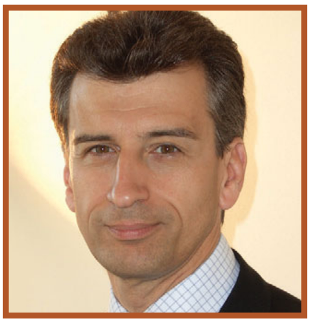
The CFO journey to glocalisation

Outsourcing and shared services are showing every sign of maturity so the CFOs are taking control back. **Armand Angeli** of the International Association of Financial Executives Institutes and **Jean-Paul Binot**, managing director of TMF Group, cast a eye over the market.

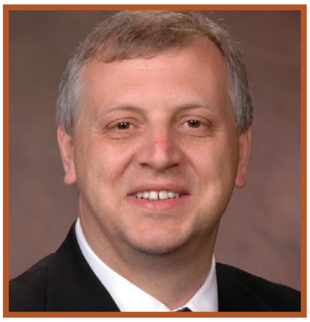
The outsourcing and shared services business is showing signs of maturity. CFOs, who have historically been the key proponents of internal or external outsourcing, are trying to regain control of these centralised activities, leveraging new and more complex management models.

While cost reduction is their chief objective, because CFOs are often second in command they have to solve a more complex equation between compliance, business controls, risk mitigation, agility, innovation, new business, new geographies, return on new investments and cash allocation, etc.

One key trend of the market is the shift towards more internal shared services centres (SSC) and blending them with third-party outsourcing into hybrid, more-integrated global business services (GBS) organisations. Other major trends include more local and more expertise-laden delivery models and niche providers.



Armand Angeli



Jean-Paul Binot

A quick glance back

From its early days in the mid-90s, the shared services concept positioned its value proposition as one of economies of scale, location benefits, operational excellence, technology enablement and business enhancements. The promise was to do faster, simpler and, above all, cheaper. Over time, the shared services concept indisputably delivered much of its promise. The global situation today is one of overall accomplishment. Many companies have implemented some form of shared services. Most eligible processes and geographies are served, huge portions have been outsourced successfully to third parties, nearshoring and offshoring are now an accepted component, mature SSC are moving up the value chain into higher-profile activities towards business enhancement and partnering. SSCs are seen as a fundamental component of many companies' target operating model (TOM).

Mostly good, but...

However, with these benefits undoubtedly comes a trade-off. Many companies have felt the disadvantage of less intimacy, reduced responsiveness, lack of control and ultimately less comfort. The not so great other side of the picture is one in which many companies still have relatively little to show to date, sometimes despite considerable effort to the contrary; some

Fewer fish for more providers

SSC programmes stalled – or were even dismantled – as a consequence of corporate upheavals, many if not most were left uncompleted, huge efforts towards completion often met ever-stronger resistance and a portion of the anticipated gains never really materialised.

The dawning of a new age?

Only a few years after the concept of shared services started gaining widespread acceptance, the notion emerged that companies could, and maybe should, hand over some parts of their internal processes to service providers that would be better able to bring value to non-core activities. That was nothing new, just the application to a new domain of the age-old "make or buy" dilemma. In only a few years, a brand new and vibrant industry was born: the functional business process outsourcing (BPO). The first proponents of that new thing were the large IT service companies, which found it relatively easy and natural to expand into this new area while leveraging their infrastructure and industry know-how. However, after a very encouraging start that saw many ground-breaking and far-reaching deals, the initial wave of mega-deals for BPO was followed by dwindling numbers of second and third-generation deals.

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The current situation is that hundreds of BPO deals, including many high-profile ones that were signed in the past decade, are not being reversed but often get extended and expanded, which is the best proof of concept any doubter might need to accept. It is an undisputable fact that BPO works, but still, the number of entirely new BPO deals and their associated total contract value (TCV) keep contracting. Various studies indicate that the average annual value of contracts is now closer to US$10m. This in itself is definitely not a sign that the BPO concept is losing credibility, quite the contrary in fact, but rather that many of the companies that were eligible or likely to entertain the notion of outsourcing a portion of their accounting, payroll, procurement etc. have already done so, and reaped the benefits of it, leaving relatively few fish in the sea for the many, ever more agile and capable BPO service providers to fight over.

The visible trend of the BPO market today is clearly in favour of smaller, more focused deals that draw more on subject matter expertise and technology savviness than on basic labour arbitrage. The days of "your mess for less" are finally over.

So, what's next?

Industry analysts agree that the overall maturity of SSCs, either in-house or outsourced, is still relatively low, with a few exceptions. Early adopters, those companies that made shared services an integral part of their TOM many years ago and that still sustain investment in their SSCs, reaped major benefits from their early commitment, and are by now within reach of the famed "best of breed" situation, which positions them at that point of the maturity curve by which a company gets demonstrable, sustainable pay-off for all its effort and investment.

The rest of them, that is to say the vast majority of companies that started their SSC journey more recently, are possibly about halfway off that point and still a long way from pay-out. Admittedly, they do get some benefits and their initial success might encourage CEOs and CFOs to press on, but they have to face the grim reality that the hardest nuts to crack (the small countries with odd languages and obscure regulations, the smaller business units, the joint ventures with less innovative or government-controlled partners etc.), have not been addressed yet.

Global but not remote

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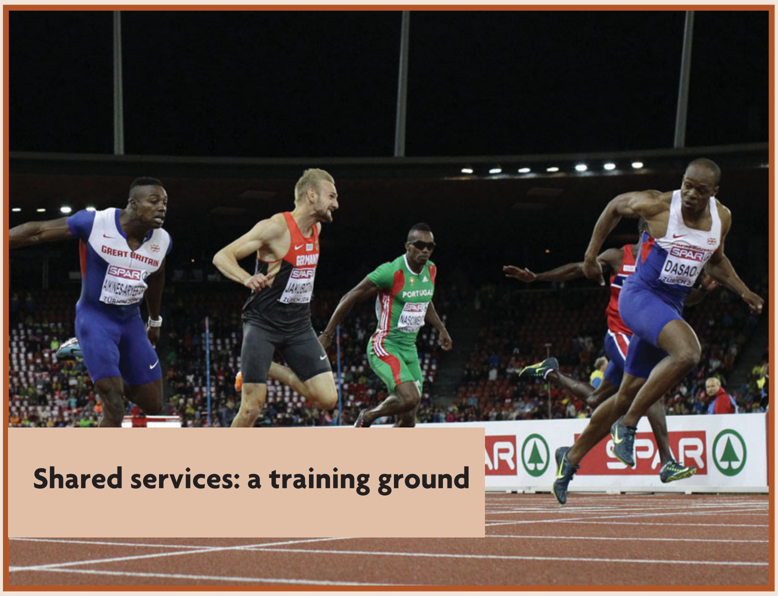
The GBS model, global but not remote

As a result, companies, starting with the largest ones, are looking to enjoy the best of both worlds by blending internal SSC and outsourcing into centrally managed GBS, with the a mix of onshore, nearshore and offshore activities. However, GBS does not mean remote offshore centres. On the contrary. According to a recent Deloitte study, the importance of factors such as "proximity to the headquarters" and "proximity to existing operations" in the context of processes of locating SSC, decisions almost doubled between 2011 and 2013, highlighting the growing importance of near-shoring.

Locating services closer to home not only enables the reduction of geopolitical risks, but also allows for better control and management. The management of GBS can be integrated with HQ. CFOs or even COOs are now put in charge of it and the organisation encompasses more functions: not only F&A, HR or IT but also most of the support.

The CFO cannot afford to have all of their key support staff located far from the company's decision centre when they need to work closely with the CEO and



Shared services: a training ground

also have in mind their own agenda. Indeed, personal and HR aspects should not be overlooked. Having key people close to the business fosters agility and transformation and also helps to attract and retain the best people. Shared services are increasingly considered as a training ground for key talent and career bridges are built between the centres and the operations. Even when activities are transferred to third-party providers, it is advisable to move some staff to the provider rather than lose them and their accumulated experience.

Imagining more complex delivery models

Most of the above rationale also holds true for providers when it comes to decisions on locations. Large BPO providers are now fighting for a small number of large global bids, which means pressure on margins and higher expectation of benefits. They need to differentiate, a disappointingly hard thing to achieve; they are largely perceived by the market as being broadly all the same, leaving only pricing as a key differentiator.

Move towards custom

To differentiate as much as possible, they try to evolve from transactional common processes to somewhat custom processes that fit a specific client or set of clients in a vertical industry. They move closer to their target clients. They buy existing internal shared services but cannot easily or swiftly shift the work to one of their established delivery centres. Nor can they get rid of all the local SSC staff, if only because they cannot discard the sum of accumulated expertise and their client may not allow any business disruption or harming of their social image. To find new clients, BPO providers also try to tap into medium-sized companies, where geographic proximity and cultural fit are key, public sector organisations where staff are not fluid, and vertical niches, which call for local expertise. All these bring a new set of challenges.

More opportunities for "glocal" providers

ERP behemoths such as SAP or Oracle can fit large companies or large subsidiaries, but it does not always make financial sense to implement them in small subsidiaries to support the business with F&A or HR. Likewise, massive world-class BPO solutions offered by the industry's biggest names may not suit smaller or more complex situations. In many such cases, nimbler, fully integrated expert networks are riding that wave. They take over most support activities for smaller subsidiaries with a threshold that is very much company-dependent, whether five or 1,000 employees. Providers that can offer an integrated but flexible solution to their clients are experiencing increasing success because they can provide the right mix of local services delivered in most countries, while centralising some activities by region, but under one centrally administered global contract.

A hybrid situation is possible too: major BPO providers or large shared services are looking to extend their remit to end-to-end processes for the entire company and to more functions, whether more complex, more compliance-related or more country-specific.

To do so, they often partner with or subcontract to the above expert networks or niches providers. A few typical examples are payroll, tax, business travel management, invoice management, etc. This is a different way to achieve the promise of GBS.

How does Asia compare globally?

When it comes to shared services, for most companies in Asia, much ground still remains to be covered. Until recently, the focus was on how to cope with double-digit growth, which tended to leave concerns about efficiency and the effectiveness of support functions squarely on the backburner. Now, in a more challenging economic climate, there is a perceptible appetite for shared services solutions, but there is also considerable uncertainty about how exactly to tackle such a disruptive reconfiguration of a company. The European and North American examples are not entirely convincing in this different context, because the landscape in Asia is perceived to be very different and less readily suitable.

Nonetheless, step by slow step, the SSC/BPO industry continues to grow. Attentive observers will monitor the stance of those companies that, for certain reasons, remain on the fence, i.e. with little or nothing by way of shared services. SSC still holds promise for them of considerable benefits, but they have so far felt unable or unwilling to undertake the necessary effort.

Asia needs the local touch

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Now that Asia and the world have embarked on a new era of less hectic growth, these companies will need to look at how they can catch up with the trend and how they can provide the advantages of shared services, but without losing the local touch that is essential for doing business in Asia and without having to commit investment and effort that would appear excessive in regard of the anticipated benefits.

In conclusion

The journey for shared services is far from complete and for many companies, it has barely begun. The proper blend of global reach and local knowledge may offer various options. There will be no one size fits all, but whatever solution a company may adopt in the end, it will probably take the shape of a new global/local or "glocal" service model. This can provide the local touch and retain the advantages of global delivery, but demand very limited upfront investment and almost no risk. The glocal approach may sound too good to be true, but it already exists in some form and is becoming the next phase in outsourcing provision. Glocal's lightweight, or incremental, nature, should be more palatable to companies in Asia, as well as in Europe and elsewhere, where the perceived disruption and high implementation cost of traditional SSC/BPO have to date been a turn-off.