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Distinctive Capabilities

Collaborative and comprehensive

A bold new look for global sourcing

By Basilio Rueda and Keith Haviland

The successful sourcing of critical business processes and IT functions in multiple locations around the world involves the flawless delivery of work, often among several providers. And leveraging this strategic capability for high performance requires new and more sophisticated operating models, methods and tools.

Remember the eight-hour day? In today's business environment, where companies, workers and customers can connect instantaneously at any hour, anywhere in the world, the quaint notion of "regular business hours" has gone the way of the typewriter and the rotary-dial telephone.

A customer service call made late at night in New York might be answered early in the day local time in Mumbai. An insomniac institutional investor in London can now reach out at 3 a.m. to compare notes on the direction

of the Chinese market with a Shanghai team at the end of their trading day. Within a 24-hour period, coding for a new transaction system upgrade might make a circuit from an offshore facility in Manila to a nearshore facility in Prague and then back to company headquarters in Naples.

Global sourcing—the ability to perform critical business processes and IT functions anywhere in the world where the necessary concentration of skilled talent is available at the best value—has evolved in just a few

years from a growing trend to a fixture on the international business scene. Moreover, a robust and comprehensive global sourcing model is often a key component of the distinctive capability that differentiates each high-performance business.

Accenture research has found that leading organizations are accelerating their adoption of global sourcing strategies, especially in North America and Europe. Establishing a presence in low-cost countries is a key contributor to the growing use of global sourcing. Parallel research conducted by Accenture in conjunction with the China Supply Chain Council found that business spending in low-cost countries has increased 85 percent in the past few years.

The advantages of sourcing work globally are clear. Cost reduction has been the most obvious driver, of course, and our research has found that companies that have embraced global sourcing are pursuing even more aggressive spending reduction targets today than they were several years ago. Another major benefit of global sourcing, especially when combined with an outsourcing model, is the ability to tap into skilled and motivated people anywhere in the world.

Many companies are finding, however, that the advantages of global sourcing, including the labor arbitrage savings available from an offshoring strategy, can be more than negated by a host of problems that can arise when global sourcing strategies are not accompanied by the optimal leadership, processes, tools and infrastructure.

Greater reach, greater vulnerability

Indeed, the same characteristics that give global sourcing its most important strengths can also represent its most significant weaknesses. With greater reach comes greater vulnera-

bility: miscommunication, cultural misalignment, conflicting expectations, process and control problems, and the risks of work stoppages from political disruption or natural disasters. Work can now be passed around the world in a “follow-the-sun” fashion, but without rigorous methods and a supporting delivery infrastructure in place, handoffs can easily be fumbled, resulting in rework, low quality and cost overruns.

Getting the global sourcing operating model right is crucial. And in what is arguably the second wave of global sourcing, innovation is occurring today in how companies piece together the different components of that operating model. To high performers, global sourcing is not just about offshoring to one low-cost location. It's about blending onsite, offshore and nearshore capabilities, supported by industrialized methods and delivery capabilities, strong leadership and communications, and effective change management.

Key transformation tool

Building on a foundation of labor cost savings, companies are now looking to set even more ambitious, strategic goals for their global sourcing strategies. According to Mindy Blodgett, a researcher with the Yankee Group, an IT and business analyst firm, “Companies not only are getting more comfortable with global sourcing, they are seeing it as a key tool for transforming their businesses.”

Realizing that transformative value, however, depends on overcoming a number of challenges inherent in a globally sourced work environment, especially as one moves to multiple providers. For example, the shift from having control over a locally based staff to managing a far-flung network that includes both internal resources and external providers is a monumental challenge.

A recent Accenture study has underscored the challenge, for example, of communicating effectively and of getting multiple locations and cultures aligned toward common goals. In the study, two-thirds of respondents to a survey of 200 US business executives whose companies have outsourced business processes or functions—from information technology to finance and accounting—said they had experienced miscommunication issues within their global sourcing operations. Some specific issues identified: differing communications styles and approaches to completing tasks, varying approaches to conflict management, and decision-making styles that can vary from culture to culture.

Problems with project management and delivery handoffs also become magnified when teams are globally dispersed. Take software development. There is nothing fundamentally

different about the basic development process in a global environment, but the need for rigor increases dramatically as the number of nodes on the development network rises. We frequently see situations where companies are sharing and working on software designs over e-mail.

Although that kind of communications mechanism is a requirement in a global environment, it needs to be backed up with more rigorous development methods and project management systems if companies are to mitigate the risks of missed handoffs, project delays and cost overruns.

The challenges and opportunities inherent in the global sourcing movement point to at least five capabilities to be mastered if an organization is to achieve world-class status in the sourcing approaches and management techniques that contribute to high performance.

Exploit a blended sourcing model

To develop the kind of breakthrough capabilities needed to become a sourcing leader, organizations must do more than simply shift IT or business process operations to a single offshore location. We have found that a blend of offshore, nearshore and onsite centers—generally also combining internal resources with one or more outsourcing service providers—gives a company the kind of flexibility required to meet a spectrum of business needs. Such an approach helps organizations focus on the end-to-end process in question rather than just pieces of it.

Yankee Group's Blodgett notes that the availability of more choices is a compelling reason to look at blended sourcing options. "Early on, some companies may have been wary of the kind of all-or-nothing mentality of outsourcing; some were concerned about the risk of sole sourcing, or the

risk of moving sensitive corporate data offshore." Now, says Blodgett, companies can pick from "a menu of sourcing options depending on the particular processes they need performed, their cost goals, their business and data risks, the needs of their customer base, the time zone flexibility needed, and so forth."

For example, Delta Air Lines, working with Accenture, has benefited from a combination of offshore and nearshore resources as part of its overall effort to streamline and consolidate its European finance and accounting operations. Indeed, global sourcing has been a significant contributing factor in Delta's overall business turnaround in recent years.

As part of a larger transformation initiative, the company moved its

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The power of a blended global sourcing model at BP

For some pioneering companies, the pursuit of greater efficiencies through the combination of global sourcing and outsourcing has taken them on a wide-ranging journey over the past decade or so (see story). Consider petroleum giant BP, for example, whose pursuit of accounting outsourcing goes back all the way to 1991, when it entered into an agreement to outsource its North Sea end-to-end accounting services. In the middle of the 1990s, outsourcing at BP grew significantly. The company outsourced the accounting services for its exploration and production (E&P) and refining and marketing businesses in the lower 48 US states, as well as its Alaskan E&P business and its European retail joint venture.

Following the BP and Amoco megamerger and the company's acquisition of Arco and Castrol, BP outsourced significantly more work—work that previously had been done in accounting centers both in the United States and Canada. BP also signed an agreement to outsource substantial portions of its European accounting services support in 2006. In addition to this large outsourcing of its transactional accounting services, BP revisited the entire accounting services operating model—bringing some analytic capabilities back into the company while expanding the use of outsourced services in offshore locations. BP currently employs close to 1,000 people at these locations.

According to Russell Taruscio, finance control and accounting procurement director for BP, the benefits of the company's evolving operating model for global sourcing have been the continued pursuit of cost advantages but also the ability to secure skilled resources with greater staffing flexibility, enabling management to focus on more strategic issues.

"Through our pursuit of outsourcing and global sourcing," Taruscio says, "we have been able to beat inflation and hold our transactional accounting costs steady over a number of years. But we also see demand management as a significant

benefit. A shared services function only gets you so far, because with an internal resource, you just make the call and someone is obligated to provide the service. With outsourcing, the conversation becomes more economic: How fast do we need the services, and how much will it cost? That line of questioning tends to bring valuable rigor to the table."

Taruscio also sees a number of important intangible benefits emerging from BP's evolving operating model for the global sourcing of its transactional accounting capabilities. Reliance on a global team that includes outsourcing service providers means the organization has access to highly motivated and highly skilled resources: people who are dedicated to delivering services that meet service delivery agreements at the heart of the way they do business.

"During all of our merger and acquisition activity over the past decade or so," Taruscio says, "we had the benefit of [outsourcing partners] who could focus on merging the transaction side of the accounting function, while BP people were free to focus on the merging of the business activity." That readily available expertise has freed up BP's management time to work on the things that help deliver value for the company, he adds. "And it also gives us a great deal of organizational flexibility. We can look to service providers to add or reduce the size of a staff as required."

Ultimately, says Taruscio, global sourcing is about "a better way of delivering service performance. With an expanded notion of doing business across a larger value chain that includes our business units, our business partners, suppliers and services providers, we get the benefits of information sharing and innovative thinking—new ways of looking at the business that either improve performance or reduce cost, or both. So we get the benefit of this ongoing relationship as we take this journey together."

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client-facing finance and accounting services to a processing facility in Prague in the Czech Republic, while operating some of the underlying technology processes, such as vendor payment, from Bangalore, India. In addition to providing access to leading-edge solutions, methods and tools, the service center in Prague houses a well-educated, highly skilled and multilingual workforce.

Language fluency was particularly important for Delta, which meant that its outsourcing provider had to be able to communicate in any of the 12 languages spoken at the airline's offices across 25 countries—from the United Kingdom to Turkey. This arrangement has enabled Delta to reduce costs while improving service quality.

Blended models also go a long way toward mitigating the risks of overreliance on any single location for continuous services. Some low-cost areas of the world are characterized

by political or social unrest; natural disasters, which are no respecters of political frontiers, also have the potential to disrupt global operations. (For a related article, see "Risky business," *Outlook*, May 2007.)

A sourcing model that blends a nearshore approach with offshoring is also important in public-sector sourcing, where a maze of complex labor laws and other kinds of sensitivities necessitates having a workforce that is located closer to the central organization. And the nearshore option can deliver advantages whenever an organization needs an approach in which real-time interaction within the same time zone is important. Many companies are looking for cultural and geographic proximity in the way they source certain critical functions because they want to have work going on concurrently within time zones. So the ability of a North American company to source some work in India, let's say, while keeping other sorts of processes in a Latin American location (in the same time zone) is a plus.

Focus on value and results, not just cost reduction

Excitement about the opportunities inherent in global sourcing is often tempered by high-profile failures of major outsourcing contracts involving offshore or nearshore models. In many of these cases, the problems can begin at the outset, when, during contract negotiation, cost reduction—rather than the ultimate value and results to be delivered—is the overriding goal.

According to Russell Taruscio, finance control and accounting procurement director for BP, "A buyer and a service provider have mutual interests. It isn't a buyer-supplier relationship like buying a house—

where both parties walk away after the deal and grumble a bit because they didn't quite get what they wanted. It's a long-term relationship that requires that you have an open and honest mode of communication so that you can deal with the myriad environmental changes that will inevitably arise, or so that you just deal honestly with issues that arise in service delivery. This way, you can act constructively rather than simply pointing fingers at each other." (For more on the BP global sourcing story, see sidebar, page 4.)

Indeed, the most recent Accenture High-Performance IT Diagnostic

The nearshore option can deliver advantages whenever an organization needs an approach in which real-time interaction within the same time zone is important.

Survey found that a distinguishing characteristic of achieving high performance through the IT function is reliance on the skills of an IT sourcing provider. High performers were far more likely to report that they are fully leveraging the strategic capabilities of their sourcing partner to enhance IT's ability to add value to the business.

But this focus on value and results is about more than just having a good relationship. It also requires a measurement strategy and support-

ing metrics that enable both sides of a sourcing arrangement to assess more than cost reduction. Keeping the focus on value means that sourcing parties are more likely to take an end-to-end view of the process, so that all the parts of the value chain are working in step to deliver a technical and a business result. Companies are not simply managing an offshore component by itself or expecting that to be managed by the supplier. What's important is that all the sourcing machinery works end to end.

Apply industrialized methods for global delivery and management

Speaking of machinery: One of the major accomplishments of the past several years by leading service providers has been the development of repeatable and predictable methods by which the management and delivery of multilocation work can be optimized. By industrializing development and delivery management methods, and by relying on highly specialized workforces focused on excellence in delivery, quality improves and costs stay in check.

The ability to store and reuse high-quality software code is one obvious example. Setting up the right IT governance processes to enable the reuse of code—especially as service-oriented architecture development has begun to take hold—will shorten cycle time and increase reliability. Tools and methods to aid in the critical transition period of the sourcing arrangement are also important.

Industrialization and the reuse of a provider's industry experience and knowledge is also important as the regulatory environment becomes more complex, and as sourcing

arrangements cross regulatory boundaries. Consider an example from the pharmaceutical industry. One common challenge drug companies face is in maneuvering through the maze of manufacturing regulations and laws from one country to another. By capturing experience from a provider and using it to craft more generalized approaches and methods—including developing delivery tools—a company can ensure more rapid service in the future that stands less chance of running aground on regulatory issues.

Underpinning such industrialized methods is a delivery infrastructure and a management reporting foundation that enables a rapid assessment of how processes are being performed, and how they can be managed optimally across a far-flung set of operations. Finnish industrial equipment manufacturer Wärtsilä has benefited from this kind of industrialized capability in its global sourcing model.

The company, looking to provide more consistent and integrated services to its clients around the world, outsourced its SAP application support

as well as its IT infrastructure services, moving to a global IT development and management approach. To secure more cost-effective application support, the company blended a local team at company headquarters in Finland with a provider's service center team in Hyderabad, India.

The new arrangement has produced improvements in cost efficiency and

process efficiency. But a closer look reveals that many of the benefits resulted from moving beyond the fragmented methods and delivery models that had previously been used by Wäertsilä's numerous local providers. With a new, centralized organization in place that enables better information sharing and management, Wäertsilä enjoys more repeatable and predictable results.

Improve cross-cultural communications

In addition to metrics and methods, the mastery of global sourcing involves dealing with a number of very human factors that often threaten to unravel the value of a global sourcing arrangement. The Accenture cross-cultural communication survey referred to earlier makes that point exactly: Different ways of communicating, of completing work tasks and raising issues for discussion and resolving them, can derail a global project team.

Consider the cultural ramifications alone. Certainly human beings have a great deal in common, regardless of where in the world they live and work. Yet cultural and social influences are just different enough around the globe that bringing people together from different parts of Europe, North and South America, and the Asia Pacific region in a common but dispersed work environment can cause any number of misunderstandings, serious or otherwise.

For example, professionals in some business cultures are generally reticent or discreet in their personal interactions. When they work with colleagues from a different culture, their reluctance to articulate their feelings openly could prevent their legitimate concerns from being attended to quickly or properly. Another potential problem: Businesspeople from some cultures may incorrectly believe that their terminology and slang are universally understood, which could lead to confusion and mistakes.

A strong commitment to effective training with regard to cultural differences can help. The executives we surveyed believe that adopting cross-cultural communication training programs can increase productivity by 26 percent, on average. This is consistent with the productivity increases of 30 percent reported by executives whose companies already provide training in this area.

Provide effective transition and change management services

Another critical success factor is ensuring that the transition to the new operating model is handled effectively, and that the offshore, nearshore and

onshore teams (as well as the retained organization) have the training and support necessary to perform optimally in the new environment.

Yankee Group's Blodgett notes that transition services is a huge challenge for most of the companies she has spoken to as part of her research. "Many companies complain about transition, and tend to blame the service provider if it doesn't go well," she says. "They want the service provider to provide transition guidance, but they don't want it to cost more."

According to Blodgett, companies that manage the transition best are the ones that have already centralized many of their processes and have industrialized as many of them as possible: "But if a company venturing into an outsourcing agreement has many disparate processes and they expect the vendor to come in and sort it all out alone, it can be very painful for both sides." Thus,

finding a provider with proven practices in transition services can be essential for realizing the business case for the sourcing model.

Finally, transition is about more than technical knowledge. We estimate, in fact, that 75 percent or so of the entire transition effort should be dedicated to understanding business systems rather than technical systems. Companies can err by focusing their training on only technical software code and architectures. Most of the service provider staff must be able to handle questions from the business people, not the IT professionals. If you're an offshore center supporting an application, a client contacting the help desk won't be asking for C++ or COBOL tips; they will be looking to solve a particular business problem.

What does "Global Sourcing 2.0" look like? For high performers, it's a highly collaborative and comprehensive environment focused on business transformation and on value that goes beyond the labor arbitrage benefits of offshoring work to a single, low-cost location. As organizations develop more nuance in terms of what work needs to be performed—where as well as by whom—and for what reasons, they will need to develop more innovative, blended sourcing models.

Those models will, in turn, need to be supported by advanced methods and tools, and by an attentiveness to the communications, transition and change management approaches that help overcome the considerable challenges of coordinating work across time zones, nations and cultures. Perhaps most important, successful global sourcing will require a new mindset—one in which companies seek to work with their service providers and their global workforces, tapping into their skills and experience so that the whole is always greater than the sum of the parts.

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