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Simplifying Complexity

CandidAdvisors

CandidAdvisors, LLC

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Support Services – Complex doesn't have to be Complicated

Introduction

We are at a point in the evolution of the delivery of support services where many companies have a very complex delivery environment—an environment with multiple service providers each with a different set of goals and employees who may feel disenfranchised. Add to this, the fact that service delivery organizations, both internal and external, have a sole focus on their metrics causing them to lose touch with the retained organization and the ability to address a company's changing needs in a timely manner. The result is that we are on the verge of creating a highly ineffectual, dysfunctional support services environment.

This paper will explore what companies must consider when addressing the complexity of their support services structure and the consequences of the implementation of multiple solutions.

A Brief History of Service Delivery Options

There are two basic forms of support services sourcing: **Shared Services** and **Outsourcing**. Throughout late 1980 in to early 2000, many companies viewed shared services and outsourcing as completely different and independent solutions. Shared services emerged in mid-1980. Information technology (IT) outsourcing became part of the business lexicon during the 80's as well.

Shared Services

Shared services are defined as the establishment of an internal organization focused on the delivery of a service to internal or external customers. Two of the companies who originated the concept and made it operational were General Electric and Digital Equipment Corporation in the 1980's.

To be clear there is a difference between centralization of services and a shared service operation. Shared services focuses on providing its customers with the services they need and will receive direction and input from its customers while centralized services gets direction and funding from "a corporate entity."

Shared services are chosen as a service delivery solution for five main reasons:
1. Cost reduction or cost containment
2. Consolidation of service delivery for like services
3. Standardization of service process and information
4. Improved leverage of ERP/IT solutions
5. Allowing the company to focus effort and energy on their core business

These are typically the same drivers that a company uses to when considering outsourcing. As a result of the similarity of shared services goals and outsourcing goals, shared services have evolved to the point of having similar metrics and methodologies as an outsourced service. For example a well-run shared service operation will have Service Level Agreements (SLAs) to define the level of service they will provide to their customers and they will also charge for services.

Outsourcing

Wikipedia defines outsourcing as "the transfer of the management and/or day-to-day execution of an entire business function to an external service provider". In today's business world there are few, if any, Fortune 500 companies that have not outsourced some component of their work.

Historically, outsourcing portions of the human resource (HR) function has been an accepted practice. ADP, the payroll outsourcer, has been providing payroll outsourcing since 1949. HR has been outsourcing benefits administration for decades prior to the current outsourcing trend. Subsequently, HR outsourcing expanded into other areas such as recruiting and administration.

A common form of IT outsourcing called "service bureaus" has been used since the 1960's. Service bureaus are a different outsourcing model than the one used today, but still it can be considered a form of outsourcing. Call centers and customer care have been outsourced since at least the early 1980's.

The current version of outsourcing took hold in the late 1980's with the IT function. This outsourcing model became more mature and formalized with the advent of outsourcing advisory firms. Advisory firms came into existence as advocates for clients during deal structuring and negotiation. The advisory firms brought a new level of formalization to the process with SLAs, the ARC and RRC processes and more formalized contracts, enabling clients to have a say in what services would be provided and at what level of service.

The evolution of new service delivery options continued into the mid to late 1990's with the advent of BPO (Business Process Outsourcing). BPO is a term used for the outsourcing of all or portions of business processes such as: customer care, finance and accounting, human resources, and procurement.

The preliminary focus of early BPO deals was cost reduction through using lower cost labor markets and streamlining of processes. As BPO continues to evolve, companies are looking for more than just cost savings from their providers. Today, companies expect their service providers to provide innovation and process improvement for the areas outsourced.

Evolution: The Hybrid Model

The hybrid model is a solution that uses the strengths of shared services combined with the strengths of outsourcing and is the next step in the evolution of service delivery for support services.

In the early 2000's a change in perception and subsequent change in delivery approach started to occur. The hybrid model appeared and the hard line between using shared services or outsourcing exclusively began to dissolve. Companies discovered that a hybrid approach to address the service delivery needs of the company is a better solution enabling companies to address a larger portion of their support services delivery needs.

The hybrid approach focuses on outsourcing areas that are considered routine, and/or transactional, and provide no competitive advantage to a company. Areas such as accounts payable, benefits administration, and applications maintenance are some of the areas that are prime targets for outsourcing. A company can then evaluate whether to outsource areas that may be more unique or require company specific knowledge, such as general accounting, customer billing, or customer care. If a company decides that these areas should not be outsourced, they may then consider them for shared services.

In the hybrid model, shared services are considered to further drive delivery consistency, improve performance and reduce costs for company specific services or for areas where the company perceives risks in outsourcing the work. The one area that today is seldom outsourced but is often considered for shared services is the knowledge process area. This may include analytical areas or areas where company proprietary information and Intellectual property are involved.

Trouble in Paradise

Even with the advent of the hybrid model, CandidAdvisors research indicates that the majority of providers in the outsourcing and shared services arena have not met customer expectation in bringing the promised innovation and process improvement to the delivery of their services. In fact, today, sourcing is generally not living up to its promised value to the business.

Research from CandidAdvisors, Gartner and other sources show that both shared services and outsourcing have not lived up to expectations:

- "Inflexibility (of providers) will result in business disruption in 30 per cent of outsourcing deals, including the inability of the buyer to compete effectively" Gartner; Gartner Highlights Three Pitfalls of MultiSourcing WEBWIRE – Thursday, August 27, 2009

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- Extensive research conducted by CandidAdvisors has shown:
  - The level of satisfaction with support services in Fortune 200 corporations is below 30%
  - The outsourcing model as applied has resulted in real productivity declining by 25% to 50% over the past 5+ years
  - Attrition rates for many outsourcing providers are annualized at between 50% and 100%
  - 70% of all outsourcing contracts terminate prematurely after 3 years
- "Of late, attrition rate in the BPO sector has risen phenomenally. Retaining manpower at the mid and senior management levels, where there is a visible significant movement, is proving to be a particularly challenging job… This growing trend could prove fatal for the growth of the sector and could even derail its stability" *Hindustan Times August 27, 2009*
- "…CIOs are not good at communicating the benefits of outsourcing, according to 67% of CFOs..." Businesses do not know value of outsourcing | *12 Aug 2009* | *ComputerWeekly.com*
- "…Only 8% of businesses knew how much money and time was spent on outsourcing contracts. Businesses do not know value of outsourcing | 12 Aug 2009 | ComputerWeekly.com
- "…Over half of these (263) businesses did not even measure the financial benefits or disadvantages of the contracts they sign…" Businesses do not know value of outsourcing | *12 Aug 2009* | *ComputerWeekly.com*
- Captive operations (i.e., offshored shared service operations) are less cost effective than outsourcing per independent research by Forrester Research and TPI

The Challenge Created by a Focus Primarily on Cost

The first behavior we have noticed in our research is that most companies approach the implementation of a delivery strategy from a functional or even process perspective with little consideration for the enterprise. The following are examples of two types of approaches to dealing with sourcing to solve a cost reduction challenge:

- **Functional Focus Agreements:** the finance function may be challenged to reduce cost. To reach the goals they consolidate their transactional work moving it from the divisions into a shared service center.

- **Siloed Agreements:** the IT divisions have been given cost reduction targets that were delivered by the division head executive. This resulted in ADM (Applications Development and Maintenance) contracts with a different outsourcing provider for each division as each division negotiated its own deal to meet its "unique" requirements.

If we take these two examples and multiply them by the various organizational areas that each take a different approach we begin to see the level of complexity companies are dealing with today. Since each of these service delivery solutions has evolved separately and are "owned" by different groups within the company, there is no coordination, shared learning or information sharing across the various sourcing solutions. Additionally, the company is spending money governing multiple agreements that have to be managed separately because of the unique nature of each agreement.

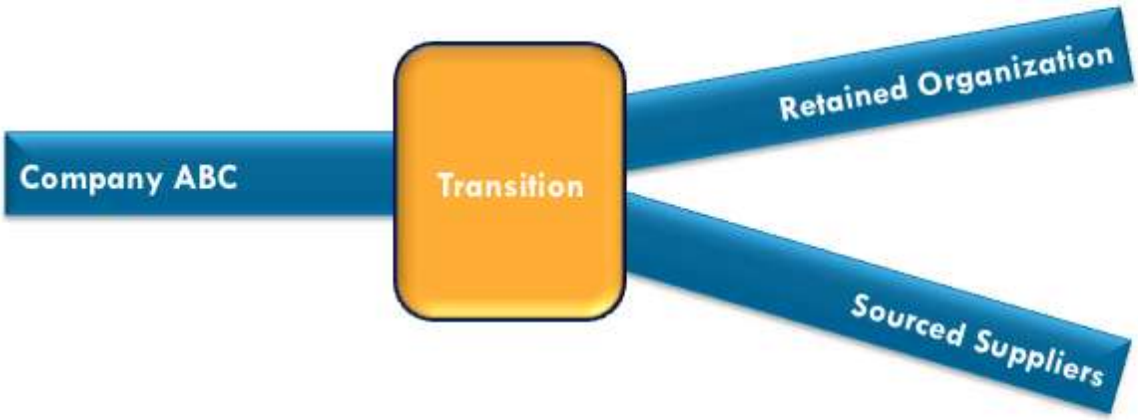
This approach does help the company achieve its short-term goals – typically cost reduction.

However, there are three major challenges with most agreements and most delivery organizations today.

- The company starts to change the minute the agreement is put in place. The company needs and goals evolve. Most agreements are not structured to review company needs on a regular basis and adjust the services as needed. Let alone provide innovation to their customer.
- The service provider has a set of goals to achieve and metrics to meet. They focus solely on the delivery of those goals and metrics. "You get what you measure".
- As the agreement ages and the company evolves, we have observed a split between the service delivery organization and the retained organization. Employees retained from the old organization to perform value added tasks generally become disenfranchised and the rest of the company views themselves as powerless to impact the services and may create their own mechanisms for getting the information they need.

Figure 1 indicates, as time passes there is a growing separation between the retained organization and the service provider.

Fig1



This is particularly evident in an outsourcing arrangement because service delivery is completely contractual—based on delivery metrics, including service level agreements with penalties attached. This sole focus on delivery and inability (in some cases unwillingness) to change frequently results in dissatisfaction and frustration between the service provider and the customer. An unofficial survey conducted by TPI of BPO deals that were deemed successful by the client highlighted that even successful deals had levels of frustration by clients due to:

- Lack of innovation by the provider
- Inability of the service provider to change for contractual or other reasons and,
- The lack of interest in the client company

If the contract is not designed to accommodate changes in the business, it can be difficult to modify the requirements placed on the outsource provider. Agreements with outsource providers and shared service organizations should be flexible enough to accommodate change in delivery requirements, costs, and performance without having to renegotiate the agreement.

CandidAdvisors research indicates that this “frustration” with the service provider typically occurs at the 3-4 year timeframe of the agreement. The reason: During the first two years the client and the provider are faced with transitioning the work and implementing the new operating environment. Subsequently, processes begin to settle into a “normal” routine. However, throughout this life cycle, the company’s needs and expectations of the service provider are changing. Frequently, this change is not communicated to the provider, or the agreement prohibits changes to be made without contractual changes. This can occur with shared service operations as well as with outsourced operations.

CandidAdvisors, LLC
www.Candidadvisors.com
3162 Johnson Ferry Road, Suite 260 | Marietta GA 30062 | PH: 404.478.4112 - FAX: 770.217.0617

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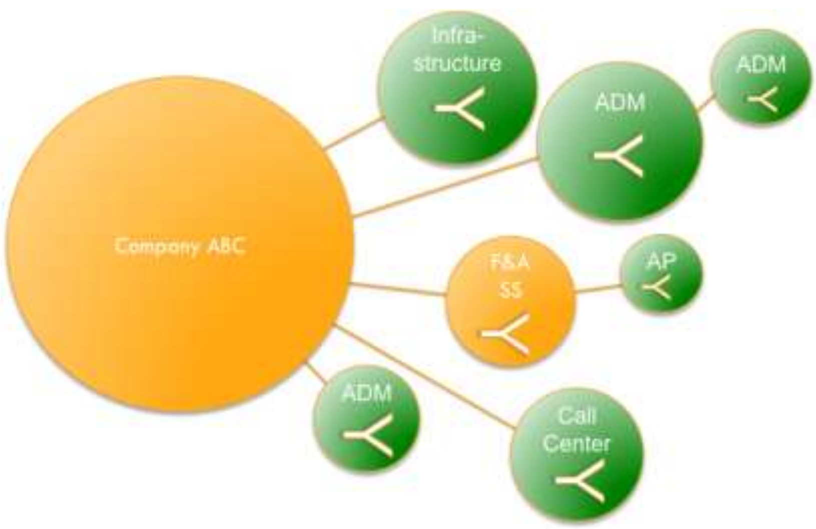
3162 Johnson Ferry Road Suite 260
Marietta GA 30062

Complexity Enters the Picture

CandidAdvisors finds that the functional and siloed approach to implementing a service delivery solution leads to complexity for the company.

From a daily operations perspective, it may be difficult to get consistent information across the various service providers. There are numerous outsourcing agreements, likely with multiple providers and there may be one or more shared service organizations. Figure XX shows a subset of the complexity companies may face when multiple service delivery arrangements have been made.



Today, shared services and outsourcing are a normal business practice, an acceptable way of doing business and well entrenched in companies. Nevertheless, we must take another look at how companies manage these relationships. Companies must enable these relationships to facilitate achievement of the company's longer-term and evolving needs.

A company must implement tighter collaboration across various service delivery environments so all delivery agreements are "rowing in the same direction" for the greater good of the company.

Case Study: One company we spoke to attempted to address this complexity by adding a group responsible for the governance and interface with all IT contracts.

The company had numerous agreements, negotiated separately with various providers. They decided that the best way to manage these agreements was to put one organization in charge of provider interface. In reality, this resulted in yet another layer of complexity. Figure 2 demonstrates the problem this new organization created. Every

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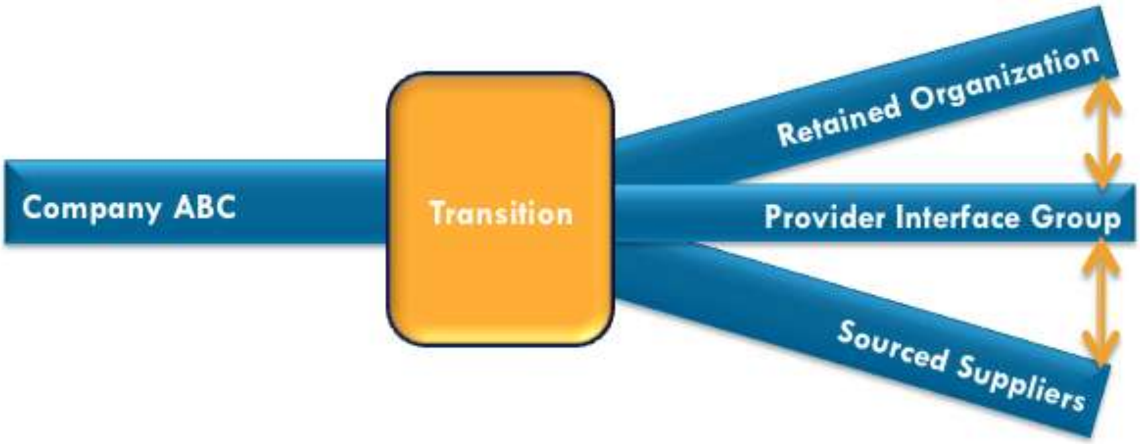
issue, change or discussion had to go through an intermediary, rather than directly to the service provider from the organization using the service.

Fig.2

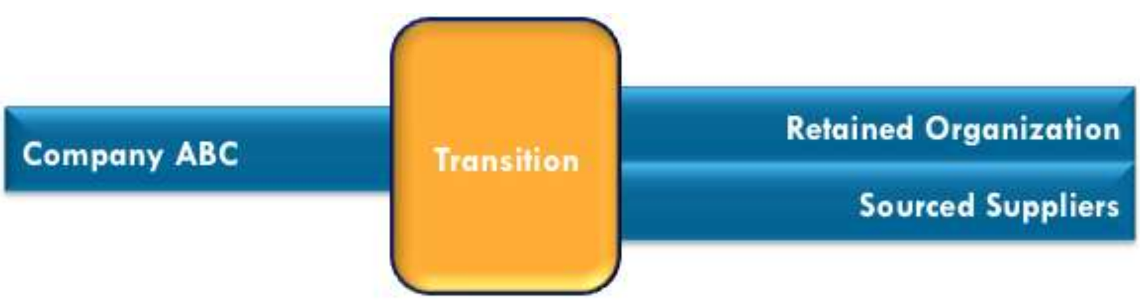


CandidAdvisors understands the need to closely manage these relationships on a day-to-day basis, but there must be an overarching structure to ensure the service providers are supporting the long-term needs and direction of the company.

CandidAdvisors calls this oversight the "Essential Organization Structure," or EOS (Fig. 4). This does not mean that all governance for the various agreements is centralized. Daily management and oversight of the agreement must be with the primary (or originating) organization using the service.

EOS is put in place to ensure that the major activities and change initiatives undertaken by each agreement align with the company goals and direction. If we look at the Y diagram below (Fig. 3), the intent of EOS is to minimize the gap between the two lines in the Y and to ensure that the service providers and the governance groups understand and address the changing needs of the company. EOS's goal is to help support organizations address the company needs proactively instead of reactively.

Fig.3



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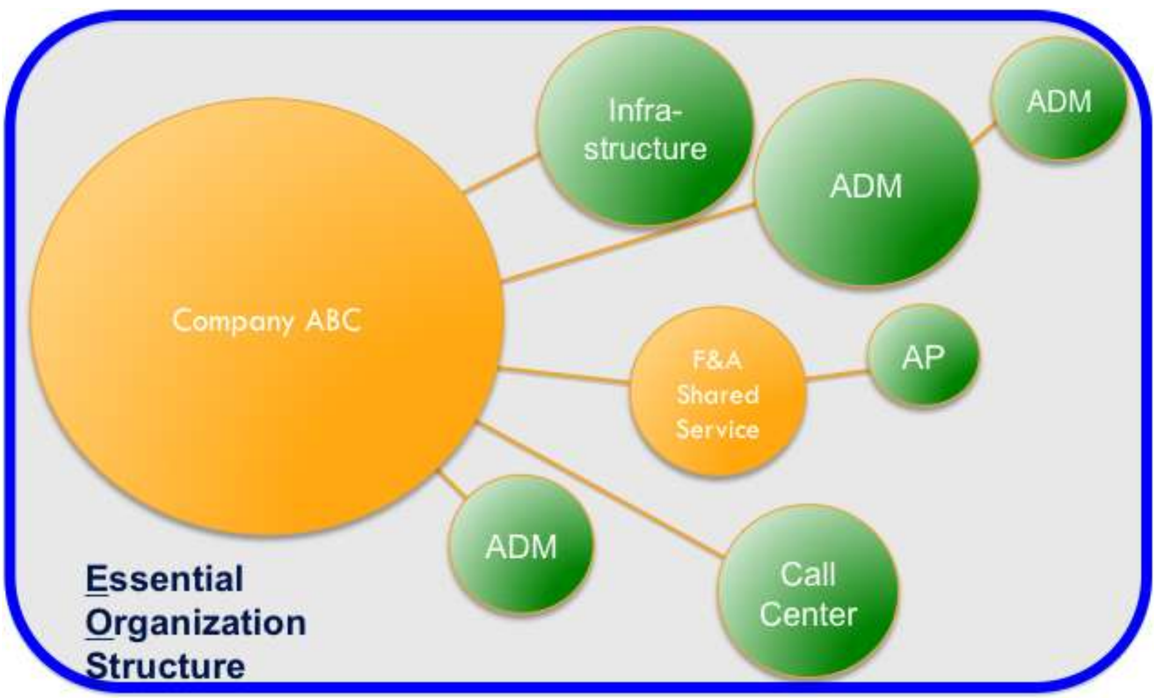
Additional benefits of implementing EOS are that the members can ensure that lessons learned from past outsourcing and shared service efforts are shared with other groups as they evaluate and set up new service delivery models and it becomes a means by which the retained organization can stay involved and add value to the company.

So who participates in EOS? Although the structure will vary from company to company, some characteristics of the members:

- Members must be senior executives within the organization who understand the company's long-term goals.
- Members must take a holistic view of the company's operation, not a functional, centric view.
- Members must be privy to future-focus, confidential information such as acquisitions or changes to the company strategy.

Fig.4



EOS must not become an oversight group that is insular. They must solicit input from several sources.

EOS will need input from each of the managers of the service provider relationships. These individuals should provide the expansion, innovation and development plans for each of the agreements they manage, as well as highlighting any major problems with the service or relationship. The day-to-day management of issues and performance is their responsibility, not the EOS's.

The second and equally important group that must provide input to EOS is the end-user and/or customer group of the service provider. In this way, EOS becomes the vehicle for ensuring the needs of end users and customers are provided for.

EOS should meet at least twice a year to ensure that there are plans in place for all service providers to address company needs and that provider plans are in synch with company direction, while continuing to meet the customer's needs.

Conclusion

""Organisations that excel in sourcing have seamlessly integrated all providers, aligned all parties behind one goal, developed an agile sourcing environment and achieved business impact through targeted IT spending. Others who lack the right competencies are more likely to experience sourcing inefficiencies caused by misalignment, idle resources, unnecessary processes, overloaded operations, a heavy inventory, or a lack of focus," concluded Mr Ridder." Gartner; Gartner Highlight Three Pitfalls of MultiSourcing WEBWIRE – Thursday, August 27, 2009

Shared services and outsourcing are here to stay and are viable options for companies to provide cost effective, integrated services to its employees and customers. Managed correctly, they can provide a platform for innovation and service improvement while enabling the company to focus on its core competency.

However, shared services and outsourcing efforts cannot be viewed as standalone efforts to only drive cost reduction. These must be viewed as a holistic part of the company's success.

To ensure integration and participation in company success across the various sourcing delivery approaches and oversight group must be established (EOS). EOS does not replace the daily governance of the relationship; it is in place to ensure that company goals and changes are considered and addressed, that end-users/customers of these services are having their needs met, and that the relationships are "rowing in the same direction" and not being counter-productive to a company's progress.

EOS is essential for a company's success and viability in this new evolving, complex business world. Without EOS and active participation by the members the complex support service structure that companies have created for themselves will ultimately start to impact their ability to change, meet market demand and stay competitive.

About CandidAdvisors

CandidAdvisors is a completely independent and solution agnostic consulting firm that advises and coaches senior business decision makers in the area of business transformation and change, particularly as it relates to back office and support functions, such as HR, Finance, IT, Customer Care and Procurement.

CandidAdvisors is unique because we bring only highly experienced, senior people to work with your team to build an action plan to help you achieve value realization with your support functions, and to ensure that they align with the strategic goals of your company.

With your team, we build a plan for value realization and strategic goal alignment.
Whether you are just starting the journey of support services transformation or you are well down the path, CandidAdvisors provides a completely independent, solution agnostic approach.

CandidAdvisors has expertise to help you from leveraging all sourcing strategies - from shared services to outsourcing - including a hybrid solution using the best of all sourcing options.

We aid companies at all stages of the process, from the initial decision through to ensuring the right structures are in place to manage all of the support services relationships in the ever-evolving business world.

CandidAdvisors is proud to partner with The NorthPoint Group and be leveraging their tools as an integral part of our process. NorthPoint is the leading provider of Risk Management tools having 24 major Risk Management software products and associated services covering 22 market segments. Each product addresses the issues that an enterprise and/or an investor may encounter in attempting to identify the Risks in an organization. NorthPoint's software will pinpoint the Risks and identify whether each Risk is an asset or a liability.

CandidAdvisors staff brings well over 80 years of cumulative, partner and senior level experience working for support services industry leaders such as Ernst & Young, Capgemini, TPI, PWX, RWD, TCS, DBM and The Hackett Group. Visit them at http://candidadvisors.com
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