

Summary Findings: Sourcing Operational Effectiveness, Capabilities and Management Practices

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CFO Magazine and Duke ORN
Survey

Purpose and design of survey

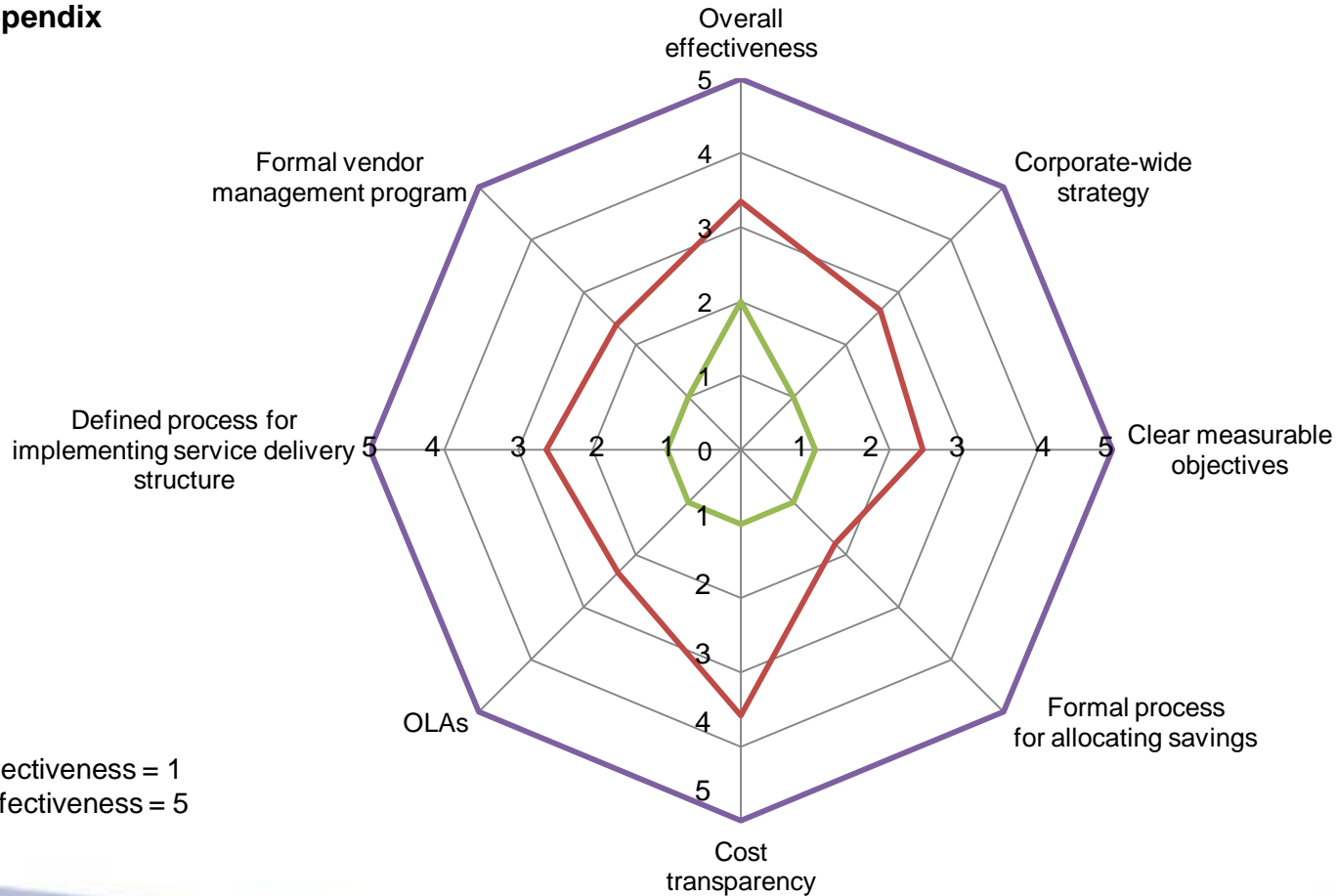
- **Purpose**
 - High level study of sourcing operational effectiveness, capabilities and management practices
 - Overall maturity level of global sourcing practices by participating company and industry
- **Structure of survey**
 - Designed to be focused and time efficient
- **Sample**
 - 171 companies completed survey
 - 86 currently offshoring, 22 considering offshoring, and 63 not offshoring and not considering
- **Structure of report**
 - Major findings
 - Global sourcing effectiveness
 - Effectiveness scores of comparison group (spider graph)
 - Individual company scores (spider graph)
 - Overall effectiveness scores quintile comparison
 - Structural dimensions of sourcing organization
 - Future plans
 - Appendix

Major findings

- Only few companies have implemented high level global sourcing capabilities
- Effective companies excel in managing all key capabilities
 - Corporate wide-strategy for global sourcing
 - Formal vendor management system and programs
 - Defined process for implementing service delivery structure
 - Clear measurable objectives
 - Formal process for allocating realized cost savings
 - Have an effective costing approach to sourcing
 - Managing process optimization
- Effective companies have a more centralized structure for approving and selecting providers
- Effective companies have more experience with global sourcing

Eight dimensions of global sourcing operational effectiveness (Small companies*, n=29)

Dimensions measures are explained in the Appendix



Scale:

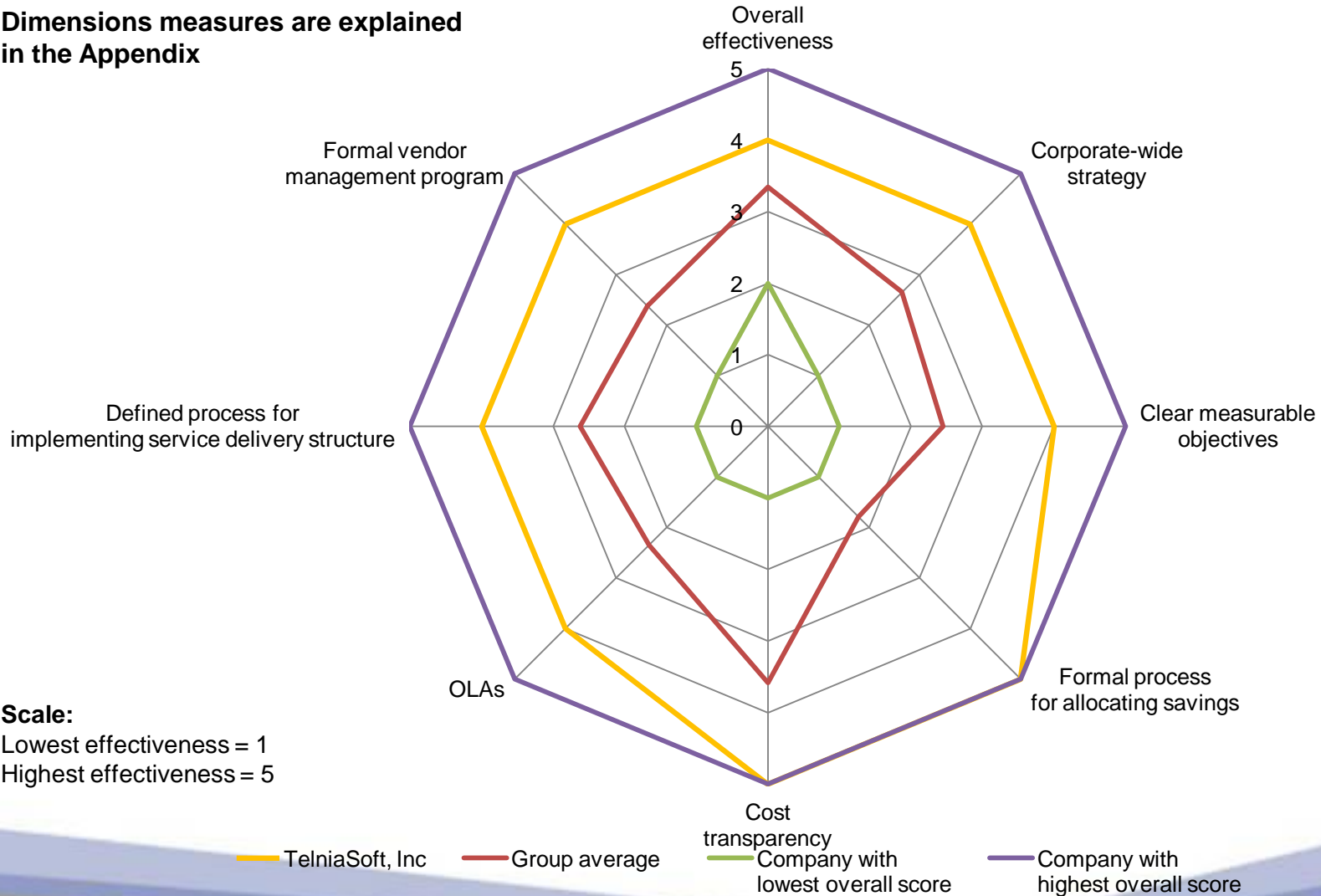
Lowest effectiveness = 1
Highest effectiveness = 5

* <500 FTEs

— Group average — Company with lowest overall score — Company with highest overall score

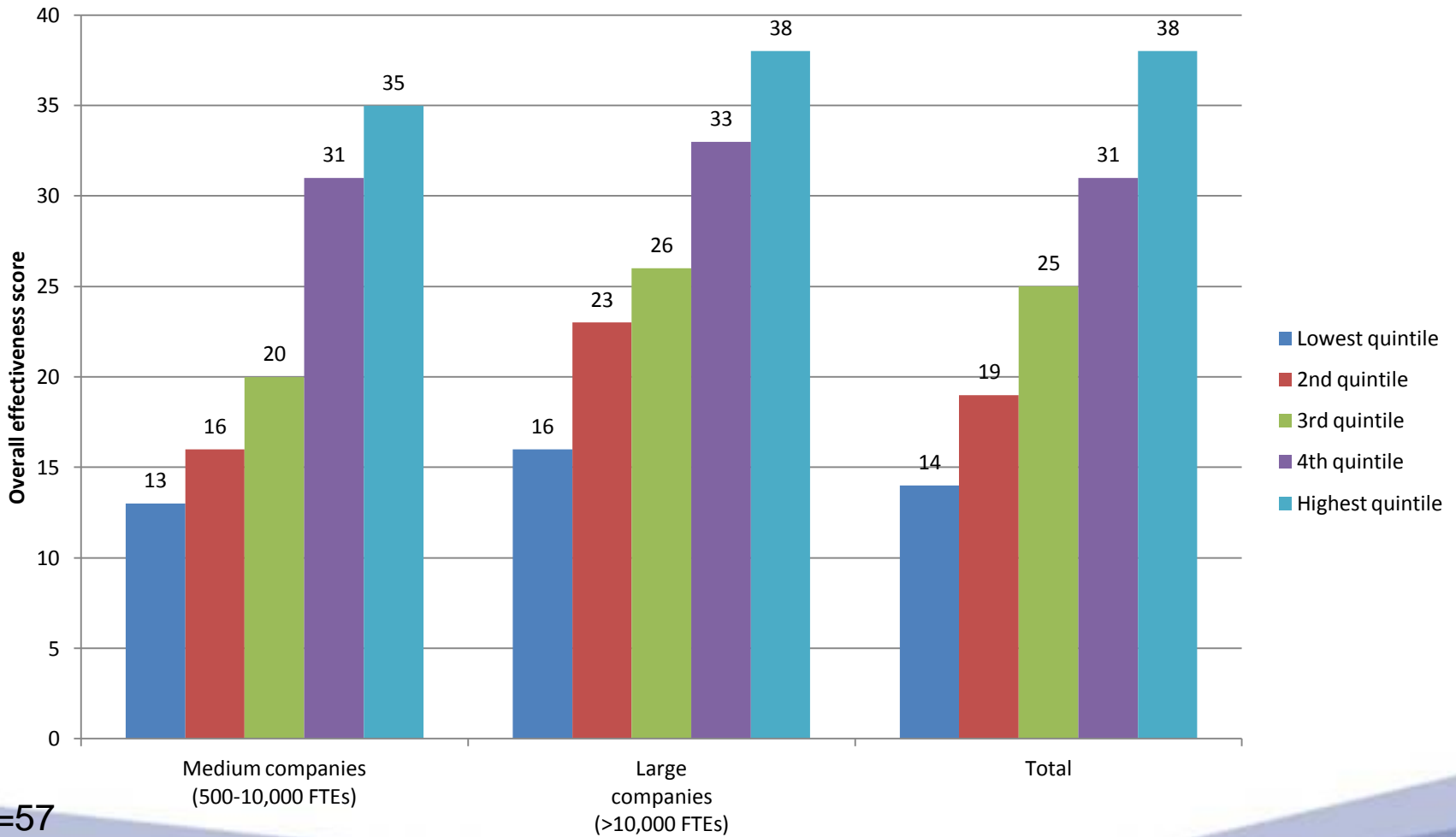
TelniaSoft, Inc: Configuration of operational effectiveness

Dimensions measures are explained in the Appendix



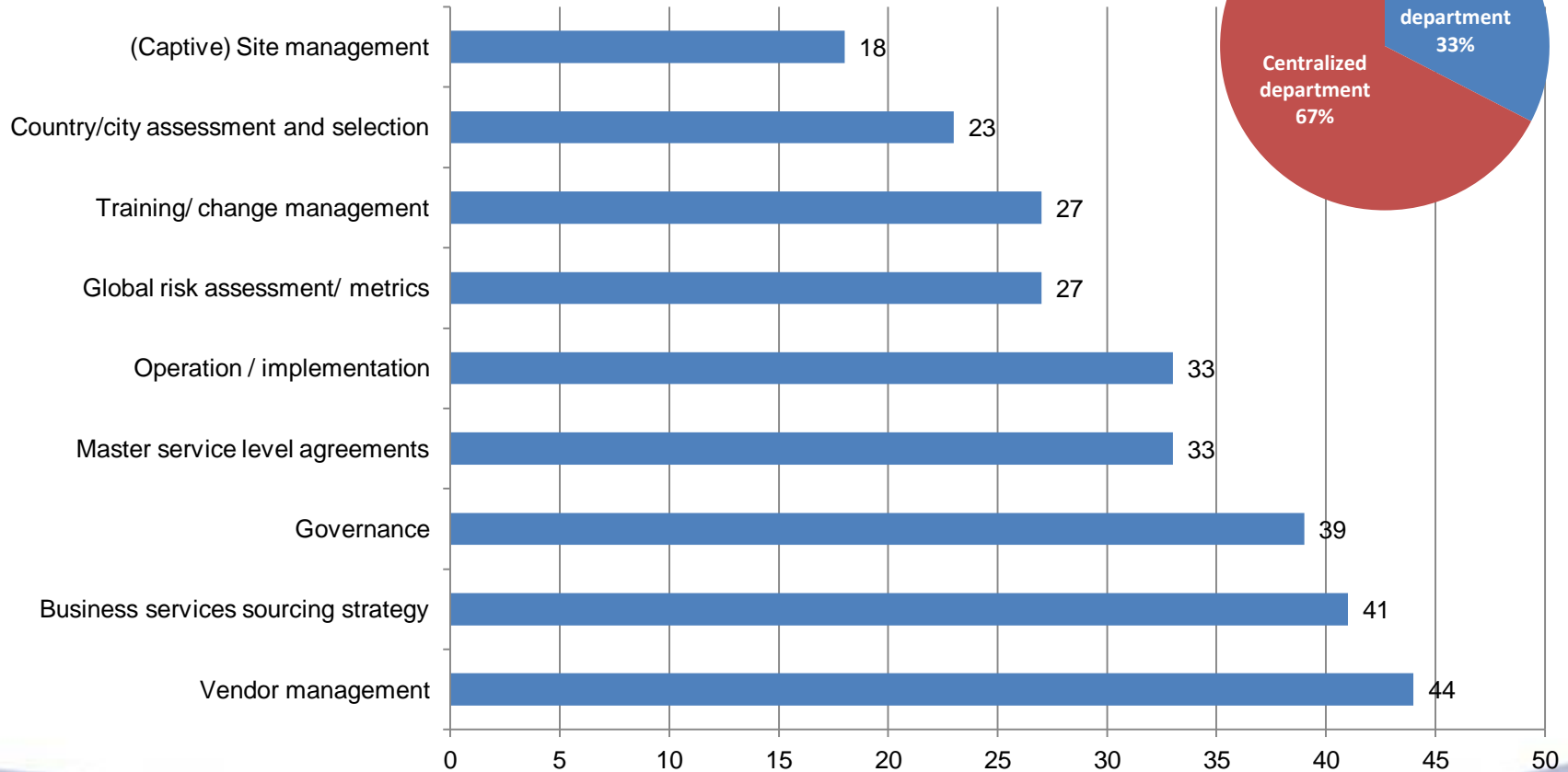
Scale:
Lowest effectiveness = 1
Highest effectiveness = 5

Global sourcing overall effectiveness score (all 8 dimensions) by company size and quintile *



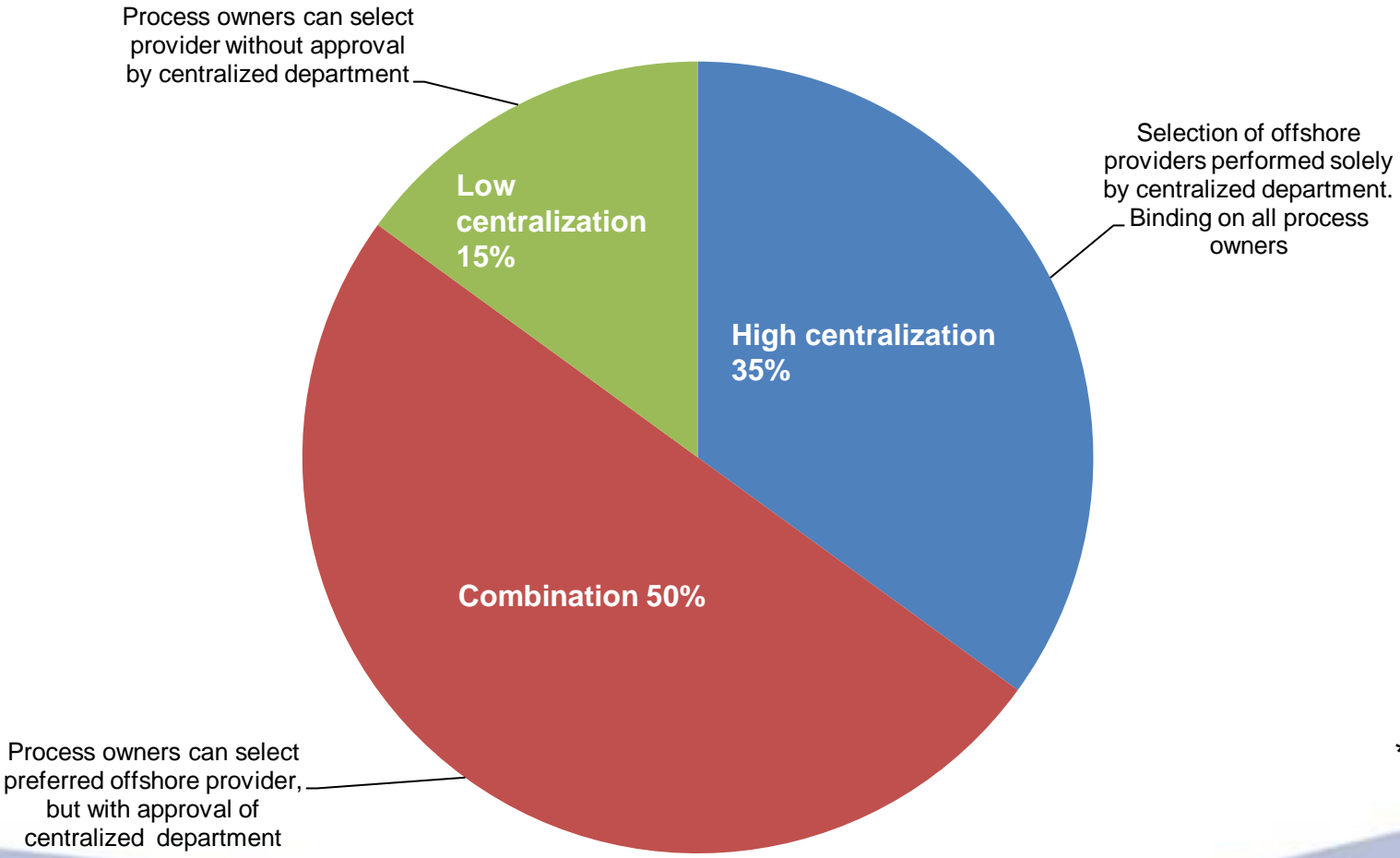
Almost 70% of companies have a centralized department for managing global sourcing decisions *

Functions represented in centralized department



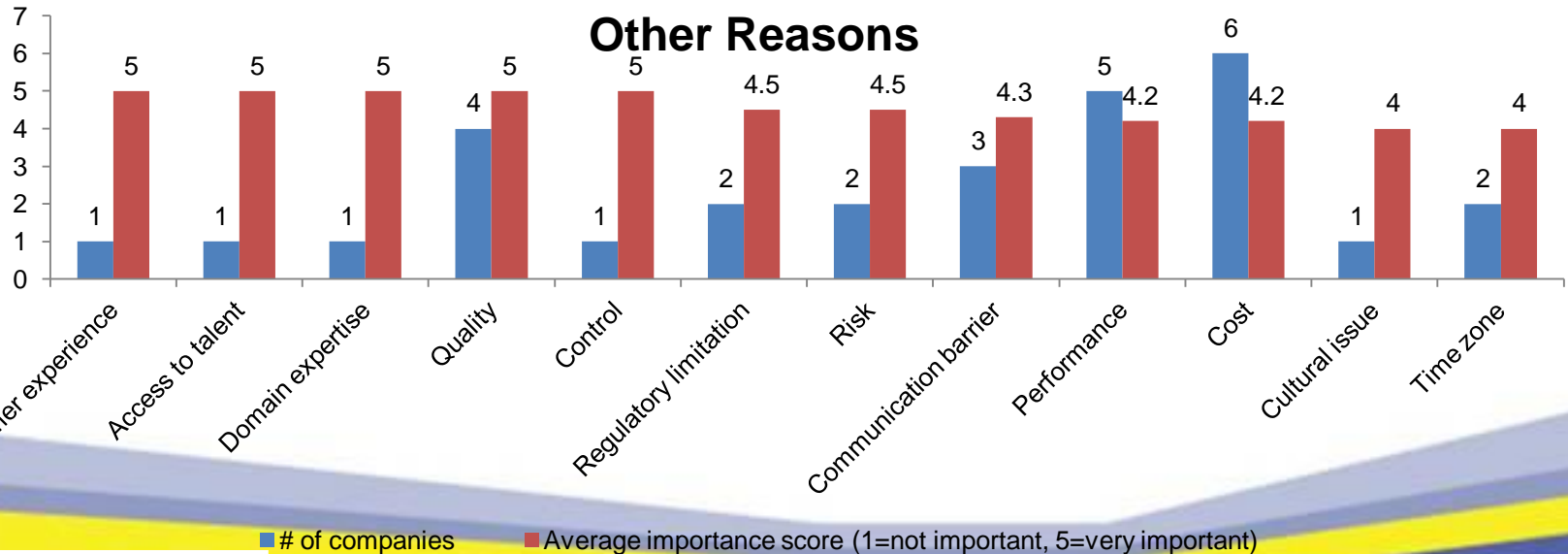
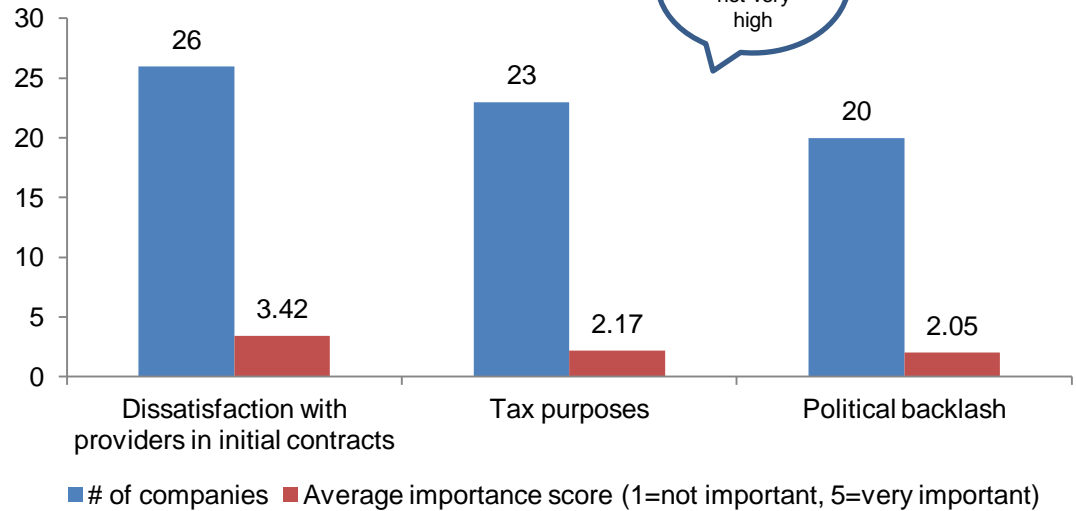
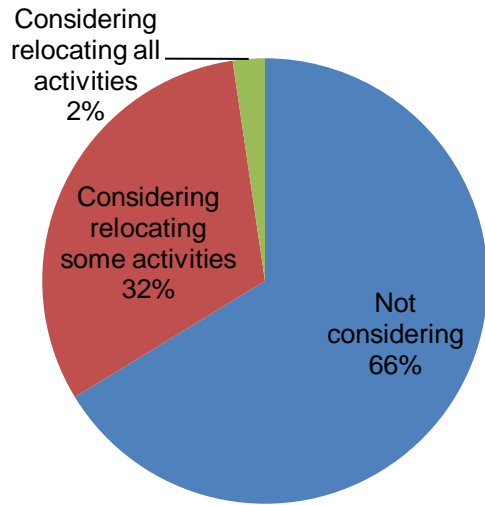
* n=86

Structural dimensions: Centralization-Decentralization of provider selection processes *



* n=62

Future plans: Re-shoring some or all offshore activities*



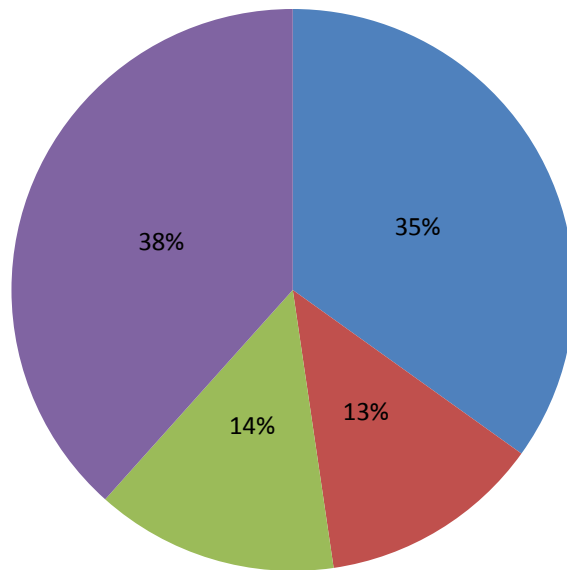
Appendix

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- About ORN

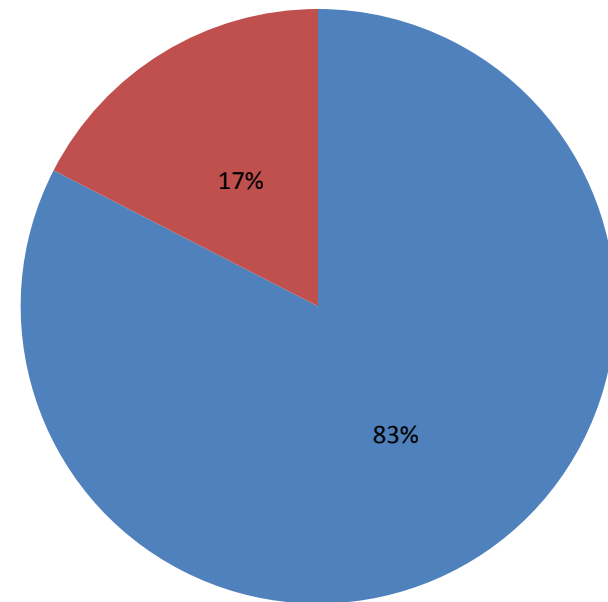
Demographics representation by company size and headquarters location *

Company Size



■ Small (<500) ■ Small-Medium (500-2,000) ■ Medium-Large (2,000-10,000) ■ Large (>10,000)

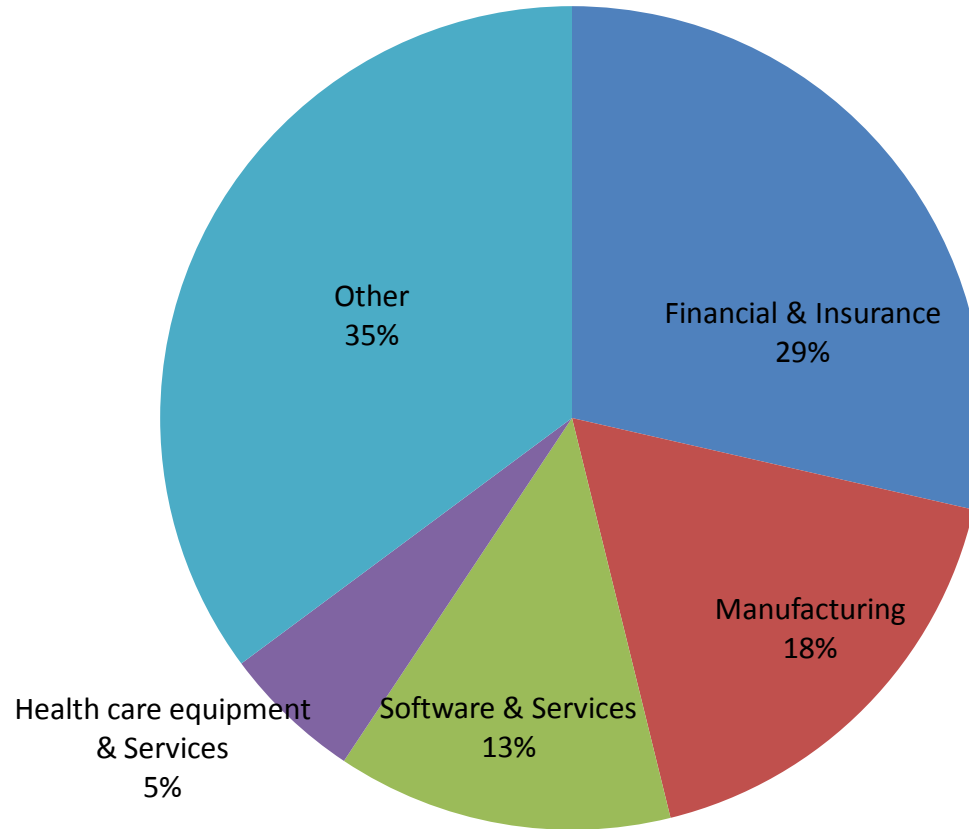
Headquarters location



■ USA ■ Other

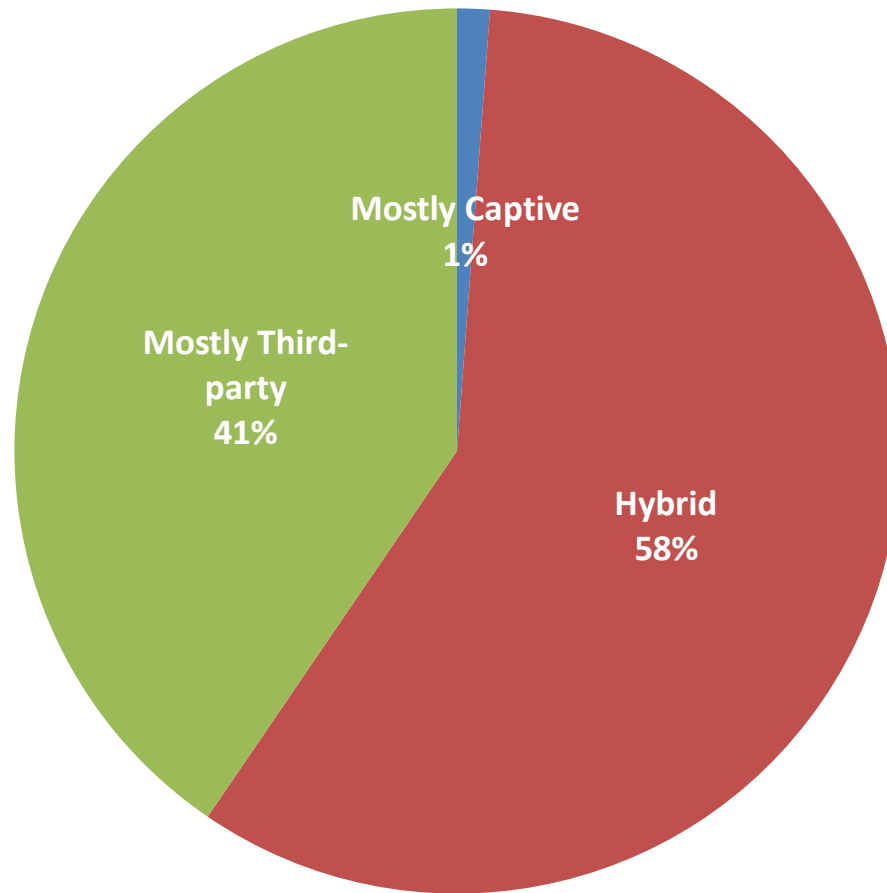
* n=86

Demographics representation by industry*



* n=86

Structural dimensions: Global sourcing model configuration *



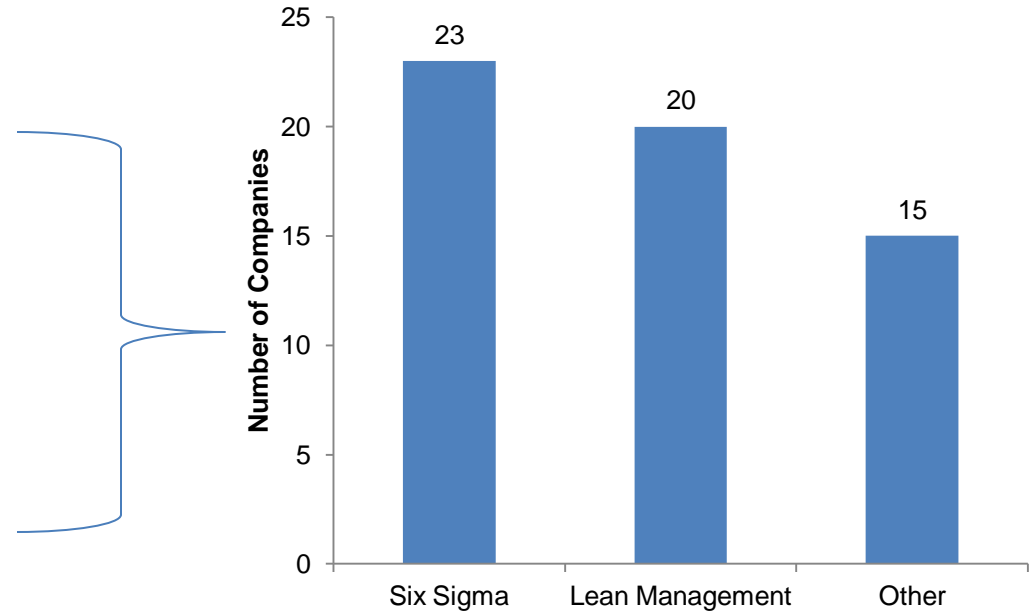
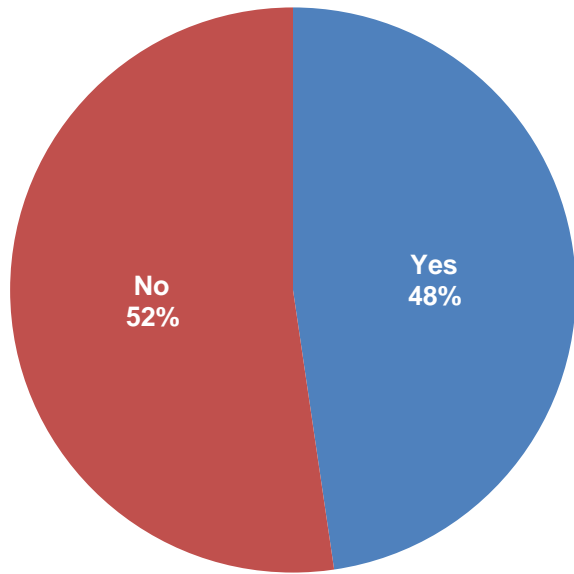
* n=86

Mostly captive: More than 80% of sourcing implementations are in captives

Mostly third-party : More than 80% of sourcing implementations are with providers

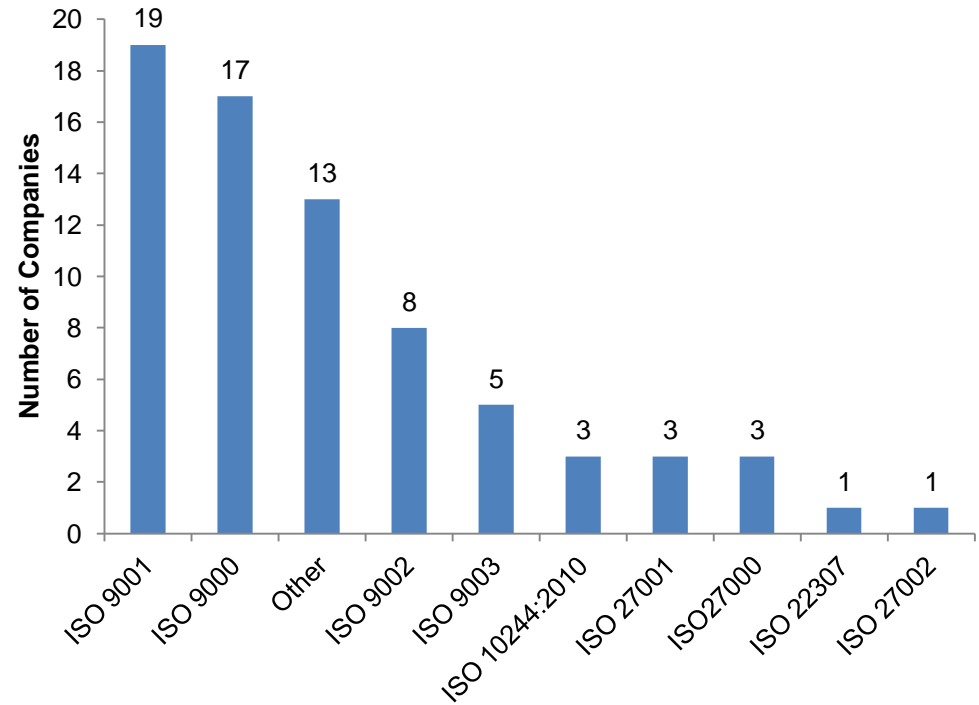
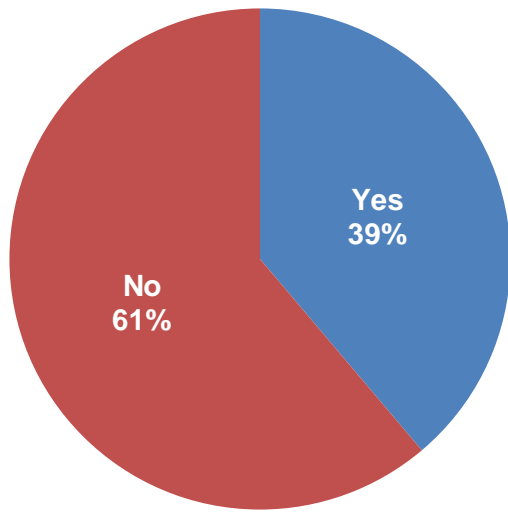
Hybrid: captive and third party < 60%

Utilization of process improvement methods (e.g. six sigma, lean management) in sourcing applications*



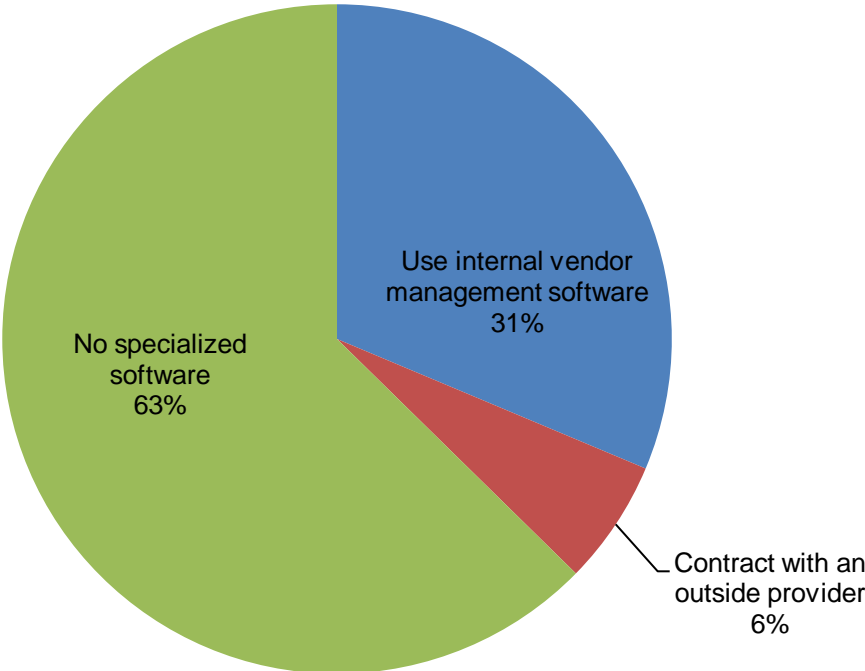
* n=86

Compliance with ISO standards*



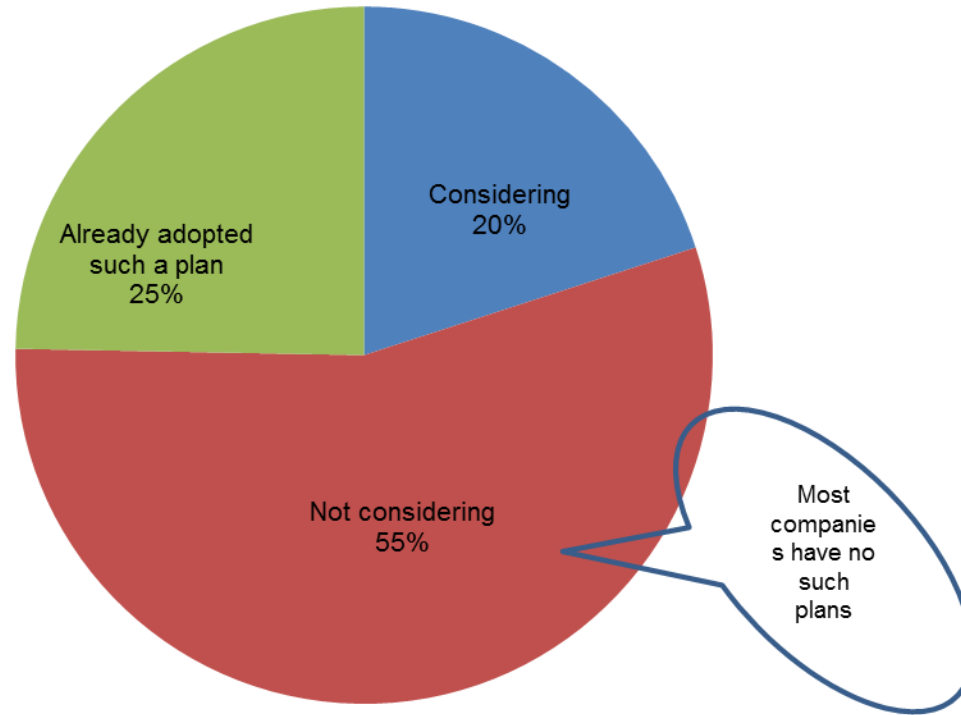
* n=86

Significant percentage of companies are not deploying vendor management tools (e.g. tracking provider performance, risk management, etc.)*



* n=86

Future plans for implementing a Global Business Services Organization



* n=86

Scope and capabilities: Dimensions of operational effectiveness

- For each of the following sourcing practices, please select all that apply to your company:

	Not in place / under active discussion to be implemented (1)	Directs attention to key operational priorities (2)	Largely implemented and making steady progress (3)	Substantially operationally integrated (4)	One of the earliest game changing initiatives involving sourcing practices (5)
Corporate-wide strategy* guiding offshoring decisions related to business support functions, applicable to all business units and functions					
Clear, measurable, reportable objectives for global sourcing activities					
Operating Level Agreements** (OLAs) with preferred providers					
A defined process for setting up a global service delivery structure					
A formal management and monitoring program for key suppliers with an OLA agreement					

* A corporate-wide offshoring strategy for business support functions is a set of guidelines defined by top management (C-level suite) that lends legitimacy and coherence to offshoring decisions across all business units and functions (e.g. IT, contact centers and BPO) and outlines specific objectives such as cost reduction, increased service quality and reliability, and the avoidance of certain risks.

** OLAs document how providers will deliver services to the organization.

Scope and capabilities: Dimensions of operational effectiveness

- Does your company have a **formal process for allocating savings** that result from offshoring business support functions? (e.g. credit to profit centers, increment R&D, credit to manager earned bonus)

No defined process			Ad-hoc		Defined process
1	2	3	4	5	

- In your company, how simple is it to **identify costs** associated with the sourcing operation (e.g. cost of processing an invoice, cost of resolving exceptions)?

Highly complex (require special effort)			Require some effort		Very simple (nothing to it)
1	2	3	4	5	

- In your opinion, what is your company **overall effectiveness** in managing global sourcing of business support functions (compared to industry peers)?

Work in progress			Average		Best in class
1	2	3	4	5	

ORN History and Scope

- **Initiated** in 2004 at Duke University CIBER, Fuqua School of Business
- **ORN Buy-side Survey** (2004-2012) includes over 2000 companies that **do, do not, or are considering**, covers **all industries** (e.g. financial services) **all functions**, (e.g. IT) **all locations** (e.g. Latin America), and **all delivery models** (e.g. captive, hybrid), tracks **adoption over time** by launch year, tracks adoption of **offshoring strategies** at corporate & function level
- **ORN Service Provider Survey** (2007-2012) includes over 900 participants

ORN University Research Partners



- **Scandinavia:** Copenhagen Business School, Prof. Torben Pedersen, and Prof. Bent Petersen
- **UK:** Manchester Business School, Prof. Silvia Massini
- **Netherlands:** RSM Erasmus University, Prof. Henk Volberda
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- **China:** Zhejiang University, Executive Dean Wu Xiao Bo
- **New Zealand:** Prof. Sally Davenport, Victoria Management School
- **Singapore:** SMU, Prof. Tan Wee-Liang

Sample of Recent ORN Practitioner Reports and Presentations



- May 2012, Yeda Swirski de Souza Presentation, *Growing Business Services Industry in Columbia*, ANDI Outsourcing Summit, Columbia
- April 2012, Chris Disher Presentation, *Sala de los Americas Congreso Internacional Business Process*, Colombia
- April 2012 Financial Services Roundtable Briefing on Location and Country Risk
- March 2012, ORN Findings in Relation to American Competiveness, Globalization Leadership Council , New York
- February 2012, *Global Sourcing of Business Services: Key Findings and Trends from ORN Research*, IAOP 2012 Outsourcing World Summit , Florida
- December 2011 Financial Services Roundtable Briefing
- 2011 Corporate Client Survey Report, “Organizational Flexibility: The Strategic Differentiator of Global Sourcing Effectiveness”
- 2011 Service Provider Survey Report, “The Ever Changing Global Service Provider Industry”
- 2010 Corporate Client Survey Report, “Taking Offshoring to the Next Level”
- 2010 Service Provider Survey Report, “Is the Global Outsourcing Industry in for a No-Holds-barred Competition?”
- “Financial Services Offshoring: Moving Toward Fewer Captives and Global Cost Competitiveness”, The Conference Board - Offshoring Research Network Executive Action Series. 2010
- “Offshoring in High Tech and Telecom”, March 2010
- “Offshoring in Retail and Consumer Goods”, February 2010
- “Offshoring in the Manufacturing Industry”, February 2010

ORN Recent Academic Publications

- “Co-Evolution Of Global Sourcing: The Need To Understand The Underlying Mechanisms Of Firm- Decisions To Offshore”, *International Business Review*, Special Issue Co-evolutionary Research on Global Sourcing: Implications for Globalization, International Strategies, and Organizational Designs Vol. 20, 3, June 2011, 241–251
- “Governance Modes for Offshoring of Support Functions; A comparison of US and German Firms”, *International Business Review*, (2011) Vol 20 (3), June 2011, p291-313
- “The Stability of Offshore Outsourcing Relationships: The Role of Relation Specificity and Client Control”, *Management International Review(MIR)*, (2011), Vol. 51 (3), p381-406,
- “The Growth of White-Collar Offshoring: Germany and the US from 1980 to 2006”, *European Management Journal*, Aug. 2011, p245-259
- Micro Foundations of Internal and External Absorptive Capacity Routines. *Organization Science*,22: 81-98, 2011.
- “From Blind Spots to Hotspots: How Knowledge Services Clusters Develop and Attract Foreign Investment”. *Journal of International Management*, Vol16(4), Dec.2010, p369-382
- “Conceptual Issues in Services Offshoring Research: A Multi-disciplinary Review”, *Group & Organization Management*, February 2011, Vol36 (1) p70-102
- “Role of Corporate-wide Offshoring Strategy on Offshoring Drivers, Risks and Performance”, *Industry and Innovation* , special issue on Offshoring of Intangibles. Vol17(4), 2010 p 337-371

Thank You...

More information on the Offshoring Research Network

- **Visit Our Website:** <http://offshoring.fuqua.duke.edu>
- **Visit ORN on Wikipedia:** http://en.wikipedia.org/wiki/Offshoring_Research_Network
- **Join our groups on** www.Linkedin.com **and** www.XING.com!
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