

HOW NORDIC-BASED ORGANISATIONS COULD LEVERAGE BPO TO GREATER EFFECT

Nordic enterprises have been conservative when it comes to outsourcing finance and accounting (F&A) or human resources (HR) functions. However with global BPO providers now targeting the region, it's an excellent time for them to harness the latest innovations in the industry.

An evaluation of the current state of outsourcing across Nordic countries, and of new opportunities ...

The days of 'lift and shift' are fading fast, even in the traditionally conservative Nordic market. Across the region there is a growing trend against simplistic, FTE-based cost savings and toward innovative, value-led partnerships. In addition, the constant pressure to move up the value chain is driving interest in standardised processes that are automated and e-enabled. The challenge is to harness the experience and resources needed to leverage these opportunities with confidence.


Today's outsourcing opportunities are no longer in traditional, 'pure' FAO. Instead, they are emerging from leveraging functional performance excellence across the entire enterprise. It's a new way of working, best summed up by **Devesh Nayel**, a member of **Capgemini** BPO's Executive Committee and Sweden Country Board: "Clients are looking for a fresh approach," he explains.

David Frydinger, head of the Technology, Media and Telecommunications practice at Swedish law firm, **Lindahl**, strikes a note of caution, however. He notes that while there is still a strong cost focus for many Nordic enterprises, there is also a growing demand for innovation: "The problem," says Frydinger, "is that although many say they want innovation, few have really thought about what innovation means, and what it should lead to."

Lindahl's observation underlines the fact that, although there are plenty of opportunities for Nordic-based enterprises to leverage the accumulated wisdom and capability of outsourcing experts, significant challenges need to be overcome before they can benefit from outsourcing-driven step change in performance.

It is a sentiment shared by **Monika Gutén**, Executive Vice President, and Head of Human Resources, Procurement & Shared Services at **SSAB**. Monika's current responsibility is to manage the integration of SSAB's existing SSO, which is in its third year, with that of recently acquired Finnish company Ruukki, which had been running a successful shared services for a decade already. For many Nordics-based SSO leaders, Gutén says, it's a challenge to understand both how far and how fast to move towards shared services, as well as how best to leverage the ability of outsourcing partners.

"The problem is that although many say they want innovation, few have really thought about what innovation means, and what it should lead to."



“For most of us, the understanding of what a BPO partner can deliver is still sketchy,” she explains. “We are facing a fairly steep learning curve in order to be able to make the best decisions for our own service delivery model. We simply have not had the exposure nor have we witnessed others pressing ahead with truly forward-thinking partnership models. So that is where our leadership opportunity lies: in educating ourselves.”

**Monika Gutén,
Executive Vice President, and Head of Human Resources,
Procurement & Shared Services, SSAB**

Challenges

One of the hurdles on the road to embracing innovative outsourcing solutions is the region's **prevailing management culture**, which prioritises achieving consensus rather than mandating new strategies. The tendency is to aim for mutually contrived agreements by discussing and evaluating at length — an approach that can hamstring CEOs wanting to push through new ideas. This management culture discourages the kind of mould-breaking decision making that opens doors to new opportunities.

Even when an organisation is committed to change, they are typically slow to commit to **the levels of change management** required to implement these shifts. This hesitancy, more than anything else, is limiting the additional value that outsourcing can deliver, explains Capgemini's Nayel: "It's an opportunity cost for organisations, which, more than anything else, leads to business cases falling short on delivery." Investing too little time, resource and money in change management can lead to the business case failing to materialise. A common consequence is that the business then reverts to 'lift and shift,' abandoning the potential value of more innovative solutions.

Another hurdle is a failure to **look beyond the 'pure' F&A function** to broader, end-to-end integration — for example in the supply chain. Capgemini is increasingly introducing these possibilities to multinational clients, but there is still a lot of hesitancy. "Given the consensus mentality, it takes a strong CEO to drive this kind of transformation across the business. It also requires collaboration and support from other leaders, such as the CFO, the chief procurement officer, the chief marketing and sales officer, etc.," explains Nayel.

“Something Needs to Be Done”

Organisations across the region are waking up to the reality that ‘something needs to be done,’ and that this ‘something’ probably involves moving beyond simplistic captives. IT outsourcing has been going strong in the region for a long time, but F&A and HR functions have tended to focus on captive shared services as the safest, most controllable option.

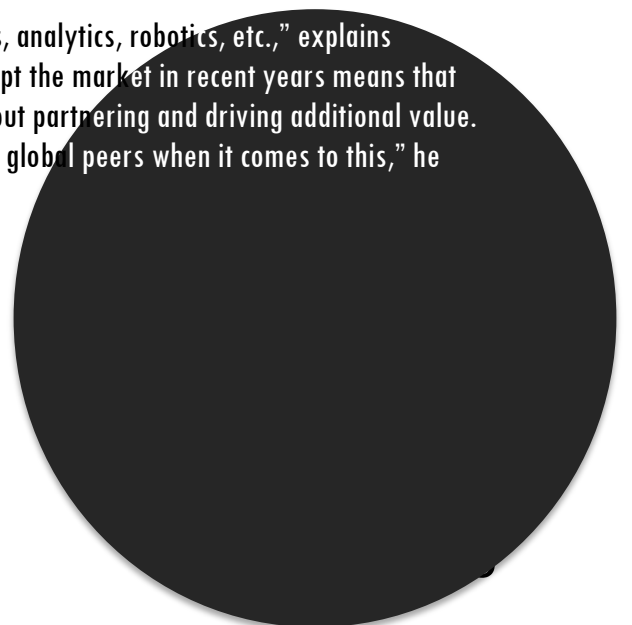
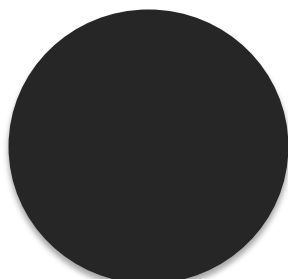
Carl-Henrik Hallström, Regional Head and GM Nordic Region for Wipro BPS, understands this situation well. A true veteran of the Nordic services delivery market, having led EquaTerra’s regional operation from 2005 (subsequently acquired by KPMG), he summed up the recent history of the market: “In truth, 10 years ago there wasn’t enough activity in the Nordic region to describe it as a ‘BPO market.’”

Today, however, the companies that did adopt shared services 7–10 years ago, as a first step towards improving performance, are beginning to ask themselves ‘what’s next?’ Firms such as Capgemini, Accenture, IBM and Wipro are responding to this question with new pathways that promise a lot more than FTE savings. **Great strides in the evolution of technology and processes mean there are big new opportunities in re-evaluating service strategies that have been running for close to a decade.**

Gutén’s combined SSAB shared services is a case in point. While SSAB’s relatively young model included an outsourcing element to support the multifunctional HR/Procurement/F&A services operation, the ex Ruukki model is built as a captive SSC and with a focus only on F&A services. Gutén’s current strategy rests on individual functional project teams coming up with a ‘best practice’ solution based on Ruukki’s and SSAB’s previous models. “As part of our evaluation, we are also considering if and how outsourcing can be a means to make our operations even more efficient. There is a real opportunity there and we are just starting to scratch the surface,” she says.

The evolution of outsourcing now enables providers to deliver greater value through analytics, and a number of Nordic enterprises are being enticed to a hybrid model that leverages the provider’s expertise and capacity in process automation and data analysis.

“Providers today have so much more to offer in terms of tools, analytics, robotics, etc.,” explains Hallström. The wave of technological automation that has swept the market in recent years means that the discussion is now less about the cost of FTEs and more about partnering and driving additional value. “Nordic organisations simply cannot afford to fall behind their global peers when it comes to this,” he warns.



Leveraging Local Front-office Partners

Partnering with a home-grown provider is becoming a preferred option among Nordic enterprises that have a distrust of outsourcing. It is perceived as a more comfortable option that promises greater intimacy and simplifies language issues. It's a trend Hallström believes will accelerate over the next five years as the drive to optimise picks up across the region.

Going local is becoming particularly prevalent within finance and accounting — a function has been much slower than IT to see the benefits of transformation. “Many finance functions have not done much about their back offices to date. I expect we will see a lot more activity in this area, particularly from midsize companies that are pushing into new international markets,” says Hallström. “The ability to partner with a local provider will make the outsourcing decision easier.”

One example is PostNord, which outsourced F&A to Cognizant and a local, midsize firm, Visma, five years ago, with Visma providing the local ‘front-office’ engagement. While this decision may have revolved around the perceived need for local language, the truth is that the language element is becoming less significant as automated services become more sophisticated.

“Effectively, the importance or size of a local front office is diminishing as the service benefits of an offshore provider increase,” explains Hallström. It is also the case that local providers often cannot offer the scale or the leverage of a global BPO. An arrangement in which a global BPO maintains the service level agreement and effectively sub-contracts to a local partner offers the best of both worlds for many Nordic clients. With governance maintained by the BPO, it “puts responsibility for delivery fairly and squarely in our hands,” explains Hallström.

Driving Change Country by Country

The Nordic economies are characterized by a predominance of fragmented enterprises that lack experienced resources. Outsourcers can offer their own experience and expertise to plug this gap, creating another opportunity in the region. Potential clients are offered not just the insider knowledge and best practices of a global BPO, but can also take comfort in the fact that these organisations have 'seen it all before.'

One example that may be an indication of what's to come is ISS's deal with Cognizant last year. This Danish-based Facility Services company with more than half a million employees chose a country-by-country approach to rollout, leaning heavily on the best practices offered by Cognizant Technology Solutions. This strategy of leveraging a partner's knowledge, one country at a time, to drive standardisation as a step towards eventual consolidation may become the template for others.

"Particularly in countries like Finland, which are experiencing negative growth, the need to optimise support services is very strong," says Hallström. "I expect to see the biggest shift towards BPO where the business cycle is either very high, as in expansion, or very low, as in negative or low growth. That is where the kind of change or transformation that outsourcing can drive is most urgent."

Gutén cautions, though, that outsourcing is not a universal panacea for everything:

"Take HR as an example. Knowledge and familiarity of the local language, and local collective agreements are important in order to operate effectively," she emphasises. "You need to consider the business needs. Certain HR solutions will need to remain local for now, but where we are pushing for efficiencies is in streamlining processes and aligning them across the newly merged enterprise. Then, eventually, we'll look to technology to deliver added benefits. But first and foremost for us it is about the process and building a strong foundation for delivery."

Three Key Opportunities

CFO's Changing Role

The opportunities now emerging are the result of enormous changes in the role of the CFO.

"It's hard to explain just how much things have changed compared to, say, the 1990s," explains Nayel. Today's leading finance operators are showcasing the improvements they have driven through their own departments as an example of what can be achieved across the enterprise. "They are effectively saying: 'Look what I've done in my own backyard - we can do the same thing across the entire business,'" says Nayel.

For this to happen in the Nordic economies, however, enterprises there will need to learn to trust their leaders to mandate actions based on an end-to-end view of the organisation. A finance leader with the confidence to drive broad transformation in partnership with other functions can use the resulting data to challenge the entire organisation. Information is power, and today's CFOs have plenty of it.

The question is: how effectively will they wield its potential?

Relational Contracting

The changing nature of contracts is another opportunity gateway. While most contracts remain very traditional — written to set up arm’s-length relationships with a lot of focus on risk distribution — far-sighted organisations are increasingly engaging in **relational contracts**. These set up a partnership that focuses on the continuous alignment of interests between the parties, as Lindahl’s David Frydlinger explains: “Relational contracts leverage a joint vision, strategic goals and, crucially, guiding principles on autonomy, loyalty and equity between the parties. Where a transactional contract has *the transaction and the set-up in focus*, the relational contract has the commercial relationship in focus.”

Relational contracts require a different **contract process**. For example, price is negotiated late in the process, after the parties have established a joint vision, strategic goals and guiding principles.

The contract is also co-created by the parties to a much larger extent, as opposed to sending edited mark-ups back and forth. “Relational contracts offer the greatest value where the client’s dependency on the supplier, measured in, for example, ‘switching costs,’ is medium to high and where the risks are medium to high as well,” explains Frydlinger.

“When there is dependency and risk, a traditional contract with its focus on conflicting interests and risk distribution is costly. Instead, a framework for continuously aligned interests can support a positive outcome.”

Expanding into the Front Office

Extending BPO into the front office is another potentially lucrative opportunity for enterprises. Examples include order to cash, which is still significantly underrepresented, and recognising the value of spend analytics, which most organisations are managing badly, if at all. This means pushing scope beyond finance and into supply chain, analytics, HRO, and more. The real potential of outsourcing lies in this kind of cross-pollination, says Capgemini's Nayel:

“I have seen truly impressive results where organisations have been willing to broaden the BPO footprint across functions and end to end, via a sort of ‘stacking’ strategy that incorporates infrastructure, service structure, etc.”

Even for companies that regard the front office as a step too far for outsourcing, there are plenty of opportunities. Procurement, for example, is a natural extension from traditionally back-office finance functions. There is a lot of interest in e-buying or procurement platforms to better manage providers, says Nayel, as well as the master data associated with procurement and its application to spend analytics.

Marketing spend is another opportunity. "Huge monies are being spent on marketing that are not necessarily delivering a great bang for the buck," says Nayel. "We are working with a leading retailer in the Nordic region that wants to optimise marketing spend, right now. We are including social media analysis to gain the kind of marketing intelligence they don't have the resources for internally."

Even where these opportunities are being overlooked - silo mentalities - there is still a solution in the shape of the middleware tools and bolt-on applications that many BPO providers now offer. "They act like a hovercraft over a client's ERP system" explains Nayel. "It means the customer gets the benefits of flexibility, or evolving the legacy ERP capability, without having to change out the front end, which is expensive. We are having more and more conversations around these kinds of solutions with multinationals."

Summary

The Nordic region has the potential to lead Northern Europe into an era of deriving new value from evolved BPO. Unlike some of its central and south European neighbours, the Nordic region has an openness to change that bodes well for its businesses. The biggest hurdle organisations in this region face, according to Nayel, is recognising the significant investment needed in change management and in carrying this through to the rank and file.

"It's not just about having the confidence to push sourcing strategies through the board or senior leaders — it's about winning the hearts and minds of the employees, because they are the ones who need to buy in to the new opportunities presented by an increasingly digital world," he warns.

For those who have been standing on the sidelines, this is a great moment to take advantage of outsourcing. Recent evolution in Cloud-enabled solutions, analytics-driven services, and platform-based outsourcing mean that there is now an outsourcing model for everyone.

Nordic Customers Demand Clarity So Make Communications a Priority in Support Services



Monica Portugues de la Red is a Shared Services and Outsourcing expert who formerly led Pfizer's Dublin-based European SSC, including transitioning to an outsourcing partner.

Monica is a 10-year veteran of Pfizer where she was, until the end of 2013, in charge of the company's Dublin-based European services centre, delivering finance support across Europe including the Nordic region. She gained a lot of experience in Global Business Partnering over this time, as she managed Pfizer's outsourcing contract with Genpact, as well.

Under the terms of this agreement, basic transactional activities were outsourced to the BPO's India- and Romania-based centres; with remaining finance services delivered from Dublin. Monica led the BPO Implementation in both the US and Europe.

One lesson she learned from the US implementation was the significant value that could be released through outsourcing: within just 4 months of the outsourcing partnership going live, the captive team was able to take on additional value-adding activities. It's this kind of strategy, she says, that offers real returns - and levers - for today's businesses.

"I see opportunities in Finance around evolving the current BPO model from 'transactional, repetitive' tasks to a 'strategic role' in order to provide value-add to the business," explains Monica.

"I think Finance should be moving towards using BPO to gain a competitive advantage in the current market place, for example by performing Analytics."

Under this scenario, she says, the business and the BPO organisation would be required to integrate their systems to share data in order to build analytics and generate trends. In doing so, the BPO team could focus on analytics around how key customer sales are evolving; whether customer refunds are increasing or decreasing; what is driving these refunds; and how finance's performance measures compare against direct competitors.

"Through insights like this, the BPO could identify/suggest areas for improvement to become more efficient and competitive," she says.

In order to consider maximizing these opportunities, organisations should review their BPO partnerships to ensure that there is a great level of trust, confidence and knowledge in order to evolve the current model.

THE NORDICS MARKET

The Nordics market is a fairly evolved one, Monica explains, particularly where multinationals like Pfizer are concerned. Like much of the rest of the world, Nordic-based organisations are open to the benefits of standardisation and reduced costs, but what sets them apart is the very high expectations they have of service levels, and their very structured, concise approach to business processes.

"Particularly where change is concerned, our Nordics customers required a lot of facts, of explanation, to buy into our plans, in contrast to many of Europe's southern countries," explains Monica. "What was absolutely instrumental for us, at the SSC, therefore, was that we built and fostered a strong relationship with clients – so that they could trust us."

Communication is absolutely essential anywhere – but particularly so for the Nordic region, she explains.

In addition, customers there wanted the reassurance that where localised issues were concerned the SSC had their back. So Monica's team had a coordinator in Dublin who provided customer-centric service and support where this was required, and acted as a coordinator between the outsourced team and the clients.

"It was very important that our customers felt there was someone who understood their localised needs and concerns," says Monica. And while customers certainly understood the value of the kinds of insights that the outsourcing partner was increasingly able to deliver – alongside benchmarking and information on how they were doing – they also wanted to know that there was someone who understood the local market.

One opportunity that Nordic-based organisations may want to access in future is bringing budgeting and forecasting into scope, says Monica. It's an area that, for now, has been kept close to local operations but she believes there is certainly an opportunity to leverage shared services for improved performance, while *still* supporting local requirements.

Accounts Receivable still tends to stay localised, because of the perceived sanctity of the client relationships, says Monica. But although sensitive, again once the business trusts the SSO, there would be advantages in pushing these activities out to the experts and focusing on growth.

SSON Spoke with:



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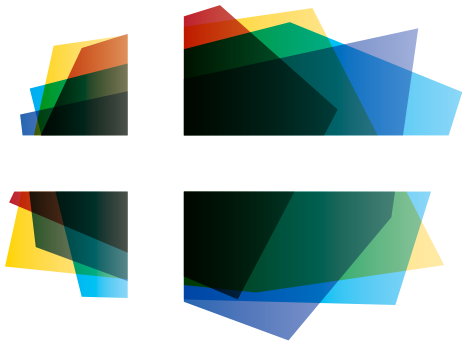
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