

Driving high-performing shared services and outsourcing

Using the power of your people—
Effectively managing change

At a glance

Organizations are increasingly leveraging shared services and outsourcing initiatives to reduce costs, increase efficiency, achieve greater agility and improve compliance.

Yet the majority of these initiatives fail—largely because executives underestimated the degree of change required.

When change and talent management professionals collaborate with company leadership to focus on key success factors, positive things start to happen.

A successful initiative requires an effective change management program plus a solid talent management program, working in tandem from strategic planning throughout the lifecycle of the project.

Shared services and outsourcing today—people and change management matter

Achieving shared services and outsourcing success—it's all about people. It's all about change.

Global growth and economic pressures require constant focus on operations. Increasingly, organizations are leveraging shared services and outsourcing initiatives to drive cost reduction, improve efficiency, increase agility and improve compliance. Yet research shows that a vast majority of change initiatives fail. All too often, this is because organizations underestimate the degree of change required, which forces an extended timeframe that can lead to value leakage. At the same time, although people are the heart and soul of any organizational transformation, we find that people-related issues are often at the root of failed projects.

On the change front, shared services and outsourcing initiatives involve winding down the old organization and ramping up the new one, and each

of these processes is filled with challenges and risks—particularly around value leakage. On the people front, companies are faced with challenges around skills and capabilities development, key employee retention and proper governance.

We see three critical elements associated with designing and implementing a shared services and outsourcing initiative: leadership alignment and sponsorship, stakeholder engagement and communication. Therefore, our blueprint for success comprises a relentless focus on both change management and talent management activities.

When well executed, a coordinated change and talent management program can mitigate risks inherent in shared services and outsourcing efforts. Leaders who take a collaborative approach—working in tandem with a combined team of change and talent management advisors

to proactively focus on these most critical aspects of the initiative—can position the organization to achieve a smooth transition to the future state. Initiatives with effective change and talent management strategies in place are better able to stay on or ahead of schedule, complete the project on or under budget, achieve sustainable change and deliver the expected business benefits.

We have seen organizations that have successfully implemented shared services and outsourcing projects reap a range of business benefits—including a motivated, high-performing and more productive workforce, a lower turnover rate, less business disruption, better compliance, greater agility and the ability to deliver top-quality services worldwide at less cost—thereby positioning themselves to improve their competitive position and boost future growth and profitability.

A collaborative approach to global sourcing success

A collaborative approach—a sound change management program combined with a talent management program

A sobering majority of change initiatives—about 75%—fail.¹

That said, organizations are increasingly using shared services and outsourcing to drive cost reduction, improve efficiency, increase agility, and improve compliance. In fact, a 2011 survey conducted by HfS Research revealed that 52% of corporations plan to increase investments in shared services over the next three years, while 70% plan to increase their level of outsourcing.² The demonstrated benefits of these service delivery models are now proven, but organizations frequently underestimate the change required, which leads to value leakage. As ongoing change and competing priorities intervene, organizations can all too easily lose focus, letting initiative success and sustainability slip away.

The way that you implement shared services and outsourcing determines the value created.

Global growth and economic pressures require constant focus on and attention to improving operations.

A PwC paper co-written with HfS Research, Three Tenets of Global Business Services Execution, focused on economies of scale, alignment and accountability. Designing and implementing shared services and outsourcing points to an additional under-tapped lever for greater returns from shared services and outsourcing—people.

When executed well a change and talent management program can mitigate risks inherent in shared services and outsourcing efforts. At their core, shared services and outsourcing initiatives involve the winding down of the old organization and the ramping up of the new organization—both of which are fraught with anxiety, issues and risks around value leakage.

The three critical elements associated with designing and implementing a shared services and outsourcing initiative are: 1) leadership alignment and sponsorship 2) stakeholder engagement and 3) communication.

As a result, may mean success a relentless focus on the change management and talent management activities.

Key questions we typically hear | around winding down the old organization

How will we:

- address service-level performance and the associated risks?
- effectively incent and manage staff through the transition?
- retain personnel through the transition and key personnel beyond?
- manage severance, attrition, relocation and redeployment?
- prepare the organization to embrace the new delivery model?

Key questions we typically hear | around ramping up the new organization

How will we:

- plan for, develop and acquire necessary future state capabilities?
- design and manage an appropriate governance model?
- ensure human capital compliance to local labor market regulations and competitiveness?
- implement a sustainable and strategic talent management program?

1-Source: Human Change Management: Herding Cats, May 9, 2005

2-Source: HfS Research and the London School of Economics Outsourcing Unit, 2011

Change management

People are the heart and soul of any organizational transformation, but people-related issues are often at the root of failed projects.

Demonstrating leadership's sponsorship and alignment

When company leadership actively engages with the program team, both up-front and throughout the project, stakeholders and business leaders alike are more likely to see enduring results.

The alignment, support and overt advocacy of top leadership toward the shared services or outsourcing initiative must be outlined from the beginning to enlist and engage business leaders in the move toward the future state. If these leaders are not transparent and prepared, mistrust can arise across the organization. To that end, they should be provided with the necessary tools, information and resources to support their relevant communications.

Alignment among top-level leadership helps to create a consistent vision of the future state. That said, if the alignment at the highest levels doesn't carry through to middle management, the message and intent of leadership will be lost—thereby decreasing the effectiveness of the transformation and the retention of impacted staff.

As we see it, to succeed in meeting a company's shared services or outsourcing objectives, top leadership should be involved right from the start to make their sponsorship of the new initiative clear, and should remain involved throughout the lifecycle of the project. Project leaders should invest significant time and effort up front to define and clearly articulate the vision and goals for the initiative, with particular emphasis on how it will impact people and positions. Effective project leaders go the extra mile to assess the change approach itself—along with the assumptions underlying it—to find and resolve any disconnects early on.

Benefits over time include less employee turnover, less business disruption, improved productivity and lower costs, to name a few.

Key considerations around leadership involvement:

- Due to stakeholder concerns about their future roles in the organization and the potential for a lack of trust in leadership, the vision must be much clearer and more transparent than in other transformational initiatives.
- Top management must be aligned and committed to the future shared services or outsourcing initiative across the lifecycle of the project—from the moment that the business case is approved through the adoption of the new model as “normal.”
- Right from the outset, company leaders must be aligned around the decision, the future state model, and the reasons for the shift. It is critical that they buy in before communicating the decision to other stakeholders.
- Visible demonstrations of support and regularly scheduled leadership communications must be consistent and ongoing throughout the design phase, the transition to the future state, and beyond as the new organization gears up for results.
- The alignment, support, and overt advocacy of leadership must be solid from the beginning, requiring a higher and broader level of support to enlist and engage leaders toward a shared vision, as well as the time to develop and provide them with the tools, information, and resources they require to support the strategy.

Engaging stakeholders. Internal stakeholders can either help or hinder your success. For example, business leaders who are eager about moving forward, and a solid communications team that is actively involved in the company's shared services or outsourcing effort, can propel the initiative forward. However, a disengaged middle-management group, whose buy-in is vital to success, can derail any of these efforts.

Assessing the change-readiness status of the various stakeholder groups up front is essential. A rigorous change process—one in which challenging questions are asked and answered

and every assumption is put under the microscope—can uncover crucial information which helps create a series of appropriately targeted communications to gain their buy-in, collaboration and commitment to the future state.

Developing a targeted communications plan. It's better to know than to wonder. When change is on the horizon, unaddressed rumors and speculation about how it will impact the company and its people serve to distract employees from day-to-day business, reducing their productivity and heightening their fears—both about their jobs and about the future of the company.

Key considerations around successful stakeholder engagement:

- Understanding organizational and stakeholder-specific readiness to make the shift to shared services or outsourcing is a key component in the effort's success. The organization's readiness should be considered from a number of different dimensions, such as the project's vision and goals, leadership's vision and advocacy, organizational experience with change, capacity of people to implement and sustain the new model, and organizational culture.
- Early on in the process, it is important to segment stakeholders into groups that will require varying and targeted communications across the lifecycle of the initiative.
- Collaborating with key stakeholders and including them as partners while jointly envisioning the future state and developing the solution will help to get them onboard and encourage their vested interest in the success of the project.
- Engage key employees as peer points of contact in order to lessen the impact of the rumor mill and drive staff buy-in. Every effort should be made to gain and maintain their trust via fact-based, transparent communications, two-way dialogue with management, and engagement activities that provide opportunities to 'touch and feel' the transition to the future state.
- Culture changes are unique and often more dramatic in shared services and outsourcing initiatives, as they frequently involve engagement with offshore staff or partners. This must be supported and effectively managed. A new multi-cultural, service-based culture, focused on efficiency will also need to be forged.

One of the best tools for counteracting stakeholders' fears, building trust and gaining commitment to a shared services or outsourcing effort is a well-thought-out and tightly crafted communications strategy. A comprehensive, targeted communications plan comprises a series of consistent and transparent messaging to the right people at the right time. It's essential to be open and honest in these communiqués—addressing the rationale behind the change, the expected impact on stakeholders and the company, and reporting on progress being made as you journey through the transition to the future state.

Key considerations around effective communications:

- Key stakeholders must be identified and supported from the beginning—through regular, consistent, and transparent communications, two-way dialogue with management, and engagement activities that provide opportunities to touch and feel the future state. Trust is a key concept with these audiences—their trust must be reinforced and supported throughout.
- To keep stakeholders in the loop and get their buy-in, communications should be specifically tailored to each of the identified stakeholder segments and deployed through a variety of channels and media. This type of customized, targeted messaging goes a long way toward creating an understanding—not just of the overall initiative, but also those facets of the initiative that are particularly relevant to each individual stakeholder.
- Well-timed transparency will also help to build trust—a critical ingredient in any transformational initiative. The core message should include themes that focus on the reasons for the change and its expected impact on stakeholders. Taking a positive, 'what's-in-it-for-me' approach can help to gain the necessary buy-in.
- Given that word frequently leaks out prematurely when change is being considered, timing is critical. Anticipate that leaks will happen and questions will be asked. Plan for this proactively so you're ready to respond in a measured way when it happens. Then, contrary to the 'less-is-more' adage, communication should be ongoing and consistent over the life of the project. Well-timed, transparent communications will help to build trust among stakeholders. But do take the time to make sure the facts are accurate before clicking 'send' or engaging in a discussion.
- The communications approach for shared services and outsourcing is similar to other significant change initiatives, in that it must be consistent and proactive throughout the life of the project, and must be used to continually provide new, up to date information about the effort.

Talent management

To fully realize business benefits, retaining and managing the key people, knowledge and capabilities is necessary.

We see the most critical components of a talent management program as being:

- 1) skills and capabilities development
- 2) key employee retention
- 3) proper governance

Identifying and developing skills and capabilities.

One of the aims of a shared services or outsourcing initiative is to improve performance by work. For performance to improve and change to stick over time, it pays to make sure that your people have the necessary knowledge and skills to excel in their new roles, along with a clear grasp of their individual roles and responsibilities and your expectations of them.

Preventing essential employees and organizational knowledge from leaving, taking with them the capabilities you need to smoothly transition to and thrive in the future state, is critical.

Retaining key employees and skills.

It's a given. The moment that word of an impending organizational shift gets out, people get anxious. At the very least, they are distracted from their day-to-day business. More than likely, they'll start polishing their resumes and considering other potential opportunities. Worst case, you'll start seeing your valued organizational capital leaving—taking with them the knowledge and skills you value.

Key considerations around skills identification and development:

- Define the knowledge and skills needed by people in the new organization so as to operate effectively in their changed environment. Of those identified, determine which are already resident and which will need to be developed or acquired.
- In the ever-expanding global marketplace, being sensitive to cultural issues that could impact the shared services or outsourcing strategy is vital. To cultivate a healthy and respectful operating relationship, make an effort to align expectations and communication approaches between the retained organization and the shared services organization or outsourcing provider.

In our view, success is best achieved through a collaborative approach. When change management and talent management professionals work in tandem with each other and with company leaders, the end result is typically one where the right people are in the right jobs.

Establishing proper governance.

Now that the right people with the right knowledge and skills are in the right roles, it's necessary to monitor and track performance, rewarding individuals accordingly to reinforce the new way of working and ensuring that the touch points with the business are managed effectively.

Long story short: Leaders who take a collaborative approach—working in tandem with a combined team of change and talent management advisors to proactively focus on these most critical aspects of a shared services or outsourcing initiative—can position themselves to achieve a smooth transition to the future state, reap a range of business benefits and increase return on investment (ROI).

Key considerations around retaining top talent:

- Identify the skills to be retained and those you will need to develop or acquire to succeed in the future state.
- One of the first items on the agenda should be to identify the key employees that you'll need to retain to leverage their knowledge and skills going forward. Think through the steps that you will take to retain this valuable talent and how their roles will change during and after the transition to the future state.
- Based on the results of that thought process, it's time to develop your employee retention strategy—putting in the necessary time and effort to outline retention goals and approaches, and mitigation strategies designed to manage potential gaps created by any loss of key talent and organizational knowledge.

Key considerations around governance:

- “Baseline” the current-state performance before transitioning to shared services or outsourcing.
- Assigning clear accountability is a critical success factor.
- Elevate the oversight of shared services or outsourcing to senior leadership. Leading practice organizations establish a steering committee which reports into the CFO, COO, and in some cases the CEO.
- Design and implement a performance management approach ('scorecarding') that aligns with and supports achievement of the strategy and business case.
- Establish a performance-based culture, leveraging service level agreements (SLAs) and key performance indicators (KPIs), maintaining a focus on continuous improvement and clarifying expectations as you go.

Effective global sourcing—boosting growth and profitability

Reaping business benefits—increasing ROI

Effective change and talent management and engaged company leadership—the path to global sourcing success

When change management and talent management advisors collaborate with company leadership, positive things start to happen.

Reaping the benefits of a collaborative approach with leadership actively involved throughout.

The following is just one example of how a global client worked with us to achieve their global sourcing goals.

How a global direct sales company set positive change in motion across 80 countries—shifting to a shared services operating model to lower costs, raise performance quality and position the company for future growth and profitability.

Client's challenge: To create a more globally integrated operating model and reduce operating costs in order to escalate the growth and profitability of the enterprise, the company wanted to design and implement a cost-effective operating model for over 50 markets. The new operating model involved establishing regional shared services centres for its operations in North America, Europe and Asia Pacific. This included transitioning the finance and accounting operations of the North American-based headquarters to a shared services centres in Costa Rica and transitioning its European finance and accounting operations to a shared services center in Poland.

Our solution: Top leadership was actively involved from day one, communicating the importance of the shared services change initiative. Focusing first on organization, communications and workforce readiness, a collaborative structure was replicated across all of the regions in which the company operates. A Global Change Management Advisory team also met weekly for input and updates.

Internal communication and education were ongoing. Right up front, they held organizational workshops where they presented various options and plans, enabling leaders and staff to contribute their input to shape the final plans rather than having a less collaborative model forced on them.

The move to shared services represented an enormous shift in culture for the business. Mindful of employees' fears around the impact of the initiative on people and positions, the team put in place a strong support system and transparency around who would be impacted, as well as the efforts that would be made to reassign staff or help them find other positions. To achieve consistency of communications worldwide, they involved managers in the preparation of a simple communications tool kit designed to fit the needs of any manager in any location, regardless of team size. Likewise, communication with the external community was managed proactively rather than reactively shaped.

A holistic view of our approach:

- The CFO core team managed the transformation objectives—talent management, ongoing effective communications and organizational design.
- They established effective governance practices for managing shared services environments and defined SLAs, KPIs, quality expectations, and key goals.
- They redesigned the processes and workflow for the shared services implementation and defined future-state processes and to support growth and improvement.
- Teams from Costa Rica and Poland took the lead in identifying and recruiting talent for the finance and accounting functions in the respective shared services locations.

Impact on the client's business: The shared services centres in Poland and Costa Rica were the first to be successfully established, with 150 full-time employees in Costa Rica and 90 in Poland operating at full efficiency. The shared services centres in China and Malaysia are also far along in the process of being implemented.

In the first year of operating its shared services centres in Latin America and Europe, the company has already reduced its operating costs by 25%. In addition to cost savings, the centralized services environment has delivered higher quality work and business processes, and has also enhanced its compliance and regulatory controls. The company plans to employ the new KPIs to improve performance, which will lead to even greater cost efficiencies—delivering a competitive edge in the marketplace of the future.

Success drivers. A people-based approach to change helps companies to retain pivotal talent, keeping them focused on and committed to the new

organization. Establishing accountability and putting in place metrics to measure, motivate and reward positive performance, and encourage creativity goes a long way toward keeping people engaged in the financial health and well-being of the business.

Tangible results stem from paying attention to the intangibles. We have seen effective change and talent management tactics result in a motivated, high-performing, more productive workforce, a lower turnover rate, less business disruption, and the ability to deliver top-quality services worldwide at less cost—which, in turn, serves to build competitive advantage, growth and profitability.

The bottom line... In our experience, initiatives with effective change and talent management strategies in place are better able to stay on or ahead of schedule, complete the project on or under budget, achieve sustainable change and deliver the expected business benefits.

For more information, please contact:

John Chang
416 869 2606
john.y.chang@ca.pwc.com

Heather Blumberg
416 687 8149
heather.f.blumberg@ca.pwc.com

Teresa Carvalho
416 687 8144
teresa.m.carvalho@ca.pwc.com