October 09...

Inside Outsourcing ™

INTERVIEWED BY LARRY JANIS

Inside with:

Charles Aird, Managing Director, PricewaterhouseCoopers

PricewaterhouseCoopers provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 155,000 people in 153 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice..

LJ: You have been in the Outsourcing Industry for several years in different capacities. What changes have you seen in the industry?

CA: Technology is the biggest change that has allowed offshoring to grow so rapidly since the early 1990s. When I first got into outsourcing in the late 1970s and early1980s, the technology hadn't reached a point where offshoring was easy—we were continuously shipping written specifications and computer tapes back and forth. For example, I lived in Saudi Arabia in the '80s, trying to outsource systems development work to India and Egypt, and it was so unsatisfactory.

With the advent of the Internet, reduction of telecommunication costs, and the availability of file sharing software, remote applications support became a changed environment. Outsourcing quickly became a much easier process. It has grown beyond what anyone anticipated. The organizations based in India and other parts of the world that started off in information technology have leveraged the infrastructure they developed to start providing other services, such as business process outsourcing. And that has forced US-based outsourcing providers, such as IBM and Accenture, to respond to remain competitive.

The initial experiments in offshoring, which I was a part of, proved to be invaluable learning experiences. There were a lot of communication disconnects. We didn't always understand each other, even when we were all speaking the same language. So we learned that the documentation needed to be pristine. Because of those experiments, we developed the methodology, process documentation, tools, and techniques that allow different parties in an outsourcing agreement to describe what they expect from each other.

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FROM THE EDITOR

Inside Outsourcing's goal is to provide you with articles of interest and with a forum for the exchange of information in this rapidly evolving industry.

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LJ: As an advisor to companies, how have the buyers of outsourcing services changed?

CA: The buyers are much more sophisticated. Twenty years ago, clients were doing small one-off offshoring projects. One of the things we've seen at the Offshoring Research Network at Duke University is that most organizations in the past didn't have a sourcing strategy that was tied to their business strategy. Now people understand that offshoring is something that needs to be integrated into the organization. Often, a company's audit committee, executive committee, or members of the board have to approve offshoring decisions.

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I think more people are knowledgeable about offshoring today because those earlier deals drove fairly robust benefits in terms of savings and skill availability, which got the attention of executives within an organization. Also, after Sarbanes-Oxley, more people were interested in the controls and risks involved in offshoring. And I think education is playing a large role too—a lot of university programs, like the one at Duke, provide advanced forums that give senior executives a better understanding of offshoring.

LJ: What are the top responsibilities in initiating and managing an outsourced relationship?

CA: I think the most important thing is that any sourcing strategy has to be tied to the organization's overall business strategy. It's also important that the organization retain the responsibility for the work that's being outsourced, so oversight and governance are critical.

We talk to our clients a lot about the cultural changes that outsourcing and shared services will bring to an organization. When it comes to taking business functions offshore, the methodology is the least difficult part. Communicating change to all levels of the organization can be really difficult. One of the biggest issues is that many people measure their value within an organization by how many people they manage—that is, by how big their kingdom is. If that business function is outsourced, then the size of that kingdom may shrink significantly. My personal view is that managing large groups is a painful process, and the advantage to outsourcing is that your skilled labor can focus on analytics instead of the hassles related to big headcounts.

Another issue we stress with clients is performance management. Whether we're talking about outsourcing or shared services, it's very important to consistently measure and report performance, and compare those figures against the original business case and service levels. A lot of organizations forget to do this, and they run into trouble. The just assume that things will run well, and three or four years later they are surprised that the outsourced or shared service function isn't meeting expectations. On the other hand, I recently had an incident in which we were called in because a client thought their outsourcing provider wasn't performing well. We found out they were doing an excellent job. They just weren't reporting it.

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LJ: When working with various vendors in the selection process, what are the most difficult issues that arise in the process?

CA: One problem we face is that we'll encounter a service provider that has a set solution and doesn't want to adapt to the client's needs. This is the issue that arises more often than any other. We'll hear the service provider say something like: I like having X number of people, I like putting them all in Y country, and I like running Z kind of environment. When this happens, the service provider is being too prescriptive for the client.

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There's another issue that often arises, but not during the selection process. Sometimes we are called in two or three years after the selection is done because clients aren't getting what they expected out of the deal. We do something called a rapid assessment, and often we discover that everyone is acting in good faith, but there are some issues on both sides. For example, the client may not have implemented a demand management process, so requests for outsourced services are constantly changing and costs are higher than expected. Once the issues are determined, we help with the remediation. Usually it just involves putting processes, such as performance and demand management, in place

LJ: What are the differentiators in how PwC approaches an outsourcing deal?

CA: Our shared services and outsourcing advisory are part of the practice. We are therefore neutral when it comes to how a client should source services. We don't come in trying to convince a client to either outsource or adopt a shared services solution. We typically find there's a combination of things that a client needs to do, including transformation of processes, outsourcing some functions, and developing a shared services framework for retained functions. That's one of the major differences between us and other firms—we are unbiased when it comes to what clients should do. We try to help the client develop a solution, a point of view, which will help it reach its goals and business objectives while developing a fit to the culture and risk profile of the client.

We are in the advisory business. We aren't in the outsourcing business. So that means we can provide clients with our best, unbiased solution. Now, that won't necessarily be the least costly solution, or the quickest solution.

PwC has a global footprint in the shared services and outsourcing advisory space that is broader than any other organization I've ever worked with. I can parachute into a location—New Delhi, Shanghai, Santiago, Costa Rica, you name it—and we have people there that do this sort of work. Do we have an army? No. But we've got enough people on the ground in all these places. Also, I can pick up the phone and reach people almost anywhere in the world. So, say I have a client that's considering the Philippines or Malaysia. I make a call, and 10 minutes later I have the information to give to my client.

One challenge that I still run into is that many people still don't know that we provide these kinds of consulting services. When I explain that we're part of PricewaterhouseCoopers, they usually say they thought PwC sold this part of its business. I think people are still surprised not just that we do this kind of work around shared services and outsourcing advisory, but by the overall size and the strength of our consulting organization, which is over 25,000 advisory staff. It's a misconception that we run into constantly.

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LJ: What makes you successful?

CA: I think we're successful because we don't come in with predetermined solutions for our clients. We also provide the clients with our intellectual property—we allow them to use our tools and templates after we leave. We teach them how to use them.

I know that sounds like we're trying to put ourselves out of work, but the whole object is to help the client own the process. Too often, I've seen our competitors come in and own the process, from soup to nuts. That doesn't help the functional organization in the long run, because the consultant goes away.

Our team is very experienced. I've been doing this for 35 years across the world. There aren't many places I haven't been and provided services to a client. Most of the advisory staff members in our organization have 15 to 20 years of experience and have also provided services around the world. We've grown up with the industry, and that has given us the experience and knowledge to help our clients through successful outsourcing and shared services projects.

As for me, I'm doing this because I'm having fun. I'm well past my retirement age, but it's a blast to do this stuff. I enjoy the travel, I enjoy meeting people, and I enjoy the cultures. I'm finding the clients enjoy my war stories and relate to the broad range of experiences.

I have found that many of the basics that relate to back-office outsourcing and shared services readily translate to other areas, such as contract manufacturing, private label manufacturing, and generic pharmaceuticals.