



***Migrating And Offshoring:
Assessing The Recent
Developments For Onshore,
Nearshore And Offshore Models***



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Barcelona, May 20, 2008

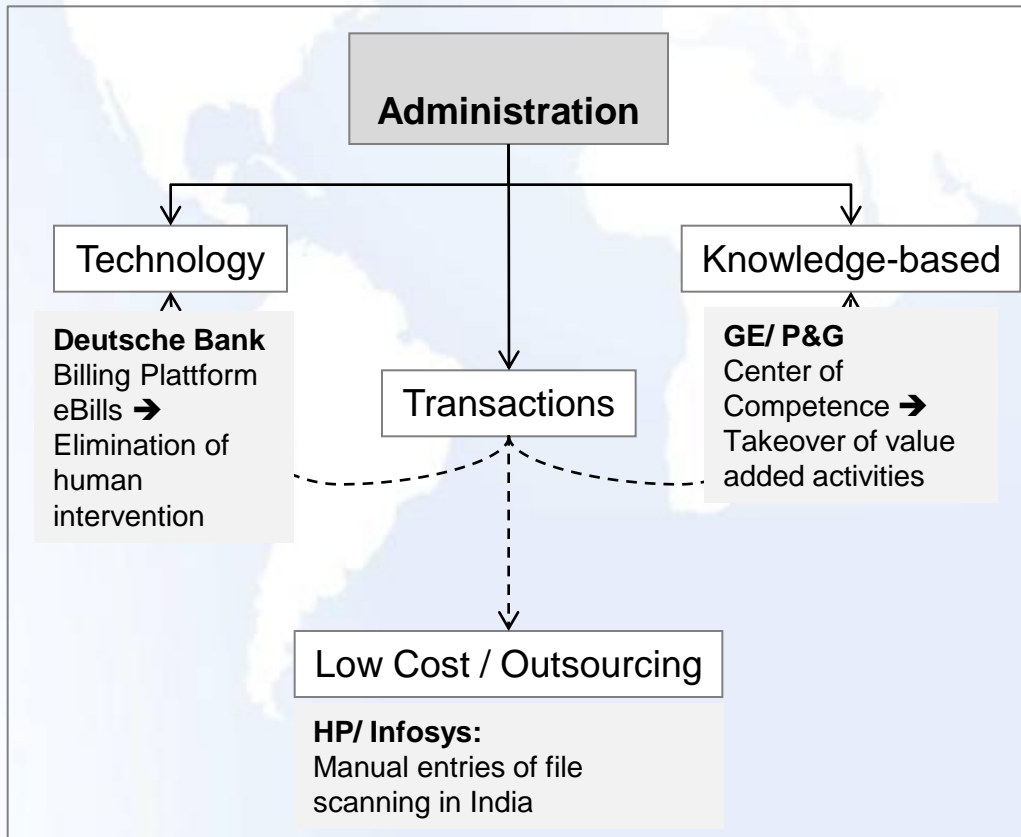
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- 1. Future of the back office – trends for administrative professions**
- 2. Mitigate risks in nearshoring/ offshoring projects through an effective migration strategy**
- 3. Understand governance options to compare own capabilities to service provider options**
- 4. Design the ideal service function operating model – transactional centres vs. centres of competence**
- 5. Manage HR and understand state-of-the-art technologies to support your nearshoring/ offshoring projects**

The future of the back office

Administrative processes are identified as less personal intensive and split among repetitive and knowledge-based processes

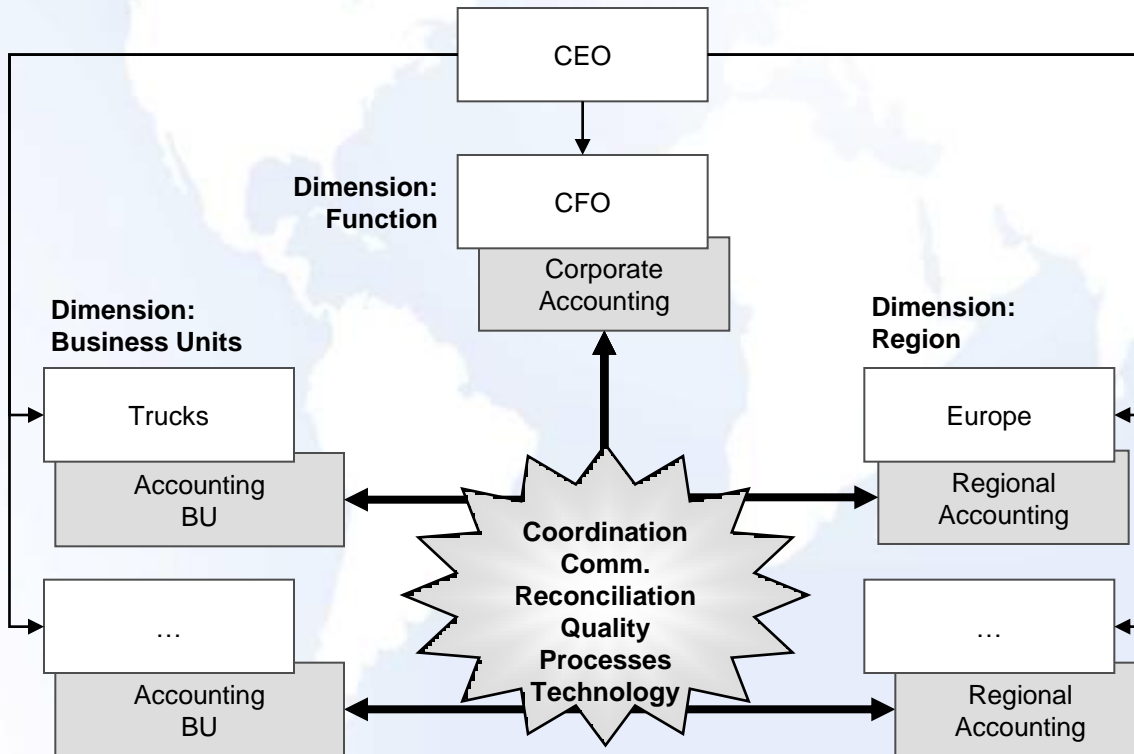
Example



Results
⇒ Dramatic change of the actual job profiles
⇒ Sociopolitical component → As-is relatively well paid administrative jobs salary will be reduced or job will be eliminated (same as production processes)
⇒ Only first-class knowledge-based administrative processes will stay in high cost countries
⇒ Grouping of knowledge-based processes in centers of competence

The future of the back office

Challenges of the decentralized back office



Example

Accounting Departments	#
Country Accounting Trucks	100
Country Accounting Cars	100
Country Accounting Parts	100
Country External Reporting Consolidation	100
Regional External Reporting Consolidation	4
Regional Consolidated Reporting Cars	4
Regional Consolidated Reporting Parts	4
Regional Consolidated Reporting Business Units	3
Regional Consolidated Reporting	4
Corporate Consolidated Reporting	1
Sum Acc. Departments	420

Large-scale multinational players often maintain more than 1.000 accounting departments with many redundancies and low efficiency

The future of the back office

The World is Flat – The ten „Flatteners“ according to Thomas Friedman

1. Nov 9, 1989 – **the fall of the Berlin Wall: the western businesses explore the east**
2. Aug 9, 1995 – **Netscape goes public: the World Wide Web becomes reality**
3. **Workflow Software – data formats XML and SOAP enable communication between software applications**
4. **Open Source Communities – on-line communities enable access to and generate information, e.g. Wikipedia**
5. **Outsourcing and Y2K – India established the Indian Institute of Technology in 1956 and becomes an IT powerhouse. Western companies with scarce IT resources need to utilize the abundant workforce in India to resolve Y2K adjustments of their software**
6. **Offshoring takes off – with China entering the WTO it becomes a viable service location besides India**
7. **Supply Chaining – closer cooperation between supplier and OEM leads to efficient vertical networks**
8. **Insourcing – Friedman means outsourcing of specific tasks to logistic and transportation providers such as complaint management and PC maintenance**
9. **Informing – Search engines such as Google, Yahoo! and MNS Search have led to drastically faster information flows**
10. **New Technologies – Wireless networks and cross-ocean fiber optic networks in conjunction with the internet create worldwide accessibility and information flow**

The future of the back office

Historic Development of Shared Services

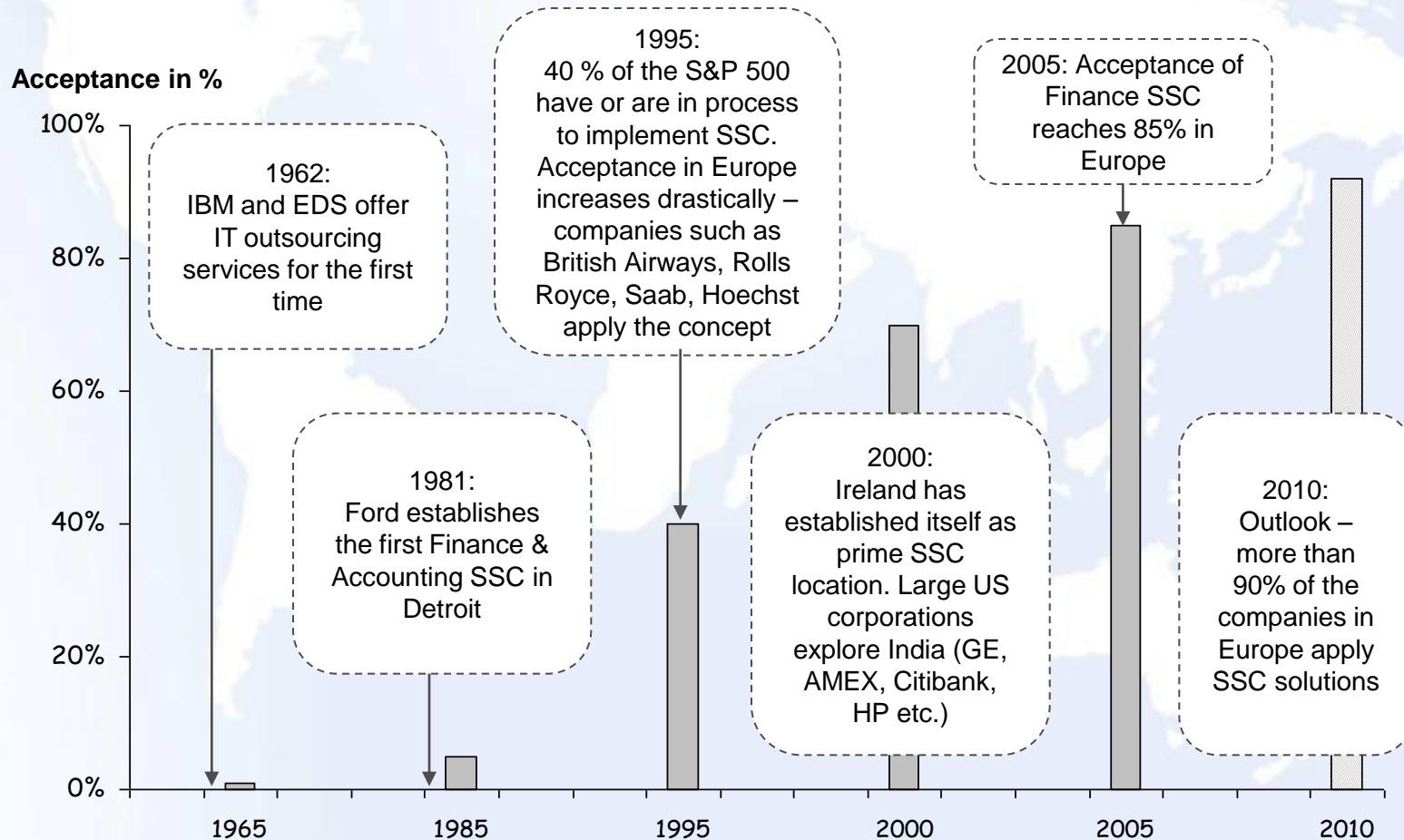


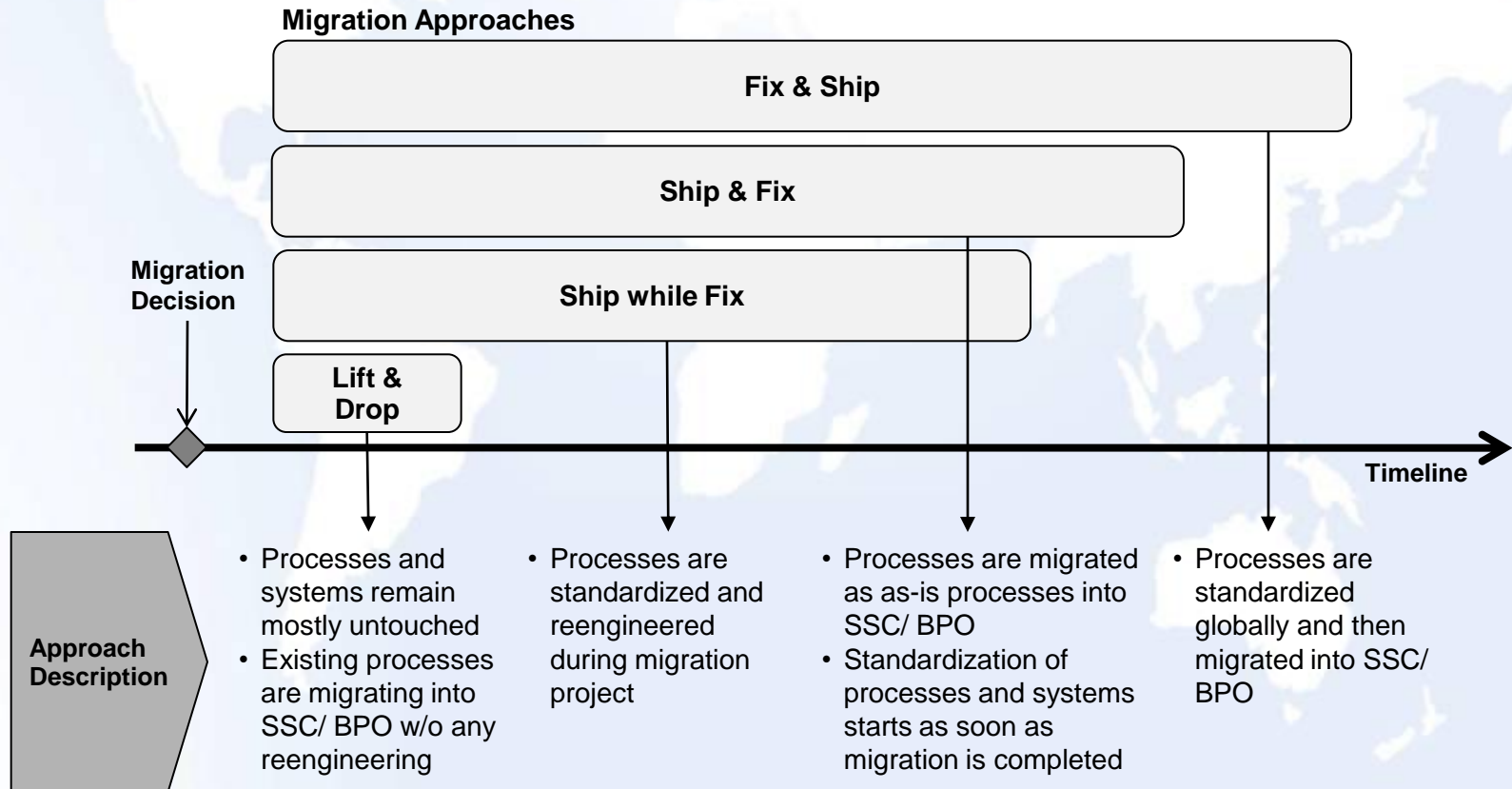
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Mitigation risk in shoring projects

The migration approach depends on the company-specific objectives. Aspects such as cost savings, quality improvement, project complexity, business continuity and time have to be balanced

Methodology

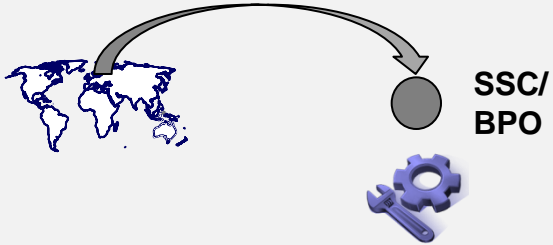
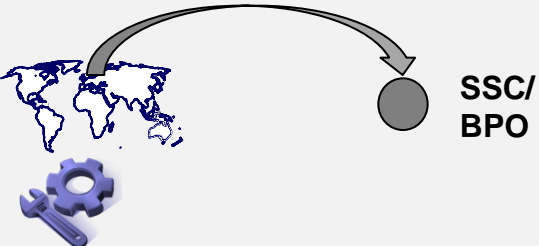


Mitigation risk in shoring projects

Rational and challenges of different migration approaches (1/2)

Methodology

→ For each process and region and location a different approach can be taken



Migration Approach	Basic Principle	Rationale	Challenges
“Ship & Fix”		<ul style="list-style-type: none"> • Move selected processes into SSC/BPO w/o any reengineering • Start reengineering initiative as soon as migration has been handled • Used in particular in cases where standardized processes and systems are already in place 	<ul style="list-style-type: none"> • Loss of local knowledge after completion of migration • Process issues possible if standardization levels not high enough • Process-related cost savings realized with delay
“Fix & Ship”		<ul style="list-style-type: none"> • Establish common processes and IT templates and platform in all locations • Ship only when certain level of standardization is accomplished • Ensures globally standardized processes and IT platforms 	<ul style="list-style-type: none"> • Training of local staff required but knowledge useless after migration • Multiple process/ systems implementation projects in parallel on a global basis • Potentially extended project timeframe

Mitigation risk in shoring projects

Rational and challenges of different migration approaches (2/2)

Methodology

→ Selecting the right approach also depends vastly on the “readiness” of the respective process

Migration Approach	Basic Principle	Rationale	Challenges
“Fix while Ship”	 <p>SSC/ BPO</p>	<ul style="list-style-type: none"> • Standardize processes and IT platforms while migrating into SSC/BPO • Use migration project to implement new processes in parallel • Avoids double training of staff on-site and nearshore/offshore • Loss of local knowledge after migration not crucial 	<ul style="list-style-type: none"> • Very likely high complexities of project • Processes not well established and unproven → risks of business continuity • Major change management efforts
“Lift & Drop”	 <p>SSC/ BPO</p>	<ul style="list-style-type: none"> • Focus on labor arbitrage • Quick and simple migration, in particular used for mainly manual and transactional activities • Used in cases when processes are relatively stable and quality improvements are not required/ planned yet 	<ul style="list-style-type: none"> • Loss of local knowledge • Hiring and training of staff in existing process models • Re-training required if standardization of processes and systems takes place at a later point in time • No process-related savings and quality improvements

Mitigation risk in shoring projects

The Migration Strategy eventually defines how the SSC/ BPO solution will be implemented, which risks need to be considered and which benefit can be expected

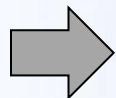
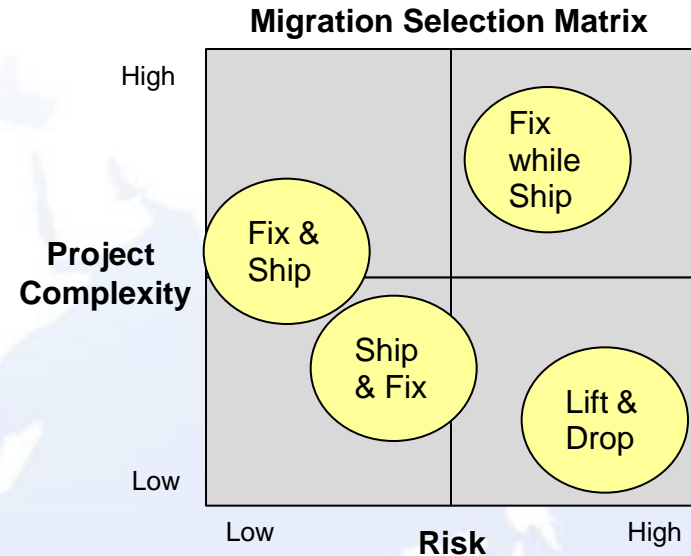
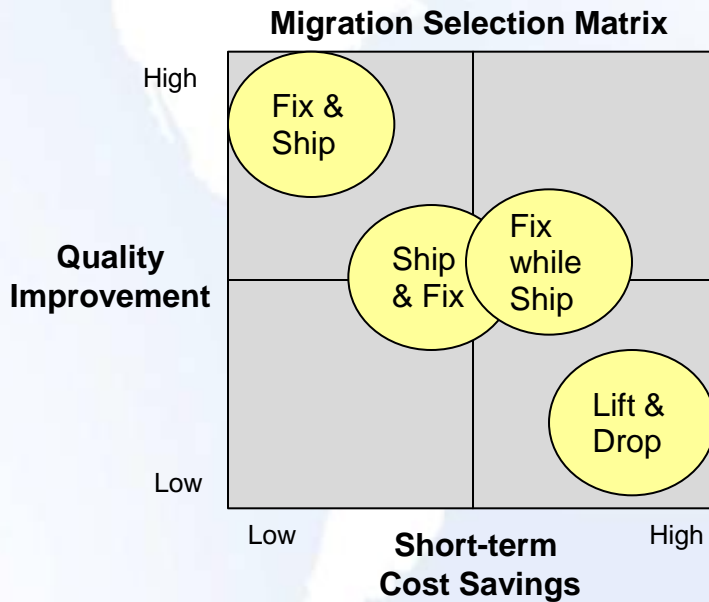
Migration Strategy and CBRS

	Step 1: Outline Migration Options	Step 2: Assess Migration Alternatives	Step 3: Conduct CBRS	Step 4: Refine and complete Business Case
Key Tasks	<ul style="list-style-type: none"> • Draft potential migration options • Highlight rationale, key challenges and risks associated with each migration option • Capture company-specific requirements 	<ul style="list-style-type: none"> • Assess suitability of various migration approached with key stakeholders according to <ul style="list-style-type: none"> – Quality – Savings – Complexities – Risks • Determine migration approach and define requirements • Derive action steps and refine implementation roadmap and time plan 	<ul style="list-style-type: none"> • Conduct cost-benefit analysis: estimate and calculate the cost and benefit associated with different options of the Strategic Choice elements • Identify risks and run risk analysis • Determine best case, standard case and worst case impacts • Conduct sensitivity analyses and complete assessment 	<ul style="list-style-type: none"> • Review business case assumptions • Refine and complete business case • Obtain sign-off on business case
Tools & Methodologies	<ul style="list-style-type: none"> • Offshoring Institute Migration Approach Framework 	<ul style="list-style-type: none"> • Migration Assessment Matrices 	<ul style="list-style-type: none"> • Business Case • Risk Inventory • Sensitivity Analysis 	<ul style="list-style-type: none"> • Business Case

Mitigation risk in shoring projects

Besides “readiness” aspects such as quality, savings, complexities, and risks are important. Also, change management aspects should be considered

Illustrative



Lift & Drop is clearly very simple but doesn't yield improvement potentials whereas “Fix & Ship” is more complex and takes longer but is much more beneficial in the long-term

Mitigation risk in shoring projects

The group of selected and relevant stakeholders is assessing the criteria in a facilitated approach – however, additional aspects should be factored in

Illustrative

Dimension	Low 1	2	3	4	High 5
Quality improvement	✓		□	●	x
Short-term savings		x	□●	✓	
Limited Project complexity	●	□	x		✓
Limited Risk	✓	□	●	x	

Comments
<ul style="list-style-type: none"> The migration approaches display completely different profiles with regards to the criteria selected None of the approaches is per se beneficial It depends vastly on objectives and the specific company-situation Also, management style, back office and IT strategy and skill availability are determining the migration approach

- ✓ = "Lift & Drop"
- x = "Fix & Ship"
- = "Ship & Fix"
- = "Fix while Ship"

In this case „Fix & Ship“ turns out to be the best fit to the company-specific situation

Mitigation risk in shoring projects

The CBRS analysis contains a cost-benefit analysis, a risk analysis and a sensitivity analysis regarding sourcing, locations, transaction & activity and migration

Example

Step 1: Cost-Benefit analysis

- ➔ Estimate and calculate the cost and benefit associated with different options of the Strategic Choice elements
- ➔ Direct, indirect, financial and social cost and benefits are to be included

Step 2: Risk analysis

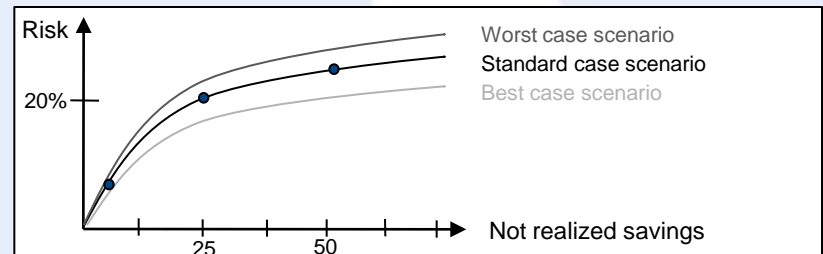
- ➔ Identify risks and estimate their impact of the potential success expressed in an amount
- ➔ Estimate the probability of each risk in a worst, standard and best case scenario

Sourcing option	Total savings	Probability of loss occurring/ not realized savings			Not realized savings standard case
		Best case	Standard case	Worst case	
Onshore	100,000	10%	12%	15%	12,000
Nearshore	135,000	15%	20%	25%	27,000
Offshore	175,000	18%	25%	28%	31,900

Step 3: Sensitivity analysis

- ➔ Compare the monetary impact of the estimated risks in all case scenarios and options
- ➔ Choose the option with the lowest negative mone-ary impact (risk) and highest savings potential

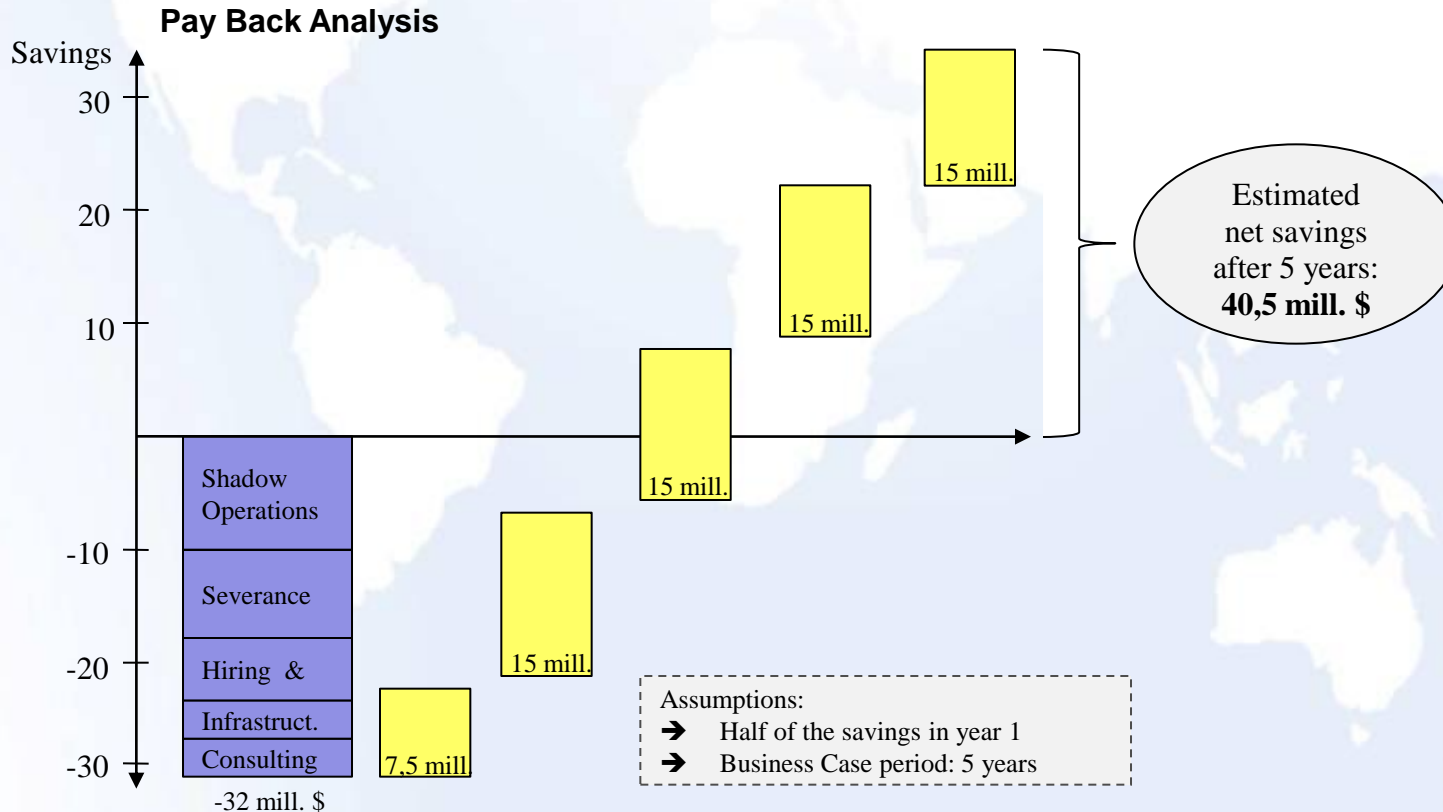
Example: Risk and sensitivity graph – sourcing options



Mitigation risk in shoring projects

Ideally, SSC/BPO initiatives reach a pay back time of less than 26 month – however, this depends on migration strategy, scope , and locations

Example



Mitigation risk in shoring projects

Setting up a appropriate Change Management plan helps to realize the savings potential. Involving and informing the key stakeholders is essential for the project success Methodology

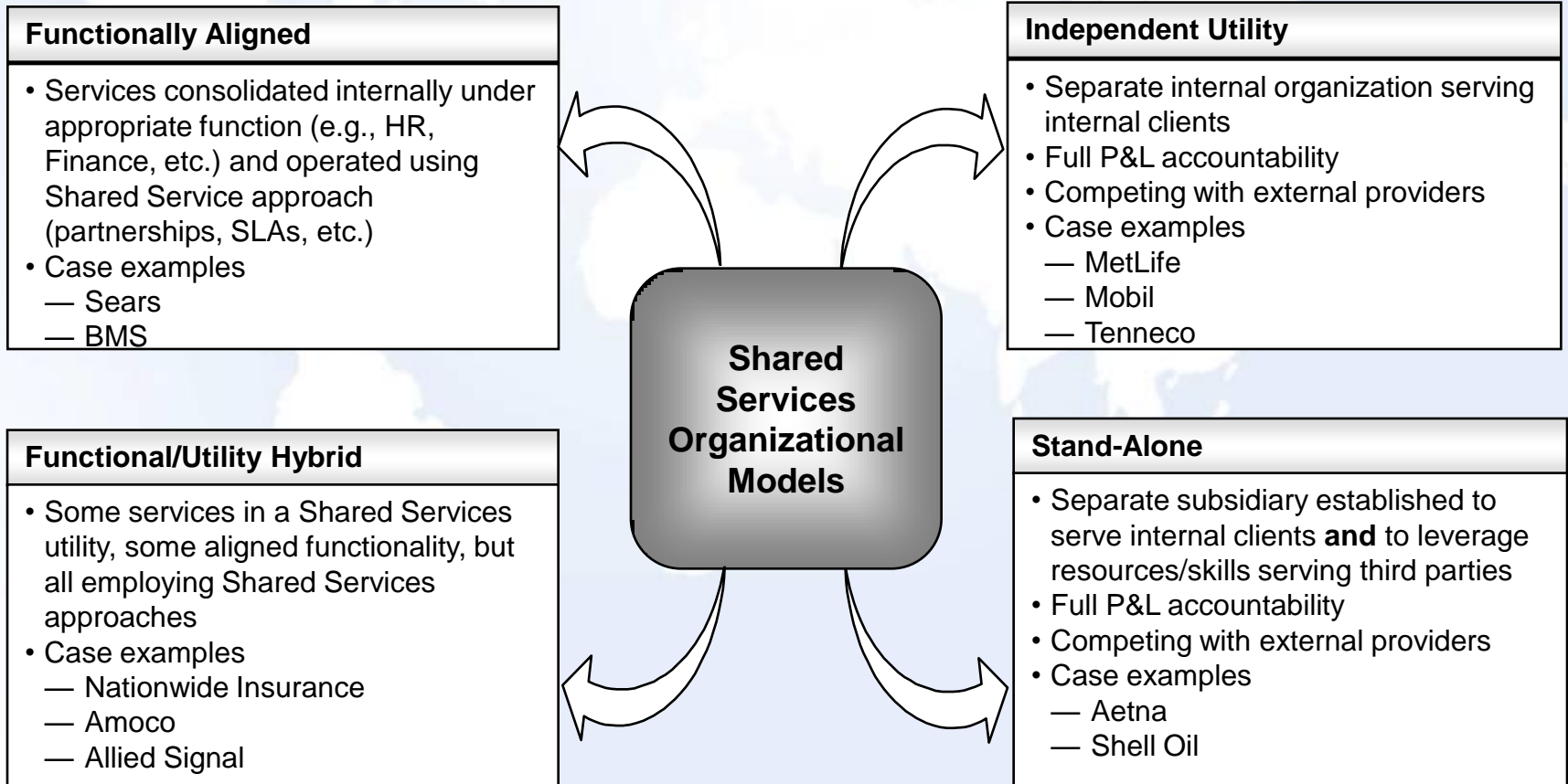
Change management plan
<p><u>Shared Service Center:</u></p> <ul style="list-style-type: none"> ➔ Develop Communication Strategy in an early project stage ➔ Take internal project branding into consideration ➔ Set up a project website in the intranet ➔ Communicate the project roadmap and the impacts to the union, workers council and the employees ➔ Involve the HR department to develop a recruitment and/or dismissal strategy ➔ Set up training courses ➔ Make provisions for severance packages <p><u>Outsourcing (additionally):</u></p> <ul style="list-style-type: none"> ➔ Respect different (company) culture ➔ Provide resources for contract details

Handle Stakeholder concerns
<ul style="list-style-type: none"> ➔ Identify the key stakeholder, which could be important for the project success ➔ Categorise key stakeholders related to their potential impact: <ul style="list-style-type: none"> ➔ Decider ➔ Influencer ➔ Neutral ➔ Carry out an assessment towards their roll in the project <ul style="list-style-type: none"> ➔ Opposer ➔ Provider ➔ Neutral ➔ Decide how to handle different key stakeholder (e.g. inform, involve, promote) ➔ Outline stakeholder map and implement appropriate activities

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Understanding governance options

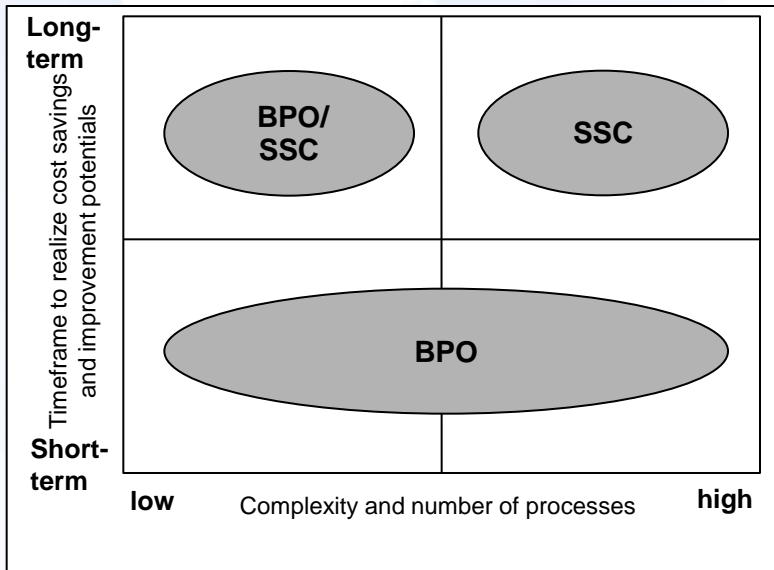


Understanding governance options

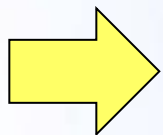
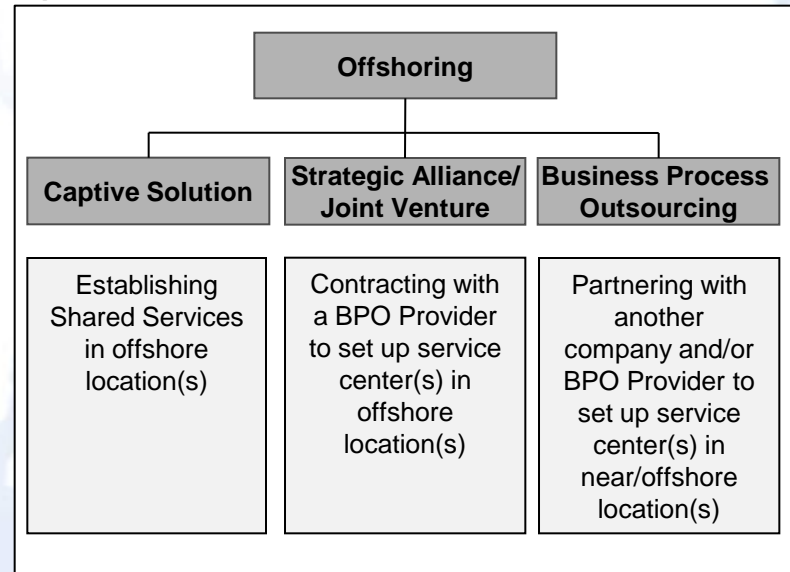
At the first glance outlining of the appropriate sourcing strategy appears to be simple

Methodology

Decision matrix SSC versus BPO



Options to realize Offshore Solutions

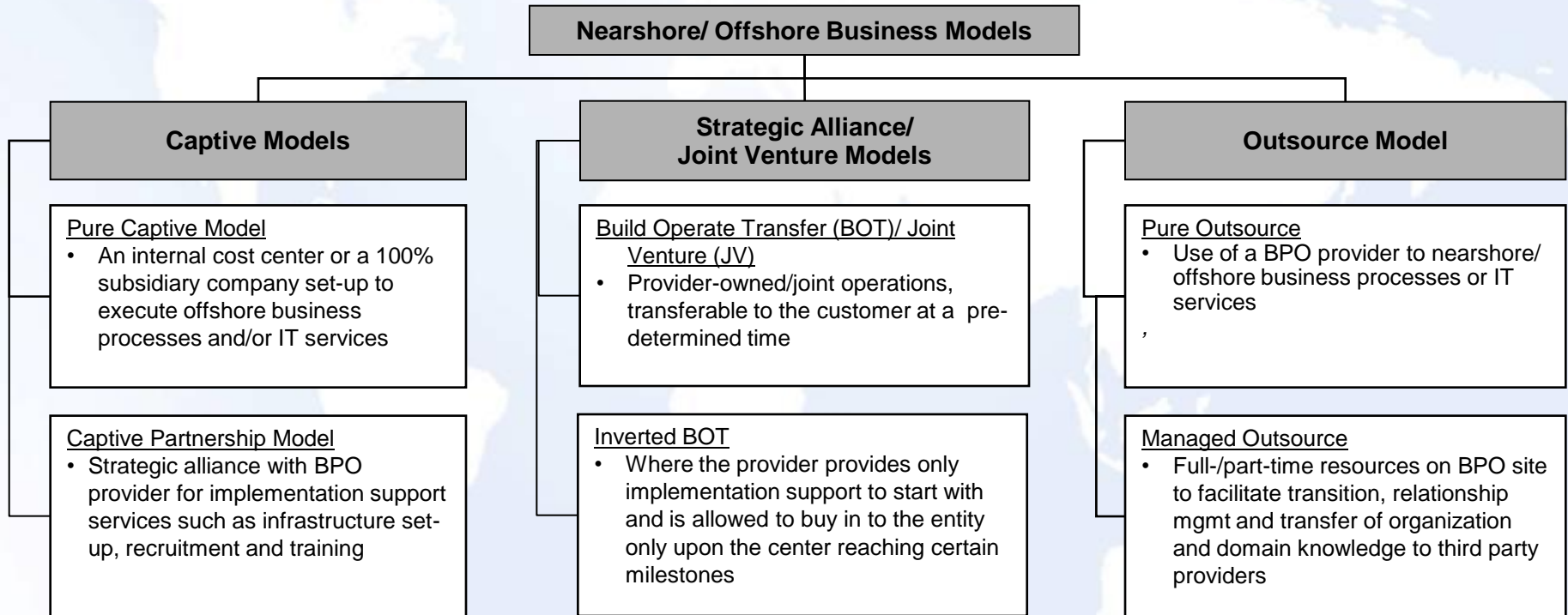


However, the decision itself requires consideration of multiple influencing factors. Also, opinions of senior leaders will very likely vary as make-or-buy decisions for the back office have a strong company political dimensions → outsourcing is widely perceived as loss of power

Understanding governance options

The sourcing strategy is not a black or white decision – outlining the options and understanding potential combinations enables defining the best strategy

Illustrative

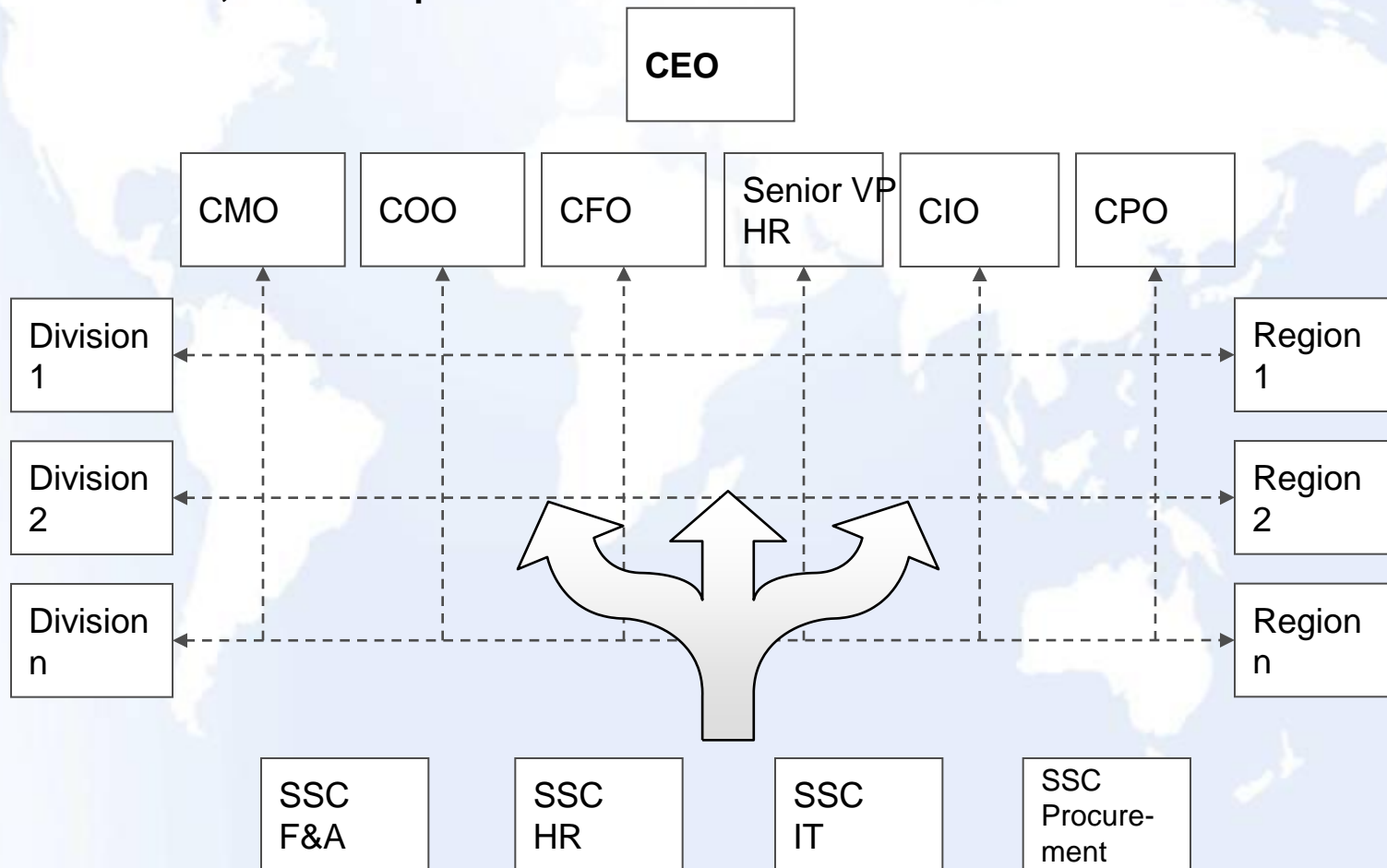


Nearshore/ Offshore models can be a combination of the concepts above – models to be applied can vary by business unit, region, location, function, and process

Understanding governance options

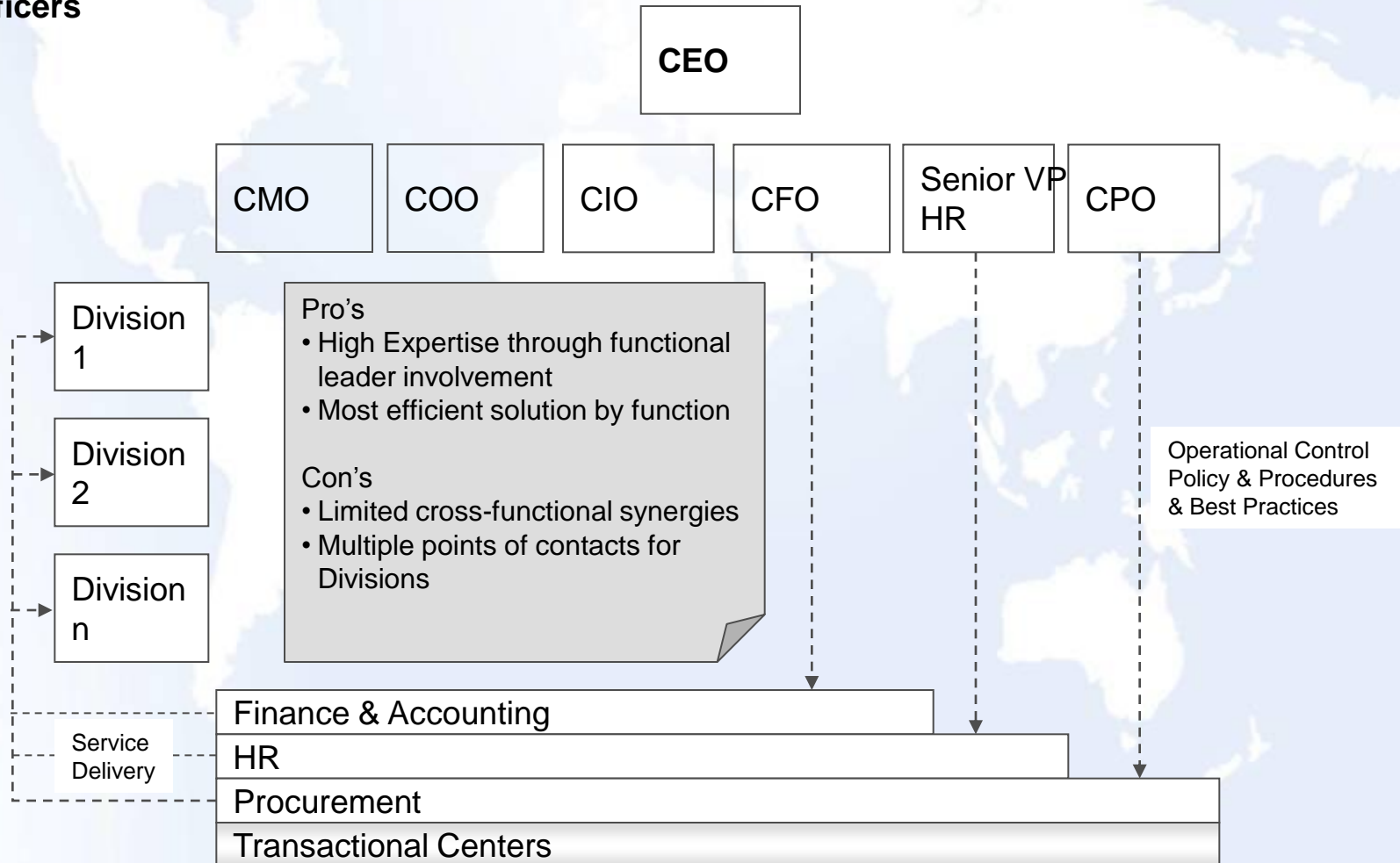
Key Challenge - Shared Services and Organizational Integration in the multidimensional, Global Corporation

Key Challenge



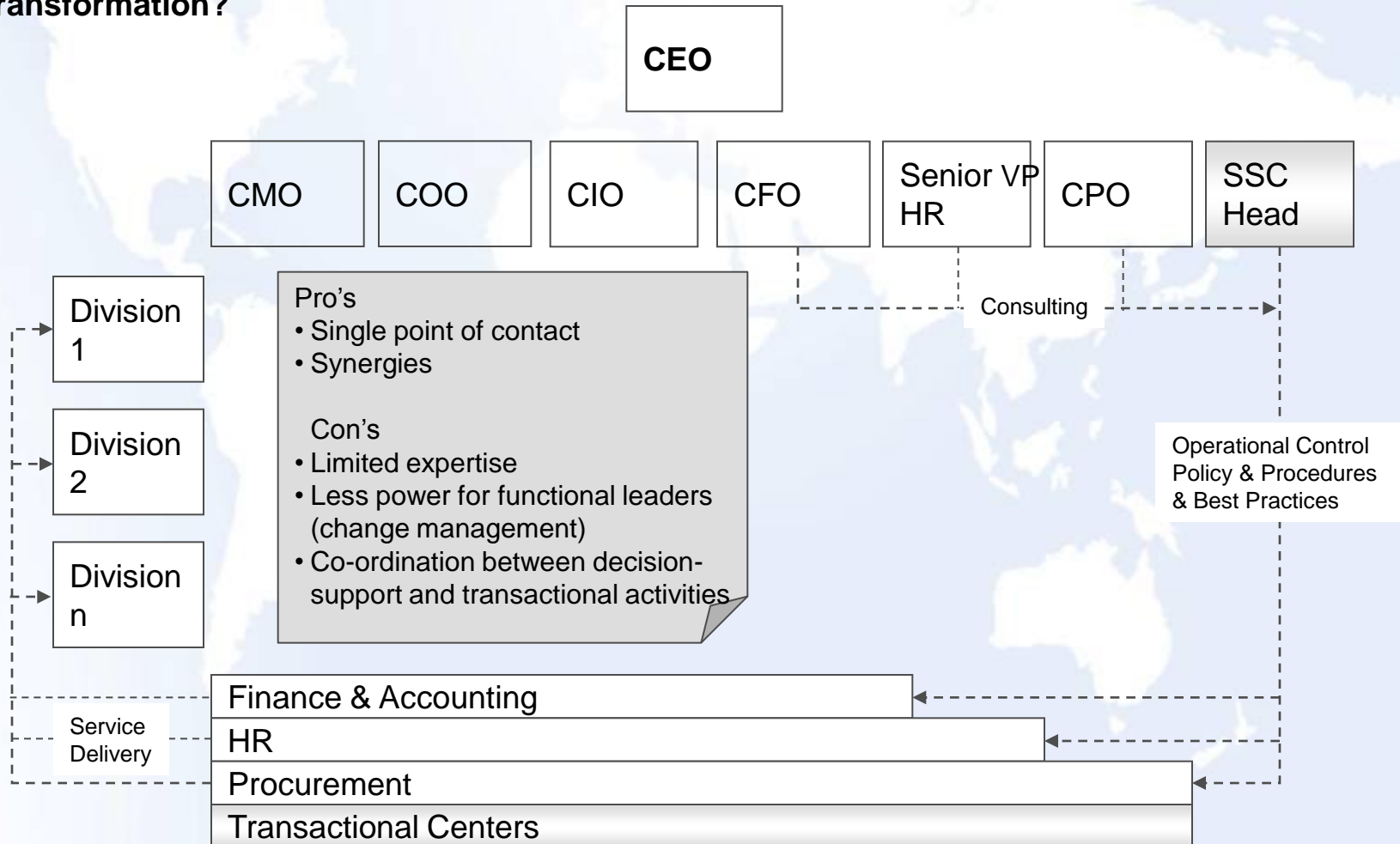
Understanding governance options

Shared Services – Close Management through Corporate functional Officers



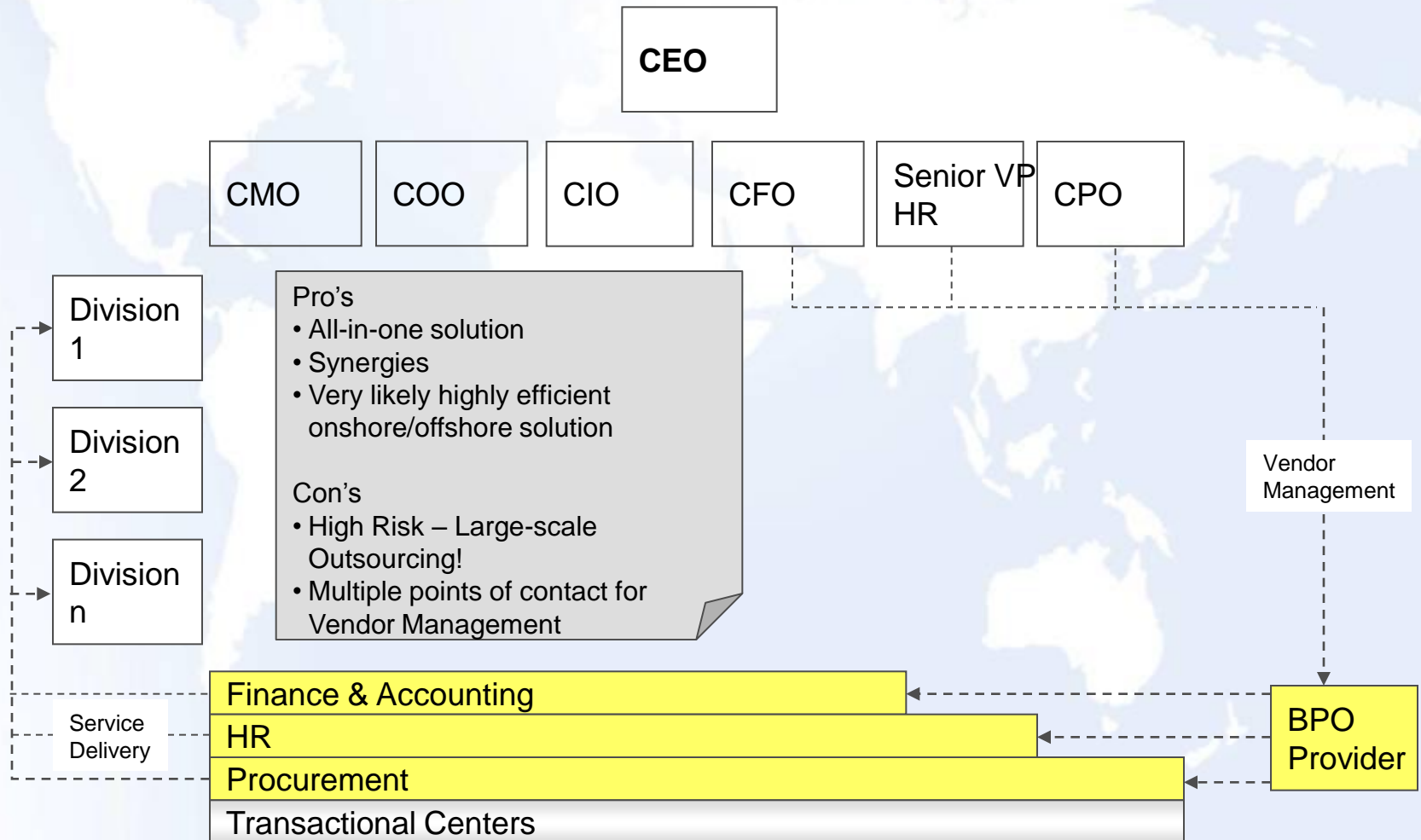
Understanding governance options

The Shared Service Corporate Officer – Cornerstone of true back office transformation?



Understanding governance options

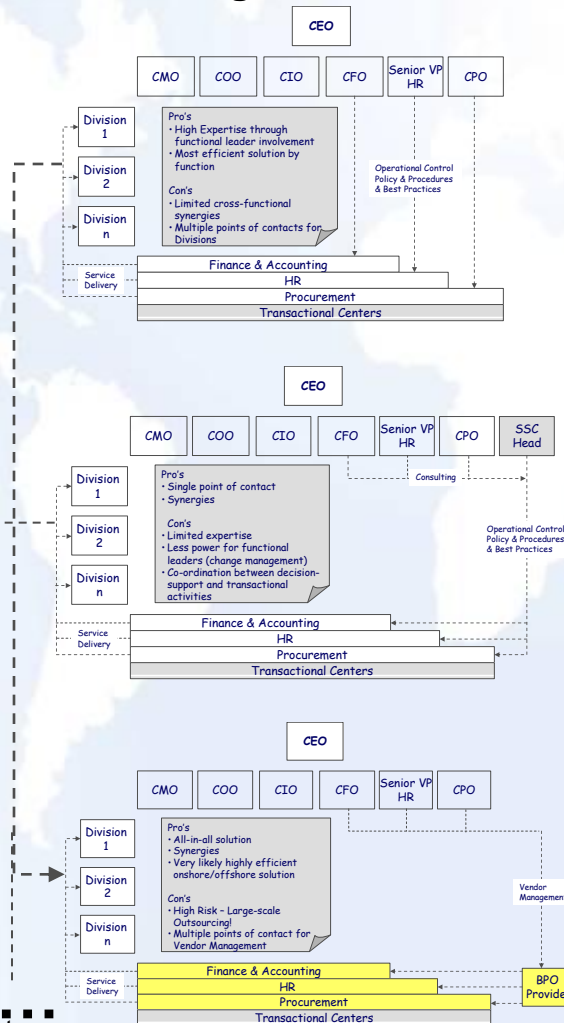
The Big Bang – Great concept but rarely seen in Reality



Understanding governance options

Effective Governance through conscious strategic corporate decision-making

Alternative Organization Models
- number of design alternatives is unlimited



Comments

- ➔ Shared Service Governance is a strategic decision
- ➔ Shared Services / Outsourcing operations need to be managed from a Corporate perspective
- ➔ A holistic approach is required in order to be efficient and to truly transform the back office
- ➔ Neither individual functions nor individual divisions should search for ideal solutions alone – however, pilots might be launched in individual approaches in order to test the concept and to “familiarize” the organization with the idea of Shared Services (and – of course – to demonstrate quick wins!)
- ➔ Shared Services Governance is a power play – its organizational integration determines roles, responsibilities and power of key senior management

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Designing the ideal operating model

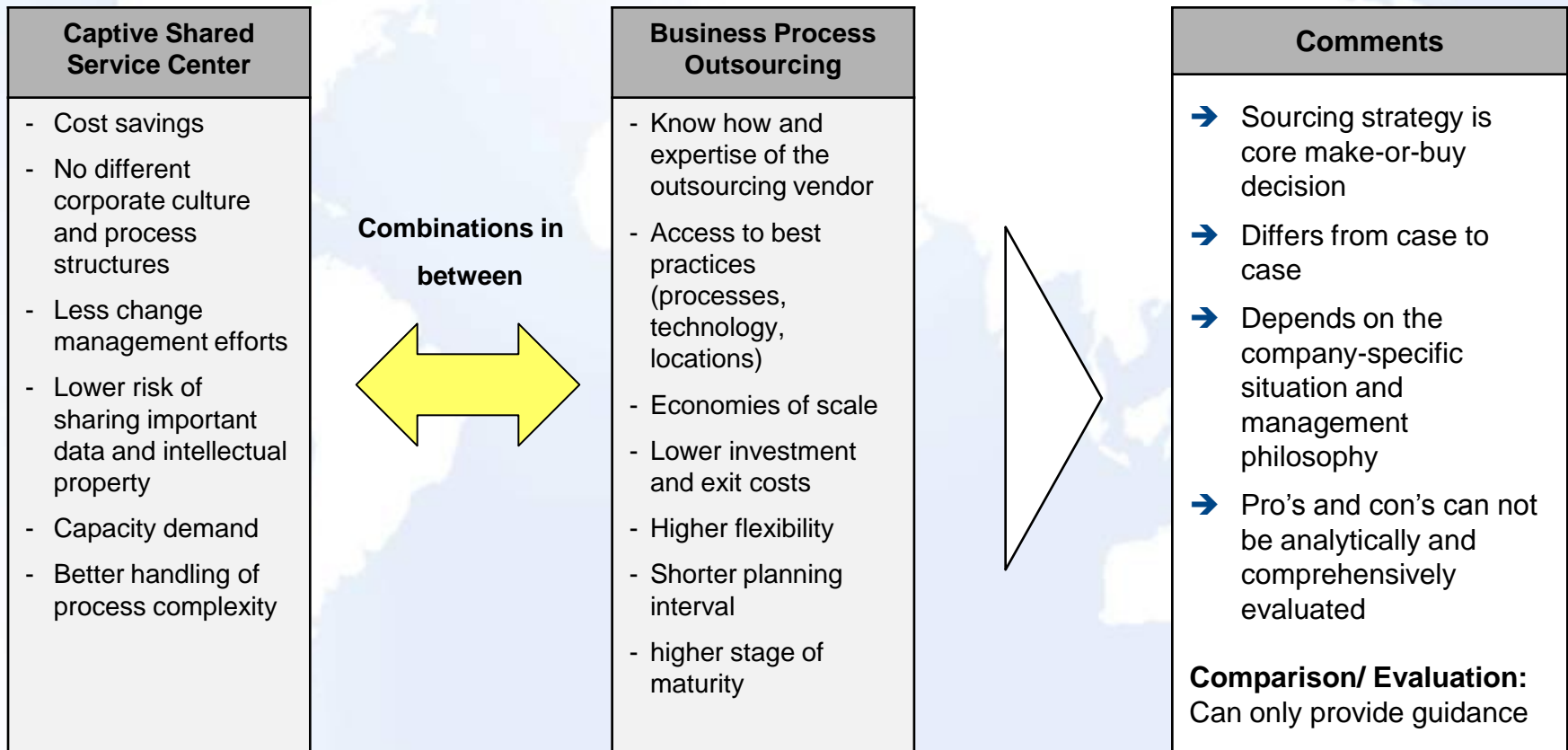
Offshoring Models - Comparison

Offshoring Model	Advantages	Disadvantages
Captive	<ul style="list-style-type: none"> • Largest cost savings • Lowest risk to data and intellectual capital security • Maintains culture and process expertise 	<ul style="list-style-type: none"> • Longest time to achieve maturity and generate savings • Highest investments and exit costs
Outsource	<ul style="list-style-type: none"> • Leverages provider familiarity with offshore operations • Influence of scale • Low exit costs • Optimizes expertise by function 	<ul style="list-style-type: none"> • Providers lack scale to serve company's needs • Complexity of managing multiple relationships • Cultural differences
Strategic Alliance/ Joint Ventures	<ul style="list-style-type: none"> • Limited investment required • Lower business risk due to partner's process experience • Deep process migration expertise • Easier to implement global, multi-country solution 	<ul style="list-style-type: none"> • Lower operational control • Partner may be unfamiliar with offshore marketplace • More limited skill transfer • Potential competitive issues • There may be many other customers

Designing the ideal operating model

Both extreme strategies have their specific advantages – combining solutions often capture the best from both sides

Methodology



Designing the ideal operating model

Aspects such as corporate culture, complexity of business and organization, and importance of intellectual property protection lead facilitate the sourcing decision

Methodology

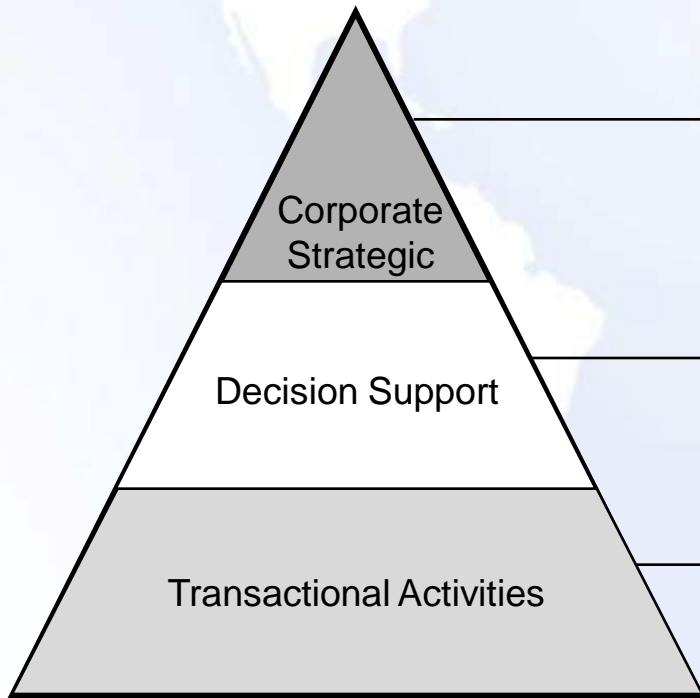
Factors	Description	SSC	BPO	Description
Corporate culture/ processes	Very unique/ no alteration/ standardization wanted			Very flexible/ not used as differentiator
Risk/ intellectual capital	Absolutely critical/ Protection of IC is key			Basic security of IC sufficient
Capacity	Specific industry/ specific process area			Standard process/ BPO solutions existent
Complexity	Complex organization/ Standardization is challenge			Straightforward concise organization/ Standardized processes
Expertise/ Know How	Sufficient internal expertise available			Expertise is differentiator/ hard to acquire
Time horizon	Center should be designed for more than 5 years			Results should be realized in less than 2 years

Tendency towards BPO

Designing the ideal operating model

Each back-office process has consolidation potentials with regards to Shared Services and BPO - however, certain parts of the processes need to remain decentralized

Example

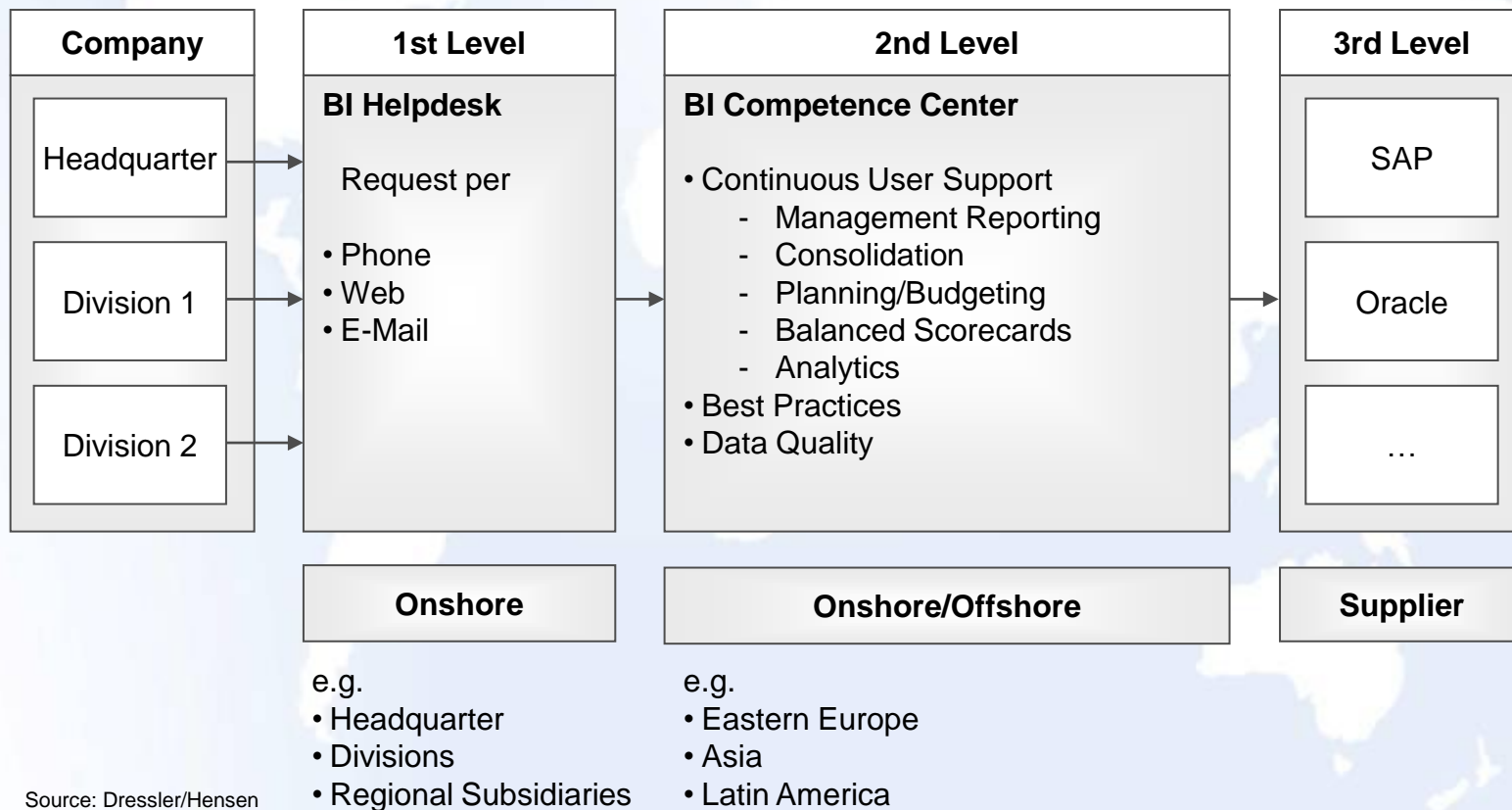


F&A Processes	SSC	HR Processes	SSC
Business / Financial Risk	5%	HR Policy Guidelines	5%
Treasury	5%	Compensation Policy	5%
Internal Audit	5%	Workforce Planning	10%
Tax	15%	Workforce Intelligence	5%
Planning / Forecasting	15%	Employee Relations Policy	5%
Strategic Planning	5%	Labour Relations	10%
Product Costing	40%	HR Reporting	25%
Management Reporting	30%	Performance Management	20%
Performance Analysis	15%	Recruiting	30%
Procurement –to-Pay	90%	Compensation Admin	85%
Order-to-Cash	85%	Workforce Development	80%
Record-to-Report	70%	Payroll Administration	85%
Time & Expense Reporting	95%	Staffing	80%
Asset Management	95%	Workforce Administration	85%
Inventory Accounting	60%	Employee Data Management	95%

SSC = Transactional activities; potentially performed by Shared Services

Designing the ideal operating model

Effective Offshore Management Accounting Solutions based on Business Intelligence Tools



Source: Dressler/Hensen

Designing the ideal operating model

Offshoring support for Management Accounting through effective coordination with lower costs and improved quality

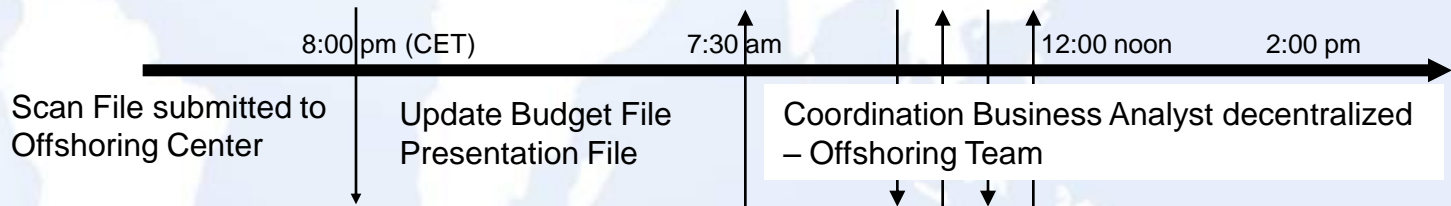
Case Study Europe/India

Business Analyst decentralized

- Budget Meeting
- Modification of Key Assumptions
- Modification of Revenue Plan/ Forecast Adjustments



Budget Presentation
Online Helpdesk
Offshore



Business Analysis Team Offshore

- Incorporation of Budget Changes
- Re-Consolidation of Corporate Budget
- Scenario Analysis of Revenue Model
- Sensitivity Analysis ROCE

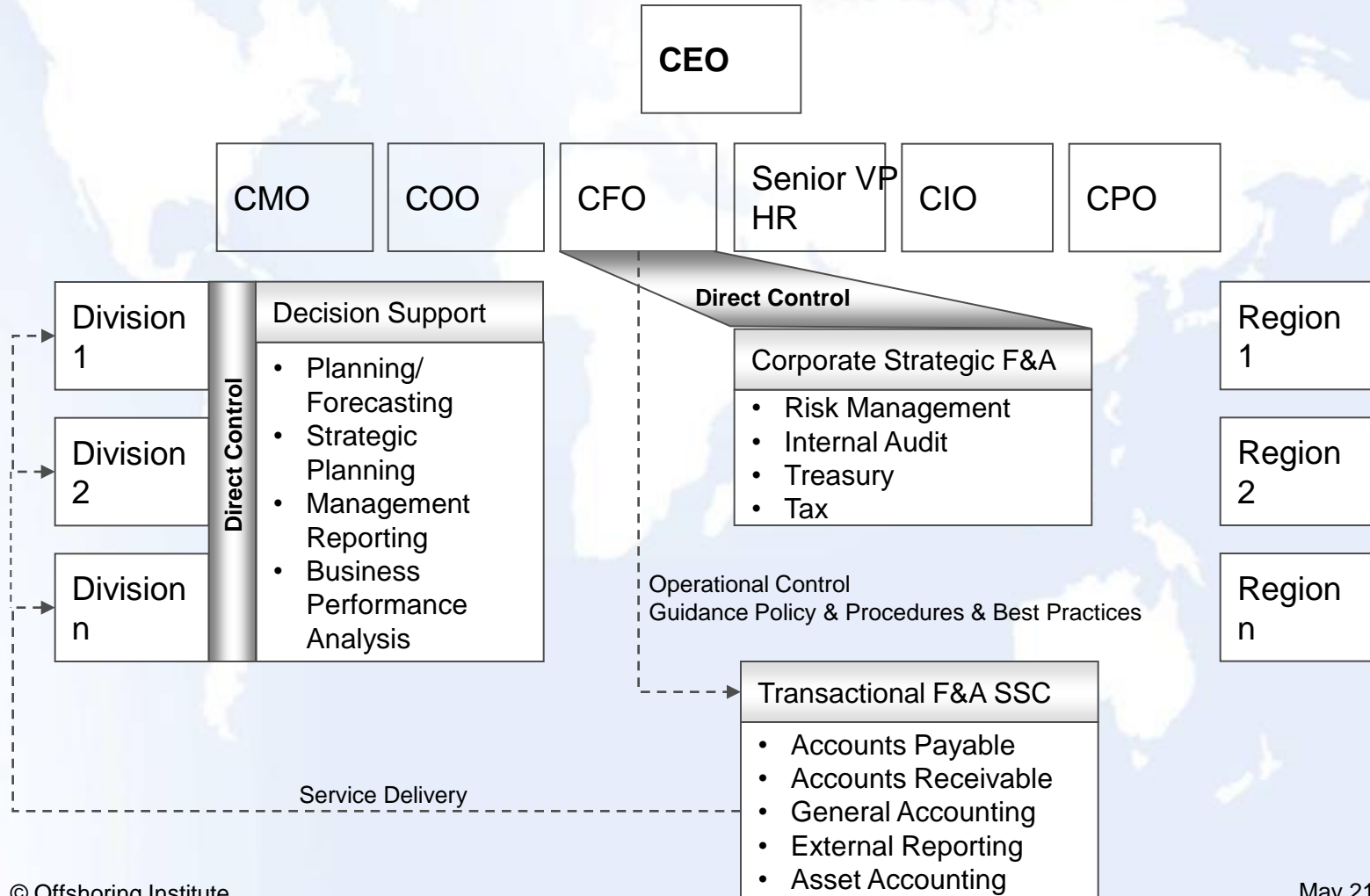


Team Offshoring

- 1 Team Leader (PhD)
- 2 Senior Analysts
- 1 Senior Analyst (late shift)
- 1 Junior Analyst

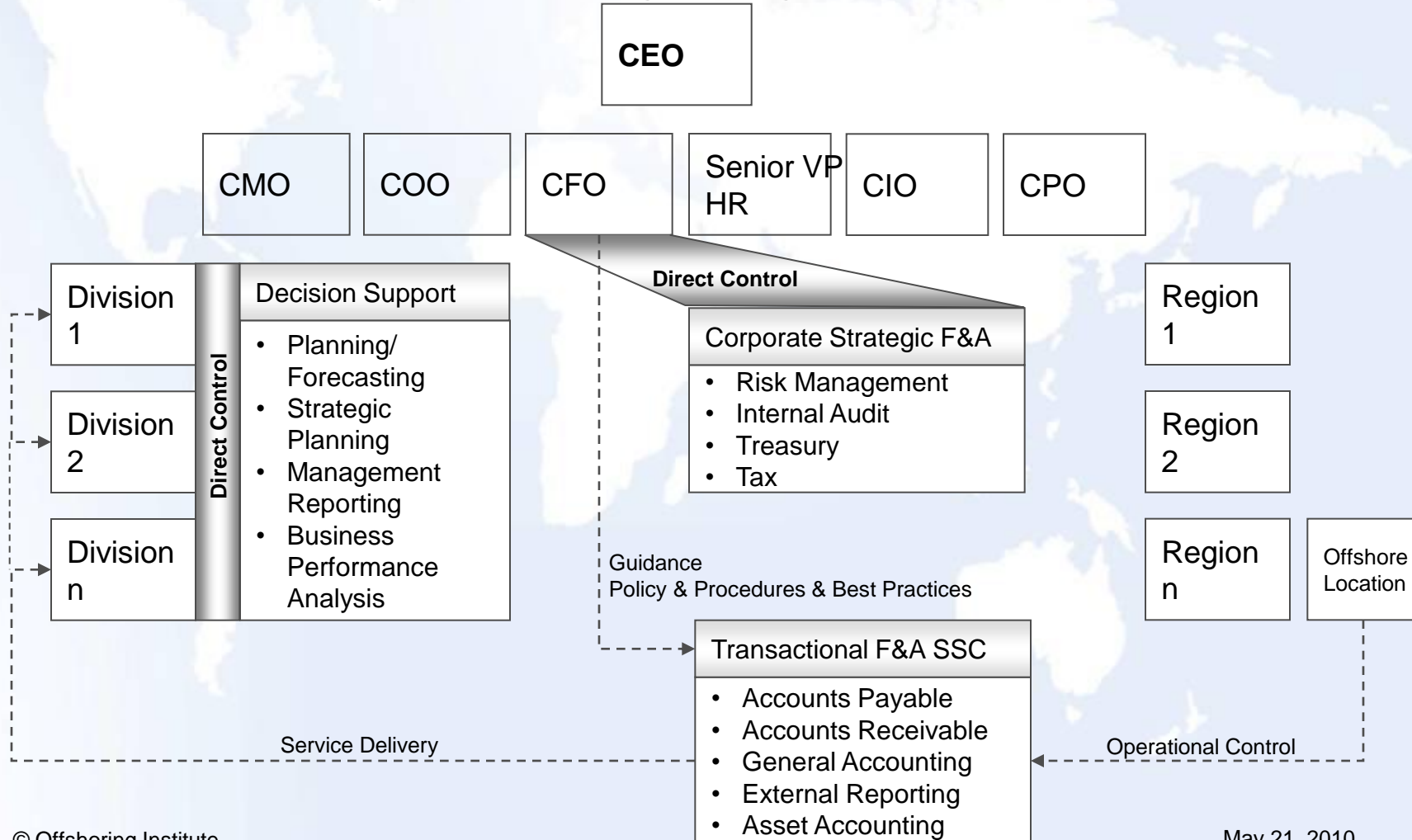
Designing the ideal operating model

F&A Shared Services – Classical Approach



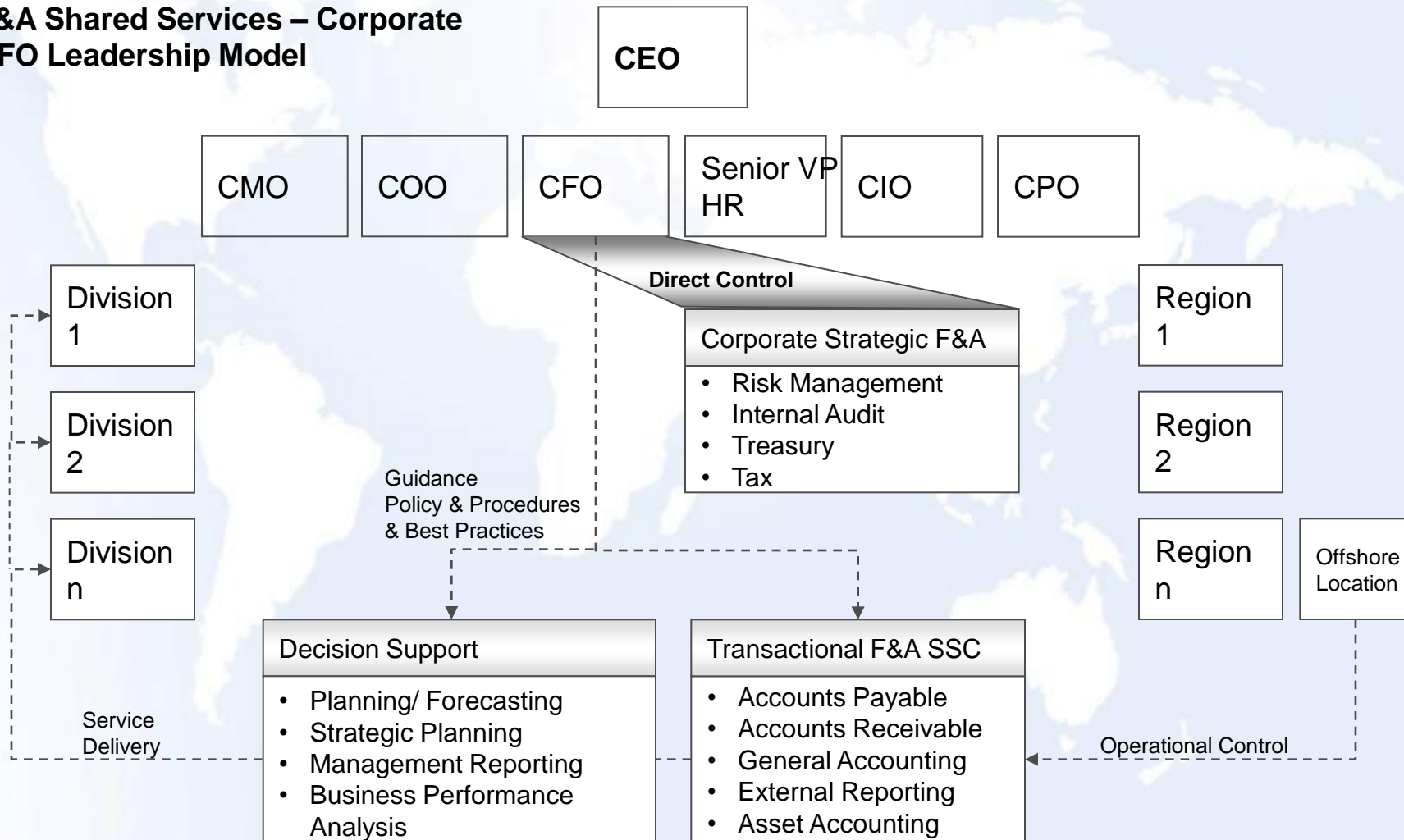
Designing the ideal operating model

F&A Shared Services – Pragmatic Approach: get the region involved



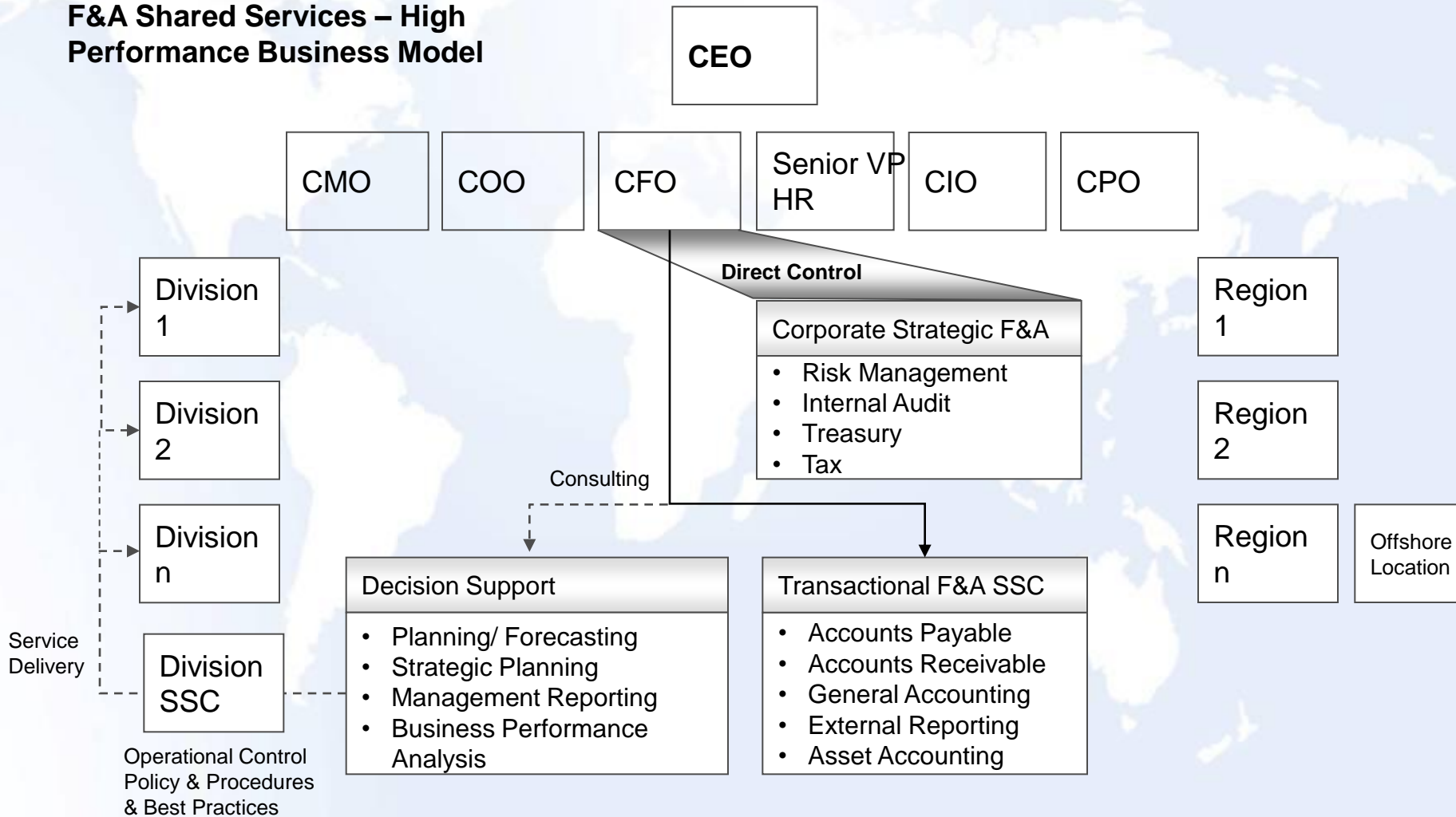
Designing the ideal operating model

F&A Shared Services – Corporate CFO Leadership Model



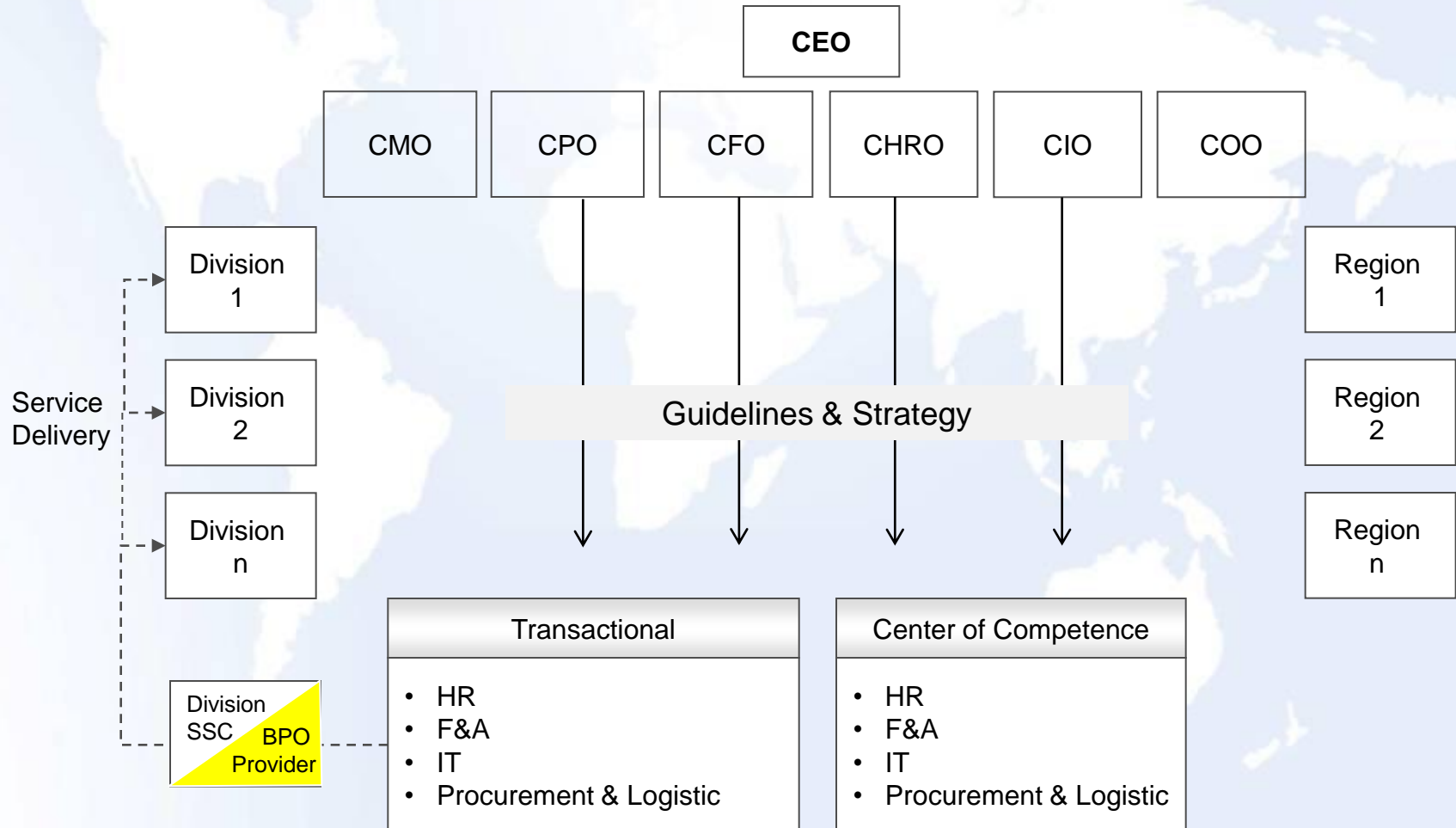
Designing the ideal operating model

F&A Shared Services – High Performance Business Model



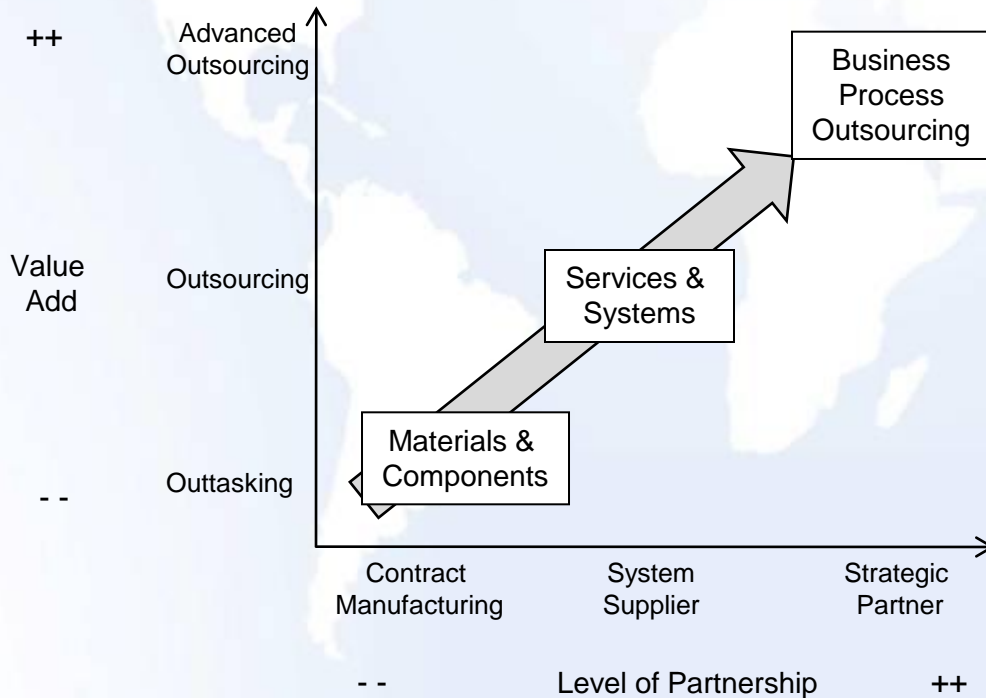
Designing the ideal operating model

Business area services cooperate with outsourcing partners party or totally as well as becoming BPO provider for third parties



Designing the ideal operating model

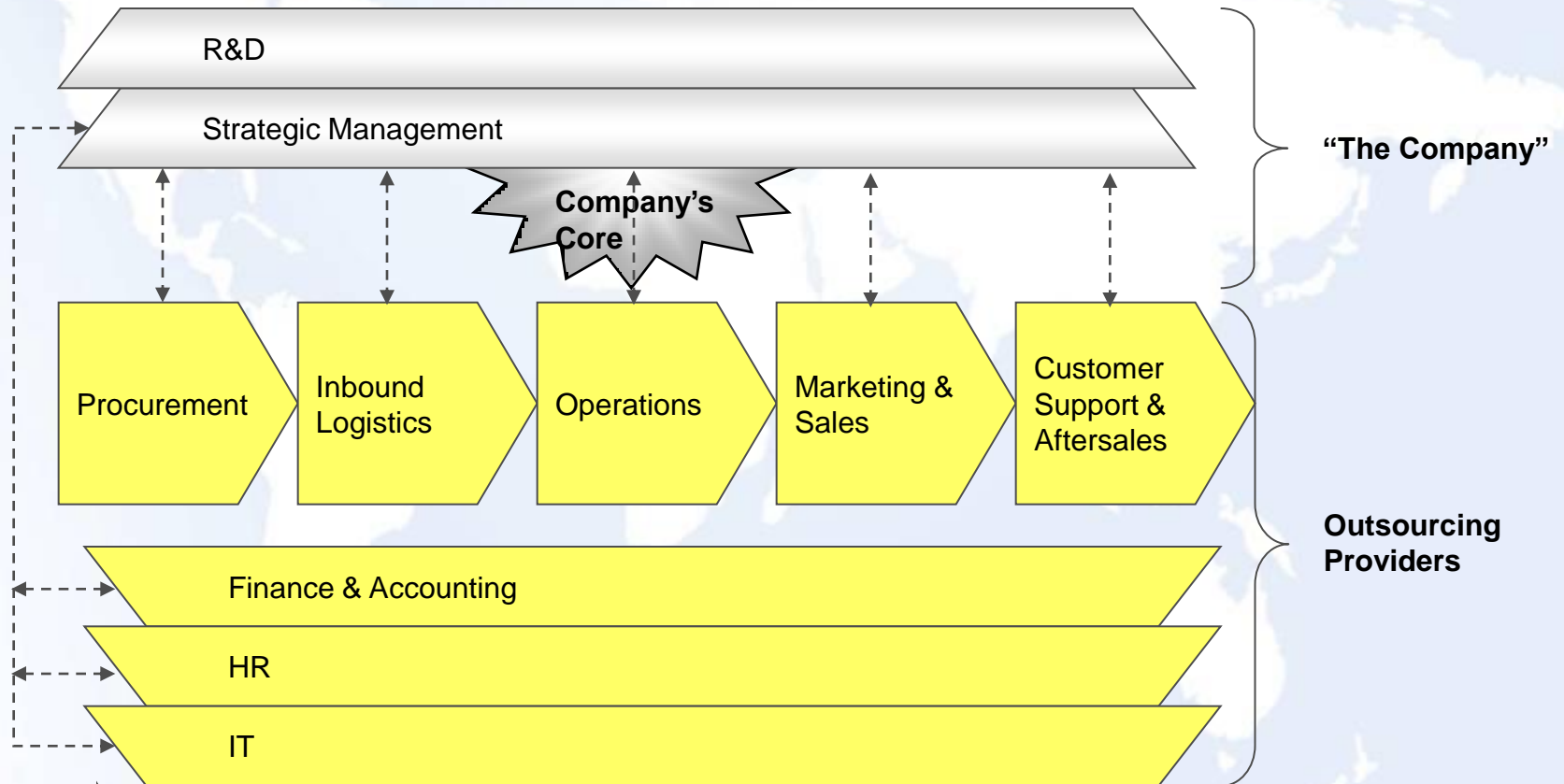
Value Add through BPO providers



Comments
<ul style="list-style-type: none"> • Business Process Outsourcing provides a high-value add contribution to the company's business • As a consequence provider selection needs to be done carefully • BPO provider need to be considered as potential strategic partners

Designing the ideal operating model

The Future Company – True Focus on Core Competencies and complex BPO Vendor Relationship Management



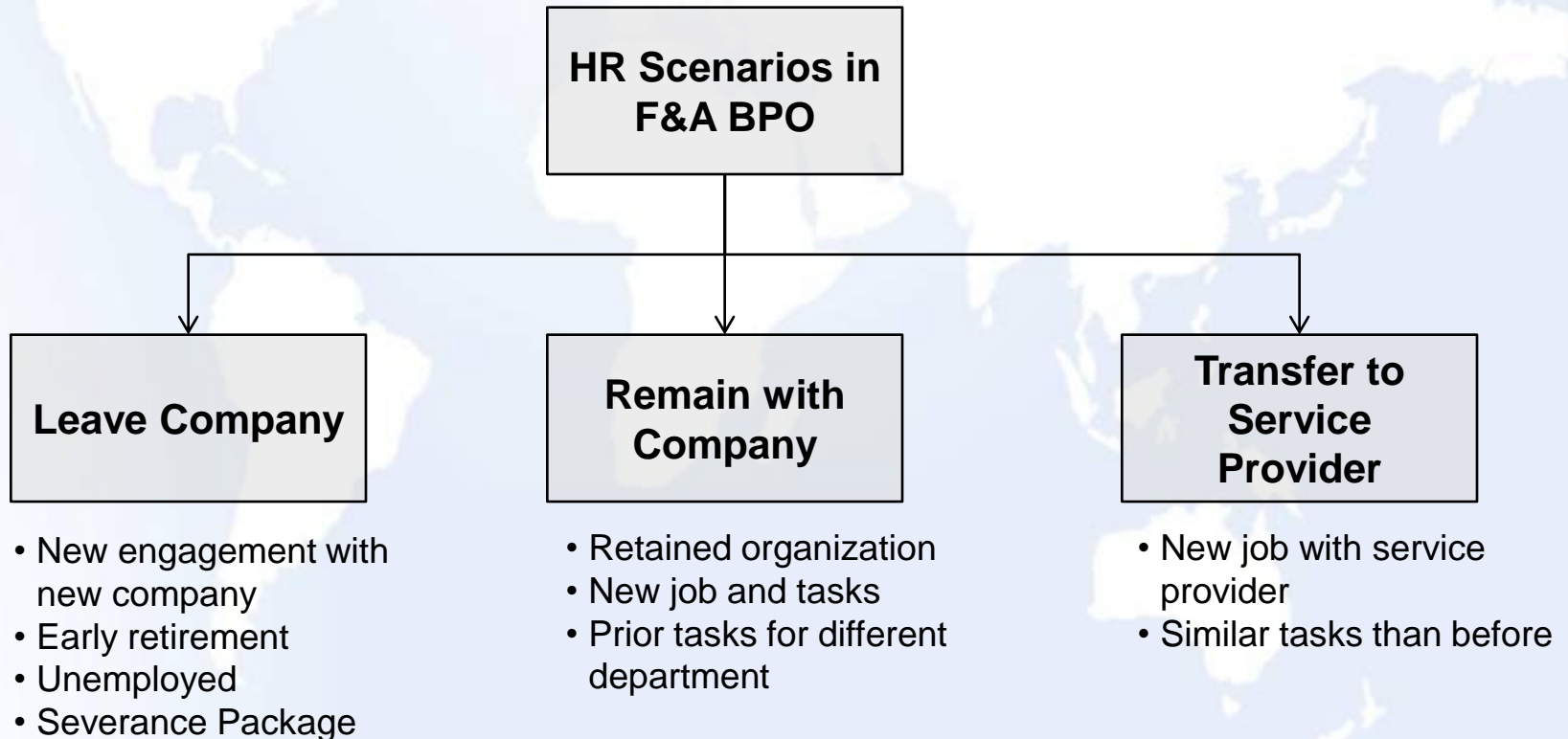
Although some Companies operate already according to the model above it needs more experience with SSC governance and vendor relationship management before it will be commonly applied

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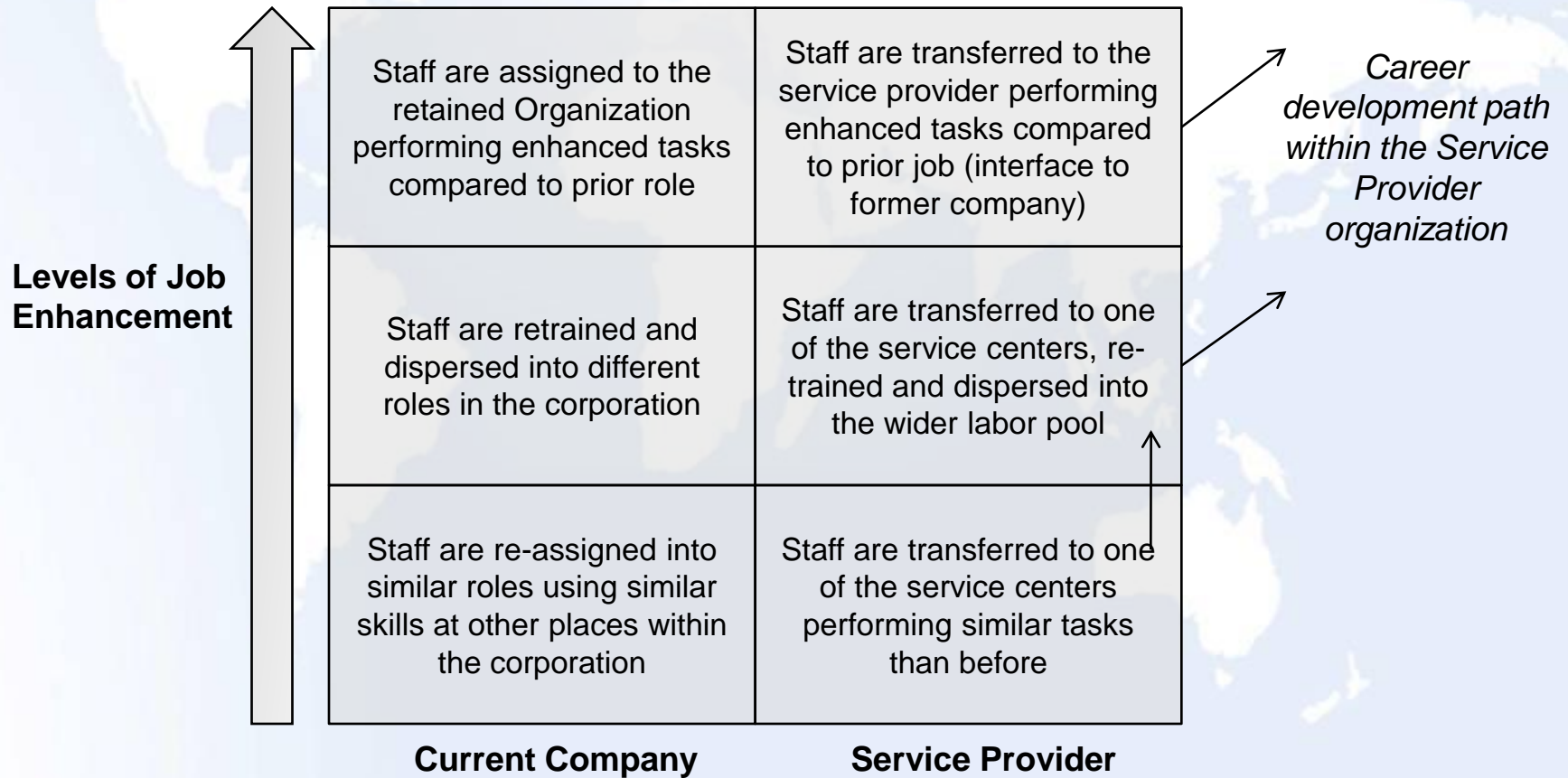
HR and state-of-the art technologies

Finance Transformation leads to various options for the employees – however, most of them are concerned about losing the current job only



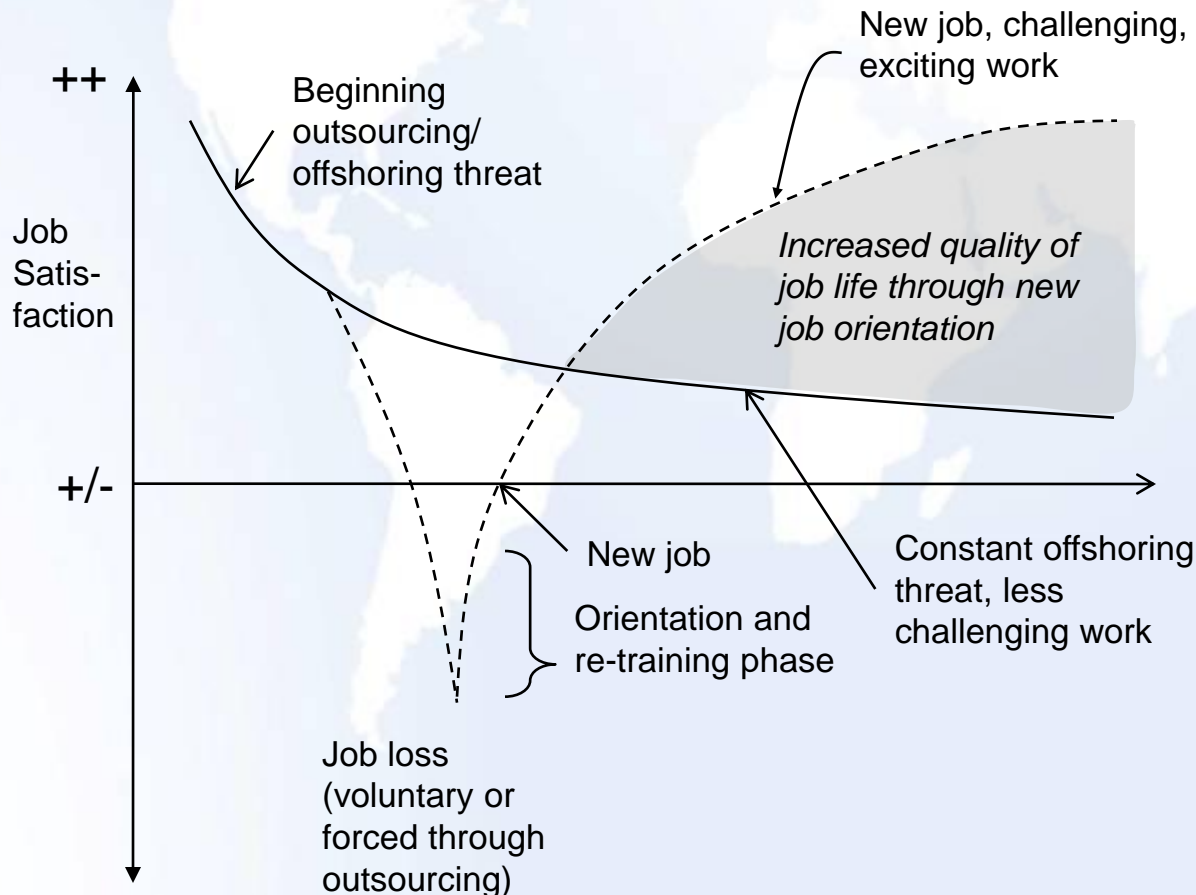
HR and state-of-the art technologies

For employees staying with the firm and/or service providers various options for job enhancement are possible



HR and state-of-the art technologies

Constant job threats are a major obstacle to Finance Transformations and hinder work satisfaction



Comments	
•	New organizational and psychological research suggests a higher quality of work life if the work is challenging and in line with the individual personal characteristics (see Bolles, Richard N., 2007)
•	Many Finance Transformations leave employees in constant fear about their jobs, in particular since SSC or BPO are often major parts of the solution
•	A proper and open communication strategy enables employees to start a new career orientation early in the process
•	In the mid-term a clear cut creates higher satisfaction than living with constant job loss fear
•	Therefore, early communication and a swift execution of the Finance Transformation are key to a successful implementation

HR and state-of-the art technologies

Only few of the college graduates in low cost countries are qualified enough to support international business operations



Source: McKinsey Global Institute

Comments	
<ul style="list-style-type: none"> ▪ Lack of suitability for international business because of various reasons <ul style="list-style-type: none"> ▪ Language ▪ Cultural background and adaptability ▪ Quality of education ▪ Lack of personal skills (e.g. teamwork, leadership) ▪ Missing focus on international requirements (accounting standards, laws and regulations, etc.) 	
<ul style="list-style-type: none"> ▪ Only few of the highly educated 	

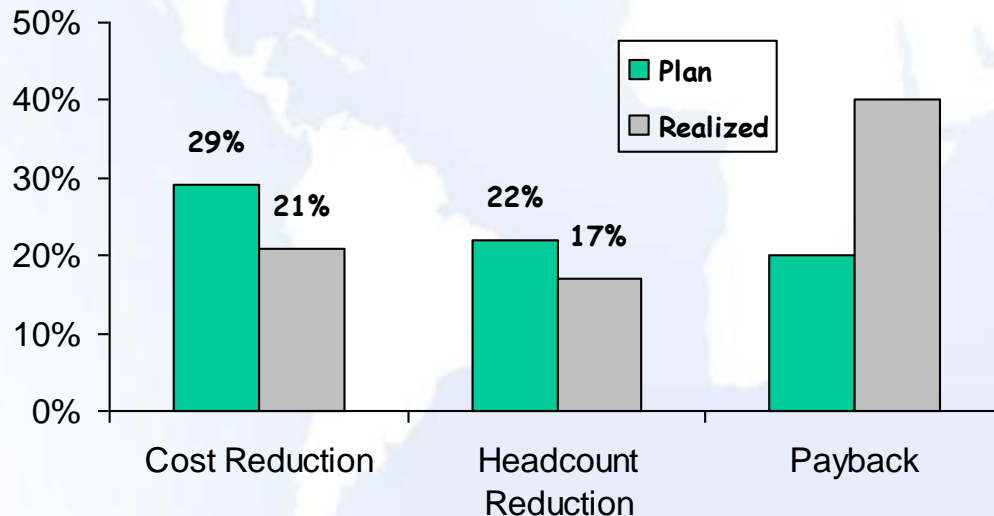
work force are willing to work in shifts
May 21, 2010

HR and state-of-the art technologies

Realized Benefits and Organizational Integration

PA Consulting

SSC – Effective Benefits (in %)



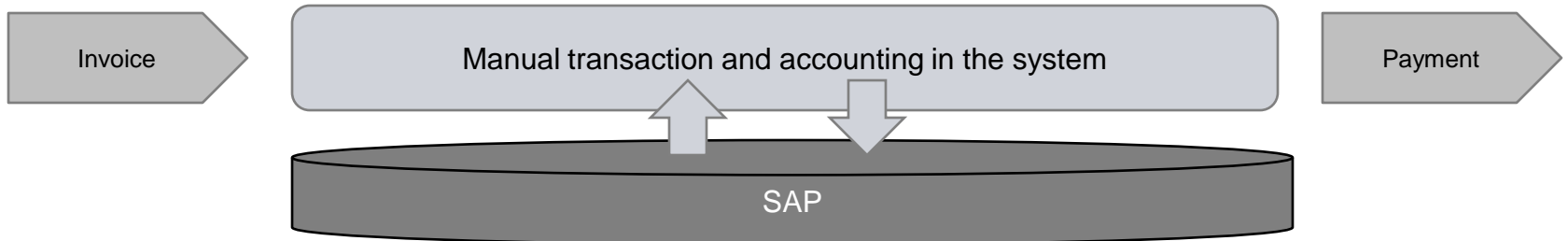
Comments
<ul style="list-style-type: none"> PA Consulting's Benchmarking Study underlines that realized benefits fall substantially short of initial objectives – despite all the buzz around Shared Services successes However, in terms of Payback most companies realize a shorter implementation time span than initially planned

Source: Benchmarking shared service centres survey, PA Consulting Group, 2002

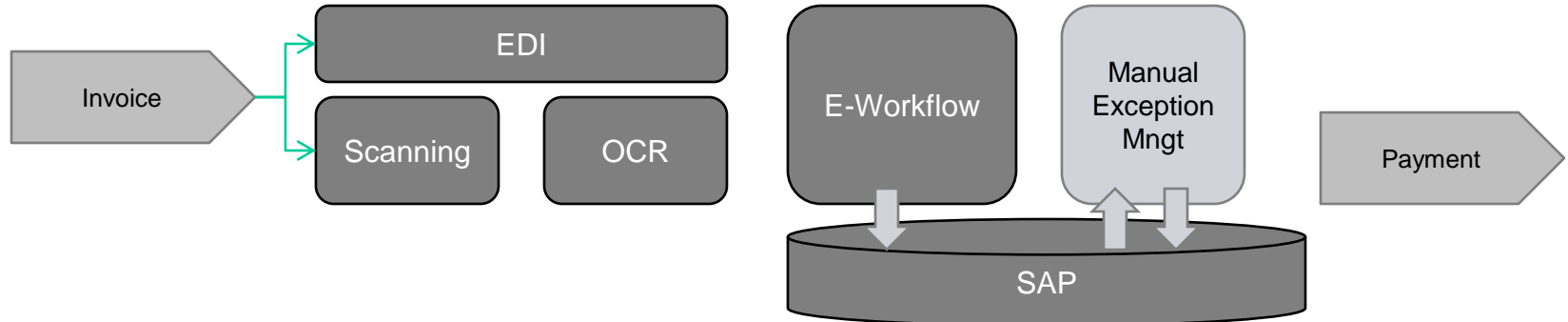
HR and state-of-the art technologies

The importance of human interaction is decreasing in many service processes – but can not be replaced at all

Example: Accounts Payable Process – before (until end of 1990s)

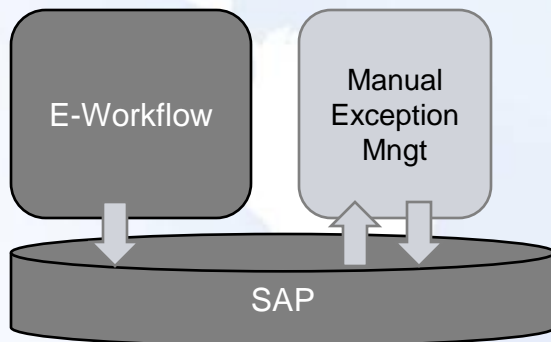


Example: Accounts Payable – today (from 2000)



HR and state-of-the art technologies

The Way SSC will operate is about to change – Technology is replacing the human factor step-by-step



Humans vs. Technology

- Development of transactional SSC to Center of Competence/ Center of Expertise
- Transactional processes = rules-based and therefore to be captured with new technologies
- New requirements towards capabilities and qualification of people
- Increased importance in quality of the labor pool in location selection
- Totally automated service processes → since beginning of the 1990s foreseen but not near a reality today
→ a realistic option within the next 10 years?

Thank you for your attention

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