



# EMCC company network

## Offshore outsourcing of business services: Four case examples

*Elcoteq Tallinn: Outsourcing human resources*

*Siemens Business Services (SBS): IT solutions and  
service provider*

*T-Systems: Global sourcing of an ICT service provider*

*ABN AMRO: Outsourcing, offshoring and social dialogue  
in the Netherlands*



The case examples are available in electronic format only.

*The seminar 'Offshore outsourcing of business services – threat or opportunity' was held at the Reval Hotel Olümpia in Tallinn, Estonia, on 17–18 March 2005. Some four companies – Elcoteq-Personalijuht (Estonia), Siemens Business Services (SBS, Ireland), T-Systems (Austria) and ABN AMRO (the Netherlands) – gave an account of their activities and experiences. The seminar explored the reasons why companies offshore and outsource non-core business activities, as well as examining the development and implementation of offshoring and outsourcing strategies, and their employment implications and policy responses. An audience of 45 participants from 16 EU Member States attended the presentations and played an active part in the discussions. The participants represented a wide range of stakeholder groups, including employer associations, trade unions, companies from various business sectors, consulting firms and research institutions.*

## **Elcoteq Tallinn: Outsourcing human resources**

### Box 1: Overview

The Elcoteq Network Corporation is a leading electronics manufacturing services (EMS) company with original design manufacturing (ODM) capabilities. Elcoteq offers global end-to-end solutions consisting of design, new product innovation, manufacturing, supply chain management and after-sales services. The company employs nearly 20,000 people worldwide and is present in 15 different countries across more than four continents.

The corporation's Tallinn subsidiary is an offshoring offspring that has been the fastest growing operation within the corporation. Today, Elcoteq Tallinn employs approximately 3,700 employees and operates in two plants with a total floor space of 42,000 m<sup>2</sup>.

Last year, Elcoteq Tallinn decided to outsource a part of its human resources (HR) activities, namely, the administration of employee data and employment contracts, to the HR service provider, OÜ Personalijuht, an Estonian small and medium-sized enterprise (SME).

Decisive factors, which influenced the decision to outsource, included the enormous growth in personnel (from about 2,200 to 3,700 employees within one year) and a new labour law requiring consultancy expertise and a review of all existing contracts. Furthermore, the HR department wished to improve quality and cost-efficiency by outsourcing to experts. Personalijuht administers Elcoteq Tallinn's employee data and employment contracts and is available, on demand, for consultancy and training of HR employees. This outsourcing project was driven by the desire for company expansion and did not lead to job losses in the HR department of Elcoteq Tallinn, although employees initially feared that it would. Overall, the outsourcing of non-core HR functions has been evaluated as a successful project by Elcoteq Tallinn's HR management.

The service provider, OÜ Personalijuht, concludes from this experience that the outsourcing of HR functions is generally possible; however, they consider it to be very much a local business activity, requiring an understanding of local culture, legislation, etc, and therefore unsuitable for offshoring. For this reason, OÜ Personalijuht has founded a daughter company in Lithuania and has plans to offer HR and payroll administrative services to Scandinavian clients operating in other parts of the Baltic region.

## **Company history and profile: Elcoteq Network Corporation**

### **Finnish company offering expertise in EMS**

Elcoteq's origins go back to 1984, when the Finnish company, Lohja Microelectronics, was founded, to support the Lohja Corporation's production of electro-luminescent displays, in the town of Lohja in southern Finland. At that time, Nokia in Finland and Ericsson in Sweden had developed the first mobile phones that were based on the Nordic mobile telephone (NMT) standard. One of the bottlenecks holding back full-scale production of these products was the lack of capacity and know-how in the assembly of small components. As a result, both Ericsson and Nokia decided to become customers of Lohja Microelectronics in the late 1980s. Since then, Elcoteq has been operating as an EMS provider, with Ericsson and Nokia as its biggest customers.

In 1990, the Lohja Corporation demerged its business operations and relaunched them as separate companies. This resulted in the setting up of Metra, of which Lohja Microelectronics became a part. Subsequently, Lohja Microelectronics was re-named Elcoteq Oy Ab, marking the start of its role as an independent company. During the period 1992–1997, Elcoteq witnessed rapid entrepreneurial development, including a sharp increase in the outsourcing of production to its manufacturing partners. In 1991, Elcoteq started with 170 employees in one plant in Lohja; the following year it expanded its operations to Tallinn.

### **Elcoteq Tallinn**

Before the move to Tallinn, a lengthy feasibility study was conducted, which mainly focused on assessing various Asian countries as potential locations. In the end, the proximity of location, the close historical and commercial ties between both countries and the recent independence of Estonia tipped the balance in favour of Tallinn as a preferred location.

In 1992, pilot production commenced in Tallinn with 10 employees; by 1993 the company was established as a legal entity. The Tallinn facility rapidly grew into a full-scale production plant with several hundred employees. As projects grew, the plant was extended several times. Over the years, the Estonian subsidiary has experienced the most rapid development of all parts of the Elcoteq Network Corporation.

The company's rapid growth necessitated external funding and, therefore, in November 1997 Elcoteq was listed on the Helsinki exchange. By then, Elcoteq ranked among the world's biggest electronics manufacturing services (EMS) companies assembling mobile phones and counted the two most successful companies in the mobile phone market – Ericsson and Nokia – as its customers. Elcoteq was also the first EMS manufacturer to be given responsibility for the manufacturing of one of the mobile phone models from start to finish. Manufacturing of the Ericsson 628 model started in Tallinn in 1997 and played an important role in attracting new investors. In 2002, a strategic revision process concluded that there was a genuine need to broaden the company's service portfolio from manufacturing, new products introduction (NPI) and logistics, to cover design, sourcing and after-sales services. The first step towards increasing Elcoteq's design expertise was the establishment of the Elcoteq design centre, which focuses on the design of mobile phones.

### **Going global**

Elcoteq expanded its operations internationally, and by 1999 a network of plants had been established, covering more than 10 countries in three key regions of economic growth: Europe, America and Asia. By the end of 2002, Elcoteq acquired 70% ownership of two Chinese joint-venture EMS companies – Shenzhen GKI Electronics Co. Ltd. and Beijing GKI Electronics Co. Ltd. Through this acquisition, Elcoteq doubled its presence in China, the fastest growing telecommunications market.

At the beginning of 2004, Elcoteq agreed to sell its industrial electronics business to the Swiss company, Enics AG. In addition, operations at its industrial electronics manufacturing plants in Baden (Switzerland) and in Vaasa and Lohja (both Finland) were transferred to the new company. This deal enabled Elcoteq to concentrate fully on developing and providing services to communications technology customers, in line with its strategic focus.

In 2004, the company's capacity was increased with a new production space in Estonia and through more efficient use of existing premises in Mexico and Hungary. In addition, the company announced its intention to build a new plant in Russia and to start offering electronics manufacturing services in India and Brazil.

Figure 1: *Elcoteq network global coverage*

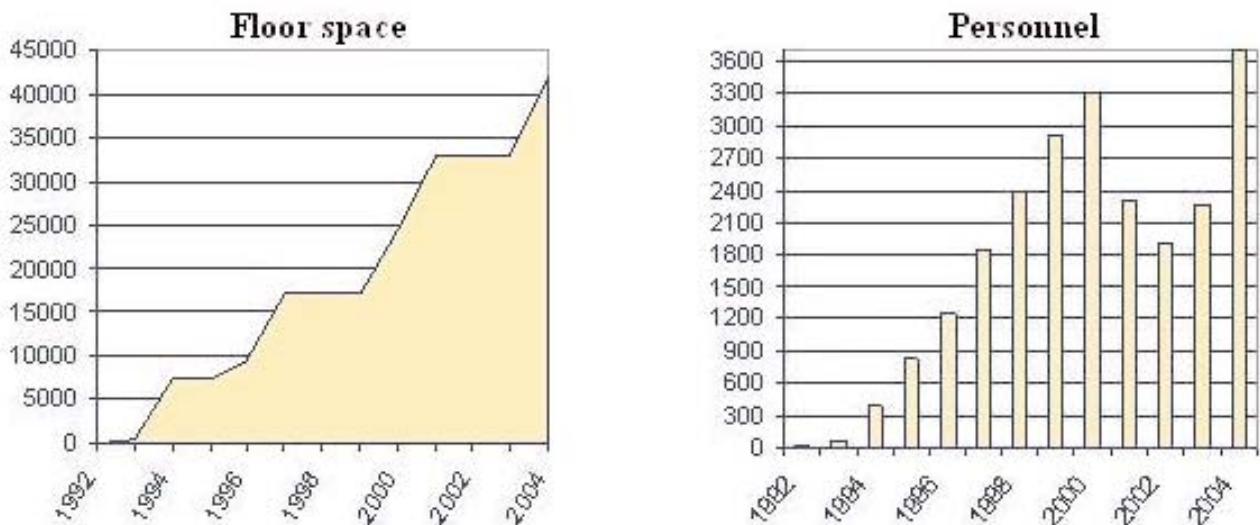


### Elcoteq Network Corporation and Elcoteq Tallinn

The Elcoteq Network Corporation is today a leading electronics manufacturing services (EMS) company with original design manufacturing (ODM) capabilities in the communications technology field. Its founders – Antti Piippo, Henry Sjöman and Jorma Vanhanen – are still the principal shareholders of the company. Elcoteq's consolidated net sales for 2004 totalled €2.95 billion.

Elcoteq Tallinn currently employs about 3,700 employees and it represents Estonia's biggest electronics company. Since 1994, it has also become the biggest exporter company in Estonia. Elcoteq Tallinn operates in two plants: the second plant was opened in 2001 and further extended in 2004. Its new product introduction (NPI) centre was set up in 2000.

Figure 2: Floor space and personnel development in Elcoteq Tallinn



For further information on Elcoteq, please visit the company's website at: <http://www.elcoteq.com>.

### Outsourcing the administration of employee data and employment contracts

Last year, Elcoteq Tallinn signed a contract with the HR firm, Personalijuht, to outsource non-core human resources (HR) functions, namely, the administration of employee data and employment contracts. Other areas of activity and responsibility of human resources management (HRM) include:

- HR planning in close cooperation with relevant managers;
- recruitment and selection;
- training, development and talent management;
- rewarding and retaining employees;
- consultation and support to managers in HRM and labour laws regulation;
- payroll.

It is not Elcoteq's intention to outsource its entire HR function as such: the activities chosen for outsourcing are mostly of an administrative nature and are therefore regarded as being well-suited for outsourcing. Services outsourced include:

- drawing up and administration of employment contracts;
- HR data administration in personnel records programme;
- employment records book retaining;
- entrance rights and cards administration;
- HR-related statistics and analyses;
- labour law-related consultancy and training.

One central reason given for the decision to outsource certain human resources functions was the fact that the number of personnel had increased considerably, from 2,219 to 3,500 in just one year. By reorganising the HR department, the company hoped to better fulfil the business needs of better quality, cost-efficiency and consistency. The requirement to standardise labour law-related administrative activities and to build up a competent pool of consultants was another contributing factor. The decision to outsource certain functions, in turn, enabled human resources management to develop a strategic focus in developing and improving its core HR processes.

The HR manager of Elcoteq Tallinn reports that a HR conference featuring outsourcing topics had originally inspired them to explore such a solution. Estonia being a small country, the providers of outsourcing services in the HR sector were already well known to the HR manager. Personalijuht was chosen, primarily because of its reputation within Estonia as the company offering the greatest expertise in its field; as a result, Elcoteq Tallinn had great confidence in their abilities.

### **Benefits of outsourcing HR and lessons learnt**

Elcoteq is pleased with the outcome of its decision to outsource some of its HR activities. The outsourcing began in April 2004 and by September of that year the new procedure of administering employee data and employment contracts was introduced. One effect, already noticeable, has been the improvement in HR data updating and in administration-related information flow. Outsourcing has led to improvements in quality and in the timeliness of data handling. The services provided include regular statistical analyses of headcounts and of the number of employees entering or leaving Elcoteq (including back-up data on employees, on maternity leave, etc), as well as the correction of documentation and personnel records.

In addition, a new labour law requires that all existing contracts be reviewed, a task that is also being carried out by staff at OÜ Personalijuht.

The outsourcing project also involved a considerable amount of training. A total of 130 managers, from all levels of management within Elcoteq Tallinn, were trained by professionals from OÜ Personalijuht, in labour law regulation and procedures. Elcoteq Tallinn's HR staff can access labour law-related advice on a continuous basis, with experts from Personalijuht available for consultancy on new or complicated cases. This type of cooperation is cheaper than hiring external experts on each occasion. Thus, cost savings are achieved through fixed service fees, with no extra costs incurred for training, back-up, recruitment, etc.

One initial challenge was the resistance to change among Elcoteq Tallinn's HR employees. They had no previous experience of outsourcing and a great deal of insecurity was expressed, largely, the fear of job loss. It took a considerable amount of time for the HR manager to convince employees about the benefits of outsourcing and to show that the decision to outsource was due to massive growth in the number of personnel, which would result in more, not less, work for the HR department. No jobs were lost because of this outsourcing arrangement. The HR department has 15 employees, plus three additional employees for handling payroll administration. Their workload remains high, even after the outsourcing.

A second difficulty arose during the transferral and introduction phase, which was accompanied by increased dissatisfaction. It took time for the entire outsourced service to run smoothly and for the outsourcing provider to understand the company business and to grasp the complexity and volume of the service that was required. Overall, the cooperation was viewed by both parties as a mutually challenging learning experience.

Elcoteq Tallinn outlines the following success factors as being influential in the smooth cooperation with Personalijuht:

- detailed planning of the service process, and of its transfer and implementation;
- support and open-mindedness for change in the implementation phase;
- readiness to deal with setbacks;
- agreements on how to deal with setbacks;
- information sharing and cooperation;
- trust and commitment.

Many meetings and discussions took place to create clarity on the division of labour and on the respective responsibilities of each party. This project illustrates that outsourcing processes require a lot of cooperation and communication, to build up trust and mutual understanding, with 'soft issues' being of essential importance. Elcoteq Tallin's HRM department regards this outsourcing project as a continuous process, aimed at long-term cooperation.

### Personalijuht's perspective

OÜ Personalijuht was founded in 2000 and offers outsourcing services in human resources management (HRM); it currently employs 10 HRM professionals. In August 2003, it set up a daughter company, Personalo Vadovu Paslaugos, in Lithuania. OÜ Personalijuht believes that the local market for HR outsourcing is now reaching maturation (in 2005). In its first four and a half years of business, OÜ Personalijuht has served 51 clients, although never more than 10 clients simultaneously. Most clients are foreign companies or companies with international links. The length of outsourcing contracts varies from long-term contracts, of three years or more, to short-term contracts for a specific purpose, for instance, auditing the HR functions of a client.

For the relatively small OÜ Personalijuht, the contract with Elcoteq Tallinn was huge, because it involved administering the records of more than 3,500 employees. Compared with other contracts, therefore, the work was of exceptionally high volume as well as being highly complex. In addition, it had to be taken on in the context of the introduction of a new labour law.

For OÜ Personalijuht, the following aspects are crucial for successful outsourcing:

1. analysing the customer's needs;
2. developing and implementing new procedures;
3. choosing the right tools;
4. designing the full scope of the service;
5. training and preparing personnel (if necessary, training at the client's site);
6. regular feedback and updating.

The company culture, even in cases of outsourcing standardised services, has a remarkably strong influence on the outsourcing service, especially in relation to HRM. OÜ Personalijuht claims that its flexibility in adapting to the customer's culture is a crucial asset. The personal characteristics of HRM professionals are often very significant, and

OÜ Personalijuht aims to reach a good match between its own professionals and its customers. Such ‘soft issues’, which include the management of diversity, are important factors influencing successful cooperation.

In the case of Elcoteq, the client had a very clear specification of the services it required and of the tools to be applied. At the beginning, two to three meetings per month were organised, to help ensure smoother cooperation. Since then, this has been reduced to one meeting per month. According to Personalijuht, an essential part of the outsourcing project lies in the detailed and precise arrangements regarding who is responsible for what. This includes clear definition of different competencies and the elimination of ‘grey areas’.

Due to cultural, legislative and language reasons, Personalijuht concludes that HRM outsourcing is a local business and is therefore less suitable for offshoring. Local customs, the business culture, labour law, traditions and history all play an important role in HR. In addition, major national differences exist, even within the Baltic States. This logic underlies the company’s strategy of ‘going local’, by opening a daughter company in Lithuania. The next step in their growth strategy will be to develop and offer a new payroll administration service in Finland.

Overall, their experience implies that outsourcing may be both possible and beneficial, even in the HRM sector.

Presenters: **Agnes Hansen**, HR Manager of Elcoteq Tallinn AS, Tallinn (Estonia); and **Kadi Kesküla**, Chairperson of the Board, OÜ Personalijuht, Tallinn (Estonia).

## Siemens Business Services (SBS): IT solutions and service provider

### Box 2: Overview

Since its foundation as a wholly-owned subsidiary of Siemens AG in 1995, SBS has developed into a global full-service provider of IT solutions and services, offering the complete 'consult-design-build-operate-maintain' chain of services. In 2004, SBS employed 36,100 people in 44 countries and had a revenue of €4.7 billion.

SBS offers customers a variety of benefits, including greater cost-efficiency, improved service, quality, adaptability, governance, culture change and innovation. Service level agreements for the duration of each contract at SBS contain indicators for performance and quality; thus, everything is measured and quantified, and improved quality of service is ensured.

The company emphasises that when entering into outsourcing agreements, both parties must clearly define their desired outcomes and should seek a 'win-win' solution in every case. Achieving better outcomes for all stakeholders includes greater consideration for employees affected by outsourcing, who are regarded as a critical component of every outsourcing project.

In general, SBS seeks to operate from the most efficient locations, in order to address both their own needs and those of the customer. However, as each case is considered on an individual basis, in some cases certain global locations may not be suitable because of government legislation or customer requirements.

SBS currently delivers a large portion of its services from countries other than those in which the customer is based. At present, about 95% of the company's customers are located in the US and Europe.

According to SBS, delivery locations and their portfolios are key factors in the vendor proposition. In each case, a number of selection criteria must be balanced, typically taking into account the skills base, cost, language, time zone and stability of the location. Factors that might render a particular location unattractive include: legal constraints, insufficient telecommunications infrastructure, skills availability and cultural issues.

One example of outsourcing, given by the company as part of its seminar presentation, was a recent deal with the British Broadcasting Corporation (BBC), worth almost €2.7 billion. Under this contract, SBS will now deliver technology services to the BBC for the next 10 years. Accordingly, they will run and maintain the BBC's entire information technology service, including networks, servers, desktops, telephones, TV transmission technology and the BBC's website. In addition, the company will advise the BBC on IT-related issues. The contract has also led to SBS's acquisition of BBC Technology – a commercial subsidiary of the corporation; all 1,400 staff from BBC Technology have, as a result, been transferred to SBS. For legal reasons, this contract involved outsourcing but not offshoring.

The BBC expects this outsourcing to generate savings of €45 million annually, allowing it to focus on its core business of providing better programming. Another advantage for the client is improved cash-flow, as a result of the sale of BBC Technology.

## Company history and profile

SBS was formed in 1995, as a subsidiary of the German-based Siemens AG and Siemens Nixdorf Informationssysteme AG (SNI). The company started out with 2,100 employees and reached sales of DM 1 billion (€511 million<sup>1</sup>) during its first fiscal year. Initially, its core business mainly involved the supply of services to Siemens AG.

In 1996, SBS incorporated other operating groups from both Siemens AG and Siemens Nixdorf. It subsequently extended its field of activity and formed business units outside of Germany, namely, in North America, Austria, Norway, Sweden and the United Kingdom (UK). Offices in Belgium, Italy, France and Turkey followed, while outsourcing joint ventures were formed in Berlin, Saarbrücken and Hanover. As a result, the number of employees doubled to 4,200 and sales rose to more than DM 1.5 billion (€767 million).

In 1997, Siemens Nixdorf reorganised its business units which resulted in the reallocation of all business services and solutions to SBS. Consequently, SBS achieved a business volume of DM 6.2 billion (€3.17 billion) and its number of employees rose to 16,700.

In 1998, Siemens AG pooled its core competencies of information and communication technologies (ICT), to create just one single business segment, namely, I&C (Information and Communications), made up of three operating groups: I&C products, I&C networks and SBS. Today, I&C employs more than 110,000 people, and its sales account for a major proportion of Siemens AG's total sales.

In 2000, SBS took over the Siemens IT service group, enabling the company to offer the entire range of electronic business solutions from a single source. SBS contributed specialist expertise in analysing and rolling out IT solutions, while the Siemens IT service supplied its extensive technical know-how in the management of complete IT networks.

In 2002, SBS underwent a comprehensive reorganisation, which made it possible to provide even better support to international customers, as well as for business process outsourcing (BPO) projects. In October 2004, local business units were complemented by the setting up of 'global business units'. These units are responsible for worldwide activities in business solutions, operation-related services, product-related services and BPO activities. As part of its shared services project, SBS will look after the entire IT infrastructure for the Siemens organisation. Strategically, SBS is now sharpening its focus on the European and North American markets.

Since its foundation in 1995, SBS has developed into a full-service provider of ICT solutions and global services. In 2004, SBS employed 36,100 people worldwide and recorded sales of €4.7 billion. In terms of European contract volume in 2004, SBS ranked second as the most important outsourcing provider. According to Gartner market statistics 2004, SBS ranked fourth among outsourcing providers in Europe (by revenue, March 2004). In relation to outsourcing and IT maintenance, Siemens is one of the world's top 10 suppliers.

SBS Ltd is wholly owned by Siemens Holdings plc, which in turn is 100% owned by Siemens Aktiengesellschaft (Siemens AG). Headquartered in Munich, Germany, Siemens AG is a publicly-traded company, in which the largest individual shareholding is the 6.5% holding of the Siemens family. All other shareholdings are less than 5%. Siemens AG is the largest company in the electrical and electronics sector, the 21st largest company in the world and the sixth biggest employer in the world, with a global network of 426,000 people in 190 countries.

For further information on SBS, please visit the company's website at: <http://www.sbs.com>

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<sup>1</sup> All German mark (DM) euro equivalents are calculated at the irrevocable exchange rate of DM 1.95583 per euro.

### SBS solutions

SBS's outsourcing services and solutions consist of:

- solutions – business solutions including SAP (systems, applications, products), systems integration, IT and process consulting;
- BPO – outsourcing of IT-intensive business processes in human resources (HR) and financial services;
- operation-related services – information and communications outsourcing, including data centre, desktop, local area network (LAN)/wide area network (WAN) and call-centre management services;
- product-related services – vendor-independent hardware and software maintenance, infrastructure services.

For the customer, the range of services offered means that everything – from IT consulting to system integration and infrastructure management – can be obtained from a single source. Business solutions, outsourcing and IT infrastructure services are in great demand, and SBS accounts for more than 10,000 customers worldwide. These clients are found in a wide variety of sectors, particularly in the public sector, and in the manufacturing and financial services sector. The company also aims to become a key player across Europe in the areas of human resources and financial services.

### Reasons for outsourcing

From its perspective as an outsourcing service provider, SBS outlines the following benefits for its customers:

- cost efficiency – finding 'value traps' and releasing value;
- improved service – contract models encourage gain sharing; improved service is therefore a logical outcome;
- quality – rigorous key performance indicators (KPIs) keep providers focused on delivering value;
- adaptability – outsourcers have to be flexible to support constant business change;
- governance – using a specialist provider in a multi-source contract ensures value-for-money and reduces risk;
- culture change – shifting in-house IT management towards sourcing strategies and away from a purely operational budgetary approach leads to culture change;
- innovation – the customer is able to tap into new thinking, as well as new technologies.

Service level agreements for the duration of the contract ensure greater quality of service. These agreements specify indicators for performance and quality. To meet these targets, it is therefore necessary to ensure that everything is measured and quantified. Outsourcing projects often involve an explicit specification of all work, which results in a clearer division of labour. Lastly, and probably as a result of service level agreements, outsourced services usually lead to a higher level of service orientation among staff providing the service (even among employees transferred to the outsourcing agency, who previously did the same type of work). SBS describes the transition and roll-out phase of a project as one where it 'basically blends' with the customer.

## Outsourcing and offshoring at global level

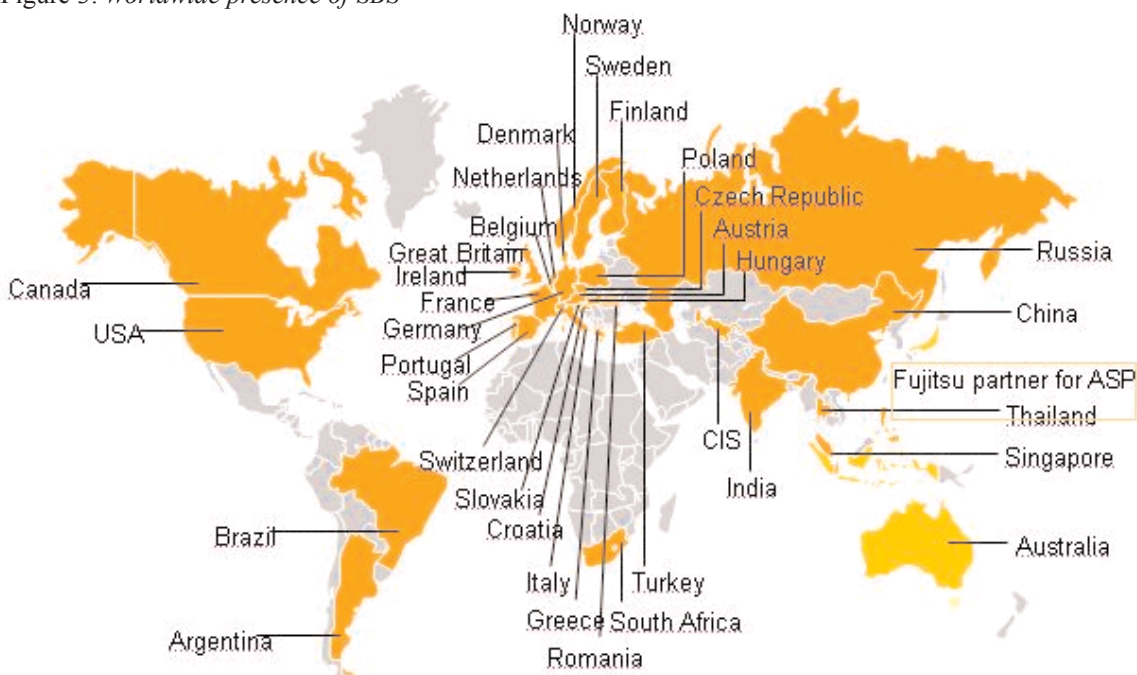
SBS has about 2,000 outsourcing customers worldwide, who are able to access 24-hour IT services. An indication of the scale of its business can be illustrated by the fact that the company handles:

- 20 million helpdesk calls every year (in 16 languages);
- 1.3 million managed desktops, plus communications;
- 225,000 SAP R/3 (SAP's integrated software solution for client/server and distributed open systems) and 100,000 mainframe users;
- 33,000 managed servers, plus peripheral equipment;
- 2,000 terabytes of managed storage, plus archives;
- 72 data centres with 1,500 mainframe applications.

Overall, SBS serves a wide range of customers including small and medium-sized enterprises (SMEs). For SMEs, outsourcing can provide access to an extensive source of IT knowledge that would be impossible, or extremely difficult, to acquire internally because of the investment required. In these situations, outsourcing can be an enabler. There are also many small companies within the Siemens conglomerate that are served by SBS.

As SBS develops the services it provides to other members of the Siemens group within its shared services structure, 'outsourcing to oneself' is becoming increasingly common. This type of outsourcing covers the areas of accountancy and finance, human resources, IT (infrastructural services for networks, data centres, desktop and voice), sourcing and logistics. SBS expects a number of benefits from this type of outsourcing. The management of Siemens' entire IT infrastructure will consolidate its position as a key player, therefore, further enhancing its market reputation. As a result of this expansion within the Siemens group, SBS will also have an excellent lever for enhancing its global delivery backbone. Thus, it will be able to accelerate the harmonisation and standardisation of services and processes, as well as generally improving its global presence and reputation.

Figure 3: *Worldwide presence of SBS*



At present, about 95% of SBS customers are located in Europe and the US. According to SBS, its delivery locations are a key factor in the vendor proposition. Selection criteria usually include the skills base, cost, language, time zone and stability of the location.

Units of the company that offer specific services are spread over several continents, including:

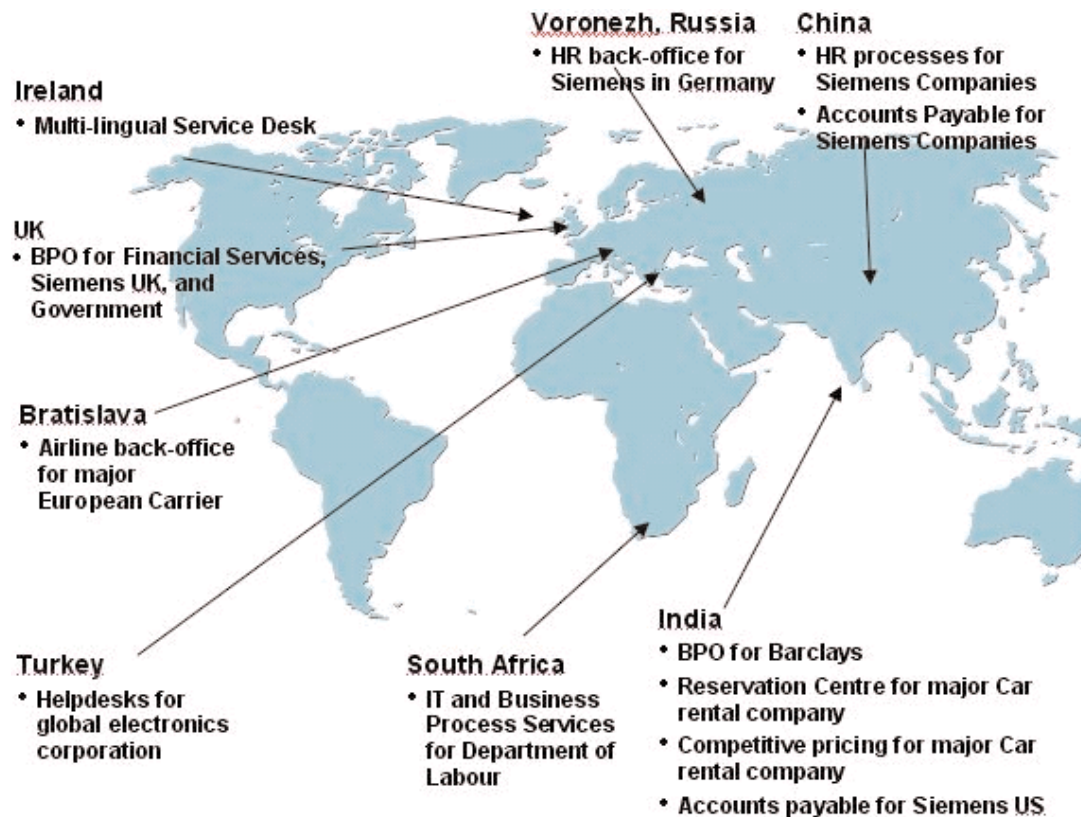
- Ireland (Cork) – customer interaction centre, marketing services: the facility at Cork was set up 6–7 years ago, largely because the required skills set was available at the right price at that time. Since then, the cost advantages have changed and some of the original services provided at this site are now carried out elsewhere. The facility has since refocused to become a provider of high-end technical services – a development which required considerable retraining. In the company’s view, location competition is currently intensifying, with new locations such as Istanbul and Manila increasingly competing with Ireland;
- Germany (Fürth/Munich, Paderborn) – customer interaction centre, data centre;
- Austria (Vienna) – customer interaction centre, data centre;
- south-east Europe (e.g. Bratislava) – inbox services;
- the Czech Republic (Prague) – accounting services;
- Turkey (Istanbul) – customer interaction centre, remote management services: Turkey has become an important location; SBS set up a technical academy and trained the local staff for six months. At this facility, mainly Turkish speaking personnel offer linguistic skills in English, French and German. Ireland, in contrast, provides staff from all over Europe;
- Russia (Voronezh) – inbox, invoice services;
- the US (Mason, Chicago) – customer interaction centre, data centre;
- Canada (Toronto) – customer interaction centre: the Toronto-based location is described as highly competitive because of its multilingual strengths, skills availability, time zone and stability;
- Singapore – shared services centre;
- India (Bangalore, Chennai) – application support, application management centre, outsourcing transition support;
- China – shared services centre: SBS is currently entering China because strategically it is seen as an important future location; in particular, its delivery capability is being built up, as it is forecasted that many customers will go there.

In order to increase its presence and market share in central, eastern and south-eastern Europe, SBS has recently taken a major step. According to a press release dated 31 March 2005 published on its website, SBS has just signed a contract to buy out the Romanian IT company, Forte SA. This acquisition will make SBS one of the leading Romanian IT companies. Headquartered in Bucharest and with a headcount of about 250 specialists, Forte SA provides services in systems integration and IT outsourcing. The IT company has developed a network of branches in nine of the largest Romanian cities, in addition to 32 working points in the remaining districts. This takeover was preceded by the acquisition of three other IT companies: IBIS-SYS in Serbia, and ELAS and HT Computers in Slovakia<sup>2</sup>.

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<sup>2</sup> While SBS continues to expand its service provision worldwide, the company also announced some workforce reduction initiatives in Europe. The **European Restructuring Monitor** (ERM, available at <http://www.emcc.eurofound.eu.int/erm/index.php?template=searchfactsheets>) recorded some of SBS's restructuring initiatives as announced in the press. These announcements reflect to some extent how the general public perceives such initiatives.

Figure 4: *Offshoring/outsourcing*



### Limitations of offshoring

SBS points out that a number of obstacles remain in relation to offshoring. This can be illustrated by the example of an SBS contract that could not be delivered as planned, because of limitations in the availability of telecommunications. A lack of telecommunications deregulation in the country concerned meant that the necessary infrastructure was not available and that routing via satellite would have to be used instead – such a move would not have been cost-competitive.

Skills and cultural limitations may also act as constraints. At some locations, certain levels of service cannot be reached, regardless of how much is invested into training. An example of this was a customer service centre in India, which could, in principle, have been used to supply Texan customers. However, because the Texans demanded agents with a Texan accent, offshoring was not possible in India. In some cases, offshoring will not be possible unless there is a change in customer attitudes.

### BBC: Outsourcing of technology services to SBS

In October 2004, SBS signed a deal worth almost €2.7 billion, to deliver technology services to the BBC over 10 years.

The BBC expects this move to generate savings of €45 million annually and to provide it with better programming technology, as well as improved cash-flow, following the outsourcing of its commercial subsidiary, BBC Technology. SBS plans to use the deal as a platform to expand its already well-established media business.

This cooperation involves a transformation of the BBC's underlying infrastructure. There are currently over 1,000 SBS people on-site managing 28,500 PCs, 267 national and international sites on the BBC network, the central control area (128 broadcast channel streams), as well as maintaining thousands of network miles. The company is also managing the BBC's website, with 1.7 billion page impressions per month, as well as handling 190,000 calls per month from the general public. SBS personnel are also coding and multiplexing 95,000 hours of digital TV output per month.

The BBC's decision to procure a new technology contract followed an internal strategic review of the corporation's technology requirements. This review identified potential annual savings for the BBC of around £30 million (€43.5million<sup>3</sup>), if its technology services were outsourced. The two other finalists in the final shortlist of candidate service providers were Accenture, a global management consulting, technology services and outsourcing company, and Computer Sciences Corporation (CSC), a leading global IT services company.

According to SBS, key benefits for the BBC, arising from this outsourcing contract, include:

- risk reduction;
- cost reduction, which is built into the contract, in addition to savings of £GBP 20 million per annum, which can go back into programming;
- improved levels of IT service;
- a 'best practice' approach to its commercial services management model;
- access to the Siemens global network, spanning IT, communications and media capabilities.

In October 2004, Siemens established a business dedicated to global media and the broadcast industry. All 1,400 staff from BBC Technology have been transferred to this company. For legal reasons, an offshoring option was not possible in this case.

Founded in March 2001, BBC Technology provided products and services to the BBC, and to other broadcasters, platform and content owners, and government organisations. BBC Technology's products and services include the award-winning Colledia™ portfolio, which includes a tape-free broadcast environment, media communications, internet solutions and consulting services. In addition to running the BBC's global IT infrastructure, BBC Technology has been involved in many other innovative projects at the corporation, including 'creative archive', broadband coverage of the 2004 Olympics, and the production modernisation projects underway at BBC news and at the BBC natural history unit. The company is also undertaking pioneering work with other media organisations, such as ESPN and DIRECTV in the US, and Discovery Networks and Hutchison 3G in Europe.

From the perspective of BBC Technology, being part of a large, global organisation like Siemens gives them access to resources, opportunities and investment, which were not previously available to them as part of the BBC, whose primary focus is on content, not on technology investment.

Presenter: **Garrett Quinn**, Business Development Manager, SBS Ltd, Customer Interaction Centre, Cork, Ireland.

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<sup>3</sup> All British pound (£) euro equivalents are calculated at an exchange rate of €1.45 per pound sterling.

## T-Systems: Global sourcing of an ICT service provider

### Box 3: Overview

T-Systems is one of Europe's leading information and communication technologies (ICT) providers. It belongs to the Deutsche Telekom Group, one of the largest telecommunications providers in Europe. The services of T-Systems encompass all levels of ICT, from ICT infrastructure and solutions to business process management (BPM). T-Systems has a presence in over 20 countries worldwide and serves some 60 multinational groups and large public institutions, as well as 160,000 large and medium-sized companies. As an outsourcing services provider, T-Systems uses offshoring on a global basis and refers to its offshoring strategy as 'global sourcing'. This involves simultaneously taking into account the customer's location (in line with T-Systems 'follow the customer' strategy) and assessing, on the basis of the company's global presence, the best location for work to be carried out at high quality and as cost-effectively as possible.

The company emphasises that there are different reasons for different types of offshoring and that each case has to be analysed thoroughly, on an individual basis. It stresses that core business activities should not be outsourced and offshored, whereas the outsourcing and offshoring of standardised and repetitive tasks works well.

As an illustration of the range of T-Systems' offshoring strategies, the following examples were given:

- the 'follow the sun' principle enables round-the-clock service provision by workers on overlapping shifts in different time zones. This has led to the setting up of network control centres in the cities, Chicago, Frankfurt and Tokyo;
- the 'follow the customer' principle involves following larger customers that have relocated, in order to provide business services closer to their manufacturing centres. This has led to the establishment of operations in locations such as China, as well as relatively high-cost plants in most western European countries, close to where customers are located;
- the 'time zone bonus' makes South Africa an ideal offshore location, as it is in the same time zone as Europe. T-Systems operates a remote monitoring centre in South Africa to service its European customers in real time;
- software development is offshored to Pune in India and to St. Petersburg in Russia, because of wage costs as well as the availability of skills. St. Petersburg is seen as a 'nearshore facility', since staff can be flown in on-demand in half a day. T-Systems has moved its coding work to India as it believes that this type of work is suitable for offshoring. Nevertheless, this work only represents about 35% to 40% of the total work, because many customers, who are most often located in Europe, have to be dealt with locally. Based on this experience, T-Systems recommends careful calculations when considering offshoring solutions: hand-over processes might become costly and eliminate any cost-savings achieved through offshoring;
- successful global sourcing involves a careful balance between high-cost and lower-cost operations. To achieve this, T-Systems operates low-cost service centres in the Czech Republic, Hungary and Slovakia while also retaining higher-cost centres in Germany, Switzerland and other western European countries. The company follows a 'mixed price approach', believing that expensive locations can be afforded in some countries, as these costs are offset by cheaper offshoring operations elsewhere. However, the company's presence in high-cost locations is also attributed to the 'follow the customer' strategy, as well as to specific skill requirements of some customers and, in some cases, to customer sensitivities in relation to corporate responsibility issues, for instance, in Germany.

## Company profile

T-Systems is part of the German-based Deutsche Telekom Group, one of the largest telecommunications providers in Europe, employing 247,000 people in 2004. About a quarter of these employees work in subsidiaries outside of Germany. In 2004, Deutsche Telekom's turnover was €57.9 billion. The company has a presence in about 65 countries around the world, and more than a third of its 2004 turnover was generated outside of Germany. Before the liberalisation of telecommunications, Deutsche Telekom was a nationalised company, today however, only 23% of the company's shareholdings are state-owned. The company claims to pursue sustainable personnel management strategies, and aims to balance competitive demands with its commitment to its employees. According to the group's website, Deutsche Telekom agreed an employment alliance with the trade union, ver.di, in 2004, to secure jobs within the company and to lower personnel costs considerably. This agreement included a reduction in the weekly working hours<sup>4</sup>.

Within the Deutsche Telekom Group, T-Systems serves 'business customers', which is one of three strategic business areas – the other two subdivisions being 'wireless communications' (served by T-Mobile) and 'broadband and fixed line communications' (served by T-Com and T-Online). T-Systems' customer base is comprised of some 60 multinational groups and large public institutions, as well as 160,000 large and medium-sized companies; it has a presence in over 20 countries worldwide. In 1995, T-Systems was formed as a result of the DeTeSystem and T-Nova merger, with the existing system houses of Deutsche Telekom, DeTeCSM (the internal IT service provider) and debis Systemhaus, purchased from DaimlerChrysler. Since Daimler did not consider IT services as its core business, it decided to sell off its IT-section, debis Systemhaus. For Deutsche Telekom the acquisition of the five-year old company was part of its overall strategic move to go global.

In terms of market position, T-Systems ranks as the number one provider of IT and telecommunications services in Germany. It ranks third in the western European ICT market for IT and telecommunications services. Globally, T-Systems is ranked tenth in IT services and seventh in telecommunications services. These rankings are based on current estimates and take into account direct competitors in the telecommunications services sector<sup>5</sup>.

The company's turnover for the 2004 financial year stood at €10.5 billion; it employs over 50,000 people worldwide.

T-Systems' services encompass all levels of ICT and it focuses its activities in the telecommunications, media, utilities, manufacturing, services and financial sectors, as well as in the public services sector. The company markets its services to customers as an outsourcing option that will result in increased flexibility and ability to react speedily to new market opportunities. It argues that by outsourcing to ICT experts, customers will be better able to continually adapt their business processes and IT solutions to the constantly changing market, thus optimising their opportunities. It also argues that customers will benefit from access to a large pool of IT personnel, who are trained to current market requirements.

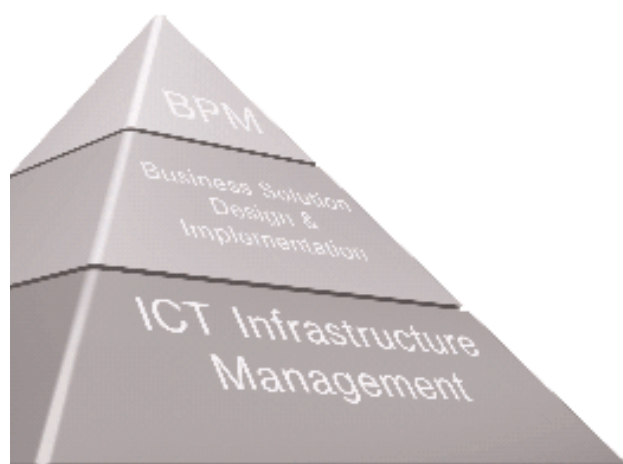
Figure 5 shows the three-level performance model used by the company, to classify the services it offers its customers.

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<sup>4</sup> The **European Restructuring Monitor** (ERM, available at <http://www.emcc.eurofound.eu.int/erm/index.php?template=searchfactsheets>) has recorded some of T-System's workforce reduction initiatives as announced in the press. These announcements reflect to some extent how the general public perceives such initiatives.

<sup>5</sup> Sources: PAC, T-Systems/Detecon, annual and broker reports, January–June 2004.

Figure 5: Performance levels



At a basic level, outsourcing of ICT infrastructure and management services can lead to a more demand-oriented and cost-effective ICT infrastructure for the customer. Many customers opt for this because infrastructure technology is becoming increasingly complicated; outsourcing gives customers the opportunity to access the latest cutting-edge technological solutions.

In its business solution design and implementation division, T-Systems develops, implements and operates solutions for supporting processes. Generally, standardised software, such as SAP (systems, applications, products), is used and application management is usually included in the package. In this instance, customers benefit from more efficient and dynamic processes.

Business process management (BPO) involves transferring an entire business process to the outsourcer. In such cases, T-Systems takes responsibility for the whole outsourced process, at all stages. This is deemed to be the most complex and challenging level of service, requiring the highest level of sophistication.

Different motivations and reasons for outsourcing apply in each of these three performance levels. Differing logics and strategies also apply with regard to telecommunications and ICT services.

For further information on T-Systems, please visit the company's website at: <http://www.t-systems.com>.

## Global sourcing: T-Systems offshoring strategy

Deutsche Telekom AG is currently moving towards a more customer-centric organisation, using slogans such as 'for the customers, with the customers, to get closer to the customers'. This customer-centred strategy is closely related to the concept of global sourcing, which takes into account the customer's location, as well as assessing the best and most cost-effective location for work to be carried out. DaimlerChrysler's expansion into China provides a good example. In order to avoid the risk of losing this important client, T-Systems responded to the move by following DaimlerChrysler to China and setting up operations there. In fact, it is now company policy for T-Systems to follow any of its top 60 customers (mostly multinational corporations), three months after a decision to relocate. In specific cases – for instance, when the political or ethical situation is difficult, or if it is only a short-term contract – local partners are engaged to provide services to these customers. In general, T-Systems aims to take over existing companies, rather than start from scratch

in a new location, although in some countries this strategy does not always work. In China, for instance, a company that is bought out could decide to reopen for business as a competitor next door. Overall, the company's merger and acquisition strategy is influenced by factors relating to profitability, the size of the organisation and the level of investment required.

T-Systems' worldwide resources include a global telecommunications network, providing access to over 50 countries and with over 2,000 access points, network control centres on three continents providing round-the-clock coverage, and 2,000 corporate networks. In relation to information technologies (IT), T-Systems provides services to 1.2 million desktop computers and over 550,000 SAP users, and has 32 data centres around the globe.

For T-Systems, several factors are critical for the success of an offshoring project. Firstly, long-term agreements and commitment by management are required. Secondly, suitable projects have to be selected, by first evaluating the implementation phase properly through a suitable pilot project. Thirdly, the process stages have to be clearly defined between the customer and T-Systems, so that a procedural model suitable for offshoring can be decided upon.

T-Systems argues that customers benefit from offshoring because: they get a 'one-stop-shop' service; the overall responsibility and risks are transferred to the outsourcing provider; better quality and standards (ITIL, ISO, CMMI) are guaranteed; and project management is provided. The advantages of an offshore delivery model include:

1. the price/performance ratio – an optimal team mix of local experts onsite, and cost-effective experts offshore, offer a balance between cost advantages and maximum efficiency;
2. the time factor – 'round-the-clock' availability of support services in application management; development and IT operations can be provided, a service which is especially important for global customers;
3. quality – guaranteed by uniform, comprehensive methods and processes, as well as the maintenance of core competencies onsite through local experts;
4. flexibility – offshore operations enable a more flexible capacity to be built up.

Overall, cost reductions can be achieved through a more judicious use of offshore components, while continuity and stability are provided by onsite teams who can address unique specifications.

T-Systems emphasises that core business activities should not be outsourced and offshored, but that outsourcing and offshoring of standardised and repetitive operations works well.

### Examples of T-Systems global sourcing

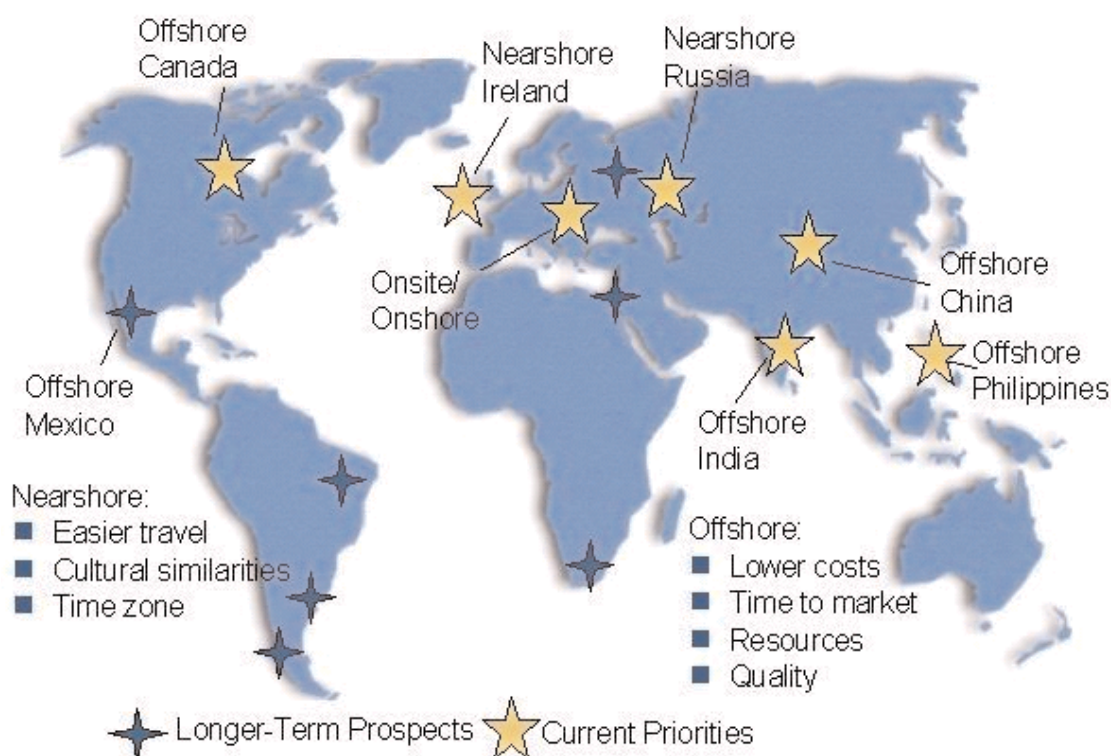
In general, offshoring trends tend to follow certain geographical paths: from north to south, from west to east and, in a recent 'reverse' offshoring trend, from east to west. An example of this latter trend can be seen in the way some of the larger Indian software companies (with over 10,000 employees) are moving certain functions to Romania. Such a move is largely motivated by lower wage costs in Romania, at around seven US\$7 per hour in Romania, compared with about US\$25 in India. Another advantage is the fact that Romania lies within the European time zone. Moreover, in terms of languages, Italian, French and German are available in Romania, whereas in India, English is usually the only European language spoken.

Overall, T-Systems claims to have detected a general trend of more Asian companies entering Europe, citing the large presence of Asian exhibitors at the CeBIT 2005 trade fair in Germany as an indicator of this growing trend. At this year's

trade fair, there were 777 companies from Taiwan and 310 from China (compared with 182 companies in 2004), a presence that has doubled since 2001.

T-Systems' offshore strategy for software development dates back to 1999, when partnership agreements were concluded in India. In 2000, the first T-Systems offshore projects were initiated. This was followed, in 2003, by expansion of its offshore partnerships (including with Syntel). In 2004, T-Systems India was launched in Pune as a company-owned offshore unit, and T-Systems St. Petersburg started operating as a nearshore unit. It is envisaged that further expansion of the company's offshore platform will take place in 2005.

Figure 6: Working where it makes economic sense: 'round-the-clock delivery'



Source: Gartner Inc., 2004

### Offshoring to India

In June 2004, T-Systems India Private Limited was founded. Since then, an agreement was made with the company's partner, Syntel, to assist in the build-up phase of T-Systems India, by providing management consultancy, resources, infrastructure and methodology, as well as tools. The operation started with 114 productive employees in the areas of SAP (the primary focus) and non-SAP (Siebel; Clarify, internet technologies and testing). By February 2005, the number of employees increased to 130; plans are underway to increase staffing levels up to 800 by the end of 2005. The majority of the work relates to offshore companies and only about 10% of the work is for local customers. T-Systems has also set up an experienced management team from Germany, and are optimistic that this will be an important success factor for this offshore operation.

The location of Pune in India was chosen, primarily because fewer software development companies are located there, compared to other major Indian centres. The popular offshoring destination of Bangalore, 200 kilometres from Pune, was avoided because of local competition between rival companies for staff. High staff turnover and a perceived lack of loyalty are regarded by T-Systems as key risks, particularly in an Indian context.

In line with its overall strategy, T-Systems does not offshore the whole software development process but only certain functions, such as coding. In the company's opinion, it is essential that customers are dealt with locally. Therefore, technical design, integration, testing, hand-over and translation services are carried out near the customer's location. T-Systems emphasises that when estimating the cost of contracts and considering offshoring solutions, it is important to take into account the costs of hand-over processes that might offset a considerable proportion of cost-savings achieved through offshoring. This implies that the benefits of offshoring only outweigh the costs of projects of a certain size, where economies of scale can be brought into play.

### **Offshoring to South Africa**

T-Systems operates its global control centre in South Africa, where the remote monitoring and control of over 2,000 servers, spread throughout Europe, is carried out. Uniform toolsets and ITIL (a standardised documentation tool) based processes are used, in addition to an automated reporting structure, which ensures immediate interaction of local management operations with international management. From a western European perspective, the major advantage of South Africa is its geographical location within the same time zone as Europe. According to T-Systems, this offshoring service works well because it involves 100% standardised activities.

### **'Follow the sun' principle: Chicago-Frankfurt-Tokyo**

By operating network control centres in Chicago, Frankfurt and Tokyo, 24-hour coverage can be provided, with each location taking responsibility for one shift. About 300 people are employed in the central management department of Telekom Global Net (covering 53 countries). This network is fully visible on a 72 square metre screen. Services provided include data line provision, network control, quality assurance, billing and security control.

### **Nearshoring to St. Petersburg: T-Systems CIS Russia**

T-Systems CIS Russia was founded in 1995 and has been used as a nearshore unit since 2004. In its first year as a nearshore operation, 26 projects were completed with a total of 41,600 working-hours. Of these, 25,600 hours related to T-Systems units outside of Russia. The services provided included 'application lifecycle management' and the development of individual and standard software.

The St. Petersburg team consists of 35 highly qualified software developers and project managers. All team members speak English and 10 also speak German. The nearshore operation in Russia also offers the potential for a flexible extension of resources, due to its large network of partners. At peak times or 'on-demand', programmers can be hired on a contract basis, thus creating another layer of outsourcing. For T-Systems, this has the advantage of lowering fixed personnel costs, thus reducing financial risk. The hourly wage rates at the St. Petersburg location are about €22 to €29 (depending on seniority) and are therefore comparable to Indian rates.

For T-Systems, the nearshoring concept embodied in the St. Petersburg operation offers several clear advantages over offshoring. The closeness of the St. Petersburg time zone and geographical proximity enables T-Systems to use staff on-site from Russia more easily. In case of problems or unexpected demands, they are within easy reach, since it takes only three hours to fly them in. In addition, extra flexibility is offered through the cooperation with the partner network, which allows extra programmers to be hired on-demand.

### **Nearshoring to Slovakia, Hungary and the Czech Republic**

- Deutsche Telekom operates the largest call centre in Slovakia, with 500 permanent employees on four sites covering 10 languages. The call volume is 41,913 hours inbound and 7,343 hours outbound. In 2004, 34% of calls received related to international inquiries. The call centre in Slovakia is a low-cost operation. This can be illustrated by one cost benchmark – a comparison of the ticket cost for service desk, level 3. In Germany, this stands at €16.85, compared to €8.32 in Hungary and only €6.89 in Slovakia.

- Slovakia was also considered as a location for ‘trouble ticket analysis’. However, T-Systems eventually decided to locate this service in Hungary, as the large number of companies setting up offshore facilities in Slovakia led to concerns about potential staff shortages. Such staff shortages can lead to higher costs when companies start competing for personnel, because of the costs of managing a higher turnover, as well as wage inflation.
- T-Systems operates an IT helpdesk (central services desk), which is located and hosted in Budapest, Hungary, but managed by the international service desk organisation in Germany. Services include 24-hour dispatching, service desk levels 1–3, as well as an applications and systems service desk. The Hungarian facility focuses on central and eastern European multinational customers. Further expansion is planned for the site, with growth plans for up to 250 agents. Apart from Eastern European languages, English, German and French are also spoken at this site.
- In the Czech Republic, T-Systems runs an open systems operation facility in Prague. The company plans to operate approximately half of the company’s new open systems business from this location. Its data centre capacity is adjusted accordingly to meet the needs of new customer projects. There is a maximum level of sizing flexibility, based on existing architecture, which facilitates ‘on-demand’ delivery and pricing models.

### Balancing global sourcing

The distribution of locations within T-Systems is based on a mixed price approach, which enables a flexible mix of high-cost and low-cost operations. Some high-cost operations can be afforded because of the savings achieved in low-cost operations, either nearby or offshore. Many of the company’s high-cost operations are located in Germany, where the mother company, Deutsche Telekom, is based.

Deutsche Telekom used to be a public enterprise, and therefore has a considerable legacy of corporate social responsibility in relation to the German workforce. Thus, agreements have been made that are supposed to safeguard the jobs of the existing German workforce, while developing global sourcing. Both corporate responsibility and the highly skilled and experienced nature of the existing workforce provide strong arguments for retaining German employees. T-Systems also operates service centres in former east Germany, where outdated IT centres were renovated within a month and the local workforce was used. In the city of Magdeburg, for instance, a large call centre operation was set up. However, T-Systems states that wage cost savings are beginning to diminish in east German locations, as wages in the east are becoming increasingly aligned with west German standards.

In western Europe, T-Systems runs another high-cost customer service centre in Switzerland (IT helpdesk). However, the language availability (12 languages) and skills base of the Swiss operation are considered to be important assets that are worth retaining. Special customers, with high language requirements are served by the Swiss team.

Finally, T-Systems’ ‘follow the customer’ approach means that the company is represented in most western European countries. An example of this is in relation to Airbus in France. Because Airbus is a major customer of T-Systems, the company decided to set up a service centre in Toulouse, where most of the important business is carried out. In Spain, T-Systems has customers from the public sector and employs 2,000 people in total. The Catalan government is a major customer, having outsourced 500 clerical jobs to T-Systems. As a result, T-Systems decided to locate the main IT centre in the Barcelona region.

Presenter: **Franz Grohs**, Senior Executive Vice President of IT Operations, T-Systems International, Deutsche Telekom Group.

## ABN AMRO: Outsourcing, offshoring and social dialogue in the Netherlands

### Box 4: Overview

ABN AMRO is a leading Dutch international bank that deals mainly in fund management, as well as business and banking leasing.

One unique aspect of ABN AMRO's outsourcing and offshoring project, which was of particular interest at the presentation, was the trade unions' involvement and the special arrangements that arose from the agreements made. It should be noted that the involvement of the works council and trade unions in outsourcing processes is a legal requirement in the Netherlands.

ABN AMRO signed its first outsourcing agreement with the trade unions in 2002. More recently, the bank signed an employability agreement with the four unions represented within the group. This agreement includes some general clauses governing the outsourcing of services, and others relating to the effects of offshoring – all of which cover the period 2004–2008. The trade unions regard this agreement as successful in relation to the promotion of individual interests, having pre-agreed conditions in the event of outsourcing, relating to the employer's duty to invest in the employability of its staff. However, agreement was not reached on the employer's responsibility to sustain the same level of employment, quantitatively or qualitatively.

For ABN AMRO, the goal of achieving considerable cost reductions was the main driving force behind its decision to outsource and offshore. However, there are other benefits, including a higher quality of service from outsourced or offshored work and a greater opportunity to focus on the core business. Offshoring also offers enhanced access to personnel resources (in relation to both skill sets and flexibility) and the possibility of 24-hour operations.

ABN AMRO's first large outsourcing project involved the outsourcing of IT services to Electronic Data Systems (EDS) in 2002, resulting in the transfer of 500 workers to that company. Overall, this outsourcing experience was evaluated positively, and revealed benefits such as a higher service-orientation among former employees, now working for EDS.

In 2003, insurance activities were outsourced to Delta Lloyd, resulting in the transfer of 600 employees. In this case, however, the integration of former ABN AMRO employees into the new organisation was more problematic.

The employability agreement includes a 'right to return' clause for an outsourced employee, exactly two years after their transfer: in these two outsourcing projects, about 10% of the employees made use of this guaranteed right; many of these employees were older workers.

In 2004, some back-office activities were offshored to India, involving a loss of 184 full-time equivalent jobs (FTEs) within ABN AMRO in the Netherlands. Of these, 140 employees were transferred to the internal employability centre; the remainder were transferred to other positions within the bank. Again, this relocation was driven by cost factors, with service costs being five times cheaper in India. This process showed that standardised activities can be successfully offshored; more individualised activities, which did not transfer as well, were brought back.

## Company profile

Established in 1824, ABN AMRO has its headquarters in Amsterdam, and has three principal client segments, which represent the core global strategic business units of the group. These units are divided as follows:

- consumer and commercial services (C&CC) – this unit provides financial services to personal customers and clients in the small and medium-sized enterprise (SME) sector, and accounts for more than 15 million clients worldwide. The principal home markets for this unit are the Netherlands, midwestern US and Brazil. ABN AMRO also has a presence in India, Saudi Arabia (through its interests in the Saudi Hollandi bank) and Italy (through its shareholdings in Capitalia and Banca Antonveneta);
- wholesale clients (WCS) – this subdivision deals with corporate, institutional and public sector clients in about 50 countries. It provides integrated corporate and investment banking solutions and is, in turn, sub-divided into three business units – global markets, global clients and wholesale client services;
- private clients and asset management (PC&AM) provides private banking services to wealthy clients, as well as asset management and trust services to individual and institutional clients. The private clients department is among the world's top 10 private banks, with €115 billion in assets under administration (December 2004). Asset management provides mutual funds and handles investment mandates; it has a local presence in some 30 countries and manages €161 billion (December 2004).

At the beginning of 2004, Group shared services (GSS) was established in order to create cost savings through consolidation and standardisation. GSS focuses on further exploiting new market solutions for support services, to help achieve better products and services for clients, at lower costs.

ABN AMRO's total revenue for the financial year, 2004, was €19.8 billion. The bank ranks 11th in Europe and 20th in the world – based on its tier-one capital – with €17.2 billion at the end of 2002.

Since 1990, ABN AMRO has been developing social plans, in the context of several corporate developments and restructuring projects. The first agreement, signed with the trade unions on the issue of outsourcing, dates back to 2002. More recently, the bank signed an employability agreement with the four unions represented within the group. This contains a specific clause on the general principles governing the outsourcing of services and another on the effects of offshoring. These texts cover the period 2004–2008.

For further information on ABN AMRO, please visit the company's website at: <http://www.abnamro.com> or <http://www.abnamro.nl> (in Dutch).

## Outsourcing and offshoring – cost reduction as the driving force

ABN AMRO describes competition in the banking sector as crippling. In order to meet financial goals, permanent growth is seen as necessary and this is partially realised through acquisition (e.g. in Brazil or the US). Increasing efficiency is a second requirement of increased competitiveness, which has led to the creation of shared services centres working for several businesses. ABN AMRO is convinced that it is better to outsource certain tasks to specialised companies, allowing the bank to focus on its core competencies. Similarly, activities that can be performed at lower costs elsewhere should be offshored<sup>6</sup>.

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<sup>6</sup> The **European Restructuring Monitor** (ERM, available at <http://www.emcc.eurofound.eu.int/erm/index.php?template=searchfactsheets>) has recorded some of ABN AMRO's outsourcing/offshoring initiatives as announced in the press. These announcements reflect to some extent how the general public perceives such initiatives.

The bank emphasises the political climate as an important factor in the decision to offshore activities. In the Netherlands, outsourcing and offshoring are seen as necessities and as a result have attracted little controversy. The Dutch central planning agency, for instance, has come to the conclusion that the Netherlands would benefit considerably from international specialisation through offshoring activities. The trade unions, however, have proposed that taxes should be levied on offshoring activities.

A unique aspect of the Dutch situation is a legal requirement to involve the works council and trade unions in outsourcing processes. ABN AMRO recommends involving the works council and trade unions from the start of an outsourcing process.

The bank structures its outsourcing processes as shown in Table 1. Management checkpoints throughout the process ensure that ABN AMRO is in control of the process and can stop it at any point.

Table 1: *Phases of an outsourcing process*

<i>Phase I</i>
1. Based on benchmark data, an initial assessment is undertaken to verify the potential added value of the outsourcing/offshoring initiative.
2. If verified, potential partners/vendors are selected and a request for proposal (RFP) is issued to get their reaction.
<i>Phase II</i>
3. RFP responses are collected, normalised and evaluated (rated on quality, commercial potential, risks, etc).
4. The value potential is reassessed.
5. If there are more vendors, a shortlisting procedure is put in place.
6. Preparations for due diligence commence.
<i>Phase III</i>
7. Due diligence starts, implying that vendors will be granted the opportunity to verify their biddings based on data the bank supports; vendors are screened in depth, to verify their capabilities to deliver what they have offered.
8. Vendors are asked to improve their initial RFP offering.
9. Responses are again collected, normalised, etc.
10. A final selection takes place.
<i>Phase IV</i>
11. Tactics for the contract negotiations are developed.
12. The contract is negotiated, agreed and signed off.
13. The decision process about value to be gained (including how it can be gained) is finalised.
14. The transition phase commences.
<i>Execution and management of the contract</i>
15. Starting the transition
16. Transformation phase
17. Building the new organisation
18. Management of the contract

With regard to offshoring, ABN AMRO outlines the following advantages:

- reduction in service costs – there are clear cost benefits with typical savings ranging between 40% and 50%, primarily through labour cost arbitrage;
- higher service quality – according to market surveys, 68% of organisations have experienced an improved service quality through offshoring;

- timely access to relevant skill sets – locations such as India provide large pools of resources at short notice, enabling volume fluctuations to be managed more effectively;
- asset utilisation – offshoring enables 24-hour operations, thus significantly improving asset utilisation, e.g. desks and workstations can be optimised through shift-work on a round-the-clock basis.

## **Experiences with outsourcing and offshoring**

### **Outsourcing of IT services to EDS**

ABN AMRO's first experience with outsourcing was a 50/50 joint venture with Mellon, affecting the maintenance of security and of 140 FTEs. In 2002, a larger project followed, involving the outsourcing of 500 IT jobs (FTEs) to the company, EDS. The bank wanted to reduce IT costs by outsourcing part of the IT department of the wholesale client unit and, as a result, signed a five-year contract. EDS spent more than a year working on the deal, which involved service provision across 40 countries, with an initial focus on the Netherlands, United Kingdom (UK), US, Hong Kong and Singapore.

Overall, outsourcing to EDS has been a positive experience. ABN AMRO says it now benefits from more flexible services and that the relationship now has a more business-like and service-oriented character. The workers who moved to EDS had a right to return after two years, under the terms of the employability agreement. About 10% of the outsourced employees made use of their right to return; there are a variety of accounts outlining the reasons for this. Some say that EDS failed to meet their expectations; some perceived EDS as a more precarious environment. The company went through difficult times shortly after the transferral and there were redundancies, although these did not involve former ABN AMRO employees. Perhaps significantly, many of the employees who did return were older workers. This confirmed the doubts that had been expressed from the start by trade unions: they were sceptical about transferring older employees and suggested that no-one over the age of 55 should be transferred.

### **Outsourcing insurance activities to Delta Lloyd**

In 2003, ABN AMRO outsourced some of its insurance activities to Delta Lloyd, a move that resulted in the transferral of 600 FTEs. The partnership with Delta Lloyd enabled ABN AMRO to offer its customers a better and more varied range of insurance products that continued to carry the ABN AMRO label, thus successfully marrying the insurance expertise of Delta Lloyd with the bank's distribution power.

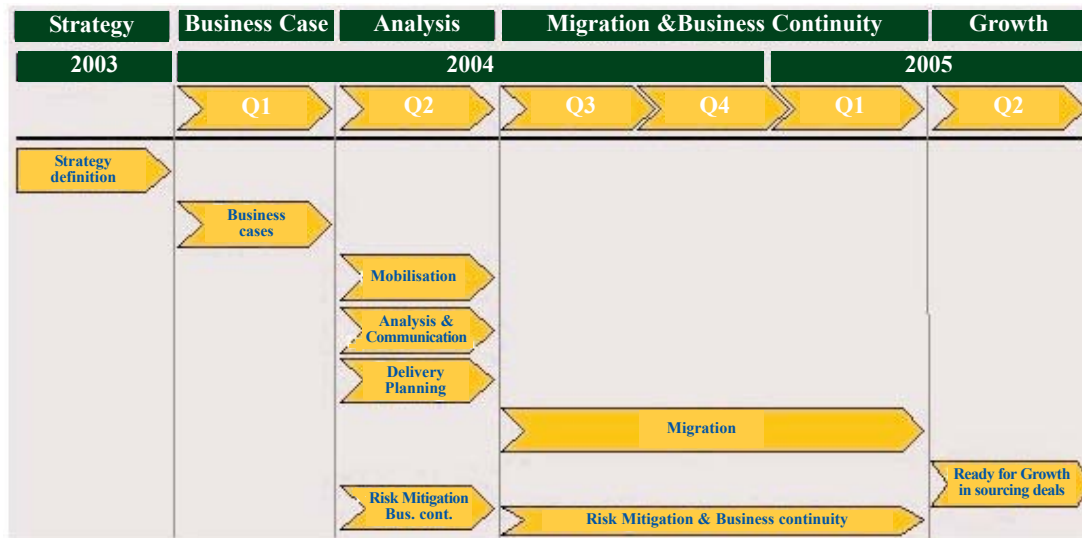
However, the relationship between Delta Lloyd and ABN AMRO became tense in the course of the outsourcing process, as the outsourced ABN AMRO workers felt excluded: they did not see themselves as employees of Delta Lloyd, did not integrate well and felt isolated within Delta Lloyd. This outsourcing project also saw 10% of its employees utilising their guaranteed right of return after two years.

### **Offshoring to India: the Marco Polo programme**

The aim of the Marco Polo programme was to relocate as many wholesale business service functions as possible to lower cost locations, in order to reduce costs. A change analysis process preceded the offshoring, designed to determine details such as workflows, standard requirements, unique arrangements, customers' needs, based on non-standard products, and to estimate staff requirements. In the operations section, an offshoring potential of 128 out of 215 FTEs was identified; in the finance section, 56 of the total 188 FTEs were designated with offshore potential. This adds up to 184 jobs that were relocated in 2004. Of the 184 Dutch workers who lost their position in the course of the relocation, 140 employees went into the employability centre; the remainder found positions within the company.

Figure 7 provides an outline of the stages involved in the offshoring process. Once the offshoring strategy was developed and the value opportunity quantified, all stakeholders were invited for discussions. A detailed business case was subsequently developed to quantify the value opportunity. Detailed planning and the development of a formal communication plan with a wider audience followed. Finally, resources were mobilised and the initiatives were executed.

Figure 7: *Planning the Marco Polo programme*



The key considerations throughout the execution of the offshoring initiatives included:

- securing commitment from senior management from the outset of the offshore initiative;
- establishing a project management office (PMO) for managing offshore initiatives;
- risk management;
- management of change;
- tracking and communication of the benefits of offshoring initiatives;
- investing in training and development.

According to one of the bank's trade unions, FNV Bondgenoten, the reason why the trade unions were not involved in this project was because of their lack of influence in the affected division.

Currently, ABN AMRO runs its own sites in India, at Mumbai, Chennai and Delhi, which together account for a total of 2,000 employees. The offshore locations in India provide services for ABN AMRO subsidiaries globally, including ABN AMRO Australia and New Zealand.

India was selected as a location primarily because other competitors were also based there; other countries like Pakistan were considered but were perceived as too risky because of political problems. The cost factor was convincing for ABN AMRO, since services in India are five times cheaper than in the Netherlands. Three locations were set up in order to disperse the risk. The company not only employs Indian workers but has also established local management. Cultural

issues are relevant in the cooperation between the Dutch and local management, and videoconferencing is regularly used for communications.

There is no call centre in India and operations mainly consist of back-office activities. ABN AMRO's experience in India has shown that standard activities can be successfully offshored, although more individualised activities were less successful and as a result some had to be brought back.

### **Offshoring project plans for 2005 and beyond**

Current offshoring plans foresee a reduction in the Dutch IT workforce of ABN AMRO from 1,600 to 400 employees. However, the company is still in the analysis phase and the location has not yet been decided on. The preferred solution might be a combination of outsourcing and offshoring. Some of the 400 remaining employees will be transferred to other companies. According to the trade unions, their involvement in this case is strong. Like management, they fear that it will be difficult to find new employment for the affected workers.

One criticism of the trade unions is that the decision-making process has been too long in this case. Although unions and staff were informed at an early stage about the outsourcing and/or offshoring plans, the work atmosphere has deteriorated somewhat because of the prolonged decision-making process, which has continued for two years. Some workers are now trying to leave ABN AMRO, which is not desirable for the organisation at this stage, as they still require their services. This has resulted in special contracts with employees who have already secured a new job, but who have agreed to stay with ABN AMRO for the present time.

### **Lessons learnt from outsourcing and offshoring projects**

ABN AMRO stresses that the parties involved should not have to set up a new process each time a new outsourcing or offshoring project is initiated. In order to retain and develop its expertise in this area, a client service team has been set up, consisting of people with outsourcing experience and including human resources (HR) specialists. An electronic knowledge database has also been created, containing procedural suggestions and experiences.

It is also viewed as crucial that the consequences for staff are made clear, so that these can be an integral part of negotiations with potential buyers; buy-back guarantees are not seen as desirable, as they could harm the effectiveness of the process.

ABN AMRO's advice to companies planning to outsource or offshore is to take their time at the planning and preparation stages, to inform management, staff and trade unions as soon as possible, and to learn from the experiences of other companies and from earlier projects. In the case of ABN AMRO, applying the experiences from subsidiaries outside the Netherlands would have been difficult because of the specific Dutch regulations; thus a lot of the processes had to be 'invented'. Nevertheless, because ABN AMRO is a multinational company, much of the research, technical know-how and knowledge (including suitable locations) was accessible within the corporation. The role of external advisors and consulting firms was therefore marginal.

### **Role of trade unions in handling the effects of outsourcing and offshoring: Employability agreement**

ABN AMRO and the four trade unions (FNV Bondgenoten, De Unie, CNV Dienstenbond and BBV) have agreed an employability policy, which is effective until 1 January 2008, and applicable to all employees of the bank in the Netherlands. The European works council is trying to make similar arrangements for other European employees. Dutch trade unions tend to focus their activities within the country and see themselves as being rather powerless in relation to

offshoring operations. Within ABN AMRO, the extent of trade union involvement in outsourcing and offshoring processes is also dependent on its representative strength in the respective business divisions.

A brief history of major changes within the ABN AMRO, which involved agreements with the trade unions can be summarised as follows:

- in 1990, following the merger of ABN and AMRO a social plan was established;
- this social plan was extended in 1994;
- in 1998, a social charter (new employability policy) and social plan were passed;
- in 2001, a new social plan was established, concerning the reorganisation of the Dutch office network ('zonder omwegen');
- in 2002, the first agreement on outsourcing was made;
- in 2003, a new employability agreement was adopted;
- in 2005, an agreement on the domestic effects of offshoring was reached.

ABN AMRO's trade unions report that in 2002, some 300 jobs were lost in the Netherlands, with most of the employees affected going to the internal employability centre. Since then, 900 workers have secured a new job within the bank. However, after each reorganisation or offshoring project, finding internal employment for workers has become increasingly difficult.

In outsourcing cases, the trade unions and works council are officially informed after the decision has been made by board members. They are then allowed to discuss the contents of the outsourcing proposal, and this is usually followed by an agreement between the board and the works council. Sometimes, however, the trade unions or works council officials are informed earlier about outsourcing plans through rumours or information from trade union members.

The fundamental aim of the employability policy is to prepare employees for future developments by optimising their employability. This role is regarded as a shared responsibility of the employee and the bank. Essentially, the employability agreement addresses two main areas: career development, e.g. a personal development plan, offering training and educational programmes, and if needed, guidance via the employability centre; and reorganisation, e.g. selection and matching or assignment procedures, guidance via the employability centre in finding a new function, and financial arrangements. In the employability centre, employees have 18 months to find a new position within the bank; if they fail to secure employment, they are dismissed with financial compensation. The level of compensation decreases according to the length of time spent in the employability centre.

Separate agreements have been made to cover outsourcing, namely, complete transfer with a guaranteed right of return. Inserted by the unions, this right applies only after a two year period because it was recognised that it takes considerable time for an employee to integrate into a new organisation. To avail of this right, employees have to give three months notice, prior to the end of the two year period.

Table 2: *Employability agreement between ABN AMRO and trade unions, 2004–2008*

Reorganisation process	None	Internal company	Outsourcing	Offshoring
<b>Part of the agreement</b>	Social charter		Special contract	Special contract
<b>Appendix no.</b>	E.A. part I&II I, II and III	E.A. part III&V III	IV	V
<b>Position of employee</b>	Voluntary	Selected as having no job, due to reorganisation	Going with the job to new employer by law	Selected as having no job, due to offshoring
<b>Comeback guarantees</b>			In specified situations	
<b>Employability centre</b>	24 months	18 months	18 months if law gives a voluntary choice and if employee decides to stay	18 months
<b>Purpose</b>	Working on a career step	Working on finding a job	Working on finding a job	Working on finding a job
<b>Period in the employability centre</b>	One period	Testing for a job inside <sup>1</sup>		
<b>a) first 3 months</b>		6 100%	6 100%	6 100%
<b>b) first 6 months</b>		5 75%	5 75%	5 75%
<b>c) second 6 months</b>		4 75%	4 75%	4 75%
<b>d) last 6 months</b>				
<b>Transfer possibility: to specialised organisation</b>		For 12 months or more	For 12 months or more	For 12 months or more
<b>Alternative</b>		Voluntary end of contract  100%	Voluntary contract with new employer	Voluntary contract with selected employer  Voluntary end of contract  100%
<b>Otherwise</b>		End of contract after 18 months if no job is found  75%	End of contract after 18 months if no job is found  75%	End of contract after 18 months if no job is found  75%

Note: <sup>1</sup> The level of compensation decreases according to the length of time spent in the employability centre; compensation is multiplied by 6, 5 or 4 with regard to the difference in package of working conditions with the new employer/bank.

Voluntary redundancy payment: one month salary ('all in') for each year of service; years above the age of 40 or 50 count for 1.5 or 2 years

As summarised in Table 2, the benefits of the employability agreement are viewed as:

- promotion of individual interests;
- pre-agreed conditions that can be used for other outsourcing and reorganisation projects;
- offering employees the opportunity to develop themselves in order to increase their opportunities on the labour market;
- agreement on an employability policy, in line with the collective labour agreement;
- employer has to invest in the employees to increase their employability in the internal and external labour market.

The parties were unable to reach agreement, however, on future staffing guarantees.

Presenters: **Bert de Roock**, ABN AMRO, Director HR and **Huug Gorter**, FNV Bondgenoten trade union, both the Netherlands.