

Business Strategy

SS&O: Aligning the objectives of functional leaders and service providers

The last few articles have firmed up the premise that an integrated approach is the holy grail of SS&O success. We shall now straddle a very important step: how to bring about the integration between functions, business units, and external service providers.

Even the foremost SS&O enthusiasts will find it hard to change overnight and adopt an outcome based collaborative strategy by corralling internal stakeholders and external service providers. Despite flattening their organisation charts in a bid for more agility, too many companies still bear the relics of a command structure, where people are still rewarded on delivering to old job descriptions and outdated mindsets. Such misalignment can easily lead to strategic inertia, and we have experienced a number of cases where CEOs nipped outsourcing initiatives in the bud arguing they are not adapted to their business circumstances. In so doing, the opportunities and skills they forego often put their companies at a higher risk of failure.

One way to overcome this hurdle is for companies and service providers to assess their collective opportunities. Business executives must leverage a consistent business services assessment model that can focus their management team on the value obtained through integrated services, the costs and key execution factors required to succeed.

PwC proposes a simple assessment model that focuses stakeholders on three key factors:

1. The benefits an organisation can receive

For an organisation leveraging an integrated business services model, sourcing must be more than simple labour arbitrage. The model should look to improve operational results (quality and timeliness), while relying on the service provider's expertise, infrastructure and economies of scale to improve flexibility and reduce costs.

Importantly, when enterprises and their service providers explicitly agree on an innovation roadmap, global business services strategies allow organisations to reallocate their capital investment and management attention to areas more essential to their business objectives, and thus rely on their providers to spread their investments across multiple clients and make the necessary improvements to their operations.

In some cases, organisations simply find they are not good at executing a particular function, and leveraging the expertise of an external provider will deliver significant benefits.

2. The opportunity costs of these decisions

Every integrated business services strategy needs to accommodate direct and indirect impacts. Companies frequently find that their staff development models post-transition are inadequate for continuing to build the necessary expertise and management skills over a function.

Enterprises must become more explicit in their management of intellectual property. Some companies employing external providers in an integrated business services model realise that it's more challenging to influence a third-party supplier's performance – and non-performance can impact stakeholders, end customers and regulators. Ultimately, as outsourcing contracts and global shared services often limit flexibility and typically expose organisations to new geopolitical risks, the client must be aware of these issues and manage them.

They can do so by clearly stating responsibilities and Key Performance Indicators (KPI's) at the outset, and setting a framework on variations to fees as a result of new requirements that might come to light later. Some companies tend to force fixed fees on their service providers, who then limit scope creep risks through heavy caveats. This approach is now outdated, as business conditions simply change too fast.

3. The factors that can make execution successful

The devil is in the details, and a successful integrated business services programme requires a consistent management approach at all levels. The more standardised the organisation's requirements, the better documented the processes, and the simpler the application strategy, the simpler the strategy execution will be.

However, execution must be actively managed – preferably *hyperactively* managed. It is essential that governance teams are created to manage performance, ensure compliance and plan for new business continuity events. Importantly, integrated business services strategies are not one-time decisions – the results will continue well after the strategy is determined, but the business will change for a variety of reasons, requiring adjustments to the business services strategies. Execution is about adapting to change.

We live in an increasingly interdependent world today, where amateurism is a major risk. Top executives have talent management high on their agenda, and change is happening so fast that the talented people of today can quickly find themselves outdated, if they settle for superficial knowledge on a bit of everything.

The generalist approach to business and operations management is no longer viable. Businesses today need specialists in every field, who can work collaboratively and deliver on corporate objectives. The great leaders of today do not only think out of the box, but out of the building. And the first step in this path to greatness is to recognize they might not have all the skills they need in-house.

Let us assume a Mauritian conglomerate decides to set up operations in 5 African countries. It is likely that they will have only superficial compliance knowledge in those countries. How do they ensure they recruit the right people? How do they ensure they have all their permits in place? How do they ensure their accounting records are locally compliant and the right amounts of taxes are paid? More importantly, to what extent would these non-core activities stretch management attention?

This is an example where the support of a centralised outsourced service provider can help. The possibility exists whereby the conglomerate could contract with one provider who would then take care of all those aspects in all the countries. The conglomerate would then have one service level agreement to manage, leaving significant management time to take care of the core activities.

In the next article, we shall consider different Global Business Services (GBS) models and share our stance on to develop an appropriate GBS governance strategy.

The collective opportunity assessment model

