro, Offshore Outsourcing: Market Statistics, 25th July 2005
4 Gartner, AD Sourcing Cost Model: Communication Factor, 23rd June 2003

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This article was written by Kris Wadia, Partner with Accenture UK
Industrialization of financial services

ING takes the first step

Interview with Age Miedema
General Manager Operations & IT Banking / Business & IT Transformation at ING Bank

Financial services are on the brink of a new period. The influence of regulators, consumer organizations, globalization and increasing transparency in the market all require a review of strategy. Age Miedema: “Financial service provision is heading irrevocably into the process of industrialization.”
“The entire conversion period towards industrialization is a multicolored sample of all sorts of interim decisions.”
Miedema explains that the first step on the road to industrialization comes down to getting the ‘hygiene’ in order. “You must get your entire process management, your infrastructure, your lifecycle management all at the same level and ensure they remain there. Only then can you switch to a service-oriented world. This is not a simple process, but it does open the way to exploit the scale of ING Group.” The first major exercise in this field was completed within Nationale-Nederlanden’s Loss department. When Miedema started with Nationale-Nederlanden five years ago, processes and IT were complex and not well organized. Bringing a new product to market or even relatively simple tariff changes required a huge effort. Each time afresh it had to be investigated where the various functions lay and what would be affected. The momentum was too low and the time to change and thus the costs were high.

**Product model**

Miedema believes the transformation to a flexible and maneuverable enterprise is not only a question of improving the processes, IT and infrastructure. “You have to be willing to consider your company outside in. That begins with the vision of your clients, the market and your product. Into that you place your vision of your future services and profitability. Then you translate this into standard processes. You have to discuss a number of standards and establish them in a product model. You can sell anything which falls within the standards and boundaries of the product model. Here you offer the client simplicity and comprehensibility, while he also no longer pays for our internal complexity. The entirely standardized back-office takes care of the service and the processing. You can then distribute this across products, business units and countries. Obviously you still have to arrange all sorts of matters,
such as checking whether your pricing still makes sense.” Miedema explains that this product model can be extended very well to internationalization. “The set-up of the model, in other words all the variables and parameters, does have to be arranged locally, but this doesn’t affect the model and that also applies to the pricing. Then the model can be very simply exported. International exploitation then only requires setting up a legal entity per country.”

Sharing

Miedema has not yet had much to do with offshoring. “To share you first need to ensure the uniformity of products and processes. Here too you have to start with one vision on product, one vision on the market, one vision on the process. When you have developed one combined product model and you have one vision, the most important step has been taken towards global services. We have delivered an environment for insurance which is 100 percent straight through processing (STP), based on standard product and pricing models. Now we can link the environment without difficulty to another distribution channel, such as the bank in Belgium. Here you are thus sharing the existing back-office. I believe that you must then also source the back-office, your applications and your infrastructure globally. Take it to where you get the best quality for the lowest price. Globalization forces us to lift all the business operating in a competitive market up to the top level, so in the end you will have to do this. Because our business is global, we will also eventually have to make our processes and our IT global. Sharing all standardized back-office activities is the great efficiency improver. This is the major stroke which will produce the profit of the future. Whether you opt for the centralization stroke or decide afterwards to outsource depends on your strategy. The entire conversion period towards industrialization is a multicolored sample of all sorts of interim decisions. You outsource processes which form one closed book immediately, while others need to be phased and others not at all. Sometimes it’s about applications, at others it’s infrastructure.”

2010

ING is organized into three regions, America, Europe and Asia/Pacific. Consolidation has been launched to an increasing degree in all the regions, as far as possible with shared technology and standardization. “Even so it is the case that there is not yet one standard for all regions, so that we are not yet ready for global sourcing”, says Miedema. “The difference lies principally in the tempo. In terms of global sourcing policy there is little marked difference between America and Europe, but they have outsourced their infrastructure and have made more progress with BPO to cheaper countries. It is enormously complicated to achieve the same performance level collectively with all the underlying differences. But sooner or later there will be a standardization for the entire group. The enormous cost reductions, acceleration and opportunities to produce new products which we could then achieve, are vitally important for our future competitive position. I believe that in five years’ time it will be about how well you can read the market and the competition, which segments you choose, how well you serve the client and how quick and alert you are. This will definitely be a battle such as those we see in other industries. Financial service provision is one of the last sectors which will fight this battle. So you need to choose a structure which enables you to switch rapidly. In process management you must reach a much more detailed level across the entire chain. You must lay down process models with clear linkages. The process architect of the future will be a field all of its own, for which the competences are currently not present. Your metrics must also be entirely in order. As far as that is concerned many companies here can still take an example from the level of operations management in India. So on the business integration side you always retain key functions. In any case you always retain ultimate direction over the entire chain. To this end you have to manage the total process of requirements right through to the detail level yourself, so here too you keep the key functions. You don’t specifically have to score level 5 on the Capability Maturity Model (CMM) like the Indian providers, but level 3 is certainly a minimum. You must develop the same rhythm and discipline on both sides.”

Maturity in global sourcing

A clear development is apparent within ING in terms of global sourcing. It initially began with ad-hoc decisions in the field of outsourcing. Then the issue became one of a more conscious choice of an external partner with
whom new technology was developed. The partner was required to follow a global sourcing strategy. The next step on the road to maturity in global sourcing is the decision on multi-sourcing. Miedema: “Now we want to go further with a minimum of three and a maximum of five partners. We are now focusing on seeking the expertise we need on the basis of our vision and insights into our core competences. These partners must be prepared to invest with us in these areas. They must also renew, and part of the innovations must originate with them. ING remains the business integrator and exercises direction. This needs far-reaching standardization, clear vision and a consolidated global market. For Life we have now developed a European product model, for instance. Once you have such a model, you can easily centralize all the underlying production components, bringing you to a global sourcing model. Then you have the choice of doing it yourself or accommodating it with someone else, but we have not yet reached that point in ING. In terms of offshoring you really need to develop a company philosophy. Within ING offshoring is no longer an individual affair, but we are on the way to formulating company policy in this field.”

“Once you have developed a European product model, you can easily centralize all the underlying production components, bringing you to a global sourcing model.”
Take aways

Vendor selection

Map locations to vendors, not vendors to locations
At the end of the day, the vendor you choose is more important than the country where the work will be undertaken, so time invested in location analysis should be adjusted accordingly.

Vendor as role model
Where relevant, has the vendor offshored some of its own internal functions to demonstrate it is practicing what it preaches?

True partnership

Non-exploitative relationship ...
... which offers mutual benefit to both client and partner. A healthy balance between trust and control is often the best answer.

Adding value
The partner should offer more than just labor cost arbitrage. Examples include industry knowledge, technological innovations, etc., preferably from an onshore location, given the need for direct, regular client interaction on these subjects.

Share future business strategy ...
... at an early stage, to allow the partner to bring their assets and innovation as part of the new program, rather than simply supporting its execution.
Human Resource Management as a core competence

The blessings of outsourcing

Without dramatizing it, outsourcing has major consequences for a company. The strategic implications are acknowledged, but how much attention is actually paid to the employees involved? What role do HR managers play in outsourcing? How broad is the gap between the desired situation and the current practice? An interview with three HR experts.
The transition of work and employees in outsourcing make considerable demands on HR. Many issues have to be guided into the right channels, such as the negotiations with unions and the works council chairman, employment conditions changes, limiting any undesirable exodus. Next to this HR has to take care of a clear explanation of purpose and necessity of the course chosen.

The added value of HR
The role HR plays in outsourcing is crucial for the success of the entire operation. The moment at which HR is involved in the outsourcing varies enormously. “With most of my clients HR played a role from the very first moment,” explains Takens. “The few times HR came late onto the scene, were in companies who were anxious to launch communications about the outsourcing plans.

The decision-makers who are convinced of their plans and who have a clear picture of how they are going to tackle them, generally understand that HR must be involved from the very start. In both instances you can demonstrate the added value, but for this you must be able to talk with the business. It’s about their problem, their product, their trick and if you don’t have any affinity with this right from the start you will not be taken seriously. This, talking on an equal footing with the business, is a real HR function which is not available everywhere.”

Van Schaik explains the course of events within ING. “About 18 months ago a decision was taken in principle that parts of Operations & IT Banking may potentially be considered for outsourcing. We are currently carrying out a number of major programs simultaneously, among others involving the desktop environment, application environment and document services. This involves some 2,000 people in Operations and IT Banking.”

The experts

Rob van Schaik is program director HR sourcing for ING Operations & IT Banking. With regard to HR he supervises a number of major sourcing initiatives. “Up until now ING has been little involved in outsourcing. We are currently carrying out a number of major programs simultaneously, among others involving the desktop environment, application environment and document services. This involves some 2,000 people in Operations and IT Banking.”

Albert Sprokholt is director of Morgan Chambers, an advisory agency specializing in guiding companies in sourcing, and, more specifically, outsourcing issues. “As CIO at Aegon I covered various outsourcing projects from 1996. At Morgan Chambers I am directly involved in a number of projects, including Delta Lloyd, Nuon, Eneco, PCM and SNS Reaal. At ABN AMRO I guided the works council during the last outsourcing process.”

Ike Takens has an advisory agency covering the field of HR. “In recent years I have worked a lot with outsourcing. At Delta Lloyd I supervised a major outsourcing project for ICT infrastructure and a number of smaller components, ABN AMRO insurances and the ICT department of Ohra. I am currently advising the works council chairman of Ohra in the outsourcing of document processing.”

Van Schaik explains the course of events within ING. “About 18 months ago a decision was taken in principle that parts of Operations & IT Banking may potentially be considered for outsourcing. We are currently carrying out a number of major programs simultaneously, among others involving the desktop environment, application environment and document services. This involves some 2,000 people in Operations and IT Banking.”

The decision-makers who are convinced of their plans and who have a clear picture of how they are going to tackle them, generally understand that HR must be involved from the very start. In both instances you can demonstrate the added value, but for this you must be able to talk with the business. It’s about their problem, their product, their trick and if you don’t have any affinity with this right from the start you will not be taken seriously. This, talking on an equal footing with the business, is a real HR function which is not available everywhere.”

Van Schaik explains the course of events within ING. “About 18 months ago a decision was taken in principle that parts of Operations & IT Banking may potentially be considered for outsourcing. HR was involved immediately thereafter. We opted to improve the HR details step by step during the selection
Schaik notes that this links amongst other things to a legal aspect. “For us such practices are not in fact possible. In accordance with the law we first have to take advice from the works council.” According to Sprokholt there is also a second reason why such practices do not occur in the Netherlands: “The culture. Just as in Belgium and Germany, the Netherlands has a consultation culture. The involvement of an employee in a company here is also entirely different to the USA. There people react far more taciturnly to outsourcing; here the issue is one of greater bonds with the company for which one works. How you deal with employees depends not only on the national culture, but also on the company culture. ABN AMRO has followed outsourcing programs in the Netherlands, Brazil and America and everywhere the issue was one of employee participation or involvement. Thus the degree of HR maturity is linked to a certain extent with the style of the organization.”

“As far as that taciturn attitude is concerned,” adds Takens, “you can also argue that a social HR policy in and negotiation phases, so that when it comes to the moment of transition we will have a full insight into the population and the costs outline. We also entered into good agreements with different parties about timing and communications. The interests of the employees are primary, and this is underlined by the members of the Board of Directors. Our objective is that most of the involved employees will conclude after the transfer that ING dealt responsibly with their interests.”

Employee participation determined by culture

HR is not always involved in the process in good time, says Sprokholt. “In the Netherlands,” he explains, “there is considerable concern for HR in outsourcing, certainly if you compare this against the Anglo-Saxon commercial world. In the US it even happens that people are only notified the day before their dismissal or transfer.” Van the US is possibly not needed. If an employee there accepts that from next week he has to report to another company, then it doesn’t really matter.” Sprokholt believes the role of HR differs per company. “In one company HR is closely involved in the communications and everything which the changes entails, while in another instance HR is only involved in arranging the employment conditions matters. Here the management takes responsibility for the communications. Generally the transition then runs with some difficulty. Because the management is not considering the outsourcing from the employees’ point of view, their interests can then fall between two stools.”

Open communication for motivation

In outsourcing processes in the Netherlands people almost always go into some sort of dip, according to Van
Schaik. “Everyone undergoes a type of mourning process, even before it is clear whether they will be involved in the outsourcing. In Belgium we are the first financial institution which talks openly about outsourcing. This led to the appropriate disquiet. In one sense at that moment we were doing the dirty work for other financial institutions. You can generally assume that there are production losses. I don’t have any figures for this. Without doubt, also in the Netherlands, there are some more people clustered talking around the coffee machine than before.” Communication is of real importance in an outsourcing project, Van Schaik notes. “That’s why we have trained the managers involved in telling the message and in dealing with the reactions and the resistance they will encounter. Still we find that the real reaction comes after the official press release is reported in the newspapers.”

Takens recognizes this course of events. “As long as the message distribution is early,” he says, “people will react somewhat stoically. They think: another plan, it will pass. Only when the die is cast comes the phase in which the disquiet is the greatest. In that stage you are greatly assisted if you have communicated openly in the preceding period. Place a Q&A on the intranet. Not that people will read it, because certainly you get the same questions countless times, but at least show you have nothing to hide. Don’t tell half the story, and fulfill your promises.” Where the desired communication is not aligned with what is actually communicated by the business, there is a clear task for HR. Takens recalls a project manager who did not answer a question about the law on merged companies, because the social plan was not yet completed. “You can explain everything about the law with the Civil Code in your hand. You don’t have to wait with this for a social plan.”

According to Sprokholt people share a relationship with the company for which they work. “As soon as outsourcing comes up this relationship changes markedly. Outsourcing is seen as a breach of trust. The contract is being ended unilaterally with the implicit message that someone else can do it better. This is a difficult message which many people do not understand. Naturally this leads to a dip in motivation and a greater staff turnover. The only thing you must do in a situation like this is to remain trustworthy: treat people well and communicate about the facts. Be clear about the process and do everything to follow that process, because if you slip you provide ammunition for individual interpretations. Rumors such as: maybe the entire operation isn’t going to happen; they can’t find a good supplier. You don’t want this unrest, because it forces you into a defensive role and distracts people from the core message: we are going to outsource.”

Cutting the umbilical cord

Dealing with workers who are going to be outsourced is precarious. At ING there was extensive discussion about retention gratuities. “Ultimately,” Van Schaik explains, “we decided not to go this route, because you end up in very shadowy territory. It’s all about large groups, so that a certain staff wastage will not endanger the operational
management.” Takens’ experience has even been that none of the employees involved even considered leaving prematurely. “They saw clearly that the opportunities were limited within their company, and that they could upgrade their position and thereby increase their economic value by switching.” From the moment people begin working for the outsourcing partner you must let them go, notes Sprokholt. “They must be able to focus on the new. When people already feel detached and you disturb their preparedness to work themselves into their new absorption capacity at the outsourcing partner. “It’s a matter of good preparation,” Sprokholt maintains. “You know the business case, you also know the exact number of people who are superfluous. Or the supplier actually tells you this, because they have a clear interest in doing so. In fact the partner actually carries out part of the reorganization for you here. What you would ideally like is that former employees acknowledge after the transition that they ultimately did well. Not everyone will say it, but in my experience many people find that they are better off after an outsourcing process, and

“Where the desired communication is not aligned with what is actually communicated by the business, there is a clear task for HR.”

job, you deaden all motivation. Instead of demonstrating such involvement you need to show that a splendid perspective lies ahead for them in the future, and you must then absolutely release them entirely.” The return guarantee produces little acceptance amongst the HR experts. Van Schaik: “It’s a farce. If you give such a guarantee, then there is little chance that the necessary detachment will really occur. It’s another story for the vulnerable groups. You can certainly arrange something for those groups. On paper it seems extremely socially conscious. It provides a good warm feeling, but in practice everyone loses, the departing party, the acquiring party and the employee. It’s a false guarantee.” Takens: “That arrangement takes everyone for a ride, because you can’t go back. There is nothing to go back to. Your work is no longer there.” “Obviously you have to do something for the people,” qualifies Sprokholt, “but then in the form of training and guidance. With such a return guarantee you are simply letting people set in a concrete box. It makes any flexibility impossible.”

Blessings
Job reduction is regarded as a done deal. Takens believes that dealing well with job reduction means good discussions on career development and about the that they can now develop better. This really is one of the blessings of outsourcing.” According to Van Schaik it does depend on what is being outsourced. “ICT has become a commodity. In the second half of the 1970s you really could experience computerization in a bank or an airline. Now it’s better to go to suppliers of the services, even if the people who are outsourced don’t have that feeling initially.” When it comes to harmonizing employment conditions Takens has a clear preference for doing this on day one of the transition. “I prefer to invest the energy at the beginning of the project. You then release people with clarity on how it’s going to be. If you first announce that you are going to carry out a study, or are going to carry out talks with the unions, then people don’t know what lies ahead.” Sprokholt endorses this view: “It really only causes a fuss. I recall a project whereby the releasing party had stipulated that the supplier would take over the client’s collective labor agreement, the so-called CAO in Dutch, until its expiry. This became extremely bothersome. It creates an inequality you cannot sell.”

Anticipatory role
After the outsourcing of facilitative processes and production, knowledge-intensive processes now follow. This development appears to shift the role of HR from
such as variable salaries. Our primary Key Performance Indicators are customer satisfaction and shareholder value.” Sprokholt adds that the level of the remaining work changes with outsourcing. “Everything which could be automated has disappeared. The people who remain behind must ensure at least the same output. This poses an important task for HR.”

Working with more performance orientation and the disappearance of ‘jobs for life’ appear to make the threat of outsourcing less grim. “Feeling a connection with blue aircrafts or orange lions is not unimportant,” Van Schaik believes, “but it should no longer be the only motive to work in a company.” Takens also agrees unreservedly with the argument that outsourcing offers more opportunities instead of just being threatening. This brings the discussion unavoidably to outsourcing the HR function itself. Because ultimately HR does not operate from an ivory tower which would make the positions of the managers and employees unassailable. Two of these three experts themselves work on a consultancy basis, so perhaps it is less surprising that they regard the outsourcing of HR as an opportunity just as it is with outsourcing any other function, rather than seeing it as a threat. Van Schaik also keeps open the possibility without any doubt that HR could be considered for outsourcing. “But,” he adds, “just as with IT you must retain the direction yourself. You need an HR manager for this who is very close to the business and who guides the supplier.” According to Sprokholt you are not working well if the expensively paid HR professional is spending the bulk of his time on operational issues. “If you outsource all the matters which must secure the daily course of events, you can devote your time to real HR consultancy. This really makes a major difference.”

“At least show you have nothing to hide.”

Ike Takens, HR advisor
The experts

Tjahny Bercx is Senior Corporate Vice President Human Resources with LeasePlan and has supervised a number of outsourcing projects.

Rob van Schaik is program director HR sourcing for ING Operations & IT Banking. Concerning HR he supervises a number of major sourcing initiatives.

Albert Sprokholt is director of Morgan Chambers Benelux, an advisory agency for issues surrounding sourcing and more specifically outsourcing.

Ike Takens has an advisory agency covering HR and has had considerable dealings with outsourcing in recent years.

Maud van den Meiracker is partner with Accenture. Her specialty is Human Transition and Transformation both in terms of shared services and outsourcing.

Human Resource Management

In addition to the interview on human resource management (pages 24 to 29) we presented five HR-experts with three different propositions. This resulted in brief and clear statements on the role of the human resource professional in relation to outsourcing.
Proposition 1:

HR is a core competence when outsourcing is a way of business life.

Bercx:
I don't know whether HR is really a core competence. With all the outsourcing I have experienced, the focus was mainly on the greater whole, the financing and the models. It should indeed be one of the most important factors in outsourcing processes, but HR doesn't always get the attention it deserves. In outsourcing people go for a sort of ‘de-identification process’. Few recognize this, or have a feeling for it.

Van Schaik:
A financial institution is a knowledge-intensive industry. So it is important that not only capacity but also knowledge remains in the company. You must be extremely aware of which items you are taking out of the process chain and how the interfaces between the various components will look. Line management must then, assisted by HR, ensure that the knowledge about the entire process - what occurs both internally and externally - is well secured.

Sprokholt:
I think that HR is a core competence for a contemporary company with modern management. More specifically: I believe that the professionalism and progressiveness of HR is a vital indicator for the quality of a company as a whole.

Takens:
Given that people determine the result, HR has decisive meaning for the success of outsourcing. This already begins well ahead of the actual outsourcing, by involving employees in good time in the changes which will occur for them. The tried and trusted gives way to the new perspective which is not of their own choice. This requires guidance, prompt communications and well-considered labor-conditional development.

Van den Meiracker:
HR could be a core competence, except that many HR departments don’t have the in-house knowledge and expertise for it. You must be able to think about the desirability of outsourcing and which activities and business processes can be considered for it. You must be able to exercise a vision on how the new (reduced) organization will look and which core competences are suitable for it. And HR must play a key role in the transitional process. These competences are still a bridge too far for many HR departments.
Proposition 2:

In outsourcing there is too much about contract management and too little about competence management.

Berckx:
A contract doesn’t set out everything about outsourcing, given that in each project people end up in the wrong place or certain competences are missing. You incur far more costs if you have to put this right in retrospect. Outsourcing goes well at the macro and meso-economic level, but the micro-level remains a changeling child. Ultimately I no longer believe in change personally, because time and time again we have shown that we are insufficiently equipped for it.

Van Schaik:
Our advantage in having begun with outsourcing relatively late is that we have been able to learn from others. We have carried out many discussions, giving rise to the concept of the so-called Managing Service Providing. This is a framework in which all the necessary competences are given in broad outline. If we set things up in this way, then I don’t agree with the proposition.

Sprokholt:
There is an incorrect image about what makes up a good contract in outsourcing. In addition to being a trading transaction, outsourcing is also an agreement about service provision over a longer term. And it is precisely in this second section, where much can change during the contract period, that the contract must be a framework for the management guidance and the changes within it. Competence management plays a vital role here. Unfortunately I almost never encounter contracts discussing this. There is also exceptionally little thought given to the fact that outsourcing also means part of the knowledge leaves the company.

Takens:
Not if I go by my personal experience. Ascertaining (core) competences is an absolute precondition for a successful outsourcing process. Although it often looks that way in practice, it is a misunderstanding to assume that in outsourcing it is mainly about contract management.

Van den Meiracker:
This is certainly not my experience. For the receiving party a good contract is naturally very important. But the outsourcing solution of course forms the basis of the contractual agreements. Within Accenture we have a standardized methodology for service transition and transformation. Contract management is one of the eight steps within this method.
Proposition 3:

**HR only has an executive role in outsourcing, not a strategic one.**

**Bercx:**
Unfortunately this is absolutely true. But it will go wrong if HR doesn’t have a share in the decision about outsourcing, or if it is involved too late. The consequence will be that you are only firefighting. If HR is involved earlier in outsourcing, then the gaps in management competences can be recognized far earlier and focused action can be taken. There are a lot of hard edges to HR and you really need to tackle these head-on.

**Van Schaik:**
Without doubt HR has a function at the tactical and operational level. But the strategy of the ING Group certainly doesn’t primarily rest on HR drivers. HR does however apply frameworks for outsourcing. Think for instance of the negotiations with vendors and labor unions. They are very important in making a smooth transition of people and work possible.

**Sprokholt:**
HR is an important success factor. At the moment you cut something out of your company, something also changes within the parts which remain. This has an impact on all the remaining operating processes. Almost no-one ever refers to this and it is thus generally not managed.

**Takens:**
The business is leading in outsourcing. In taking decisions about outsourcing HR is vitally important in a conditional context. How do I get into the press? Will people be motivated about it? Are they adequately absorbed in the new working environment? Questions which deserve serious consideration, but which certainly do not exercise radical influence on the strategic decision.

**Van den Meiracker:**
This is still often the case. HR is indeed involved increasingly earlier in the outsourcing discussion, but more as an advisor about what must occur during the outsourcing process, than in the role of co-decider on the strategy of outsourcing. Depending on how HR is organized, you sometimes see a strategic role for outsourcing in the consultation process with unions and works councils.
The effects of global sourcing on employment and international trade are the subject of heated debate. The interests of the various groups - employers, employees, politicians and unions - are on the line, after all. An economic analysis helps to keep the discussion clear. The difficulty with this is that global sourcing is still relatively young so that there is barely any reliable data which bears comparison. The few studies that have been carried out, allow us to form a picture of the worldwide developments.
At the moment it appears that European firms, with the exception of the British, are outsourcing primarily within Europe.

Global sourcing is driven by the possibility of working independently of location. Initially it was industrial labor which was at issue, but currently the service sector is increasingly able to work at a distance. New developments in the field of communications and far-reaching standardization of processes and systems make this possible.

New definitions of work
In order to assess the effects of global sourcing, it is necessary to redefine how we look at work. As current examples of global sourcing show, the distinction between ‘skilled’ and ‘unskilled’ work is not enough. It is impossible that the relatively unskilled jobs of taxi-drivers and janitors disappear from Western locations. However, it is quite possible that the skilled job of a radiologist in healthcare will be moved around the globe. Medical information can easily be send electronically and interpreted at offshore locations. Thus, the new divide between services that can be delivered electronically and those that cannot shows the potential for offshore. Increasingly, some impersonal electronic services can be compared to tradable goods; they can be produced easily anywhere in the world where the right skills are available. The jobs of persons that deliver these services are location-independent.

The movement of location-independent jobs
Moving location-independent jobs will result in a shift of jobs in Western locations from impersonal to personal service jobs. A social economic view on offshore would suggest that the United States, lacking broad unemployment safety programs, would more easily adapt to these new conditions than Western Europe. OECD research shows that the percentage of location-independent jobs in the United States, Canada and Australia declined in the period between 1995 and 2003. The jobs which were thus initially filled in these countries actually do seem to have been relocated. In Western Europe the number of location-independent
jobs increased over the same period. This can be partially explained because Ireland is an important recipient of jobs. It is too early to estimate whether Europe will move a major part of location-independent jobs offshore, or whether the work will remain on the continent. At the moment it appears that European firms, with the exception of the British, are outsourcing primarily within Europe. According to the OECD around 20 percent of the jobs present are potentially affected by offshoring to other locations. However, the research could not find evidence of a negative relationship between the imports of relocated services and the percentage of location-independent jobs. In general it is expected that the positive economic effects of offshore outweigh the negative ones, although there might be adjustment problems in the short term.

**Trade flow between Western economies**

In its own study into offshoring McKinsey concludes that there is a difference between the number of jobs which can be designated as location-independent and the number which are actually transferred. On the basis of an analysis of eight sectors McKinsey believes that the number of worldwide jobs which will be transferred to low-wage countries will rise from 1.5 million in 2003 to 4.1 million in 2008. This number is still relatively modest if we consider that just within the service sector alone there are 161 million potential location-independent jobs. The number of offshore jobs pales into insignificance within the total jobs numbers. McKinsey estimates that in 2008 there will be a total of 1.86 billion jobs, of which 1.46 billion will be in the service sector.

Another way to view offshoring is from the perspective of the import and export of services. With offshoring the issue is one of a trade flow between two different countries. In jobs transfer from Belgium to India, India is exporting services to the importing Belgium. Statistics show that the majority of the import and export of ICT-intensive services is still exchanged mutually between Western countries, although India’s share is rising very rapidly.

**The year of mobility**

The workforce in Western countries has to adjust to the new reality that impersonal jobs will move offshore. Some jobs, such as most positions in tourism and care, will stay. Yet, in light of the demographic developments it is vital that – certainly in the European Union – attention is being paid to mobility. The current focus is on the move of jobs without the move of employees.
In considering offshoring language and other non-financial aspects gain in importance.

Assumed that the amount of personal services keeps growing, this implies that a certain supply of labor is needed on location. If trends show a potential shortage, not only the transfer of work is an important issue, but also the transfer of employees. In light of these developments it is vital that sufficient mobility is created amongst the working population. Thus it is that 2006 has been declared the European Year of Workers’ Mobility. One of the most important issues for attention here is learning a supplementary language.

Change of the game
Language and other non-financial aspects gain in importance over costs when considering whether offshoring is suitable for the organization. In India the market for call centers developed by up to 50 percent a year. Huge pressure arose to find new staff, which did not have a positive impact on the quality of that staff. The industry has thus made a start on stricter quality and training programs for employees. Without intervention, by 2009 a shortage of suitable BPO employees is imminent. China, at the moment less attractive for BPO because many Chinese are not fluent in English, will also improve those competences necessary for location-independent jobs.

If India and China continue to develop their job markets, it will be interesting to see how the world economy reacts to an additional workforce of 300 million people. West economies stand the challenge not to resort to economic barriers and instead start to develop policies on the transfer of competencies, mobility of workers and changes in education. Anyone who considers the total picture of the opportunities offered by offshoring also sees all its benefits. The challenge is to act upon them even if the outcome is not sure.

Information sources:
- “Busy signals”, Economist, 2005
- “The emerging global market”, McKinsey Global Institute, 2005
- “The share of employment potentially affected by offshoring – an empirical investigation”, Welsum, D. van and G. Vickery, OECD, 2005
India as an IT Service Provider

“Customer proximity and differentiation will make the difference”
Two countries are mentioned first in offshoring: China and India. China is the place to be if you’re looking for cheap labor in the manufacturing industry. And India has an excellent IT services reputation. Sridhar Vedala, Director Shared Services and Offshoring for Morgan Chambers, knows both countries intimately: “Currently the clear winner in offshore IT outsourcing is India and whether China can challenge this dominance remains to be seen.”

Several factors contributed to India’s dominant position. Right after independence from the UK in 1947 it was decided that English would remain India’s official associated language. The government also invested in education right from the start. In alignment with this investment, the government stated that foreign companies could employ no more than 30 people from their home country; the rest should be Indian. This rule caused IBM to depart from India around the 1980s, which opened opportunities for IBM competitors, the real pioneers such as Infosys, TCS and Wipro. Sridhar Vedala explains how these companies’ focus on low costs aided their great expansion of the past five to six years. “This focus resulted in their innovative offshore outsourcing model, which drove costs even lower. In reply IBM and Accenture adopted this offshore-onshore model.”

**Education and skills**

There is a huge difference in talking about India as a whole or talking about the top five companies, Vedala explains. “Altogether there are fifteen tier-1 to tier-3 companies, which is a very tiny part of India. The tier-1 companies – Wipro, Infosys, TCS, Satyam and HCL – each have close to 50,000 employees and are truly innovative. Whatever is said about innovation within India only applies to these fifteen or so companies, because organizations from tier-4 and further down are not differentiated and lack focus on innovation.” This may be caused partly by the limited availability of highly educated workers; these companies cannot find good computer science graduates. There are essentially three levels of IT-education in India. The highest level is the Indian Institutes of Technology (ITI), of which there now are seven. “The government wants to expand this number to twelve,” says Vedala. “Every graduate from these schools works with the top three companies.” The second level is schools educating computer science engineers. These schools deliver some 100,000 graduates a year. On a somewhat lower level, but nevertheless preferred, are the engineering graduates who didn’t study computer science, but other engineering disciplines. The lowest level of education for IT is made up by the bachelor degrees such as art, commerce or history. According to Vedala those with any significant educational background in India opt for IT. “These people work for tier-4 at its highest. So I don’t agree with the
“The shortage of high-end workers in India won’t be a problem for multinationals like Accenture.”

assumption that India has a large high-end IT workforce. Anybody can do low-end testing, so to me that is not really part of the IT workforce.

“The so-called third wave, R&D being offshore to India, is going to have a huge problem with sourcing. The problem lies not in the number of people, but in the quality of their skills and education. Each year the top schools together produce some 6,000 graduates. This is not enough if you take into account that Infosys or Wipro alone are currently hiring around 5,000 people every quarter. Project managers of higher tier companies spend most of their time evaluating résumés, in their search for high quality employees.”

Indian management
Vedala believes this shortage of high-end workers won’t be a problem for multinationals like IBM and Accenture, because their high-end base will remain in the Western countries. And if it does become a problem, their global delivery model enables them to go elsewhere.

“This is different for Indian companies, because their main base is in India. Their present rapid expansion into countries like Hungary and China shows they are aware of the problem. But Indian companies are not truly global in the sense of adopting the foreign culture. For activities abroad most install Indian management rather than local. Their management style differs markedly from the Western style: Indian managers, for instance, are not used to spending millions on branding or marketing. They have little experience in this field and they want to see the gains from such an investment directly.

“Most Indians also regard Europe as one country with customers who are similar to Americans. I now know there are great differences between German, French or Dutch customers. They also hold on to their model of keeping costs down. To them this model justifies working ten hours a day, the way it is done in India. Because they cannot relinquish control, it is very difficult to create an independent entity.

“Having said that there are different strategies adopted by some of the more innovative companies. For example Wipro didn’t bring their own people to China, because they only want to support their existing customers in China. They’re not interested in expanding resources or expanding market share. In Europe they also localized their management. TCS, with about 350 employees in China, does look at China for resources and market expansion. Infosys has also invested in China and they are looking to expand their local presence in Europe.”

Looking into the future
Vedala does not foresee a global role for Chinese vendors. “There are many medium sized companies, but none stands out. There are plenty of opportunities to grow, but no one is working on growth. The way these companies work is in the way they have evolved, with a lack of a good financial market. They cannot go public and raise money, so they focus on the short term.

“Most Indian IT companies want to follow in the footsteps of Infosys and Wipro. But their road to innovation, that created this industry, cannot be transplanted. There are some 3,000 lower tier and new companies, and they all offer exactly the same services in application development. The tier-1 companies keep up their pace of innovation and are moving into R&D, consulting, product development and transformational BPO. This shift to high-end work is something happening right now, but it is not big yet.

“Indian vendors can compete seriously with the Western companies because of their offshore business models and because they restrict themselves to application development; they don’t do infrastructure. So their margins are pretty high, and they are quite profitable. Until now, because I believe that these high profits will decrease in the near future.
“The coming of Western companies to India changes the arena for Indian companies considerably. So far there has not been much competition for Indian players in the offshore industry. IBM and Accenture were doing quite different things, and charging higher fees. Now they are reaching a stage where competition is reaching a level as companies like IBM and Accenture are moving to offshore aggressively. “If they become truly global vendors I believe some Indian firms will reach the big six in the next ten years. So they will have to learn to improve their customer proximity and work on differentiation. Quality standards have become a commodity and a large workforce is useless if you don’t differentiate and get close to the customer. “Western companies have great experience in these areas. In higher-end work they are close to the customer not only with IT, but also with strategy. All the global players differ greatly in their ways of innovation. Initially there will be some loss of market for current big players but when the dust settles down each will find his own niche.”

1 Offshore Outsourcing: Is China ready? A comparison with India,
Sridhar Vedala, Morgan Chambers White Paper

“Each of the current big players will find his own niche market eventually.”

The expert

Sridhar Vedala’s roots lie in New Delhi, India. Before the real IT outsourcing boost he worked for Infosys and Motorola. In China he founded a consulting company which is now called Strata Nova Consulting. Prior to that he worked for five years with Oracle in the US. He provided consulting services to several companies worldwide in Korea, Vietnam, Japan, Ireland, Germany and the UK. His particular expertise lies in Shared Services and Offshoring. He holds a Bachelor’s degree in Mechanical Engineering from Delhi University and an MBA from the Rotterdam School of Management, and joined Morgan Chambers in January 2006. Morgan Chambers is a consultancy agency specializing in guiding companies in sourcing and, more specifically, outsourcing issues.
Instincts and outsourcing

Most companies spend a lot of time on administrative rules and controls. Almost all company processes strongly depend on information technology. Managing projects, budgets, application portfolios and architecture has therefore graduated from a hobby to a profession: IT governance. There is a shortcoming, however. Many companies treat IT governance from within their own world. This gap is even more serious when we consider that we are outsourcing increasing amounts within our own borders and abroad.

A perfect outsourcing project is rare. Already in the tendering phase things can go wrong. Volumes of questions are posed to the bidding parties. Answers, proposals and negotiations follow. In the eventual contract everything appears to be nailed down; rock-solid SLAs and mountainous penalty clauses must guarantee that the supplier fulfils the agreements. So why then does so much go wrong? We think we can enforce a lot, but devote insufficient attention to the ‘natural’ behavior of both the supplier and the client.

Reality check
The conduct of line managers towards the end of a quarter is usually driven by account ratios, business models and governance. This also applies to suppliers. Such mechanisms fall outside the IT governance scope.
Companies which outsource pay little attention to the governance of their supplier. There are few RFIs, RFPs and contracts which cover the way in which suppliers run their own business and accounts. It is one thing to proclaim innovation and cost savings, but the supplier somehow has to finance his steadily decreasing earnings. What is the incentive for suppliers to save even more when all the advantages accrue to the client? Much is said about partnership, but how can you be partners when economic interests conflict? A mistake often made by suppliers is their instinctive inclination to score commercially without a reality check. This may result in a competitive offer by the supplier, which later turns out to be an unworkable proposition. It is important for both parties to determine the conduct of the other side in advance.

Golden rules of attention

Most international companies work with international suppliers. When the profit and loss (P&L) is established per country or per business unit, then cross-charging is the order of the day, regardless of the fiscal complexity. This limits direct and rapid access to the best people and resources, because the interests of the country take priority over the interests of One Company. Various checks can be conducted on the business model of your supplier to anticipate how it will behave after the ink has dried on your contract signature.

1. Who is the boss at the supplier? Delivery is often calculated on the SLAs and the efficiency grade (or the gross margin), but rarely on customer satisfaction. The provision of service is the responsibility of account managers, who have little influence because of the functional divisions within many IT service providers. If the client wants to bring about any change, it may take multiple escalations. Customer satisfaction must therefore be well established as an integral whole.

2. Has the profit responsibility not been established at too low a level? From annual research into ongoing outsourcing contracts¹ it appears that comprehensive deals worth tens of millions of euros score worse in terms of satisfaction than smaller ones. One of the many reasons for this is that, with large deals, the client may come up against the silos within the supplier’s delivery organization. Just as with P&L by geography – the client versus the country – a separate profit responsibility per delivery unit can upset the client’s interests. A client should therefore ask for one point of contact within the supplier which bears actual (financial) responsibility.

3. Who is the client doing business with? After the deal is closed the client no longer sees the people who were involved in the negotiations. In the process of transition other managers may take their place at the helm. An unlucky client has to talk to a new client executive every six months. It is useful to ensure there is clarity on this during the selection process. It is in everyone’s interests to do business with managers who will be there for years, as will the contract. This cultivates involvement and ensures a collective memory.

The force of nature

A client ought to make it a requirement to know who they’re dealing with before signing a contract. It is no good hiding behind thick RFPs, penalty clauses, exit clauses and other sham guarantees for real emergencies. Look at the actual governance of the suppliers with whom you are negotiating and the real conduct pattern you can expect. Ask for customer lists and make your own reference visits. Consider at what points any contract doesn’t come up to the mark. And remember: nature is ultimately stronger than any contract.

¹ Vendor Performance Study by DigitalBoardroom (www.digitalboardroom.com)
Delivery in China

The other side of global sourcing

China for production and India for services. With this conclusion you rule out China for IT offshoring. In fact China is a purchasing country and needs a lot of company IT in the years ahead. Multinationals with interests in China must manage complex supply chains with advanced systems and support fast-growing branches in China. How do you tackle IT delivery in China? And how do you tackle chain integration in a country where investing in partnership is set squarely against the cash culture? Investing entrepreneurially in IT is the motto.
A substantial part of Chinese production, such as electronic goods and chemicals, is exported, but an increasing amount is destined for internal use. IT is a vital factor within this globalization of the supply chain. Steadily more ERP and SCM is being set up on companies' worldwide business models. IT must also work flawlessly in China, India and other countries. An effort is needed to catch up, along with a new way of investing in IT.

**Computerization in China**

Because labor costs are so low in China, computerization is regarded primarily as an extra debit entry. As long as you don't have to take account of global processes, replacing labor with IT has no business case. Implementation of an expensive machine doesn't make sense if you can have the same work done by many cheaper hands. On the other hand for real chain integration you must have flexible links with the automated outside world. A worldwide SAP system must be able to guarantee speed and data accuracy and therefore China must also be part of the total supply chain. This makes that the production processes are a business case per instance. Philips, for instance, makes for a number of financial and IT processes absolutely no compromises when it comes to implementation of a worldwide standard.

Nevertheless, the overall situation is that production and logistics in China are so unpredictable that the cost efficiency in the chain is far from being optimum. Chains in China are badly integrated or not at all; they are fragmented, so that deliveries at the end of the chain are either excessive, insufficient, too late or incorrect. The lead-time – the time from forecast to fulfillment (F2F) – is thus longer and the chain is more complex. Production in China is also being steadily transferred to the much cheaper interior. The success of the coastal areas and port cities has caused labor costs there to rise. The cycle-time is also dropping, because new and changed products succeed each other far more rapidly. International companies which want to continue profiting from the production and sales benefits of the Asian countries will in fact need to tackle these disadvantages with IT support.

**Cost benefits**

Logistical complications, inflexible production lines and limited opportunities for applying changes to product designs are all reasons why the maximum cost advantages of low production costs per unit are not achieved. The issue is thus one of managing and monitoring supply chains with IT, so that the extra costs arising from inefficiency are cut out. Transparency in the supply chain is a requirement for this. This begins right back in the West where the demand and changes within the supply chain must be forecast and passed on. Investments in ERP, SCM and PLM are needed for this, as well as in systems which can manage the changes in production designs and production lines. There is a great willingness to work on drawing the logistical processes and IT systems, such as SAP implementations, into one line worldwide. The Chinese are more pragmatic and eager than Europeans. On the other hand Chinese partners within joint ventures – with their own responsibility for profit and loss – will not invest in IT themselves. Neither will they maintain large stocks, in order not to create bottlenecks in the process chain. This apparently passive attitude arises amongst others through the Chinese companies’ lack of long-term vision. The Chinese economy is cash-driven and companies there are unfamiliar with the principle of a stock-market flotation to finance future investments. At the same time processes are barely harmonized and standardized because of the low degree of computerization. A small advantage of this in IT terms is that there will not be many legacy problems. All in all, for the Chinese link in the value chain the relative TCO of IT is too high for the yield which can be achieved. For the global value chain, on the other hand, it is vital that the Chinese link is in tune with the rest of the world.
Grip on supply chain
Without efficient systems and globally standardized processes the unpredictability and unreliability of the supply chain will only increase. Especially now that there is a higher need for better quality, and that it is crucial to be able to increase or decrease the needed capacity with flexibility, pen and paper or a spreadsheet as the highest form of automation are no longer adequate. This mitigates against complete and correct information provision, obscuring the view of the risks and thus increasing the chances of loss. Chinese companies are barely affected by this, but the pain of this lack of grip and inadequate risk management will be felt mainly by companies further up the chain, such as the exchange-listed multinationals.
China’s cheap labor reduces the costs of production, while IT reduces the overall costs. This is the other face of offshoring IT: improving production, logistics and sales in the BRIC countries (Brazil, Russia, India and China), especially in China.

Legal entity
It is extremely difficult and costly to set up in China as a so-called Wholly Owned Foreign Enterprise (WOFE). Those who do succeed must invest considerable money in arranging the right legal entity. The legal structure is extremely complicated in China. Exporting production from China is no problem, but once a foreign company wants to distribute within the Chinese borders, they run up against all sorts of regulations. The legal entity in which most multinationals started was originally intended for export. This entity has no authorization to sell locally. The easier option for getting a foot in the door in China is via a joint venture with a local company. There is however a great lack of clarity about the possibilities of the joint venture structure and the regulations. It varies per sector and the rules can change monthly. In the past, as Philips also discovered, it was not possible to choose your own partner for the joint venture. Quite simply you were assigned one by the Chinese government. Currently the Chinese leadership appears to be a little more liberal about this, and in some instances Western companies may choose their own partner. Much depends on the joint venture partner and its management. With luck a company is appointed a healthy organization with management which is motivated to build up a nice company, and which is happy with the international exposure. An unlucky pick gives one a conservative former state company which is on the brink of going under. This state of affairs hinders the production of one general strategy and a complete focus on your own activities. This doesn’t stop Western companies. Many of them, like Philips, are prepared to cope with this to gain access to the enormous Chinese growth market.
DSM in China

DSM has a number of divisions in China, including the old Roche Vitamins in Shanghai, and DSM Nutritional Products (DNP).

“We regard China clearly as a growth market,” explains Theo de Haas, Manager Global Client Services, “and we are aiming for a doubling of turnover in the coming four years. To achieve this we chose to expand the current processes and standards on a global scale. This won’t work without IT. All the factories within DSM must operate with the same descriptions for processes and items such as a production order. You don’t leave this to the business units, not here nor in China. You have to control this at the corporate level. Each division had its own IT provisions, with their own ERP system and workplace support. First we brought together the IT facilities of all the Chinese DSM divisions in one corporate ICT department. Then we launched a program at the end of 2005 to guide the global standardization of the processes. We want to complete this around 2010.”

Expertise work occurs in stable areas

“Weith central control, normally speaking you divide the total costs amongst the number of users. In China it works differently, because for the costs of one workstation you can employ around ten Chinese. It is also extremely difficult to keep people in whom you have invested training, in your company. Because there is already a shortage of well-trained people in China, doing your own training is more or less the only option. For really cheap labor you also need to look to the Chinese interior. To overcome this problem we no longer source competences locally, but on the basis of quality and stability. Much of the SAP expertise and manpower for China comes from Singapore. So SAP runs in China, but the maintenance occurs in Singapore. We do the hosting and administration from India, for example, and other facets again from Singapore, the USA or the Netherlands. We locate our front-office in a stable country and the back-office or production in the cheapest area. So we get expertise from Western Shanghai and Singapore amongst others, while the factories are in the interior. It’s a trade-off. In the richer areas instead of cheap labor you will find well-trained manpower, while in the interior it is precisely the other way around. I believe this is an interim solution. If stability improves in China, you can take the expertise work there.”
Culture differences and change management
“We want to determine the best process together with the entire global IT organization. In the field of global standardization we have described the process well in the meantime, and have standardized to about 85 percent. We have been busy with implementing the processes for around 18 months. Needless to say everyone has to learn to work in accordance with the processes. Now that the slightly conservative Limburg aspect of DSM is giving way to the internationalization, a number of people in the organization are exhibiting a somewhat awkward attitude. To promote mutual understanding we are holding a number of culture workshops. There we teach people to look at the opportunities for achieving better business solutions together. Because DSM has again undergone a substantial turnaround, we are also devoting attention to change management. The speed of decision-making has certainly increased. Previously we took two years to reach a decision and that was that for the next 25 years. This doesn’t work any more.”

Worldwide direction
“In terms of the directorial reorganization we actually have many of the competences in-house, but here we can certainly still grow. You shouldn’t assume that you need just a few people for direction. Our corporate IT in the Netherlands actually has 380 people, even though we no longer do any development ourselves. The major steps which still need to be taken in terms of control lie with the supplier. We work closely with Getronics, which recently rolled out its processes globally in three centers. This is also a requirement from our side. If you want to introduce worldwide process standardization, your supplier must obviously also be able to support this.”
Take aways

**Strategic intent**

**Do it for the right reasons**
Too many CIOs want to do offshoring because their peers are doing it, or because it’s the current management fad. The right reasons extend well beyond labor arbitrage and include improved quality, access to hot skills and increased productivity.

**Expectations management**
Both high (“We will save millions of Euros”) and low (“Offshoring is only good for commodity work”) expectations need to be managed effectively, if offshore is to have a fair trial.

**Artificial savings ...**
... which don’t take into account the fact that client executive time will need to be spent on micro-managing vendors who have attractive rate-cards, but don’t match the corporate way of delivering projects.

**Internal expertise ...**
... to enable offshoring, strategic decisions have to be available. If not, hire the relevant skills before progressing too far down the offshore road.
Onsite assignment, the way to virtual global integration

The Manila Perspective

When work for a client in Central Europe requires close communication or knowledge transfers, specialists from offshore locations come onshore for a time. This paves the way for virtually integrated offshore operations, regardless of geographical distance. Two Accenture employees from the Accenture Delivery Center in Manila, Philippines, share their professional and personal experiences.
Darius Napigkit has been with Accenture for more than a year as a Junior Software Engineer. His work includes participating in the build and test phases of various project releases for a major UK client. Before completing his first year with Accenture Napigkit had an opportunity for an onsite assignment. “I was very enthusiastic about being sent onsite for two months, but I also felt some apprehension. It would be my first visit to a foreign country where I would be working with people from a different culture and orientation. The tremendous UK history and heritage had always fascinated me, as did the people with their love of games like football, rugby and cricket. I embarked on my UK journey with tons of excitement and was very eager to experience and learn new things. After all, I was confident I had the necessary skills to take on any given task.”

Unpredictable
Prior to leaving Napigkit had given little thought to minor details such as where to live, how to travel to the office and how to buy a meal without knowing the difference between a pound and a peso. “Thankfully the project staff planned all these things for me beforehand. One of the most unique UK traits is the weather. This was and will always be a mystery to me; to say it’s unpredictable is an understatement. In the blink of an eye it would change from a sunny to a gloomy day. I eventually got used to both the weather and the culture. This last part was easy, since my onsite teammates were very warm and friendly. One real challenge was deciphering the accents of my foreign counterparts, but I persevered. My second greatest challenge was the unique flavor of British food.”

Collective skills
Apart from adjusting culturally and atmospherically, Napigkit’s goal was to undergo a knowledge transfer and to gain an in-depth understanding of the online banking application functionality for a major release. He was to start the build phase onsite and eventually continue the work offsite. But tight deadlines and limited resource availability slowed the knowledge transfer.

“So we opted to start the build work earlier, equipped only with a high level knowledge and a guided self-study of the functionality. Despite these limitations we were able to continually deliver the work with the help of our onsite teammates. They mentored me through every step of my tasks. Our collective skills and effort towards delivering the project truly added value for the client. This onshore experience empowered a strong working relationship with my onshore counterparts and greatly enriched the skills necessary for my current role in the project.”

Napigkit describes the onshore opportunity with Accenture as his “most worthwhile and memorable experience. I’ll probably never get accustomed to the food, but an open mind and eagerness to explore the people, culture and history make the yearnings of a hungry stomach appear trivial.”
Ignacio has now been with Accenture for two years. In a project for an onshore client he worked in Manila as the sole test engineer. The project’s successful completion established the capability of the offsite delivery center in Manila. Shortly after this Ignacio worked on another project for the same client, only this time in its British office. “I was overwhelmed to be sent onsite for three months in an outsourcing engagement. I never expected to work thousands of miles away from my home country within less than a year after joining Accenture. The UK then struck me as a country with an impressive history, with the legendary King Arthur and the chivalrous knights of his Round Table and the literary genius of William Shakespeare. And I had always associated the UK with the noble Winston Churchill, the gracious Princess Diana and the famous Beatles.”

Fish and chips
Ignacio was appointed test engineer for the client’s Testing Services group, participating in testing efforts onsite to build the testing capabilities offshore. Going to the UK enabled Ignacio to fully understand the team’s testing processes and standards, gaining the confidence of the client in order to extend the services offshore, providing input to governance processes thereby ensuring smooth work handover and management, and building strong working relationships with the host-office staff.

“On the first Wednesday of 2005 I arrived at Manchester, UK. The chilly season wasn’t over yet, so my heavy coat came in handy. When I and my project mates from home reported to work we could hardly contain our excitement to meet our new office-mates. The warm and courteous introductions are characteristic of English custom. Finally I was able to match faces and personalities to the people whose voices I had gotten used to from various conference calls back in Manila. During the first week, crammed with orientation sessions, I began to feel comfortable working with my project mates. But the weather was far too unpredictable; it can shift from sunny to overcast in just a matter of minutes. I also found the food difficult to settle with as I was used to eating rice as a staple food, not fish and chips.”
“I went to the UK armed with a sense of purpose and I came back to Manila with a sense of being.”

No loneliness
Homesickness simply didn’t get much chance to kick in. During weekdays, the deliverables in the office kept Ignacio challenged and motivated. Friday evenings were spent on get-togethers with his project mates from Manila and during weekends they organized trips to places of interest, irrespective of their distance from Manchester.

“I remember driving south for nearly five hours to hunt for fossils along the coast of Dorset. Portmeirion, Salisbury, Bath, York, Stratford, Cornwall and London were just a few of the places where we spent our best weekend getaways. It was during these trips I realized the UK is dotted with centuries-old monasteries, medieval castles, dramatic coastlines and mysterious stone circles. These activities kept at bay the pangs of loneliness caused by being away from home. Nevertheless I phoned with my family and friends at least three times a week.”

Communication vitality
The knowledge sharing sessions were completed prior to Ignacio’s departure back home. By then he was already heavily engaged in an application release. During this time he had already gained functional and technical proficiency through the mentorship of his onshore counterparts.

“My last day in the office I thought an emergency meeting was taking place. It turned out that everyone from my team had gathered to wish me well on my journey back home. As saying goodbyes is not my expertise, I only managed to thank everyone for the opportunity to come to the UK and for their support and education.”

Since his return to Manila Ignacio has worked on five successful major releases, all receiving commendations from the client. From his UK experience and in working with his team in Manila he has learned how vital communication is in maintaining a healthy client relationship.

“I look back at my onshore assignment with fond memories. My acquired competence and my experiences in the UK outside the office help me enormously to carry out my responsibilities in the office and to add more value to my personal life. I went to the UK armed with a sense of purpose and I came back to Manila with a sense of being.”
The world is flat, sourcing goes global

Interview with Geert Ensing
Global Head of ADM Services at ABN AMRO

The principle of the same approach to IT sourcing worldwide is still not common property amongst multinationals. ABN AMRO took the step in 2005. Following outsourcing by the Wholesale Clients business unit, an integral approach will now cover outsourcing amongst the other five business units: the Netherlands, America, Brazil, private clients and asset management.
As Global Head of ADM Services, Geert Ensing is partially responsible for this switch to global sourcing for application development and maintenance with a prominent role for offshore. “Our worldwide approach came about during the process of outsourcing the IT functions on a major scale. Our point of departure was outsourcing per business unit and doing business with strong local and regional parties. We dropped this approach and went instead for one across all business units with a strong focus on the opportunities offered by offshore.

“At the moment there are too many gaps between disciplines such as consultancy and offshoring.”

Optimum use of external parties
“If you had asked my offshore opinion three years ago I was nowhere near as positive as I am now. Just look at the high quality and the low costs. So we opted for three Indian parties and two existing global players including Accenture. Actually you can no longer refer to parties as coming from India or the United States; they are global players. The major parties from India invest heavily in facilities and people in Brazil, Latin America and Eastern Europe. These parties also want to be location-independent.”

The main objective of ABN AMRO with global sourcing is to make optimum use of external parties in order to take advantage of market processes, Ensing says. “You don’t feel the constraints of the market within your own walls. We also want to capitalize on the opportunities offshore offers, because high quality at a low price is a unique combination. And we want to make optimum use of globalization. Allocation of work must depend on supply competition, competences within countries, available capacity and risks, but also on opportunities such as exchange-rate differences between the countries.”

Extremely predictable and high quality
In their requirements ABN AMRO imposes strict demands on the parties’ offshore capabilities. “A workforce of 10,000 people in India is already too small. The capacity pressure is extremely high. Don’t forget that in the United States the cat is out of the bag, now that the world’s leaders Intel, Microsoft and GE have decided to expand immensely in India, the so-called ‘third wave’. As a party you must have your worldwide locations. You must be able to relocate work, not only to India, but also for example from India to other countries. We want an extremely predictable and high-quality development process, sufficient available capacity and flexibility in our use of locations. These are tough requirements. “The retained organization must be set up better for
global sourcing than if you were working more locally. Competences such as architecture, requirements management, functional and project management must be more professional, because you are working centrally and the distance between the business and service providers is large both physically and procedurally. You also need to ensure that you utilize the same methods worldwide and that you have quality maturity to form one whole as the requesting party.”

Satisfied with ‘good enough’

“If you would transfer 90 percent of the work in outsourcing, I believe with offshore the figure would be 75 percent. In fact you get a great deal back in return, because you can utilize the worldwide supply market and you develop factory-oriented software. It also offers advantages when you regard new countries such as Italy as home markets. You can bring about large-scale changes in IT more rapidly. New constructions with offshore become a way to set up the best service processes at the lowest cost, from beginning to end. We have to think and work in terms of releases and not on the basis of applications where you strive to get them finished in one go. Freezing the specifications in order not to be faced with new wishes during the development requires a reversal. When you are in a position to be satisfied for the time being with ‘good enough’, you accept that you are working on something which will be delivered in versions. Because you have to cut up the process chain this acceptance is also a requirement. As a business you can’t just go into software development without overturning the development processes. This is both an advantage and a disadvantage of offshore. You formalize your development processes as also happens in the production of vehicles or aircraft. As a retained organization you must set up this separation very strictly.”

Offshoring versus classic outsourcing

Ensing deems a quality process like CMM not enough for vendors. “In the future it will not be about an acceptance test after which it is our problem to keep the whole thing going for the client. I anticipate that we will be working with guarantee periods in which those who developed the system will also be responsible for its operation during the economic lifespan. The accounting model will change as a result. “Backsourcing with offshore is more difficult than with classic outsourcing, whereby the work transfers including the people. After the contract period we again need to make optimum use of the market, and must be able to negotiate optimally with third parties. You must arrange the transfer of intellectual property such as rights and documentation well. We have reached agreements on this which you don’t often see with normal outsourcing. There must also be better agreements on the connecting areas. The phenomenon of partnership depends on what you bear mutual responsibility for. This is difficult because they want to make increasing profits and we want to reduce costs. But over the longer term you cannot function without that mutuality.”

Cornerstones for global sourcing

There is not yet a manual for global sourcing. “First of all,” Ensing says, “you need to utilize your economies of scale, both internally through bundling and outsourcing across the business units, and externally by working with a limited number of suppliers. Another cornerstone is working with centers of competence, in which you involve multiple locations worldwide in the work. You cannot be too dependent on competences you only have in one specific country. Here it’s not just about follow-the-sun, where programming work or administration shifts across time zones, but also about domain knowledge available worldwide. In this way the countries are virtually one. A third cornerstone is standardization. For commodity creation and a factory-oriented approach to processes, you not only need to standardize development and administration processes, but also your business processes. A fourth cornerstone is innovation. You must extend global sourcing to the BPO and ensure that you stimulate innovation. Too many outsourcing agreements are a cash deal, after which the vendor milks the contract. With global sourcing it is vital that you don’t just remain static, but that you accelerate. Adapting in the highest gear is the only option for multinationals.”
Proper preparation
Ensing describes this project within the ABN AMRO as a “mega-operation and a fundamental change of course. As a team we dealt with three decision-making arms: the CIO committee, the COO committee and the Board of Directors. There was initially skepticism amongst CIOs but the business case was so good that they relented. The savings were also so high. That worked through to the following level, the COOs to get them behind the decision. The Board of Directors was then able to assume broad management support. Preparation is thus more than half the work.

“I believe that the switch from customized work to package software will also be made in the financial world. The supply market is consolidating. In a decade many core applications within a bank will be an arranged package as a general ledger. This also requires a switch amongst service providers who must be able to set up and administer such solutions worldwide. A second development will be the blurring of the separation between outsourcing IT and business process outsourcing. You will see that worldwide application development is followed by the worldwide administration of the systems. Whenever you outsource maintenance, you can also make the underlying business process part of the administration contract. Then in fact you are dealing with BPO. The suppliers must have linked their offshore capacities well to worldwide delivery processes, and to knowledge of the local markets which they want to address. To succeed in this they must develop their consultancy capacities or make better use of them. These can be purchased or set up, but must be able to achieve the transformations together with IT. Subject matter experts are needed who will oversee everything, from the concept to running the business and the systems. At the moment there are too many gaps between disciplines such as consultancy and offshoring. Global sourcing will thus have a major impact on us, but also on the supply side of the market.”

“At the end of 2005 ABN AMRO signed worldwide contracts for five years with a total contract value of around 1.9 billion euros, producing anticipated savings of 275 million euros.

“Too many outsourcing agreements are a cash deal, after which the vendor milks the contract.”
Take aways

Project specifics

First 5 minutes are critical
Most offshore projects that fail have the seeds of their own destruction sown prior to their launch. Investing time and oversight at this stage is critical.

Beware shortcomings of pilots ...
... which do not reflect real-life conditions (e.g. no clearly defined entry and exit criteria; key business user unavailable; non-standard technologies, etc.) and can provide misleading impressions of success.

People progress

Share the pain
Both client and partner should share the pain associated with working across time zones, writing detailed specifications, etc. Over time, this will reduce as it becomes the new norm.

Invest in change ...
... especially subjects such as cross-cultural communication, where even a half day's training will repay its investment several times over via reduced reworking, minimal handover risk, etc. Ensure training is provided to both offshore and onshore personnel so that they appreciate each others' behavioral and communication patterns.
Glossary

**Backsourcing**
Undoing previous outsourcing initiatives.

**Business Process Outsourcing (BPO)**
Relocating entire business functions to either self-owned or third-party service providers, typically in low-cost locations. The most common examples of BPO are call centers, human resources, accounting and payroll outsourcing.

**BRIC countries**
Brazil, Russia, India and China. “The economies of the BRICs are rapidly developing and by the year 2050 will eclipse most of the current richest countries of the world.” (Source: 2003 thesis by Goldman Sachs Economic Research)

**C3 (Cross-cultural communications)**
All work-based interactions between geographies.

**Capability Maturity Model (CMM)**
A collection of instructions an organization can follow intended to provide better control over its software development process.

**Enterprise Resource Planning (ERP)**
Management information systems that integrate and automate many of the business practices associated with the operations or production and distribution aspects of a company engaged in manufacturing products or providing services.

**Follow-the-sun**
When programming work or administration shifts across time zones. For instance software development in Europe is tested in India overnight, and with up-to-date test results is resumed the next day in Europe.

**Global Sourcing Maturity Model (GSMM)**
Distinction of four maturity stages in outsourcing to Eastern Europe and Asia.

**Insourcing**
Organizing services within your own company (in contrast to outsourcing).

**Key Performance Indicator (KPI)**
Financial and non-financial metrics used to quantify objectives to reflect an organization’s strategic performance. They help an organization to measure progress towards its organizational goals.

**Labor arbitrage**
Relatively low labor costs.

**LEAP**
Remedial communication technique articulated in the program Effective Cross-Cultural Communication. The letters stand for Listen, Empathize, Ask, Propose.

**Nearshoring**
Relocation of business processes to another country that is not overseas.
**Offshoring**
Relocation of business processes to a country overseas. This includes any business process such as production, manufacturing or services.

**One Company**
A company that is able to organize the development, administration and particularly the clustering of competences optimally and irrespective of location. This should result in identical global business processes.

**Onsite**
The home-based location of the company (as opposed to remote site).

**Retained organization**
An organization that ‘stays behind’ after an outsourcing transition. This organization directs the outsourcing partner/s.

**Request for Proposal (RFP)**
An invitation to suppliers, through a tender process, to bid on a specific product or service. An RFP is usually part of a complex sales or enterprise sales process.

**SAP**
The largest Enterprise Resource Planning (ERP) solution software provider in terms of revenue.

**Service Oriented Architecture (SOA)**
A paradigm for organizing and utilizing distributed capabilities of software architecture that may be under the control of different ownership domains. In an SOA environment, nodes on a network make resources available to other participants in the network as independent services that the participants access in a standardized way.

**Shared Service Center (SSC)**
Internally centralized business function service provider.

**Single Instance Application**
Installing an application on many workstations in a single instance. This is done, for example, to reduce differentiation in financial processes, so that financial results are reliable, clear and easily obtained. Processes installed in multiple instances reduce flexibility and clarity.

**Third wave in offshoring**
In offshoring three so-called waves or stages are discerned:
First wave: Primarily global companies move a limited number of IT-related functions offshore, like code programming, billing, data entry and operations. Entirely built on direct labor cost arbitrage.
Second wave: A greater number of companies across the spectrum of size and scope, offshore activities involving more diverse business-process functions, such as call centers, accounting and finance and applications service development. Looking for value through process improvements.
Third wave: Firms transfer a greater number of jobs abroad to fulfill full-service and complex offshore functions, including contact centers, centers of excellence (R&D), HR processing and complex operations. Delivering business results for selected processes.
About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Committed to delivering innovation, Accenture collaborates with its clients to help them become high-performance businesses and governments. With deep industry and business process expertise, broad global resources and a proven track record, Accenture can mobilize the right people, skills and technologies to help clients improve their performance. With more than 129,000 people in 48 countries, the company generated net revenues of US$15.55 billion for the fiscal year ended Aug. 31, 2005.

www.accenture.com

About DigitalBoardroom

DigitalBoardroom is a knowledge platform for the strategic use of information technology and hosts peer-to-peer networks for various executive groups, such as CFOs, CEOs, CIOs and higher IT management. The purpose of the networks is to provide frameworks for themes, collating practical knowledge and the exchange of experience amongst top managers. Several thousand managers are involved virtually and physically in this community. Online survey panels, e-letters and a website form the digital part of the network. Roundtable events, brainstorms and summits are the physical meeting points for CXOs. DigitalBoardroom is an activity of Giarte (www.giarte.com).

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