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Some (Re-) Assembly Required

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<http://www.ft.com/intl/cms/s/0/717f77f4-40be-11e3-8775-00144feabdc0.html#axzz2jCx4HeL>

Data are king. Insight is money. Information technology capabilities are a given. We now have the computational power to crunch through data by the megabyte, to cross-reference, cross-tabulate, and seek patterns across transactions, blog posts, and geophysical locations. Companies have only to figure out what questions to ask; the analytic capabilities exist to spew game-changing insights and real-time, customer-specific strategies. It is within grasp. Almost.

For many large companies, significant chunks of the business were outsourced or offshored over the past decade. Finding and accessing the data might feel a bit like an episode of the Amazing Race. Accounting is offshored in Romania, information technology in India, time and expense in Ireland. The help desk outsourced to the Philippines, benefits to North Carolina.

Each of these was done independently. Each with its own vendor. Each on its own system.

Sound familiar? Many companies are discovering they've pieced out functions and systems, often without an overarching strategy. Mergers and acquisitions have made the problem that much worse, with data and functions pieced out around the globe, legacies of outdated business cases and operating constraints. Now the market is starting to push companies to question this structure by asking: what is the right services model for the company, globally?

Call it maturation, call it the impact of the cloud, call it the new opportunity cost of silos – many companies are waking up from a long spell of outsourcing and offshoring to realise that operational choices that made sense at the time no longer make sense, especially when business decisions don't occur in isolation.

Companies need value, not just cost savings, from the overall business services model and from their partners and vendors. Furthermore, the valid business reasons that drove offshoring – labour costs, property, plant and equipment (PPE) costs – may no longer be relevant now that IT capabilities are available via the cloud. Services systems and solutions don't necessarily depend on local applications, local processing power, or local storage. Location just doesn't matter as much.

The financial services industry is further along than many other industries in beginning this process. The combined effect of the recession and regulatory pressure to understand and rationalise their own span and exposure, financial services companies have pursued a dual approach: take costs out and improve controls. Under this type of pressure, they have been

forced to ask not “What is everyone else doing,” but “What should we be doing,” to simplify and control.

There are real benefits to be gained from having a back-office operating model that allows data to reside within one organisation rather than across four countries, three vendors, and four systems. In addition to having data available for analytics, companies can assess and redevelop end-to-end processes that fit the needs of the business rather than having individual organisations or functions define their own processes.

Other benefits include more flexibility for tax optimisation and better visibility and control for risk management and compliance. In addition, with increasing scrutiny of companies’ data practices across organisational and geographic boundaries, reconsidering the global business services architecture also has an argument in data privacy and anti-corruption activities.

The answer is not to roll everything back or get rid of function-specific specialists. Outsourcing and offshoring, both, remain viable tools for a global company to employ.

It is time, however, to take a long hard look at the company in its entirety and determine what global business services architecture does make sense. If you were building the company today, what shared services structure might best support the business needs?

Such a hard look will require strong leadership. After all, each of these functions and data streams grew and took on a life of its own once it was peeled away from the core. Reassembling the parts into a coherent and non-political model, one that accounts for today’s technology and anticipates tomorrow’s, will require leadership that can work across functions and pull in the right specialists.

Just as many a merger has failed to achieve expected synergies due to incomplete or failed integration, reassembling the current landscape of offshore and outsourced services into a coherent global business services architecture will fail to achieve the hoped-for cost savings and gains in insight and control without the right type of leadership.

Once established, who will run the global services? Who can lead the transition and ongoing business service operations to get the synergies from technology to human capital to finance? If the effort is driven at a high enough level, end-to-end, additional benefits can come from reassembly into a global services architecture. A new type of leader is needed – a transformative senior executive who understands third parties and has run global operations and managed transitions.

Whether to lower costs, reduce risks, or gain control over valuable data sources, integrating business processes isn’t just for financial services firms. We’ve seen movement toward reassembly in other large companies, ranging from global tech companies whose rapid acquisitions have led to a proliferation of processes and ineffective services that could hamper growth to multinational consumer goods companies in need of every advantage and insight in fiercely competitive markets.

Three questions companies can ask themselves to evaluate whether they need to take another look at global business services:

- Did we outsource as a company, to achieve overall goals and strategy of the company, or did we do it in silos to achieve the independent goals of IT, Finance, and HR?
- Are we delivering the best service to our businesses or not, based on how we organically grew? Are we delivering service at the lowest cost?
- Is there potential data leakage and risk of leakage because of the way we grew? Could this be improved through a centralised back office?

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