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Human Resource Management as a core competence

The blessings of outsourcing

Without dramatizing it, outsourcing has major consequences for a company. The strategic implications are acknowledged, but how much attention is actually paid to the employees involved? What role do HR managers play in outsourcing? How broad is the gap between the desired situation and the current practice? An interview with three HR experts.

The experts

Rob van Schaik is program director HR sourcing for ING Operations & IT Banking. With regard to HR he supervises a number of major sourcing initiatives. "Up until now ING has been little involved in outsourcing. We are currently carrying out a number of major programs simultaneously, among others involving the desktop environment, application environment and document services. This involves some 2,000 people in Operations and IT Banking."

Albert Sprokholt is director of Morgan Chambers, an advisory agency specializing in guiding companies in sourcing, and, more specifically, outsourcing issues. "As CIO at Aegon I covered various outsourcing projects from 1996. At Morgan Chambers I am directly involved in a number of projects, including Delta Lloyd, Nuon, Eneco, PCM and SNS Reaal. At ABN AMRO I guided the works council during the last outsourcing process."

Ike Takens has an advisory agency covering the field of HR. "In recent years I have worked a lot with outsourcing. At Delta Lloyd I supervised a major outsourcing project for ICT infrastructure and a number of smaller components, ABN AMRO insurances and the ICT department of Ohra. I am currently advising the works council chairman of Ohra in the outsourcing of document processing."

The transition of work and employees in outsourcing make considerable demands on HR. Many issues have to be guided into the right channels, such as the negotiations with unions and the works council chairman, employment conditions changes, limiting any undesirable exodus. Next to this HR has to take care of a clear explanation of purpose and necessity of the course chosen.

The added value of HR

The role HR plays in outsourcing is crucial for the success of the entire operation. The moment at which HR is involved in the outsourcing varies enormously. "With most of my clients HR played a role from the very first moment," explains Takens. "The few times HR came late onto the scene, were in companies who were anxious to launch communications about the outsourcing plans.

The decision-makers who are convinced of their plans and who have a clear picture of how they are going to tackle them, generally understand that HR must be involved from the very start. In both instances you can demonstrate the added value, but for this you must be able to talk with the business. It's about their problem, their product, their trick and if you don't have any affinity with this right from the start you will not be taken seriously. This, talking on an equal footing with the business, is a real HR function which is not available everywhere."

Van Schaik explains the course of events within ING. "About 18 months ago a decision was taken in principle that parts of Operations & IT Banking may potentially be considered for outsourcing. HR was involved immediately thereafter. We opted to improve the HR details step by step during the selection



Albert Sprokholt, Morgan Chambers

Schaik notes that this links amongst other things to a legal aspect. "For us such practices are not in fact possible. In accordance with the law we first have to take advice from the works council." According to Sprokholt there is also a second reason why such practices do not occur in the Netherlands: "The culture. Just as in Belgium and Germany, the Netherlands has a consultation culture. The involvement of an employee in a company here is also entirely different to the USA. There people react far more taciturnly to outsourcing; here the issue is one of greater bonds with the company for which one works. How you deal with employees depends not only on the national culture, but also on the company culture. ABN AMRO has followed outsourcing programs in the Netherlands, Brazil and America and everywhere the issue was one of employee participation or involvement. Thus the degree of HR maturity is linked to a certain extent with the style of the organization." "As far as that taciturn attitude is concerned," adds Takens, "you can also argue that a social HR policy in

"With a return guarantee you are simply letting people set in a concrete box. It makes any employee flexibility impossible."

and negotiation phases, so that when it comes to the moment of transition we will have a full insight into the population and the costs outline. We also entered into good agreements with different parties about timing and communications. The interests of the employees are primary, and this is underlined by the members of the Board of Directors. Our objective is that most of the involved employees will conclude after the transfer that ING dealt responsibly with their interests."

Employee participation determined by culture

HR is not always involved in the process in good time, says Sprokholt. "In the Netherlands," he explains, "there is considerable concern for HR in outsourcing, certainly if you compare this against the Anglo-Saxon commercial world. In the US it even happens that people are only notified the day before their dismissal or transfer." Van

the US is possibly not needed. If an employee there accepts that from next week he has to report to another company, then it doesn't really matter."

Sprokholt believes the role of HR differs per company. "In one company HR is closely involved in the communications and everything which the changes entails, while in another instance HR is only involved in arranging the employment conditions matters. Here the management takes responsibility for the communications. Generally the transition then runs with some difficulty. Because the management is not considering the outsourcing from the employees' point of view, their interests can then fall between two stools."

Open communication for motivation

In outsourcing processes in the Netherlands people almost always go into some sort of dip, according to Van

“Everyone undergoes a type of mourning process.”

Schaik. “Everyone undergoes a type of mourning process, even before it is clear whether they will be involved in the outsourcing. In Belgium we are the first financial institution which talks openly about outsourcing. This led to the appropriate disquiet. In one sense at that moment we were doing the dirty work for other financial institutions. You can generally assume that there are production losses. I don’t have any figures for this. Without doubt, also in the Netherlands, there are some more people clustered talking around the coffee machine than before.” Communication is of real importance in an outsourcing project, Van Schaik notes. “That’s why we have trained the managers involved in telling the message and in dealing with the reactions and the resistance they will encounter. Still we find that the real reaction comes after the official press release is reported in the newspapers.”

Takens recognizes this course of events. “As long as the message distribution is early,” he says, “ people will react somewhat stoically. They think: another plan, it will pass. Only when the die is cast comes the phase in which the disquiet is the greatest. In that stage you are greatly assisted if you have communicated openly in the preceding period. Place a Q&A on the intranet. Not that people will read it, because certainly you get the same questions countless times, but at least show you have nothing to hide. Don’t tell half the story, and fulfill your promises.” Where the desired communication is not aligned with what is actually communicated by the business, there is a clear task for HR. Takens recalls a project manager who did not answer a question about the law on merged companies, because the social plan was not yet completed. “You can explain everything about the law with the Civil Code in your hand. You don’t have to wait with this for a social plan.”

According to Sprokholt people share a relationship with the company for which they work. “As soon as outsourcing comes up this relationship changes markedly. Outsourcing is seen as a breach of trust. The contract is being ended unilaterally with the implicit message that



Rob van Schaik, ING Operations & IT Banking

someone else can do it better. This is a difficult message which many people do not understand. Naturally this leads to a dip in motivation and a greater staff turnover. The only thing you must do in a situation like this is to remain trustworthy: treat people well and communicate about the facts. Be clear about the process and do everything to follow that process, because if you slip you provide ammunition for individual interpretations. Rumors such as: maybe the entire operation isn’t going to happen; they can’t find a good supplier. You don’t want this unrest, because it forces you into a defensive role and distracts people from the core message: we are going to outsource.”

Cutting the umbilical cord

Dealing with workers who are going to be outsourced is precarious. At ING there was extensive discussion about retention gratuities. “Ultimately,” Van Schaik explains, “we decided not to go this route, because you end up in very shadowy territory. It’s all about large groups, so that a certain staff wastage will not endanger the operational

management." Takens' experience has even been that none of the employees involved even considered leaving prematurely. "They saw clearly that the opportunities were limited within their company, and that they could upgrade their position and thereby increase their economic value by switching."

From the moment people begin working for the outsourcing partner you must let them go, notes Sprokholt. "They must be able to focus on the new. When people already feel detached and you disturb their preparedness to work themselves into their new

absorption capacity at the outsourcing partner.

"It's a matter of good preparation," Sprokholt maintains. "You know the business case, you also know the exact number of people who are superfluous. Or the supplier actually tells you this, because they have a clear interest in doing so. In fact the partner actually carries out part of the reorganization for you here. What you would ideally like is that former employees acknowledge after the transition that they ultimately did well. Not everyone will say it, but in my experience many people find that they are better off after an outsourcing process, and

"Where the desired communication is not aligned with what is actually communicated by the business, there is a clear task for HR."

job, you deaden all motivation. Instead of demonstrating such involvement you need to show that a splendid perspective lies ahead for them in the future, and you must then absolutely release them entirely."

The return guarantee produces little acceptance amongst the HR experts. Van Schaik: "It's a farce. If you give such a guarantee, then there is little chance that the necessary detachment will really occur. It's another story for the vulnerable groups. You can certainly arrange something for those groups. On paper it seems extremely socially conscious. It provides a good warm feeling, but in practice everyone loses, the departing party, the acquiring party and the employee. It's a false guarantee." Takens: "That arrangement takes everyone for a ride, because you can't go back. There is nothing to go back to. Your work is no longer there."

"Obviously you have to do something for the people," qualifies Sprokholt, "but then in the form of training and guidance. With such a return guarantee you are simply letting people set in a concrete box. It makes any flexibility impossible."

Blessings

Job reduction is regarded as a done deal. Takens believes that dealing well with job reduction means good discussions on career development and about the

that they can now develop better. This really is one of the blessings of outsourcing." According to Van Schaik it does depend on what is being outsourced. "ICT has become a commodity. In the second half of the 1970s you really could experience computerization in a bank or an airline. Now it's better to go to suppliers of the services, even if the people who are outsourced don't have that feeling initially."

When it comes to harmonizing employment conditions Takens has a clear preference for doing this on day one of the transition. "I prefer to invest the energy at the beginning of the project. You then release people with clarity on how it's going to be. If you first announce that you are going to carry out a study, or are going to carry out talks with the unions, then people don't know what lies ahead." Sprokholt endorses this view: "It really only causes a fuss. I recall a project whereby the releasing party had stipulated that the supplier would take over the client's collective labor agreement, the so-called CAO in Dutch, until its expiry. This became extremely bothersome. It creates an inequality you cannot sell."

Anticipatory role

After the outsourcing of facilitative processes and production, knowledge-intensive processes now follow. This development appears to shift the role of HR from



Ike Takens, HR advisor

such as variable salaries. Our primary Key Performance Indicators are customer satisfaction and shareholder value." Sprokholt adds that the level of the remaining work changes with outsourcing. "Everything which could be automated has disappeared. The people who remain behind must ensure at least the same output. This poses an important task for HR."

Working with more performance orientation and the disappearance of 'jobs for life' appear to make the threat of outsourcing less grim. "Feeling a connection with blue aircrafts or orange lions is not unimportant," Van Schaik believes, "but it should no longer be the only motive to work in a company." Takens also agrees unreservedly with the argument that outsourcing offers

"At least show you have nothing to hide."

a supporting service to a more anticipatory role on the strategic course of a company. The experts acknowledge this completely. Takens adds immediately that many HR departments are not capable of this. "I really think this is a problem. It has a lot to do with the competence mentioned early to talk to the business. This is still insufficiently developed."

"We have been steering towards this role in our development over the past year or so," notes Van Schaik.

"The classic personnel manager has increasingly moved towards a more directorial side. Internal communications, or for example transfer letters, go electronically or via a service center. To give actual shape to the business alignment new functions are created in which HR operates as a type of account manager towards the business. It clearly requires other competences. Overall this is not a development which only occurs through the increase in outsourcing, but also arises from a greater performance need. We recently zeroed the Performance Culture Scan. Strict objectives are attached to this,

more opportunities instead of just being threatening. This brings the discussion unavoidably to outsourcing the HR function itself. Because ultimately HR does not operate from an ivory tower which would make the positions of the managers and employees unassailable. Two of these three experts themselves work on a consultancy basis, so perhaps it is less surprising that they regard the outsourcing of HR as an opportunity just as it is with outsourcing any other function, rather than seeing it as a threat. Van Schaik also keeps open the possibility without any doubt that HR could be considered for outsourcing. "But," he adds, "just as with IT you must retain the direction yourself. You need an HR manager for this who is very close to the business and who guides the supplier." According to Sprokholt you are not working well if the expensively paid HR professional is spending the bulk of his time on operational issues. "If you outsource all the matters which must secure the daily course of events, you can devote your time to real HR consultancy. This really makes a major difference."

The experts



Tjahny Bercx is Senior Corporate Vice President Human Resources with LeasePlan and has supervised a number of outsourcing projects.



Rob van Schaik is program director HR sourcing for ING Operations & IT Banking. Concerning HR he supervises a number of major sourcing initiatives.



Albert Sprokholt is director of Morgan Chambers Benelux, an advisory agency for issues surrounding sourcing and more specifically outsourcing.



Ike Takens has an advisory agency covering HR and has had considerable dealings with outsourcing in recent years.



Maud van den Meiracker is partner with Accenture. Her specialty is Human Transition and Transformation both in terms of shared services and outsourcing.

Human Resource Management

In addition to the interview on human resource management (pages 24 to 29) we presented five HR-experts with three different propositions. This resulted in brief and clear statements on the role of the human resource professional in relation to outsourcing.

India as an IT Service Provider

“Customer proximity and differentiation will make the difference”



Two countries are mentioned first in offshoring: China and India. China is the place to be if you're looking for cheap labor in the manufacturing industry. And India has an excellent IT services reputation. Sridhar Vedala, Director Shared Services and Offshoring for Morgan Chambers, knows both countries intimately: "Currently the clear winner in offshore IT outsourcing is India and whether China can challenge this dominance remains to be seen."¹

Several factors contributed to India's dominant position. Right after independence from the UK in 1947 it was decided that English would remain India's official associated language. The government also invested in education right from the start. In alignment with this investment, the government stated that foreign companies could employ no more than 30 people from their home country; the rest should be Indian. This rule caused IBM to depart from India around the 1980s, which opened opportunities for IBM competitors, the real pioneers such as Infosys, TCS and Wipro. Sridhar Vedala explains how these companies' focus on low costs aided their great expansion of the past five to six years. "This focus resulted in their innovative offshore outsourcing model, which drove costs even lower. In reply IBM and Accenture adopted this offshore-onshore model."

Education and skills

There is a huge difference in talking about India as a whole or talking about the top five companies, Vedala explains. "Altogether there are fifteen tier-1 to tier-3 companies, which is a very tiny part of India. The tier-1 companies – Wipro, Infosys, TCS, Satyam and HCL – each

have close to 50,000 employees and are truly innovative. Whatever is said about innovation within India only applies to these fifteen or so companies, because organizations from tier-4 and further down are not differentiated and lack focus on innovation."

This may be caused partly by the limited availability of highly educated workers; these companies cannot find good computer science graduates. There are essentially three levels of IT-education in India. The highest level is the Indian Institutes of Technology (ITT), of which there now are seven. "The government wants to expand this number to twelve," says Vedala. "Every graduate from these schools works with the top three companies." The second level is schools educating computer science engineers. These schools deliver some 100,000 graduates a year. On a somewhat lower level, but nevertheless preferred, are the engineering graduates who didn't study computer science, but other engineering disciplines. The lowest level of education for IT is made up by the bachelor degrees such as art, commerce or history. According to Vedala those with any significant educational background in India opt for IT. "These people work for tier-4 at its highest. So I don't agree with the

“The shortage of high-end workers in India won’t be a problem for multinationals like Accenture.”

assumption that India has a large high-end IT workforce. Anybody can do low-end testing, so to me that is not really part of the IT workforce.

“The so-called third wave, R&D being offshored to India, is going to have a huge problem with sourcing. The problem lies not in the number of people, but in the quality of their skills and education. Each year the top schools together produce some 6,000 graduates. This is not enough if you take into account that Infosys or Wipro alone are currently hiring around 5,000 people every quarter. Project managers of higher tier companies spend most of their time evaluating résumés, in their search for high quality employees.”

Indian management

Vedala believes this shortage of high-end workers won’t be a problem for multinationals like IBM and Accenture, because their high-end base will remain in the Western countries. And if it does become a problem, their global delivery model enables them to go elsewhere.

“This is different for Indian companies, because their main base is in India. Their present rapid expansion into countries like Hungary and China shows they are aware of the problem. But Indian companies are not truly global in the sense of adopting the foreign culture. For activities abroad most install Indian management rather than local. Their management style differs markedly from the Western style: Indian managers, for instance, are not used to spending millions on branding or marketing. They have little experience in this field and they want to see the gains from such an investment directly.

“Most Indians also regard Europe as one country with customers who are similar to Americans. I now know there are great differences between German, French or Dutch customers. They also hold on to their model of keeping costs down. To them this model justifies working ten hours a day, the way it is done in India.

Because they cannot relinquish control, it is very difficult to create an independent entity.

“Having said that there are different strategies adopted by some of the more innovative companies. For example Wipro didn’t bring their own people to China, because they only want to support their existing customers in China. They’re not interested in expanding resources or expanding market share. In Europe they also localized their management. TCS, with about 350 employees in China, does look at China for resources and market expansion. Infosys has also invested in China and they are looking to expand their local presence in Europe.”

Looking into the future

Vedala does not foresee a global role for Chinese vendors.

“There are many medium sized companies, but none stands out. There are plenty of opportunities to grow, but no one is working on growth. The way these companies work is in the way they have evolved, with a lack of a good financial market. They cannot go public and raise money, so they focus on the short term.

“Most Indian IT companies want to follow in the footsteps of Infosys and Wipro. But their road to innovation, that created this industry, cannot be transplanted. There are some 3,000 lower tier and new companies, and they all offer exactly the same services in application development. The tier-1 companies keep up their pace of innovation and are moving into R&D, consulting, product development and transformational BPO. This shift to high-end work is something happening right now, but it is not big yet.

“Indian vendors can compete seriously with the Western companies because of their offshore business models and because they restrict themselves to application development; they don’t do infrastructure. So their margins are pretty high, and they are quite profitable. Until now, because I believe that these high profits will decrease in the near future.

“The coming of Western companies to India changes the arena for Indian companies considerably. So far there has not been much competition for Indian players in the offshore industry. IBM and Accenture were doing quite different things, and charging higher fees. Now they are reaching a stage where competition is reaching a level as companies like IBM and Accenture are moving to offshore aggressively.

“If they become truly global vendors I believe some Indian firms will reach the big six in the next ten years. So they will have to learn to improve their customer proximity and work on differentiation. Quality standards have

become a commodity and a large workforce is useless if you don't differentiate and get close to the customer.

“Western companies have great experience in these areas. In higher-end work they are close to the customer not only with IT, but also with strategy. All the global players differ greatly in their ways of innovation. Initially there will be some loss of market for current big players but when the dust settles down each will find his own niche.”

1 Offshore Outsourcing: Is China ready? A comparison with India, Sridhar Vedala, Morgan Chambers White Paper

“Each of the current big players will find his own niche market eventually.”

The expert

Sridhar Vedala's roots lie in New Delhi, India. Before the real IT outsourcing boost he worked for Infosys and Motorola. In China he founded a consulting company which is now called Strata Nova Consulting. Prior to that he worked for five years with Oracle in the US. He provided consulting services to several companies worldwide in Korea, Vietnam, Japan, Ireland, Germany and the UK. His particular expertise lies in Shared Services and Offshoring. He holds a Bachelor's degree in Mechanical Engineering from Delhi University and an MBA from the Rotterdam School of Management, and joined Morgan Chambers in January 2006. Morgan Chambers is a consultancy agency specializing in guiding companies in sourcing and, more specifically, outsourcing issues.



Sridhar Vedala, Morgan Chambers