

**MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE
KYIV NATIONAL ECONOMIC UNIVERSITY NAMED AFTER
VADYM HETMAN**

Faculty of International Economics and Management

Department of International Management

Field of Study **07 Management and Administration**

Specialty **Business Administration**

**Educational and Professional Program
"Global Business"**

Modes of Study: Full time
(full time, part time, distance)

MASTER THESIS

(full title according to the order on approving the titles of the Master's theses)

**OUTSOURCING AND OFFSHORING STRATEGIES
OF GLOBAL COMPANIES**

student Anastasiia V. Shevchenko
(Name, Surname) (signature)

Supervisor Associate Professor, PhD in Economics
(scientific degree, academic degree)

Tetyana Babych
(signature) (Name, Surname)

**Thesis has been approved for the defence before the Examinations
Commission**

No ___ of "___" _____ 2023

Head of the Masters' Program
Associate Professor, PhD in Economics
Y. Solodkovskyy

(signature)

Kyiv 2023

Ім'я користувача:
Міжнародного менеджменту Олійник Вікторія

ID перевірки:
1015933068

Дата перевірки:
22.11.2023 13:41:28 EET

Тип перевірки:
Doc vs Internet + Library

Дата звіту:
23.11.2023 09:00:54 EET

ID користувача:
100005721

Назва документа: Shevchenko A.Outsourcing and Offshoring Strategies of Global Companies

Кількість сторінок: 123 Кількість слів: 32078 Кількість символів: 222406 Розмір файлу: 6.38 MB ID файлу: 1015604227

7.45% Схожість

Найбільша схожість: 1.21% з Інтернет-джерелом (<https://www.bosch-presse.de/pressportal/de/en/bosch-press-conferen..>)

7.19% Джерела з Інтернету

430

Сторінка 125

0.51% Джерела з Бібліотеки

99

Сторінка 128

0% Цитат

Вилучення цитат вимкнене

Вилучення списку бібліографічних посилань вимкнене

0% Вилучень

Немає вилучених джерел

Academic Supervisor's Review of Master Thesis

by the Student at the Faculty of International Economics and Management

MBA program "Global Business"

Anastasiia Shevchenko

(Name, Surname)

Title OUTSOURCING AND OFFSHORING STRATEGIES OF GLOBAL COMPANIES

1. Evidence of learning in accordance with the objectives of the assignments (0-5 points) - **5 points**
2. Depth of critical analysis (0-10 points) - **10 points**
3. Effectiveness of argumentation/analysis (0-10 points) – **10 points**
4. Accurate and coherent use of quantitative tools and language (0-20 points) – **20 points**
5. Compliance with master thesis written requirements (0-5 points) – **5 points**
6. Compliance with writing master thesis's schedule (0-5 points) – **5 points**
7. Attendance (0-5 points) – **5 points**
8. Published research work/Thesis (0-10 points) – **10 points**
9. Positive aspects of the thesis: As the thesis is based on the practical experience of the author, it demonstrates practical application and provides tangible examples of how global companies have implemented outsourcing and offshoring strategies successfully.
10. Negative aspects of the paper: There are no negative aspects in the paper.
11. Total Supervisor's Grade of Master Thesis: **70 points**

Academic Supervisor

Associate Professor, Ph.D.

(position, academic degree)

(Signature)

Tetiana Babych

(Name, Surname)

“ ____ ” 2023 p.

External Review of Master Thesis

Student's name

Anastasiia V. Shevchenko

(Name, Surname)

Outsourcing and Offshoring Strategies of Global Companies

(Thesis title)

This thesis review is given to Anastasiia V. Shevchenko, the student of the 6th year, Faculty of International Economics and Management, field of study 07 Management and administration, specialty Business administration, educational and professional program "Global business".

The research presented by the student is relevant, explores the theoretical and practical aspects of Outsourcing and Offshoring strategies of Global Companies based on the relevant modern researches of respected authors, her experience at Bosch Service Solutions SRL and consultations with the experts of the Bosch group in relevant fields. The paper is original, performed by the author independently, has both strictly scientific and practical significance. The thesis is evaluated positively.

Reviewer
Service manager

(Position)

Digitally signed by pki,
BOSCH, EMEA, A, N,
Anamaria-
Veronica.Zghimbe
Date: 2023.12.01
21:12:49 +02'00'

(Signature)

Anamaria-Veronica, Zghimbe

(Name, Surname)

Bosch Service Solutions SRL, Timisoara, Romania

(Place of work)

“ 1 ” December 2023 p.

OUTSOURCING AND OFFSHORING STRATEGIES OF GLOBAL COMPANIES CONTENTS

INTRODUCTION	4
CHAPTER 1. CONCEPTUAL FRAMEWORKS AND THEORIES OF OUTSOURCING AND OFFSHORING STRATEGIES	6
1.1. The modern search of the optimal configuration for a global company	6
1.2. Outsourcing and offshoring strategic decision-making.....	21
1.3. Tools and mechanisms for regulation of outsourcing and offshoring operations.....	32
1.4. Conclusions to Chapter 1	40
CHAPTER 2. THE EFFECTIVENESS OF OUTSOURCING AND OFFSHORING IN THE CORPORATE STRATEGIES OF GLOBAL COMPANIES	42
2.1. Corporate outsourcing and offshoring business models.....	42
2.2. The specifics of outsourcing and offshoring business models for large companies	51
2.3. Global Business Services: Bosch's outsourcing and offshoring practices .	74
2.4. Conclusions to Chapter 2	94
CHAPTER 3. OUTSOURCING AND OFFSHORING IN THE TIME OF A GLOBAL RECESSION	98
3.1. Recent recessions' impact on companies.....	98
3.2. Thriving amidst global turbulence.....	102
3.3. The future of Global business services	109
CONCLUSIONS	115
ABSTRACT.....	117
BIBLIOGRAPHY	118
ATTACHMENTS.....	123

INTRODUCTION

In the dynamic landscape of present-day markets, we witness rapid evolution, exerting a profound influence on the processes of business formation, development, and refinement. Notably, during the 1980s, a groundbreaking concept took center stage—the emergence of outsourcing services, colloquially hailed as the "phenomenon of the 20th century." This conceptual shift was propelled by a multitude of endeavors aimed at maximizing a company's competitiveness in the market.

The driving force behind the adoption of outsourcing services lay in a strategic pursuit—seeking avenues to augment profitability. Companies sought to achieve this objective through the meticulous optimization of costs, an approach that not only became pivotal for financial gains but also contributed to the overarching goal of preserving, if not improving, the quality of goods, services, or works offered.

This paradigm shift in the 1980s marked a pivotal juncture in the business landscape, as organizations recognized the potential benefits inherent in strategically outsourcing certain functions. The outsourcing phenomenon, with its roots in this era, continues to be a dynamic and integral aspect of contemporary business strategies, demonstrating its lasting impact on the way companies operate and navigate the challenges of a competitive global market.

Currently, there is a need to examine the evolving perspectives on the competitiveness of corporations, the essence, and the tools for the application of international outsourcing, along with its peculiarities for Global companies. This will enable the proposal of solutions that allow them to maintain their current leading positions compared to national-level companies, drawing on the extensive research contributions of scholars.

In the realm of Shared Service Centers (SSCs) and Global Business Services (GBS), the focus is on the evolution of views regarding corporate competitiveness, the essence, and the tools employed in the application of outsourcing and offshoring, with a specific emphasis on their distinctiveness for SSCs and GBS structures within

large-scale companies. This examination seeks to provide strategic insights and solutions, leveraging the accumulated knowledge and research efforts in this domain, to empower SSCs and GBS to uphold and enhance their pivotal roles within the organizational landscape.

The primary objective is to provide a comprehensive understanding of the "outsourcing and offshoring strategies" in the context of Global companies, research business strategies, the distinction between Shared Service Centers (SSCs) and Global Business Services (GBS), the unique aspects of outsourcing tailored for large companies, and a forward-looking exploration into the future prospects of GBS.

The research tasks involve clarifying theoretical dimensions associated with global companies' outsourcing and offshoring strategies, identification, specification, deepening, and methodological justification of the essence, nature, and structure of outsourcing and offshoring; identification of trends and regularities, analysis of the current state of outsourcing and offshoring strategies application, justification of a system of measures necessary to address applied tasks, preparation of methodical recommendations for the practical utilization of outsourcing strategies as a competitiveness factor for corporations in practice.

The object of the study spans the comprehensive landscape of outsourcing and offshoring strategies employed by global companies.

The subject of the research involves the detailed examination of business strategies, the distinction between SSCs and GBS, the specificities of outsourcing for large companies, and the future prospects of GBS with a focus on fostering resilient and innovative business practices.

The methodological and theoretical foundation of the research has been shaped by the works of prominent scholars spanning both this and the previous century and insights from consulting companies' research. The study is conducted employing both general scientific and specialized methods and techniques of economic analysis and synthesis.

CHAPTER 1. CONCEPTUAL FRAMEWORKS AND THEORIES OF OUTSOURCING AND OFFSHORING STRATEGIES

1.1. The modern search of the optimal configuration for a global company

The advantages of specialization, economies of scale and learning, technological innovation, weight-reduction criteria for the location of production, and inter-regional trade have their roots in the earliest stages of human history.

The history of outsourcing dates back to Rome tax collecting (Duffy, 2001). But it was Adam Smith (1791), in *The Wealth of Nations*, that first put up the idea of outsourcing. According to it, the two most important elements for maximizing production are labor specialization and division. Smith maintained that labor specialization fosters employee cooperation within groups as well as individual output.

The telegraph and railway network developments of the 1830s sped up the information and product interchange process. As the manufacturing sector grew, businesses were able to broaden their commercial horizons and take advantage of economies of scale (Porter, 1992).

Companies were encouraged to undertake both horizontal and vertical acquisition later, in the post-war era. Proponents of the approach at the time thought that companies might gain more control over their production and market share by implementing consolidate mergers (Lonsdale & Cox, 2000).

Nonetheless, researchers found that conglomerate companies were underperforming the market in the 1970s and 1980s (Weston & Mansinghka, 1971; Melicher & Rush, 1973; Rumpelt, 1974)

Then, Williamson (1985) put out the novel idea of asset specificity. Williamson shows that a corporation must take into account both transaction and production costs in order to maximize its performance. Williamson determined how asset uniqueness affected the variations in these two costs.

Furthermore, the most effective economic organizational structure is the one that minimizes transaction costs while increasing profit, according to Williamson's

Transaction Cost Theory (1979). He defined transaction cost as the total cost of all expenses incurred in completing a transaction, excluding production costs.

Bounded rationality and opportunism are the two traits Williamson said economic systems had. Asset specificity would be introduced as a crucial consideration in the exclusive contract scenario. The economic institutions will coordinate transactions to preserve limited rationality and shield both parties from adversarial attacks when a situation combines all three components. This notion differed from the conventional idea of maximizing profits.

The paradox of conglomerate enterprises underperforming in the market when they should be providing significant benefits to the company was explained by the concept of Asset Specificity (Riordan & Williamson, 1985). A conglomerate merger occurs when two or more businesses enter into an exclusive agreement. In contrast to privately held businesses, conglomerate corporations already prioritize transaction coordination over profit maximization. The conglomerate merger will lower the company's production costs, but because of its growing size, the transaction costs will go up.

Williamson made a great effort to educate people about outsourcing through the application of transaction cost theory, but Tom Peter was ultimately responsible for getting the corporations to return to their primary focus.

The Core Competency idea served as an inspiration to other organizations (Prahalad & Hamel, 1990). A distinctive quality known as "core competency" helps a business stand apart in the competitive landscape by making the most of its expertise and resources. Nonetheless, the companies who adopted this idea reengineered to put a greater emphasis on the "core".

Meanwhile, the concept of outsourcing is being strengthened by economic institutions thanks to the public sector's outsourcing. Governments used outsourcing and privatization throughout the 1980s and 1990s, especially in the United Kingdom, to restructure the public sector. The reform of the public sector served as a model for businesses about the benefits of outsourcing. The rise of outsourcing in the governmental and commercial sectors was also encouraged by the reform. Many

businesses were encouraged by the UK model to begin restructuring their organizational structure in order to delegate unimportant duties and concentrate on their core competencies.

These days, the organizational and geographic fragmentation has grown to a never-before-seen degree that is both global in scope and size. A large producer's automobile contains over twelve thousand pieces. In addition to being produced in the automaker's own facilities, hundreds of significant suppliers in a dozen or more countries across the world are usually the source of components. Theoretically, the company might choose to manufacture each of the 12,000 pieces in-house or outsource. Where and in which country will the decision be made if it is made inside the company? The issue of supplier and nation selection emerges if the decision is made to outsource the manufacture of that component.

When deciding whether to "make" or "buy," the maximum number of combinations is 12,000 pieces multiplied by 193 countries and times two, for a total of 4,632,000 configurations. The answer to the minimal number, at the other extreme of the organizational spectrum, is 1.0, which denotes that all manufacturing is done internally, within one organization, in one nation. Naturally, there is an ideal solution that falls somewhere between 1.0 and 4,632,000 when it comes to practical application. Typically, an automobile major works directly with a few hundred suppliers and development partners spread over fewer than twenty countries (Sutton, 2004).

What makes a setup ideal for a company? What is the ideal ratio of outsourcing to in-house production? Which regions or nations are ideal for adding value throughout the value chain? The solution is contingent upon the firm's desired level of product or service segmentation. It is obvious that breaking down a car into all twelve thousand of its component pieces is excessively precise and comprehensive. Even in an information technology (IT)-enabled environment, outsourcing all of them would be incredibly difficult and wasteful.

Nevertheless, no manufacturer has been so vertically integrated since Ford did so a century ago, when it produced everything from its own steel to the completed

car. The truth is that no business is able to manufacture every component of the final product. To some degree, they are all dependent on outsourcing. “What is the ideal degree of outsourcing?” is the question at hand.

Economic activity's spatial and organizational fragmentation

The corporate paradigm of internalization or vertical integration is becoming less popular these days. According to Zaheer & Zaheer (2001), the majority of large corporations are currently dismantling themselves by looking at each component of their business and considering how it may be disassembled. If dismantled, which country would allow the fractured role to be carried out most effectively?

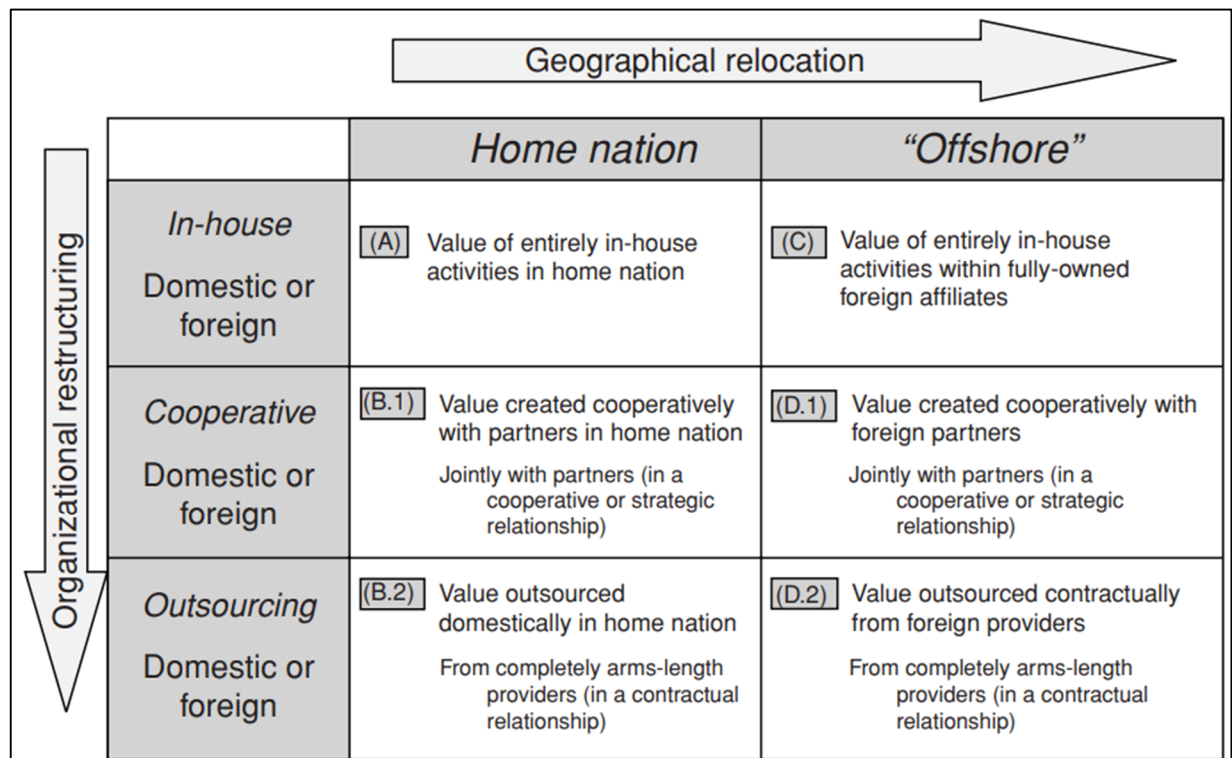


Figure 1.1. The options accessible to each component in the value chain in terms of structure and space

Source: Contractor, F. J. et al.(2010)

Historically, the majority of businesses increased value "in-house" and "in their home nation" [Cell A] in Figure 1.1. In the modern day, the company adds value only to those parts of its value chain where it believes it has "core competence" (Prahalad and Hamel, 1990), leaving other carefully chosen portions of the value

chain (and support services) to outside providers or to countries abroad. This is done either internally in the home country [Cell A] or in fully owned foreign subsidiaries [Cell C]. In turn, the latter are connected to the focal business through a variety of organizational ties that span the other four categories B.1, B.2, D.1, and D.2 in Figure 1.1, from very "cooperative" or "relational" to mostly contractual or arms-length.

"Offshoring": describes the physical migration of operations outside the company's home country under any organizational configuration, such as foreign contract providers (D.2), foreign subsidiaries [Cell C], or foreign alliance partners (D.1).

"Outsourcing": is defined as the value added by contractual external suppliers, whether they are located in the firm's own country (B.2) or a foreign country (D.2).

It should be noted that only Cell (D.2) combines outsourcing with offshoring. Conversely, the cooperative ties found in Cells [(B.1) + (D.1)] are with cooperative vendors in the home country in the first instance, and with strategic partners or cooperative vendors in the foreign country in the second case. Relationships known as cooperative alliances are, in organizational parlance, the "halfway" between fully contract-based outsourcing and entirely in-house operations where there is no external link.

The trend of outsourcing and offshoring may be seen as the natural progression of a company's strategy emphasis on "core competence," which suggests that a company should outsource to other nations or external contractors any operations that it is unable to execute internally or at home.

This devolution or dismantling of the company is happening on an enormous scale. Yet precise information is not accessible. We have (inaccurate) data on global trade in products and services, as well as estimates of the internal value added by industry, but overall it is impossible to discern, for example, between the deliberate strategic intent to relocate jobs or production and the purchase of raw materials or components. In 2022, for instance, the World Trade Organization (WTO, 2023)

informed that as of 2022 the total value of goods exported by all nations combined was \$25,3 trillion. We are unsure of the percentage of that total that was previously completed in the company's home country and then intentionally offshored.

We are aware that outsourcing for manufactured components is far more sophisticated than for services. Manufacturing trade started thousands of years ago. The overall value of global commerce in services was just \$6,8 trillion, compared to \$25,3 trillion in products. In the same year, exports of digitally provided services brought in \$3,82 trillion (WTO, 2023). Nonetheless, according to UNCTAD (2022), the growth rate of services exports has increased significantly in recent years, particularly in the category of "Commercial Services" exports, where the majority of the number most certainly represents a deliberate choice to offshore.

The driving and constraining factors

It involves more than just looking for ways to save expenses. The company must a) first deconstruct itself (splitting apart its value chain), b) create suitable interfaces between the organizationally and spatially separated functions, and c) minimize transaction costs between the outsourced entities as well as global governance overheads in order for the outsourcing and offshoring phenomena to take place. Some well-known patterns over the past ten years, such the following, have prompted this:

- The sharp decline in IT expenses brought about by the large investments made in international infrastructure and advancements in information and communication technology, which have not only made long-distance communication considerably more affordable but also simpler (Blinder, 2006).
- Increasingly aging populations in the US and Europe are creating a shortage of qualified technical and management workers (McKinsey Global Institute, 2009).
- Increased externalization required to enable businesses to stay competitive due to the speed at which technology is changing (Teece, 1992).

- Increased standardization of business expertise. Previously "tacit" or existing solely in the heads of seasoned engineers or managers, technical or administrative procedures are becoming more and more documented in manuals, software, process standards, and professional systems (Balconi, Pozzali, and Viale, 2007). This accomplishes the following goals: (a) increases transparency of the outsourced/offshored tasks for the vendor and foreign affiliate staff; (b) lessens asymmetry in information and bargaining power; (c) enhances quality control, thereby allaying concerns about the outsourcing/offshoring principle; (d) lowers negotiation, monitoring, and control costs; and (e) once a codified "template" is created, it can be used repeatedly and across multiple countries, thereby lowering the costs of outsourcing/offshoring through many instances.

- The division and modularization of work. It can be challenging to divide or dissect intricate or innovative ideas among geographically dispersed teams, particularly when significant communication between design groups is required. However, distributed teams can work more efficiently if the activities can be modularized along with objective requirements for outputs and connections between the components of the design (or final product), claim Sanchez and Mahoney (1996).

Offshoring and outsourcing begin with a company's deconstruction of its numerous activities—that is, its fine-slicing, codification, standardization of interfaces, and modularization. This is frequently explained in terms of lean or knowledge management programs. That is to say, outsourcing and offshore have their roots at home. In order to make business operations offshorable and gain from outsourcing and offshore, deconstruction and rearrangement of firm activities are necessary.

Service can be divided or disassembled, but it will always remain intangible. Codification and standardization may be used to make every service component uniform. Additionally, a lot of services may be transmitted and kept digitally (Karmarkar, 2004).

Outsourcing and offshoring are ultimately applicable to any commercial or technological process that can be (a) codified and (b) digitized. With the majority of

jobs in services and the majority of manufacturing jobs already abroad, this looks to be a severe danger to the economy of industrialized nations.

The most significant reason why the real level of offshore will always be far less than its theoretical maximum is the inhibiting factors:

- (a) the resulting increase in wages in the foreign location;
- (b) the continuation of implicit knowledge and incorporated experience;
- (c) transaction costs (such as monitoring, coordination, "hold-up," and quality control) that can be prevented with vertical integration;
- (d) concerns about supply chain disruptions;
- (e) concerns about technological spillovers and the ensuing competitive threat in the event that the operation is outsourced to external parties; and
- (f) legal prohibitions and restrictions on offshoring.

Constraining factors

Any economic phenomena have its inherent boundaries, and there is unquestionably a fundamental shift taking place on a global basis. This trend has gained particular momentum in recent years with the liberalization of global trade and investment. It began with the division of producer and consumer during the Chalcolithic era, and continued with the geographic relocation and specialization of business operations, which led to the emergence of global trade more than 5,000 years ago. The problem has only been exacerbated in the services sector since the mid-1990s, when installed bandwidth skyrocketed and communication costs began to approach their near-zero marginal expense. Ultimately, an even more precise international division of labor has emerged from businesses' increased readiness to disaggregate and "micro-dissect" parts of the value chain in both manufacturing and services.

However, there are inherent limitations to any economic changes, including specialization, disaggregation, dislocation, and labor division. Neither all of the activity in Cell (D.2) nor all of the value created in Cell (A) in Figure 1.1 represents

the ideal arrangement for a business. Rather, a distribution across some or all of the six sections in Figure 1.1 is the ideal layout.

1. Externalization of embedded or tacit information is inefficient

When compared to internalized routines developed over many years by corporate personnel sharing the same payroll and affiliation and the transmission of implicit knowledge across the boundary across unrelated organizations can be difficult, time-consuming, and costly. Salaries in the Philippines might be lower. However, complex duties cannot be readily codified or efficiently taught to workers in impoverished countries (Contractor & Ra, 2002). Even if expertise can be exchanged, the expenses of training foreign workers may occasionally surpass the current value of monthly pay savings.

According to Azoulay (2004), "knowledge-intensive projects are more likely to be assigned to in-house teams, while data-intensive projects are more likely to be outsourced."

2. Vertical integration has "sunk" costs, but the advantages will last indefinitely

Vertically integrated enterprises benefit from internalized routines, previous learning, and resource-based benefits. Much of the expense of vertical integration has already been incurred in previous years. However, the advantages of acquired in-house expertise and organizational processes will last indefinitely (Barney, 2001).

3. Global supply chain delays and "hold-up" risk factors

Due to contractual clauses allowing airlines to cancel contracts beyond a specified deadline or to demand fines from Boeing for delayed deliveries, there might be significant risks associated with delays in big capital expenditure items like airplanes.

Savings can be achieved by more precisely breaking down the supply chain. On the other hand, it is also possible to speculate that companies that outsource expose their supply chains to greater risk overall than companies that undertake several external contracts or regional relocations.

4. Growing labor and other expenses at offshore sites

The expenditures of searching, negotiating, setting up, transferring expertise, and training are additional to every migration (Farrell, 2006). It is necessary to assess not just the initial setup expenses but also the ongoing "running" expenditures of a foreign enterprise, as well as any potential future increases. After the mid-1990s, the cost of skilled labor in offshore "hot spots" like Shenzhen, Bangalore, Hyderabad, and so on has increased by double or even five times.

However, India is spending money on infrastructure, and thousands of graduates in science and engineering are being revamped for IT jobs in order to fill the skilled labor deficit. According to Farrell, a software engineer's compensation would still differ by 40% after 20 years, even if wages in India increased at an unstoppable rate higher than those in developed countries. The huge Indian labor market and the fact that international competition would limit the rate of increase in Indian wages are contributing factors.

5. Threat of information leaks to possible rivals and theft

This dread manifests in two ways. First, outsourcing may create unintentional technological spillovers, which is a worry, particularly in overseas locations (Dosi et al., 2006). Employees who are attracted away by competing enterprises in one knowledge hub may experience spillovers to those firms due to lesser control and a greater rate of staff turnover in places like Bangalore. There's a chance that the legal system in general, labor agreement legality, and intellectual property regulations are weaker than in North America or Europe. According to several research, this is a key element in the justification of R&D location choices (Belderbos, 2003). Occasionally, the external contractual provider company poses a competitive threat by growing its in-house operations to rival former clients after mastering one (outsourced) segment of the value chain.

The second concern is that a company's core competencies would be "hollowed out" as a result of substantial outsourcing, eventually weakening the business. These are serious issues, especially when it comes to the high-value elements in the supply and demand chain.

6. Inefficiencies brought on by geographical isolation

Time zone differences, regional variations, lack of trust, and divergent incentive systems all contribute to ineffective task integration and the need for virtual linkages created by geographical separation between work units and chronological dislocations (Earley and Mosakowski, 2000; Hinds and Bailey, 2003).

When employees are separated by great distances, problems that may be resolved by continuous face-to-face communication when activities are placed close to one another become more complex or unmanageable. Miscommunication and inefficiency will occur when the interfaces between the divided tasks are not adequately standardized and inadequately stated.

7. Quality and certification issues

Regulatory norms throughout the world are still far from being standardized or harmonized. Every government has its own policies and guidelines.

In certain sectors and areas, such as the EU, efforts are underway to mutually recognize a patent or medication application filed in another nation, or to eventually work toward global harmonization of codes. However, this is still a very new trend. Every country still maintains its own norms, regulations, and practices.

Therefore, the bar for regulatory inspection is greater, and there is a built-in prejudice against services supplied by (a) contract vendors and/or (b) overseas suppliers.

8. Data protection

This is a particular issue that is important in some domains, such as financial records. IT experts assert that this is a problem that can be resolved with ease by dividing the work across multiple distinct business units or among various outside providers, so that no one unit is able to put together a complete record, or by encrypting data or removing names and other identifiers from records.

9. Diminished competitiveness in companies that supply external services

The function may need to be reincorporated inside the client's organization or an alternative external contract provider may need to be found if an outside supplier occasionally loses its technological advantage. A preliminary evaluation of the

technological trajectory and absorptive ability of potential external providers is desirable (Barthelemy, 2003).

Simultaneously, via more continuous collaboration under an alliance structure, buyer and supplier companies may maximize each other's technical capabilities.

10. Additional factors affecting transaction costs

Other compelling cautions that transaction cost theory offers to businesses moving from consolidated to outsourced and offshored operations are as follows.

1. Costs associated with negotiations, training, and setup;

2. The unfulfilled contract. Contract incompleteness is particularly worse when information is implicit and firm-specific as business settings might change between signature and execution and "knowledge goods" or knowledge-based output can't be precisely defined;

3. "Hold-up" costs and fears when, as part of the contract, one of the contracting parties must make large function-specific investments, and in the event of future conflict, those assets have few alternative uses in the country (Klein, 1996). Business contexts can change between signing and execution, and "knowledge goods" or knowledge-based output cannot be characterized with exactitude.

4. Central charges and expenditures for coordination and monitoring. More management, monitoring, and coordination are needed when businesses grow the number of their offshored and outsourced functions (Azoulay, 2004). To manage all of their outsourcing agreements, several businesses have had to establish new departments (Barthelemy, 2001). In managing the increasing strategic complexity and supply chain risks, some companies have found it too much to handle the amount of extra monitoring and coordinating activities (Rothaermel, Hitt, and Jobe, 2006). It's possible that overhead costs may increase faster than the quantity of outsourcing agreements.

Can offshoring and outsourcing also apply to core or high-value functions?

Moreover, businesses have been searching both domestically and internationally for fresh concepts, talent, and human capital in recent times. Mol et

al. (2004) have observed that there is a growing trend of R&D and innovation activities being divided and relocated, despite previously being regarded as "core competencies."

According to Palmisano (2006), outsourcing and offshoring are now about making connections, providing better customer service, being creative, and innovating "to open the enterprise up in multiple ways, enabling it to consecrate more intimately with partners, suppliers, and customers and, most importantly, enabling it to engage in multifaceted, collaborative innovation" rather than about cutting costs.

This is partially due to the fact that businesses today even microdissect and disaggregate their R&D into more granular sub-segments that are then distributed to other countries and outside suppliers. R&D is no longer viewed as a single, infallible component of the value chain.

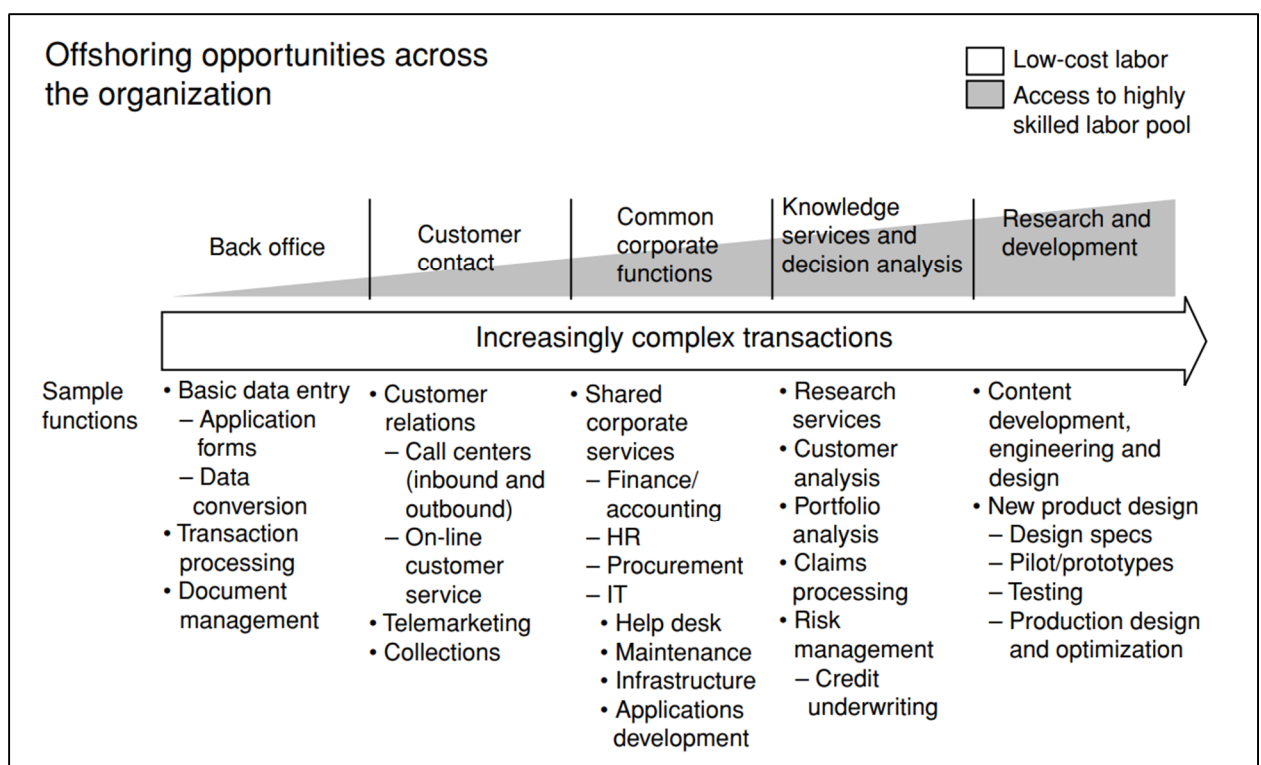


Figure 1.2. The motivations for offshoring: lowering cost & the search for talent

Source: McKinsey Global Institute (2003)

This, though, could just be the start of a more widespread current trend in which enterprises from emerging nations are gradually moving up the value chain. US, European, and Japanese businesses assert that they require expertise and are not just looking for ways to cut expenses for scientists and engineers. Multinational corporations must access fresh talent and knowledge from all around the world, which is one of the main causes.

A wide range of outsourcing and offshoring operations are shown in Figure 1.2. Basic operations like transcribing and data input are arranged from left to right. More complicated jobs, including accounting and human resource management, move to the right. Highly qualified and creative jobs like engineering and R&D or portfolio analysis, which demands a high level of quantitative understanding, are located at the far right.

As to the findings of McKinsey Global Institute (2003), the main drivers of outsourcing and offshore are shifting from the left to the right in Figure 1.2. Specifically, the change is from the pursuit of low-cost labor to the pursuit of talent and innovative ideas. According to a poll by Manning, Massini, and Lewin (2008), finding foreign talent is now the second most important strategic reason for offshoring, right behind "cost savings."

It's still true that a business is advised not to outsource its core competencies for fear of losing them to prospective rivals. Nonetheless, the global corporations maintain a high level of internal control and secrecy by outsourcing R&D and innovation to majority affiliates. Second, the R&D function may be skillfully divided into more and less susceptible components, with the latter being able to be outsourced to third-party vendors with little to no loss of competitiveness.

Although businesses maintain their core capabilities at their corporate location, the scope of what constitutes a company's "core competencies" is narrowing as more standardized components of even high-value activities like design and research and development are being pulled out. Actually, an increasing number of tasks and operations are being judged as offshore and outsourced. This also holds true for

several activities that were previously thought to be a component of the core competency, in addition to supplementary or peripheral activities.

Encouraging factors high-value or core operations to be outsourced or offshored

Senior management continues to be the principal decision-makers and the engine behind the outsourcing phenomena. Specialized intermediary consulting firms and companies from offshore-receiving nations who aggressively promote offshoring and draw clients have a modest role in helping the offshoring process.

This supports the theory that the "push" factors—high costs, in particular—were what drove offshoring; businesses under pressure to reduce costs had taken the lead in looking for possible locations, and the "pull" factors—the availability of technically trained, comparatively low-paid labor—had served as a supporting element (Bardhan & Jaffee, 2013).

Pull Factors:

- Cost Savings: Lower labor and input costs make foreign locations attractive.
- Knowledge Hubs: Emerging regions like Bangalore and Taipei offer specialized expertise.
- Market Access: Large emerging markets provide valuable insights for product design and company strategy.

Push Factors:

- Talent Shortage: A scarcity of engineering and science graduates drives firms to seek expertise abroad.
- Innovation Confidence: Decreased confidence in domestic innovation capabilities motivates companies to look for external ideas.
- Complex Technology: Some technology is so complex that internal personnel can't cover all required knowledge.
- Diverse Applications: In some cases, firms lack the expertise to apply their technical skills to new markets or applications, leading to partnerships with foreign talent and suppliers.

Therefore, companies increase this competency by working more closely with suppliers or by utilizing foreign expertise that has been engaged by the company's overseas subsidiary.

1.2. Outsourcing and offshoring strategic decision-making

It can seem that some of the justifications for outsourcing operations are limited to outsourcing to third-party vendors. However, they also apply to offshore, where a company names a foreign subsidiary as the expert supplier to the entire international company for a certain specialty service. This is indeed a component of the strategic justification for the Indian and Romanian subsidiaries of Bosch, which are tasked with carrying out specialized services like Mobility, Customer Experience, Monitoring and Business Services for the benefit of the entire global company.

Ultimately, the story remains the same whether outsourcing or offshoring is involved, with a consistent analytical methodology including four decision steps:

- 1 - Breaking down the company's value chains into ever-tinier fragments;
- 2 - Determining if a certain function may be merged across departments or divisions of the company, and where it is being duplicated;
- 3 - Inquiring as to the optimal location worldwide for carrying out this task;
- 4 - Inquiring about the ideal structure of organization

Step 3 (choosing a geographic site) and Step 4 (organizational design) might be done simultaneously rather than strictly in order. The strategic issue often asks: Which of the geographical relocation and organizational restructuring type should each corporate activity be allocated in to maximize efficiency.

Identifying processes fit for outsourcing and offshoring

Engaging in efficient sourcing strategies necessitates an in-depth comprehension of the fundamentals of every sourcing model and its range of products and services. As part of an in-house center's operations, it is crucial to

determine whether processes, in the event of outsourcing and offshoring, should be moved to a different provider (local or offshore) or region.

Activities that are not considered essential to the business's operations or to maintaining a competitive edge are usually taken into consideration by corporations. The premise is that institutional knowledge related to a work is also transferred when it is outsourced (Metters, 2008).

Determining if outsourcing is a suitable solution also depends on the process's size. The expenses related to finding and choosing a suitable supplier, setting up KPIs for service quality, drafting and overseeing the agreement, keeping an eye on the continuing outsourcing partnership, and enforcing the agreement might add up quickly. Because outsourcing involves such intricate enterprises, these expenditures are considerably more substantial. But if a process becomes excessively big, outsourcing can only add another level of management, which would make things more complicated and expensive.

Rapidly evolving technology-driven processes make for great choices for outsourcing, unless they are, of course, essential to the operations and business model of the organization. Little internal units' inadequate capacity to stay up with the quickly evolving technological environment is the cause. However, since they are focused on this line of work, businesses that devote themselves to these endeavors might be more creative. Moreover, operations with a high degree of variation are suitable for outsourcing or insourcing.

The majority of businesses don't make judgments on offshore systematically and thoroughly enough. As a result, they consistently commit at least one of three fundamental errors.

First off, a lot of businesses invest a lot of time and energy on selecting suppliers, nations, and cities as well as into negotiations, but they seldom consider which procedures are most suited for outsourcing. It seems that most businesses struggle to discern between "commodity" activities that may be outsourced and "core" procedures that they can control or purchase from specialized suppliers.

Second, the majority of businesses undervalue the dangers connected to outsourcing. Senior executives and financial managers weigh the advantages and disadvantages of outsourcing, but often don't account for the possibility that the supplier may get the upper hand once the contract is signed. The majority of outsourcing clients seem to ignore any dangers associated with the power dynamics between the two parties and make decisions that negate the outsourced savings.

Thirdly, many businesses are unaware that there are other sourcing models they may choose from and that outsourcing doesn't have to be an all-or-nothing decision.

According to Metters (2008), procedures that need high levels of contact between the provider and the customer are not suitable candidates for outsourcing. The advantages of offshore may be diminished by time zone discrepancies, language hurdles, and other forms of communication obstacles.

Aron & Singh (2005), on the other hand, seem more interested in the ranking of processes according to their importance to the company. The authors recommend that businesses carefully weigh the pros and downsides of outsourcing business procedures that make sense and those that don't. Processes that are critical to value generation shouldn't be outsourced.

In this vein, they recommend that CEOs rank organizational processes based on two factors: (a) their capacity to create value and (b) their capacity to capture value. Executives have to specifically take into account how important a process is to the generation of value and how much each process helps the company to capture a portion of the value generated for consumers. It is not recommended to offshore some highly ranking procedures (like cash-flow forecasting and working capital management). It seems more logical to offshore processes that are ranked lower, including invoice verification and payment authorization.

It is essential to remember that for particular businesses or sectors, either of the two dimensions may be more crucial. In this situation, the relative weight of each of these variables must be taken into consideration when calculating rankings. A value hierarchy reflecting which processes should and shouldn't be outsourced is produced by rating every process inside the organization. A procedure's significance to a

company's strategy increases with its rank, meaning that outsourcing or offshore of that process should be less of an option.

Willcocks et al. (2002) propose that business activities should be evaluated in terms of their role in competitive positioning, which aligns with the concept of value-capture, as well as their input to business operations, which is comparable to Aron & Singh's concept of value-creation.

Contribution to business operations	Critical	"Qualifiers" best source	"Order winners" in-house/buy-in
	Useful	"Necessary evils" outsource	"Distractions" migrate or eliminate
		Commodity	Differentiator
Contribution to competitive positioning			

Figure 1.3. Decision-making matrix on outsourcing

Source: Willcocks et al. (2002)

"Order winners" are those actions that significantly impact a company's business operations and competitive posture, as demonstrated by Willcocks (2002). These should remain internal operations as they essentially form the foundation of the company's competitive advantage. For Dell, they may be things like keeping up and improving operational speed and concentrating on core business.

"Qualifiers" are those tasks that are essential to corporate operations but don't significantly improve the competitive posture of the organization. The optimum way to source these tasks should be determined, and if it fits the appropriate cost and quality requirements, a third party may be involved. For instance, airplane maintenance systems are not a key distinction amongst airlines, but they are a must for airlines for success in the market.

"Necessary Evils" are those operations that don't make a big difference in the company's bottom line or competitive standing. These are good examples of

activities that may be outsourced. For instance, at Dell, these responsibilities include payroll, inventories, and administrative work.

"Distractions" are ineffective attempts to set a business apart from its rivals. These ought to be discontinued or moved to a different quadrant. For instance, when Dell built retail locations in 1989, it quickly realized that its primary area of expertise was direct selling.

The effect of structural and operational risks on decision-making

When determining whether processes may be outsourced or offshored, operational risk and structural risk - the two main categories of risk that businesses face - should also be taken into account. Operational risk is the possibility that, as a result of outsourcing, procedures won't run smoothly and correctly. Structural risk is the possibility that the supplier-client relationship may not function as planned.

Assessing the degree of process codification and measurement is crucial when it comes to operational risk. There are four types of processes: transparent, opaque, codifiable, and non-codifiable (Aron & Singh, 2005).

"Transparent processes". Those that can have all of their activities completely documented and are measurable in terms of quality, such as technical assistance, telecollection, and transaction processing. As such, there is virtually little operational risk associated with outsourcing and offshoring in this scenario.

"Codifiable processes". A significant portion of the job may be codified, and procedures that are measurable in terms of the quality of their execution can be evaluated. The operational risk associated with outsourcing and offshore becomes more tolerable if businesses are able to satisfactorily gauge the quality of the finished product (for example, in CRM and account management). Yet, operational risk increases significantly if monitoring the ultimate result is not feasible (as in the case of procedures like litigation support, yield analysis, and equity research, for example).

Operational risk	High	Outsource to service provider located nearby (nearshore) <i>Litigation support</i>	Set up captive center nearby or onshore <i>R&D design</i>	Execute process in house and onshore <i>Pricing, corporate planning</i>
	Moderate	Outsource to offshore service provider over time <i>Insurance claims processing, customer support</i>	Outsource carefully, using 'extended organization' offshore, and monitor closely in real time <i>Supply chain coordination</i>	Set up captive center offshore <i>Equity research</i>
	Low	Outsource to offshore service provider <i>Data entry, Transaction processing</i>	Outsource carefully, using 'extended organization' offshore <i>Telecollection, technical support</i>	Outsource carefully, using 'extended organization' offshore, and conduct frequent process audits <i>Customer data analysis, market research analysis</i>
		Low	Moderate	High
		Structural risk		

Figure 1.4. Choosing location and organization form

Source: Aron & Singh (2005)

“Opaque processes”. Can be defined in terms of the work being performed, but it can be challenging to gauge the quality of the process outputs (for example, in the case of cash-flow forecasting, invoice management, and insurance underwriting). While there are minimal risks associated with outsourcing these operations, businesses may keep an eye on the work being performed and examine samples to make sure the final product lives up to their expectations. But this might be very costly and problematic. By creating a performance-based incentive system and sanctions, a corporation can reduce the risk of outsourcing if it can stipulate how the supplier ought to carry out the task.

“Non-codifiable processes”. Supply chain coordination as well as customer data analysis are examples of activities that, as the phrase suggests, cannot be codified. Furthermore, when it comes to pricing and working capital management,

they are sometimes impossible to quantify in terms of the quality attained. Because of this, there is typically a significant operational risk associated with such procedures. If a business decides to contract out these kinds of tasks, they have a responsibility to keep a careful eye on the vendor's performance.

Outsourcing presents structural risk to a client firm based on the ability to monitor work and the precision of metrics used to measure process quality. Low-risk activities like transaction processing and insurance claims processing are easy to monitor using precise metrics, while high-risk activities like product design and R&D are difficult to monitor and define a precise quality metric. Companies often assume that their suppliers will behave collaboratively, but this is not always the case. Structural risk may arise from vendors not updating processes, not investing in employee training, or hiring the most qualified people. Contractual terms can also be altered after clients have handed over processes to providers, causing providers to demand higher prices.

Supporting processes that require knowledge transfer can be time-consuming and expensive to switch providers. To mitigate structural risk, firms should establish contractual clauses imposing an obligation to deliver service at a certain price after the contract's expiry date. Additionally, companies should split business between multiple providers, as working with multiple providers provides a strong element of power for a company.

Aron & Singh (2005) suggest that firms base their outsourcing and offshoring decisions on the assessment of operational and structural risks. High operational and structural risks should be executed in-house and onshore, while moderate risks should be outsourced carefully using "extended organization" offshore and monitored closely in real time. Transaction processing and other low-risk operations and structures can be outsourced to offshore service suppliers.

Selection criteria for locations

One of the biggest issues that businesses have when deciding whether to outsource or offshore is choosing a location. The choice to relocate a business

function or establish a new captive facility for clients or a delivery center for suppliers overseas is largely influenced by the allure of the sourcing regions. Notwithstanding the significance of site appeal in some outsourcing decisions, suppliers' attractiveness should also be taken into account. The primary reason for this is that certain suppliers are linked to a specific region, but they also have a worldwide reach, which may be valued by a customer considerably more than the supplier's domestic advantages.

The six elements identified by Farrell (2006) - costs, talents, infrastructure quality, risk profiles, living and working environment, and market potential - are the most successful frameworks.

Factor 1: Costs

When evaluating whether to outsource IT or business processes, companies usually compare a number of expenses across potential outsourcing locations, such as labor costs (average pay for managers and skilled workers), infrastructure costs (unit expenses such as telecom networks, power and Internet access, office rent), and corporate taxes (tax breaks, regulations, and other incentives for local investment). They are also now considering value-added dimensions to see how they may profit in the long run.

Factor 2: Skills availability

This component consists of the vendor landscape (the extent to which local businesses provide certain services and other company tasks) and the skill pool (the size of the labor pool with the necessary abilities). Technical and business expertise, managerial abilities, linguistic proficiency, the capacity to pick up new ideas and acquire new concepts are all possible requirements.

Selecting a sourcing location should take into account a number of factors, one of which is the labor resources' long-term scalability, or its capacity to meet increasing demand. An indicator of the scalability of labor resources may be found in the increase in the number of skilled graduates that the country under review can generate annually. Because there is a steady supply of graduates in countries with scalable labor resources, salaries are also more inclined to remain low.

Assessing the gap between required and accessible talents is crucial for businesses thinking about growing into offshore or nearshore areas. Additionally, these organizations must evaluate the initiatives taken by different parties to close these skill gaps, such as different kinds of internal training.

Nations possessing suppliers capable of exhibiting such proficiencies to customers stand to gain an advantage over those seeking to contract out highly-priced, intricate, knowledge-driven, and pivotal tasks. Local and foreign providers with a foothold in the nation - such as a distribution center - are included in the vendor landscape.

Factor 3: Environment

This factor takes into account governance support (foreign investment policy, labor laws, bureaucratic and regulatory burden, level of corruption), business environment (compatibility with prevailing business culture and ethics), living environment (overall quality of life, serious crime per capita), and accessibility (travel time, flight frequency, time difference).

Factor 4: Quality of infrastructure

Infrastructure quality comprises telecommunications and information technology (network downtime, service restoration speed, and connectivity), real estate (availability and quality), transportation (size and quality of road and rail network), and power (reliability of power supply).

Factor 5: Risk profile

This factor evaluates security issues (risks to personal security and property-related issues such as fraud, crime, and terrorism), disruptive events (risk of labor unrest, political unrest, natural disasters), regulatory risks (stability, fairness, and efficiency of legal framework), macroeconomic risks (cost inflation, currency fluctuation, and capital freedom), and intellectual property risk (strength of data and IP protection regime).

Factor 6: Market potential

Market potential may be estimated based on the attractiveness of the local market (current GDP and GDP growth rate) as well as access to surrounding markets

(in the host nation and adjacent area). This might take one or more of the following forms: as a captive business employing local labor, infrastructure, and resources; as an outsourced operation employing local IT service providers; and as an ITO/BPO supplier to organizations headquartered in the host nation and adjacent region.

The Kearney Global Service Locations Index - GSLI (2023), as shown in **Figure 1.5 and Attachment 1**, takes a new method to determining a location's suitability for outsourcing and offshore. Their method assigns a score to each component (for example, financial, people, and company attractiveness), which is then added together to provide a total score. To determine the desirability of a site for outsourcing, experts think a qualitative assessment should be supplemented with a quantitative methodology.

Finally, while evaluating prospective sourcing locations, it is critical to examine the impact of certain cities on such a selection. The reasoning behind this is that expenses, skill availability, and infrastructure can vary dramatically between places within the same nation. Even elements like climate, risk profile, and market potential can produce different results in different cities within the same nation. According to Global Services Tholons Report, comparing nations is superficial since "no two cities in a country will be at the same level of skill maturity or offer an identical price advantage" (Vashistha & Khan, 2008).

In 2023, the GSLI ranks 78 countries based on 52 metrics, up from 60 countries and 47 metrics in 2021. The GSLI focuses on four weighted dimensions:

Financial attractiveness: cost of labor and infrastructure

People skills and availability: quantity and quality of the talent pool

Business environment: political, economic, regulatory, and cultural aspects that affect the ease of doing business

Digital resonance: digital skills of the labor force and digital outputs of business activity

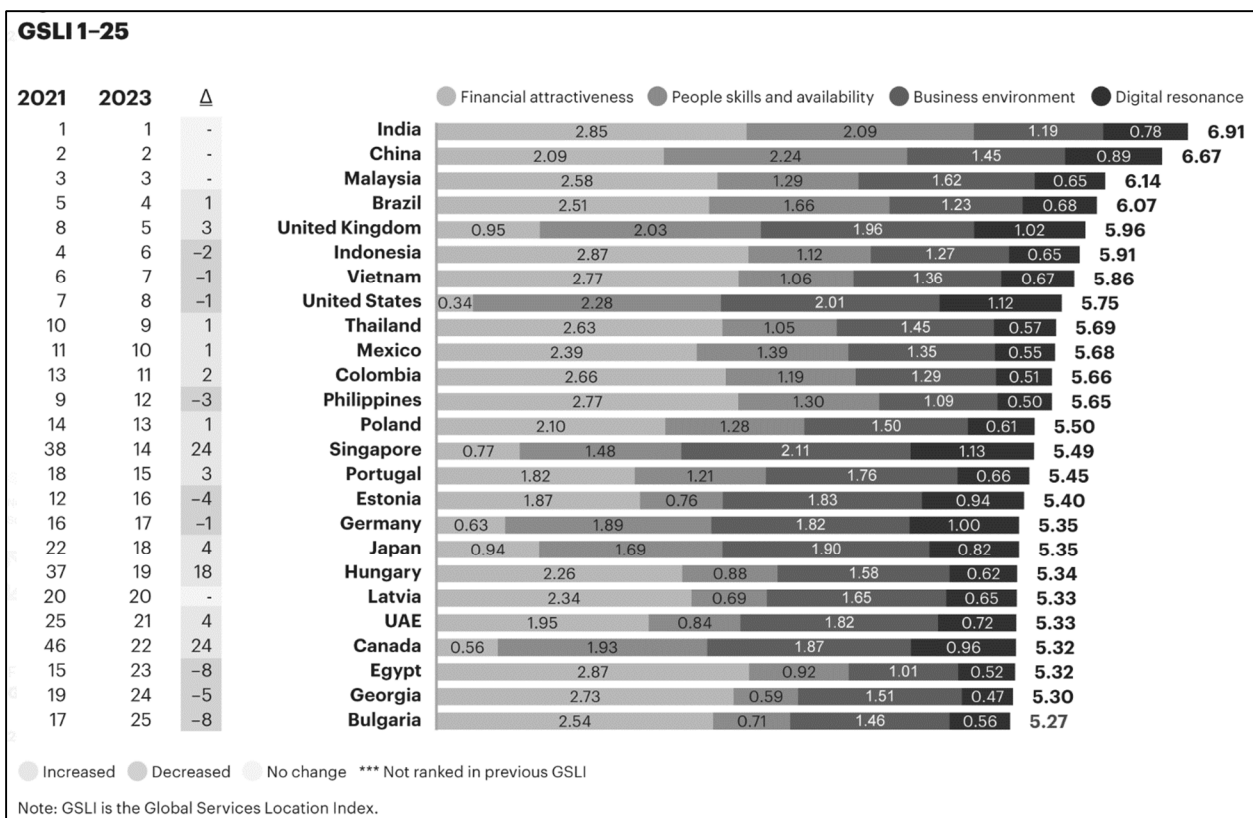


Figure 1.5. Kearney Global Services Location Index, 2021/2023

Source: Kearney analysis (2023)

The global market for business services has seen strong growth, with the market increasing from US\$624 billion in 2022 to US\$681 billion in 2023, and is expected to continue growing at an 8% compound annual growth rate through 2027.

Factors influencing offshore operations include labor and infrastructure costs, available skills, quality of services, infrastructure, business environment, and political and social risks.

Kearney's Global Services Location Index (GSLI) highlights the importance of talent regeneration in maintaining and enhancing offshore locations' attractiveness. Factors such as education system, labor market conditions, immigration policies, government support, and digital infrastructure influence how quickly a country reskills and redeploys its workforce in response to changing market demands and technological disruptions. Countries that can quickly regenerate their talent pool have a competitive edge over those facing skills shortages and mismatches.

India, China, and Malaysia lead due to their cost advantage, abundant talent pool, and strong skills. Asia Pacific countries remain in the lead, with the United Kingdom moving up to fifth place, marking the first time a western economy has entered the top five.

1.3. Tools and mechanisms for regulation of outsourcing and offshoring operations

Many businesses have expanded their usage and reliance on outsourcing and offshoring in recent years. These agreements pose both hazards and benefits to the companies that use them.

However, outsourcing and offshore do not have to be a gamble. At each stage of their lifecycle, there are measures you can take to reduce risks and increase returns. These stages will lead you along the road to Risk Intelligent outsourcing and offshoring, and will assist lower the likelihood of an unfavorable event during company's outsourcing or offshoring strategy.

The decisions and actions that make up the outsourcing and offshoring lifecycle are what drive the project ahead. There are hazards associated with each step of the lifespan, which you may manage using certain instruments, methods, and strategies for mitigation. (Deloitte, 2013)

The outsourcing and offshoring lifecycle has the following stages:

1. **Strategic assessment:** determining whether internal resources can support the effort and why, how, and what form outsourcing and offshoring may help your company plan.
2. **Business case development:** Examining anticipated cost reductions as well as other initiative financial and operational advantages.
3. **Vendor selection:** Selecting a provider based on standards from the business case and the strategic evaluation.
4. **Contracting:** The process of negotiating a contract that takes into account the requirements and expectations of both sides as well as the compliance and risk considerations that were noted in the first three phases.

- 5. Service delivery, transition, and post-transition management:** overseeing the start-up or transfer of the service to an offshore site or provider. Tracking the relationship's continuing performance and risk in accordance with the service level agreements (SLA) and contract, as well as for the accomplishment of strategic goals.

Even while we link particular lifecycle stages to particular dangers, the stages and risks are interrelated. Because of this, risk has to be assessed early in the lifecycle in a way that is integrated and risk-informed. Prioritizing and identifying risks is crucial throughout the initial phases of the strategic assessment and business case creation. This allows for a greater emphasis on risk evaluation and mitigation in later phases rather than identification. In fact, poor risk identification at an early stage of the lifecycle is the primary cause of most outsourcing and offshoring risk management failures.

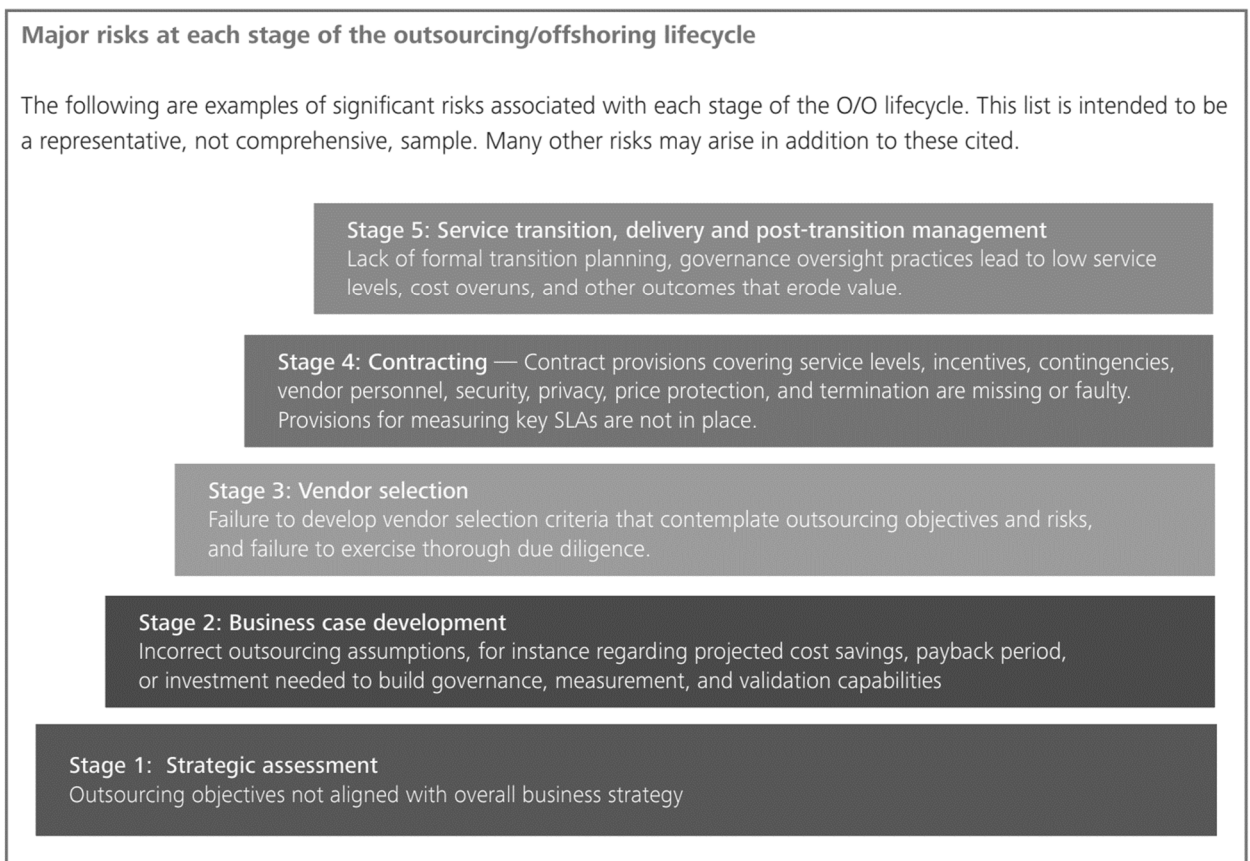


Figure 1.6. Major risks at each stage of the outsourcing/offshoring lifecycle

Source: Deloitte, The Risk Intelligent approach to outsourcing and offshoring (2013)

Stage 1. Strategic assessment - Adjusting the Agreement

Strategic business goals should be used to evaluate an organization's outsourcing and offshoring strategy in order to ascertain the provider's skills and level of support. This evaluation aids in identifying the requirements of the business, choosing the best supplier, and defining service standards. In order to support and track the project, businesses should evaluate their internal resources and sourcing model selections, as well as key decision points and risks at each step of the lifecycle.

The type and scope of the services being outsourced will determine what inherent risks arise from the sourcing choice. The other important concerns are whether internal procedures, resources, and competencies are sufficient to support the suggested sourcing strategy.

Potential drawbacks

If risks are not recognized and managed, outsourcing goals could not be in line with company strategy. 39% of executives said they will more clearly identify and coordinate their business objectives with outsourcing projects, according to a Deloitte Consulting survey. A misalignment might ruin the entire project; in fact, half of the organizations that were unhappy with their biggest outsourcing deal ended up regaining control of the function inside. Misalignment can jeopardize the outsourcing endeavor as a whole, hence this problem is not unusual.

Possibilities for advancement

Reducing spontaneous outsourcing choices and fixing flaws need a deliberate evaluation. It assists in identifying projects that are linked and unrelated, allowing a business to strengthen its overall strategy and rectify any flaws. Eliminating activities that are redundant or overlapping, a thorough strategic review provides a comprehensive perspective on outsourcing. This method helps address typical outsourcing constraints, including cost reductions, and avoids problems later on from insufficient resources and skills. It also guarantees superior performance over the contract time and the best possible resource allocation for sourcing targets, allowing a business to surpass rivals.

Risk Factors Intelligent strategic evaluation

A business must decide what its strategic objectives are and whether outsourcing may help it meet them. Outsourcing and offshoring initiatives have the potential to address immediate issues or enhance corporate strategy. Success depends on contract terms, vendor selection, and internal procedures that are in line with both short- and long-term goals.

Stage 2. Business case development - Establish a strong base

Strategic evaluation assumptions should be the foundation of a business case, and it should go beyond operational cost reductions. The objectives of an outsourcing and offshoring effort are to boost competitiveness, reduce product development cycles, reallocate resources, enhance technical, operational, and process management skills, and increase flexibility. It must take into account the costs associated with the shift in the areas of project management, communications, HR, law, and finance. It must also appropriately account for continuous governance and management expenses, which a lot of businesses underestimate.

Potential drawbacks

According to a Deloitte Consulting report (2005), 38% of businesses have had to pay extra for services they first thought were covered by their contracts. Poor outsourcing and offshoring decisions have been caused by inaccurate assumptions about cost reductions and payback timeframes. Businesses frequently misjudge expenses or neglect to plan ahead for future procedures and governance frameworks. Furthermore, they frequently underestimate the expenses of risk reduction by omitting thorough risk assessments. Since the survey, this pattern has persisted, with 63% of respondents saying they don't use a business case or strategy evaluation when creating outsourcing efforts.

Possibilities for advancement

Rational evaluation of outsourcing choices and decision-making are made possible by well-founded assumptions in a business case. By avoiding poor choices, especially if others have committed to outsourcing, this step can save a substantial

amount of money. It offers a backup plan in the event that the outsourcing decision's business case is rejected, freeing up funds for more fruitful endeavours.

Risk Factors Intelligent strategic evaluation

Evaluate the resources available for outsourcing and offshoring operations and the governance structure of your company. To identify, rank, and assess risks and possible mitigation strategies, perform a risk analysis. Determine the cost of measuring and mitigating risk. Create a strong business case by outlining the advantages and overall cost of outsourcing, classifying expenses into one-time and recurring expenses, and utilizing due diligence to verify assumptions.

Stage 3. Vendor selection - It now has a distinct meaning.

While it's an important step in the process, choosing a vendor shouldn't be rushed. Strategic evaluation and business case preparation are phases one and two that companies should attend. They should also carefully and methodically go through the selection process, taking no quick cuts. When vendors are chosen poorly, businesses may encounter serious issues. These issues can frequently be attributed to predetermination from the onset, relationship or cost prejudice, or calls for bids that remove specifications and expectations from the business case and strategic analysis. Disaster, failure, or even extraordinary success might come from this. It is important to tackle fundamental concerns and refrain from taking short cuts, as this may result in serious complications and impede the fulfilment of goals and expectations.

Potential drawbacks

Insufficient investigation of a matter can result in less than ideal and hazardous outsourced partnerships, inconsistencies between outsourcing goals, major hazards, and vendor selection standards. According to a Deloitte Consulting report, 44% of businesses discovered that their vendors lacked the capacity to produce the desired levels of cost and quality reductions. Repeating the procedure is frequently necessary when choosing the incorrect vendor; according to 35% of respondents, if they could go back in time and choose their service provider earlier, they would invest more effort in this process.

Possibilities for advancement

By carefully examining the ability, skills, and resources of suppliers, you may increase the likelihood that the program can meet all of its objectives, easily and reliably, for many years to come. Of course, choosing a vendor is a crucial step in the process that helps bring all of your goals and projections to life.

Risk Factors Intelligent strategic evaluation

In an outsourcing agreement, the buyer has responsibility for the risks; therefore, the vendor's risk management, operational, managerial, and reporting skills should be evaluated as part of the due diligence process. This entails evaluating the vendor's operational preparedness to provide services as well as compliance with the terms of the contract and applicable laws and regulations in all pertinent sectors and regions.

When assessing a service provider's internal controls for outsourcing agreements and due diligence, internal auditors are essential. Access, however, can be restricted prior to a contract, as certain businesses might be reluctant to reveal important details. Acquiring enough information might give comfort regarding the internal control framework of the service supplier.

Stage 4. Contracting - Striking the deal

After determining the main areas of agreement and potential hazards, contracting ought to be a simple procedure. The process pays dividends in the early phases when a draft contract is developed, creating a partnership that benefits both parties. However, given this is a typical mistake made by businesses, the contracting stage is not the time to correct inadequate strategy evaluation or vendor selection.

Potential drawbacks

Inadequate clauses in contracts can result in stiffness and little negotiating power, which makes changing terms challenging. Contracts that benefit both parties and are negotiated in good faith can lower these risks. According to a Deloitte Consulting survey (2008), 49% of participants wanted more reasonable service standards that matched their corporate aims and objectives.

Possibilities for advancement

Transparency and collaboration are encouraged by service level agreements, balanced scorecard clauses, and clear, equitable contracts that define expectations and track performance. Additionally, they support an effective program for contract risk and compliance, which guarantees a seamless and productive collaboration for the duration of the agreement.

Risk Factors Intelligent strategic evaluation

Contracts should be developed with an emphasis on a formal CRC program, with the goal of cementing a mutually beneficial relationship between the parties. Peril Monitoring performance and assessing the quality of the contract's metrics and provisions are essential components of intelligent contracting. Based on the structure and nature of the source connection, as well as current standards, rules, and procedures, it necessitates explicit security and control needs. Because it may be challenging and expensive, businesses should refrain from adding control requirements after the contract has been signed or later in the contracting process.

Naturally, industry-specific requirements and activities will differ, but the realization of value and risk management remain the fundamental goals of a CRC program.

Stage 5. Service transition, delivery and post-transition management - Once the contract is signed

Service transition

The effectiveness of the outsourcing and offshore lifecycle depends on whether strategy and efforts are aligned, if the business case is flawed, or whether the incorrect vendor is chosen. A successful conclusion may be threatened by misaligned efforts, and even with perfect execution, work remains.

Potential drawbacks

Inadequate formal transition planning might impede critical people retention, change management, knowledge transfer, and issue solving. According to a Deloitte Consulting survey, 20% of participants had significant vendor personnel turnover, which harmed their relationships with stakeholders, workers, and customers and caused knowledge loss.

Possibilities for advancement

An effective partnership will be established, transition costs (and risks) will be contained, and the knowledge base will be preserved with careful planning and management. During this phase, you can efficiently modernize and optimize functions or, where necessary, "lift and shift" an established system or process to an offshore site or a third party.

Risk Factors Intelligent strategic evaluation

Throughout the outsourcing process, transition planning, knowledge transfer, training, and employee retention are essential steps. It is crucial to assess results in relation to predetermined standards, including vendor visibility, planning quality, deadline observance, and communication. For transitions to be effective, proactive human resources change-management programs are essential. But many businesses are unprepared for this phase; in fact, a Deloitte Consulting survey found that 75% of outsourcing service providers said their clients were unprepared to begin their outsourcing relationship.

Delivery and post-transition management

Productivity and advantages at this point of the lifecycle rely on ongoing attention to detail. Entropy can affect even successful outsourcing and offshore initiatives, but proactive management supervision can stop or reverse unfavorable tendencies. This entails keeping an eye on the caliber and promptness of service delivery as well as verifying that important contract clauses—particularly risk management—are being followed.

Potential drawbacks

It can be essential to move suppliers or re-incorporate the function if service levels drop, cost overruns occur, and compliance problems surface. It may be required to boost expenses and refocus management attention in order to avoid possibly damaging the organization's reputation, brands, markets, finances, or legal position.

Possibilities for advancement

When effective, outsourcing and offshore projects may result in reduced costs, more flexibility, knowledge transfer, growth, and profitability. When correctly disseminated within the firm, they also offer priceless lessons for the future. Failed ventures, however, can teach important lessons but at a high cost.

Risk Factors Intelligent strategic evaluation

Mutual trust and confidence may be increased by implementing a continuous monitoring program to confirm that agreements and presumptions in contracts or SLAs are being met. When contracts are being renewed, it should point out areas where SLA metrics and customer satisfaction may be raised. In order to provide a clear governance framework with cross-functional integration between IT, business, compliance, security, privacy, and procurement, the governance program must identify and report instances of non-performance and non-compliance. Successful monitoring in offshore locations depends on striking a balance between local requirements and centralized criteria.

1.4. Conclusions to Chapter 1

The modern search of the optimal configuration for a global company grasps the evolution of economic organization, spanning from the Paleolithic era to the globalization era, has been shaped by historical forces such as labor specialization, technological innovation, and transaction cost theories. Notably, concepts like outsourcing, initially proposed by Adam Smith and further developed by Williamson, have played a crucial role in this evolution. Contemporary companies, influenced by the Core Competency idea, grapple with decisions regarding optimal configurations, striking a balance between outsourcing and in-house production. The intricate landscape of offshoring and outsourcing was being explored, taking into account factors like cost savings, talent acquisition, and the evolving nature of core competencies.

Outsourcing and offshoring strategic decision-making involves breaking down a company's value chains, merging functions across departments, and determining

optimal global locations and organizational structures. Effective sourcing requires evaluating processes based on their significance, technological evolution, and potential risks. Researchers propose categorizing processes by value creation and capture. Operational and structural risks must be considered when deciding on outsourcing, with careful evaluation of process codification. Location selection involves assessing costs, skills, environment, infrastructure, risk profiles, and market potential. The Kearney Global Service Locations Index (GSLI) quantifies location suitability based on financial attractiveness, skills, business environment, and digital resonance have highlighted the most attractive outsourcing locations.

Tools and mechanisms for regulating outsourcing and offshoring operations involve a strategic lifecycle approach. The process includes strategic assessment, business case development, vendor selection, contracting, and service transition and delivery management. Risk factors and potential drawbacks are addressed at each stage to enhance risk intelligence. Proper strategic evaluation, alignment of efforts, careful vendor selection, transparent contracting, and effective service transition contribute to successful outsourcing and offshore projects, minimizing risks and optimizing benefits throughout the lifecycle. Continuous monitoring ensures adherence to agreements, promoting mutual trust and successful governance.

CHAPTER 2. THE EFFECTIVENESS OF OUTSOURCING AND OFFSHORING IN THE CORPORATE STRATEGIES OF GLOBAL COMPANIES

2.1. Corporate outsourcing and offshoring business models

Historically, procurement has been seen as a "make vs. buy" choice, especially when businesses consider outsourcing. However, because switching costs are significant, suppliers have a locked-in position, and buyers become co-dependent on suppliers, this old technique is no longer effective for complicated procurements. Dr. Oliver E. Williamson's research in Transaction Cost Economics cast doubt on this theory.

According to Williamson's major takeaways, businesses should see sourcing as a continuum that takes corporate hierarchies and free market forces into account. He promoted a hybrid strategy that combines corporate hierarchy and free market forces for complicated contracts. Williamson's work, for which he was awarded the Nobel Prize in 2009, emphasizes how crucial it is for procurement choices to take organizational hierarchy and free-market pressures into account.

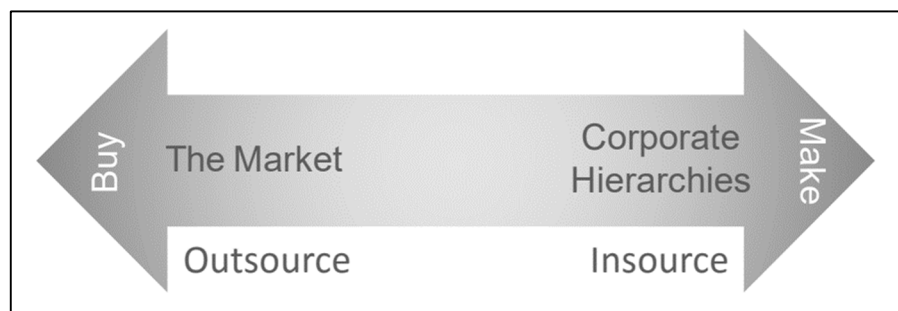


Figure 2.1. An Outsourcing Solutions Continuum

Source: Kate Vitasek et. al. (2019)

The International Association for Contract and Commercial Management (IACCM) has conducted research that demonstrates how most businesses use traditional transaction-based models that are limited by a formal, legally-oriented, liability-based, risk-averse culture (IACCM, 2010). Awareness that transactional-

based methods don't always produce the desired outcomes for all parties is increasing (Williamson, 2008). Alternative output- and outcome-based methodologies are applied for complicated contracts by University of Tennessee research and the industry-specific expertise of the authors. Alternative Sourcing Business Models are a feasible alternative to traditional transactional procedures, as demonstrated by that experience (Vested, 2013). There's growing support for both output-based and outcome-based methods as senior executives witness the benefits of well-crafted collaborative agreements.

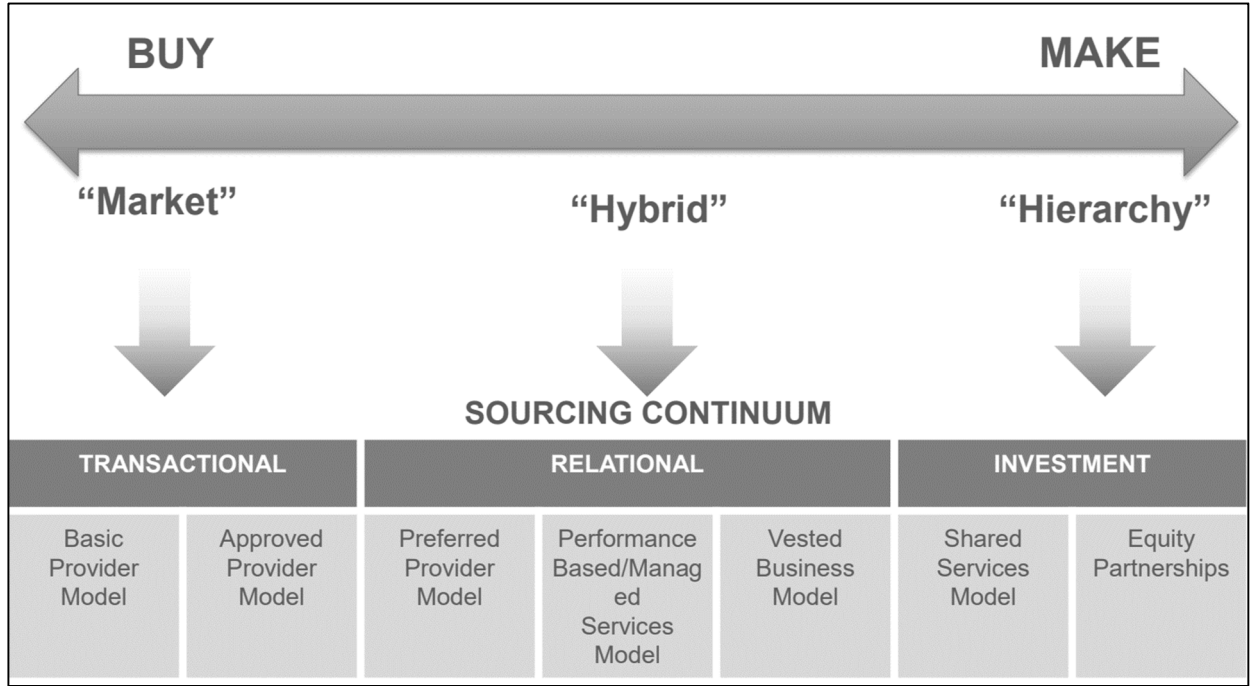


Figure 2.2. Along the sourcing continuum: Sourcing Business Models
Source: Kate Vitasek et. al. (2019)

Following Oliver Williamson's sourcing continuum, we provide seven procurement business models that fit into each of the three categories.

1. Transactional (Williamson’s “Market” category)
 - a. Basic Provider Model
 - b. Approved Provider Model
2. Relational (Williamson’s “Hybrid” category)
 - a. Preferred Provider Model
 - b. Performance-Based/Managed Services Model

c. Vested Business Model

3. Investment (Williamson's "Hierarchy" category)

a. Shared Services Model

b. Equity Partnership Model (e.g. joint ventures, subsidiaries)

The models should be assessed in relation to the procurement in light of the differences between them in terms of risk and return. Below is a detailed examination of the traits and qualities that make up each of these strategies. The Sourcing Business Models' placement on the sourcing continuum is depicted in Figure 2.2.

Basic Provider Model

Transaction-based providers follow a simple approach. For each specific goods and service, it usually has a defined pricing with several conventional market alternatives. These goods and services are usually easily accessible, with minimal variation in what is provided.

When purchasing standardized, low-cost goods and services in a market with several suppliers and little to no economic impact from changing providers, a basic provider model is employed. Competitive bidding is usually used by buyers, usually in conjunction with scheduled electronic auction calendar events. Purchase requisitions frequently initiate transactions that indicate the purchasing company's agreement to acquire certain amounts of tasks or items (such as widgets or hours). For these kinds of straightforward purchases, some businesses even employ purchasing cards.

A review of performance in regard to fundamental criteria forms the basis of the buyer-supplier relationship. Did the provider, for instance, put in the hours they claimed? Did the amount, price, and delivery dates of the items satisfy the agreement?

Approved Provider Model

When purchasing products and services from prequalified suppliers that satisfy specific performance or other selection criteria, an authorized provider model

employs a transaction-based methodology. Buyers or business units can often select from a restricted pool of preapproved suppliers for certain spend categories that the organization has approved. If a supplier doesn't match performance criteria, it's easy to switch to another company, and having several suppliers means costs are competitive.

A pre-qualified choice within the pool of basic providers is designated as an authorized provider. Approved providers meet requirements for designated services by meeting predetermined standards or having a track record of dependable performance. vendors usually have to differentiate themselves in some way from other transactional vendors and give the buyer a cost or efficiency benefit in order to be accepted. A cost or quality advantage, a firm owned by a minority, or a geographic location advantage might all be sources of difference.

When bidding is done, procurement experts frequently look to recognized providers as sources of supplies that are commonly requested. A Master Agreement, which is a comprehensive contract with the buying organization, may or may not be followed by an authorized supplier. Volume requirements for being in a "approved" position may or may not apply to authorized providers. Furthermore, qualified suppliers could take part in supplier management reviews or not.

Many firms compile lists of recognized providers in order to construct a smooth and easily accessible supply chain. It has several benefits. For instance, looking for certain products and services is quicker with a preapproved list. Parity between eligible vendors who submit bids is ensured by the approval procedure. A company tailors the necessary credentials to fit its own business goals and strategy when choosing its approved supplier list.

Preferred Provider Model

A preferred provider model makes use of a transaction-based economic model, just as the basic and authorized provider models. The decision by the buyer to switch to a supplier relationship, wherein the supplier has the chance to deliver unique added value to the buyer's company in order to achieve strategic goals, is a significant distinction between a preferred provider and the other transaction-based

models. A relational model is required as a result of the supplier's contribution being included into the buyer's business activities. Contracts with supplier(s) of choice, then, presuppose a more cooperative relationship. Longer-term and/or renewable contracts, as well as repeat business, are typical.

In order to expedite their purchasing procedures, buyers want to work with approved suppliers, just like in an approved provider model. Purchasing companies usually use master agreements to get into multi-year contracts that enable them to easily handle recurring business. Preferred suppliers continue to use economic models centered around transactions. But the type and effectiveness of the collaboration between the businesses take into account how a supplier might offer value-added services in addition to a straightforward purchase order.

A prequalified vendor is a preferred vendor. Frequently, they have distinctive selling points like value-added products and services and/or exhibit consistent and respectable performance levels. A favored supplier could, for instance, have better software that works with the system that the company uses. Preferred providers are occasionally picked for their hard-to-replicate knowledge and superior staff. Standard requirements for a preferred provider to be down selected as a supplier are:

- Prior expertise;
- The vendor performance rating (if a rating system is in place at the purchasing organization);
- Proof of an external certification (such an ISO certification), or previous contract compliance performance;
- Extra efforts to keep expenses under control, such training materials, inventory control, and coordinated geographic placement.

Preferred suppliers sometimes operate under blanket purchase orders (POs) and rate cards, which provide efficient handling of recurring transactions. A labor-staffing company could, for instance, have a rate card that outlines the hourly fee applicable to different kinds of staffing requirements. Using the predefined blanket purchase orders and rate cards, the buying organization may easily request personnel help from the desired provider.

An output-based economic model and a relational contractual model are combined in a performance-based (or managed services) approach, which is often a formal, longer-term supplier agreement. An output-based service-level agreement (SLA) and/or cost reduction objectives are intended to be held suppliers accountable through a performance-based methodology. Generally, incentives (or penalties) are created for meeting (or failing to meet) performance objectives in a performance-based agreement.

Purchasing choices are influenced by a supplier's capacity to develop improvements based on its core strengths in addition to its ability to deliver an item or service at a competitive cost. Performance-based agreements cause a shift in perspective from activities to specified results or occurrences. Some companies refer to the outcomes. It is crucial to comprehend, nevertheless, that a provider should only be held responsible for things that are within its control under a performance-based agreement. Because of this, "output" from a provider is usually meant when the term "outcome" is used in performance-based models. An output is a delivery, usually of a finite type, that is precisely specified and easily quantifiable. Because of the greater level of integration between the supplier and the buyer, performance-based agreements necessitate a higher degree of cooperation than preferred provider contracts. Furthermore, purchasers must implement more structured supplier relationship management initiatives to assess performance in respect to goals and define any embedded incentive or service credit (also known as a penalty or malice payment) payments in the contracts.

In some service sectors, managed services agreements are evolving to include a pre-agreed price reduction objective (e.g., a 3% annual price decline) along with a fixed fee guaranteed by the supplier. There is an expectation that the provider will meet productivity goals. Because there is an annual price decrease over time, these assured savings are sometimes referred to as a "glide path". Performance-based sourcing business models take the shape of managed services agreements.

An outcome-based economic model and a relational contracting model that integrates the shared value principle and the behavioral economics notion that won the Nobel Prize are combined to create a hybrid relationship known as a vested sourcing business model. These ideas enable businesses to enter into highly collaborative agreements that go beyond the traditional buy-sell economics of a transaction-based agreement to generate and share value for customers and suppliers. The parties are, in other words, equally invested in the success of one another.

A highly cooperative sourcing business model known as "vested outsourcing," in which both the supplier and the organization have a financial stake in each other's success, is called "Vested." The multi-year partnership between Microsoft and Accenture, in which Microsoft pushed Accenture to change Microsoft's back-office financial operating systems, is an excellent example. The arrangement is designed to reward Accenture for exceeding Microsoft's objectives, with greater success coming from Accenture.

Once University of Tennessee researchers studied extremely successful buyer-supplier interactions, they came up with the term "vested business model," which went on to become widespread. With increasing numbers of firms seeing exceptional outcomes, it is sometimes called a "vested mind-set" or even the "vested movement." When an organization has to source from outside for revolutionary or innovative projects that it cannot handle on its own, through traditional transactional models (Basic Provider, Approved Provider, Preferred Provider), or through a performance-based agreement, it is advisable to adopt a vested business model.

The term "desired outcomes" refers to these innovative or transformative goals. A quantifiable strategic business goal that centers on the achievement of the activity undertaken is known as a desired outcome. The service-level agreement (SLA) known as "desired outcomes" is not task-oriented, unlike the SLAs found in Performance-Based or Preferred Provider agreements. Desired Outcomes, on the

other hand, are strategic in nature and frequently require investment from the source as well as intense cooperation between the customer and provider.

The foundation of a vested relationship is the achievement of mutually stated Desired Outcomes by the supplier and the buyer, even in situations where some liability is shared with the purchasing organization. Improvements to budget, time, market share, income, customer service standards, or general business performance are typically classified as desired outcomes.

Shared Services Model

Businesses may always invest in developing their own skills, sometimes known as insourcing, if they are having trouble working with suppliers to satisfy complicated business objectives. To achieve operational efficiency by standardization and centralization of processes, one strategy is to establish an internal shared service organization (SSO). An internal company built around a free-standing outsourcing agreement is known as a shared services model. Processes are frequently consolidated into a single service organization (SSO) that bills business units or consumers for the services they utilize when using this method. External SSOs, like subsidiaries, can occasionally be founded independently of the firm.

According to the authors' experiences, SSOs generally function as external suppliers, completing tasks and then "charging" their internal clients based on real costs or per transaction. SSOs often follow traditional paradigms of favored providers. The primary distinction is that the SSO is an internal source as opposed to an external one.

Human resources (HR), financial operations, and administrative services (including health care claims processing) are just a few of the functional activities that organizations can employ a shared services model for. To offer benefits management to both internal and external clients, major firms can, for instance, centralize HR administration into a single SSO. By collaborating to establish specialized service centers that affordably offer each of the smaller businesses a functioning service, small businesses may profit from a shared services model.

Equity Partnership Model

A legally binding company is formed through an equity partnership. A variety of legal structures are used to carry them out, including as acquisitions (purchasing suppliers), subsidiaries, equity-sharing joint ventures, and cooperative (co-op) agreements. When a company lacks sufficient internal resources and does not want to outsource, equity partnerships are the best option.

Certain enterprises determine that they lack the necessary internal resources, yet they are unwilling to make investments in shared services companies. In these situations, organizations may decide to create a joint venture, equity partnership, or other legal structure in an attempt to get commodities and services that are essential to their missions.

Equity partnerships inherently result in "in house" expenditures and a fixed cost burden. Because of this, equity partnerships frequently run counter to the goals of many companies, who want to have more flexible and variable cost structures on their balance sheet.

	Transactional (Market)		Relational (Hybrid)			Investment (Hierarchy)
	Basic Provider	Approved Provider	Preferred Provider	Perf.-Based / Managed Services	Vested Relationship	Investment (Equity Partner / Shared Services)
BUSINESS MODEL						
Economic Model	Transaction-based (per transaction, hour or unit)	Transaction-based (per transaction, hour or unit)	Transaction-based (per activity, hour or unit)	Output-based	Outcome-based	Transactional, output-based or outcome-based
Relationship Model	Transactional / no relationship	Transactional / supplier vetted on "Approved" list	Relational contract / emerging collaboration	Relational contract (collaborative)	Relational contract (highly collaborative)	Investment-based
Vision & Intent	Supply at lowest cost	Recurring commodities at fair or lowest cost	Value-added capabilities at best value	Performance to SLA / process efficiencies	Shared Vision, Desired Outcomes & Value Creation	Sustainable Value
SCOPE OF WORK						
Statement of Work & Objectives	"Who" and / or "How"	"Who" and / or "How"	"Who" and / or "How" (jointly defined "How")	"What" and limited emphasis on "How"	"What"	"What If", "What For" and "When"
PERFORMANCE MANAGEMENT						
Performance Focus	Simple three-way accounting match	PO requirements	Activity-based service level agreements	Output-based service level agreements	Strategic Desired Outcomes	P&L-based Measures
Performance Measures	Right quantity, right price, damage-free	Basic provider metrics + increased quality emphasis	Operational + customer satisfaction	Operational + relational (Values & Behaviors)	Ops + transformational + relational system-wide KPIs	Joint Measures of Success
PRICING						
Pricing Model & Incentives	Fixed price / typically no incentives / volume rebates	Fixed price / low-no incentives / volume rebates	Fixed price / low incentives / volume rebates	Price with incentives and / or penalties	Pricing Model with value-based incentives	P&L-based Equity Sharing
GOVERNANCE						
Relationship Management	Delivery & pricing validation (3-way PO match)	Some performance & pricing oversight	Limited Supplier Relationship Management	Oversight emphasis: Supplier Relationship Mgmt.	Insight emphasis: Strategic Relationship Mgmt.	Shared control and management
Improve, Transform & Innovate	None / market-driven	Limited / market-driven	Beginning to focus on incremental improvements	Supplier-driven to meet SLAs / price glide path	Joint & proactive Transformation Mgmt.	Core innovation capabilities
Exit Management	One-way / limited commitment to buy	One-way / termination for cause & convenience	One-way / termination for cause & convenience	Perf.-based termination for cause w/ safeguards	Joint Exit Management Plan	Divestiture
Compliance & Special Concerns	Compliance-driven / survey-based	Typically compliance-driven / survey-based	Typically market-based / minimum audit requirements	Corporate-based audit requirements	Outcome-based joint requirements	Investment-based joint requirements

Figure 2.3. Appropriate structure for each Sourcing Business Model

Source: Kate Vitasek et. al. (2019)

Because of this, it is crucial that businesses deliberately choose the Sourcing Business Model that best suits their needs. Because sourcing business models are specifically designed to maximize company needs in light of crucial operating considerations, we prefer to think of them as "systems." When a system is in motion, it is intended to function independently, much like a Slinky toy.

A "guide sheet" detailing the appropriate structure for each Sourcing Business Model is shown in Figure 2.3.

2.2. The specifics of outsourcing and offshoring business models for large companies

Nine out of 10 businesses in today's business climate manage outsourcing agreements, and 97 percent have shared services. Executives in corporations typically have challenges in responding aggressively to market demands due to competition, yet they may not have the necessary funds to establish crucial administrative and support systems. Too often, corporate functions take the lead without offering a strong cross-functional business case.

The great majority of businesses consolidate certain duties into shared services and outsource other functions to outside service providers in order to expedite commercial benefits like reduced operating costs and enhanced business processes. Although these programs frequently succeed in improving a single function, research indicates that they have typically fallen short of fully enhancing the larger corporate strategic goals of these companies. These firms will probably keep making the same mistakes if they don't have an efficient global business services strategy.

Companies must prioritize reallocating existing expenditure, strengthening investment portfolio decisions, and coordinating company strategy. They are using Global business services models to achieve this. These firms' CEOs are gathering functional leaders and outside service providers to evaluate standard operating procedures in order to operationalize their organizations' strategic worldwide goals. Subsequently, they collaborate to decide on technology over the next three to five

years in order to tackle the most difficult problems, such as consolidating applications and establishing standard business procedures. These businesses are using cost-effective shared services and third-party agreements to expedite these transformations by lowering labor expenses, streamlining processes, and cultivating process savvy (HfS Research, 2011).

Organizations all throughout the world have been utilizing shared services for more than 20 years to save costs and enhance service delivery inside certain business units. Leading companies are now making the next move. Rather than running many shared services centers and overseeing outsourcing providers separately, they have implemented Global Business Services (GBS) into place, which integrates locations, business processes, and governance to all shared services and outsourced operations throughout the organization (Deloitte, 2016).

Moving to GBS calls for much more than just convincing shared services centers to comply. It signifies a radically different approach to shared services and outsourced management for companies. Performance may be improved by those who do it correctly.

Although GBS comes in a variety of flavors, most businesses want permanent performance gains, and to achieve this, they must adopt the following five key traits and behaviors.

Principal attributes

Multi-function: GBS encompasses a number of different activities and has a high degree of integration with them all (IT, HR, finance, procurement, customer service, operations, etc.).

Multi-region: GBS offers services in the Americas, EMEA, and APAC regions, and covers all areas inside a company.

Multi-location: GBS condenses into a smaller number of sites. While some businesses opt for a hub-and-spoke strategy, where the majority of work is usually done in an Asia-based hub, others stick to a regional delivery model.

Multi-sourced: While higher value advising services are often provided through captive centers, transactional operations are typically outsourced. While allowing

the GBS choose how such services will be provided, the most developed organizations hold the GBS responsible for service levels.

Multi-business: By implementing the finest and most advanced practices across the board, GBS businesses serve several business units and can facilitate faster and stronger business unit adoption (Deloitte, 2016).

Essential behaviors

Standardized approach to governance: Include a business process-based, standard approach to governance. They are able to increase control and efficiency by designating a single global owner for every process.

Standardized leadership framework: Include a shared leadership structure that strikes a balance between the requirement for business intimacy and commonality; successful GBS leadership is frequently a part of the C-suite, giving them the authority to make choices that affect the whole company.

Standardized method for managing services: Establish a standard method for managing services by doing away with the disorganized reporting schemes and service level agreements. Enhancing customer satisfaction and decreasing reporting work are two benefits of a uniform strategy across departments and geographical areas.

Standardized strategy for continuous improvement: Through the development of a continuous improvement-valued culture, GBS offers a business-wide approach to continuous improvement that may provide larger returns with less work and investment.

Global Shared Services and Outsourcing Survey conducted by Deloitte, with record participation of approximately 600 respondents in 2021 and 500 respondents in 2023, were a part of research conducted.

- Leaders from 45 nations, with Shared Services Centers (SSCs) spread over about 75 countries, responded to the survey in these years.
- Leaders from parent organizations as well as Shared Services Center (SSC) organizations worldwide participated in the survey.

- Approximately 56% of those surveyed worked for businesses with annual revenue of at least \$5 billion and 14% - with annual revenue over \$50 billion.
- With over 50% of responders, consumer and energy, resources, and industrial items had the highest level of engagement.

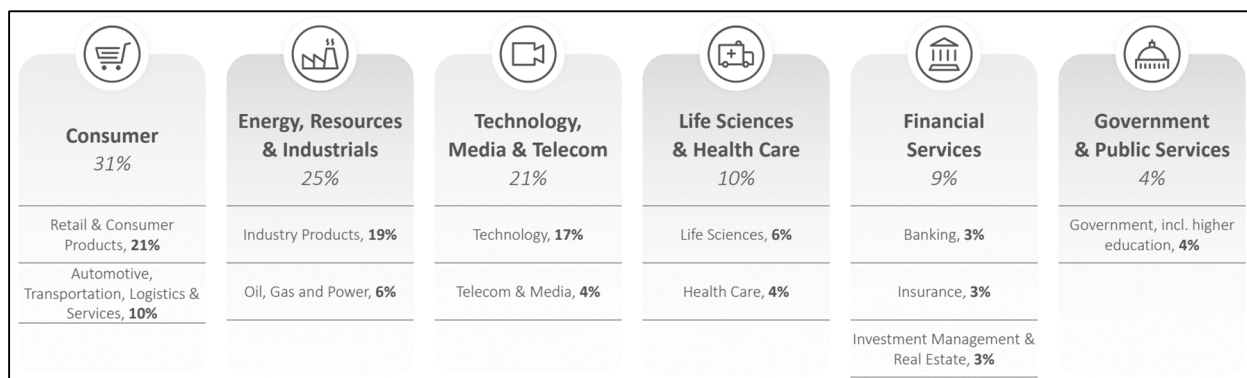


Figure 2.4. Global Shared Services and Outsourcing Survey participants' breakout by organization type in 2023

Source: Deloitte (2023)

Key findings: Global Shared Services and Outsourcing Survey, 2021

Functions and capabilities scope

The top three operations carried out in shared services centers across all sectors in 2021 are still finance, HR, and IT. These functions are growing "upstream," moving outside the back office to encompass increasingly specialized business areas.

The GBS footprint has grown most since 2019 in the areas of procurement, customer service, and contact centers.

The implementation of skills including analytics, process excellence, project leadership, reporting, and Robotic process automation (RPA) is being considered by GBS organizations (Deloitte, 2021).

What is the desired governance model and how many functions are carried out?

As can be seen in Figure 1 Attachment 2, the survey indicates that multifunctional organizations are still the most common, accounting for around 82% of all SSCs that handle three or more tasks. This tendency holds true for all organizations, regardless of their revenue size.

Organizations that formed their SSCs between 1991 and 2000 have always preferred the hybrid governance model; however, organizations that formed their SSCs after 2001 have also come to appreciate other models, such as the landlord-tenant model and multifunctional leader across SSC.

How many Full-time Equivalents (FTEs) are employed by the corporate office, a local firm, or a GBS model overall?

As can be seen in Figure 2 Attachment 2, payroll is the function that uses SSCs or outsourcing the most, followed by customer service or contact center, which had the most leverage in 2019. In comparison to 2019, both procurement and customer service/contact centers have grown by almost 10%.

Annual growth is observed in the usual suspects of IT, Finance, Tax, and HR.

Which tasks are fulfilled by outsourcing companies as well as SSCs?

As can be seen in Figure 3 Attachment 2, nowadays, a variety of sectors provide specialized, targeted skills. Among the examples are:

Customer sector: Retail loss intelligence, asset protection, accounting for manufacturing and plants.

Energy, resources, and industries: product engineering, environment, security, safety, and quality.

Money laundering prevention and claims in the financial services sector.

Clinical trials, medical management, technology, media, and telecom, manufacturing and plant accounting, and operationalized transfer pricing are all aspects of life sciences and health care.

What capabilities are GBS organizations doing or planning to implement?

As can be seen in Figure 4 Attachment 2, process excellence, automation, and RPA are currently present in at least 50% of GBS organizations.

The main areas of investment for GBS businesses are customer experience, analytics, reporting, and user-centric design.

How are companies enhancing the client experience?

As can be seen in Figure 5 Attachment 2, user-centric design and customer experience have been applied or are planned to be implemented by more than 50%

of GBS organizations. Just 29% of respondents stated that they have used "self-service" as a solution in their organizations, out of the 31% who cited "lack of self-service" as their main problem.

Businesses are actively working to improve the customer experience by using methods including customer surveys, goal-aligned service levels, and improved business-to-SSC visibility.

25% percent of the organizations did not find any difficulties for their end users to communicate with their centers.

Organization structure, geography and talent

Industry-wide, multifunctional (with at least three roles) SSC models are still the most common.

In the competition for talent, organizations are placing more and more importance on the establishment of a strong culture, employee wellbeing, and flexible work arrangements—financials being only one consideration. Part-time workers, remote work arrangements, and contingent workforces continue to rank as the top three atypical talent models (Deloitte, 2021).

What unconventional talent models have companies thought of, and how do they draw and keep talent in SSCs and GBS?

As can be seen in Figure 6 Attachment 2, financial incentives are a must when it comes to talent initiatives, with the development of a strong culture, wellness, and flexible working hours being top considerations.

In addition, task-sharing, multifunction opportunities, and job rotation outside of SSC were mentioned by respondents as strategies for keeping personnel. According to the 2019 poll, most participants have given thought to other talent models.

A majority of respondents said they had already incorporated contract and contingent workers in their organization, up from 42% in the 2019 study who said it was their preferred approach.

Regarding the transition of work to a GBS model, how have companies equipped the retained organization for changes in people and management?

As can be seen in Figure 7 Attachment 2, among the most effective strategies used by organizations to keep talent inside the retained organization include monetary incentives, upskilling trainings, and a well-defined organization plan.

Where SSCs are most likely to be located, depending on the industry?

As can be seen in Figure 8 Attachment 2, for the majority of industries, India remains the most desirable site.

Portugal and Lithuania are still receiving attention and securing GBS investments, despite not being at the top.

Hungary is a recent addition to the top 10, despite being a well-established center.

Although it is still of interest, Colombia, which was among the top 10 in 2019 and again in 2021, is no longer on the list.

What part will remote or hybrid models play in GBS location strategy going forward?

- Brick-and-mortar - this type of organization model has operations four to five days a week in actual facilities.
- Hybrid - organization that operates out of a hub or office and requires employees to work two or three days a week.
- Mostly remote - just a few days a month are spent in the office (mostly work from home).
- Completely virtual - this type of work is done entirely virtually, from home, and is not dependent on a real office or city, utilizing talent regardless of location.

As can be seen in Figure 9 Attachment 2, as we go past COVID-19, the most preferred model for shared services organization for the next three to five years was dominantly a Hybrid model for 73% of respondents, leaving Mostly remote (14%) and Brick-and-mortar (9%) behind, with unknown model – 3%.

While for Outsourcing organizations, the models preferred were 42% Hybrid model, 24% unknown and rest equally distributed between Mostly remote (19%) and Brick-and-mortar (16%).

Advantages

The use of RPA is starting to pay off for organizations; 20% of them report savings of between 20% and 40% (compared to 9% in 2019).

More organizations are embracing the digital agenda, and process efficiency and standardization now rank higher than cost reduction as the main reasons to engage in GBS.

The most observable and achievable benefits to yet have been cost reduction, process efficiency, and standardization. Goals accomplished: 63% business value, 78% standardization and process efficiency, and 88% cost savings (Deloitte, 2021).

Key findings: Global Shared Services and Outsourcing Survey, 2023

Functions

Cost reduction is a top aim for GBS. In an effort to fight shifting global economic realities, GBS firms prioritize cost reduction above all else. By shifting more work to more affordable places, organizations are reducing the overall footprint of SSC. The main elements influencing GBS firms' footprint plans are competitive labor markets and cost concerns.

GBS keeps implementing important facilitators to create value. Throughout GBS, automation, single-instance Enterprise Resource Planning (ERP), and workflow tools are being widely used. Over the next one to three years, there will be a rise in demand in self-service, centralized analytics, and worldwide standard procedures. As GBS mature (> 3 years), they have utilized the End-to-end (E2E) process ownership model more and more.

In Environmental, social, and governance (ESG) incentives, GBS is contributing significantly. ESG is a major priority area for GBS, as reported by around 50% of GBS firms. For GBSs, the primary ESG priority area is promoting diversity and social responsibility. Notably, about 60% of these organizations endorse a wide variety of ESG objectives, including ESG reporting.

The C-suite and GBS are becoming more tightly connected. A GBS leader receives the majority of reports from mature GBS companies (>7 years). Thirty

percent of GBS organizations that are less than three years old report to a CXO. Out of the C-Suite, CFOs are the most frequently seen leaders for GBS.

As business partners, GBS bring value. Through a hyper-focus on customer and user experience, rather than merely efficiency, GBS enterprises are transitioning from transaction-processing back-offices to business partners. Automation, reporting & analytics, process excellence, E2E process ownership, and business continuity planning are implemented in more than half of GBS firms.

Flexible and robust talent models are being developed by GBS. To retain personnel in demanding situations, GBS is bringing in more work from home opportunities, pushing the digital agenda, and instituting flexible work schedules. The main retention tactics used by the GBS organization include market-based pay, upskilling opportunities, and well-being initiatives (Deloitte, 2023).

Organization structure, geography and talent

As can be seen in Figure 1 Attachment 3, it seems that remote and hybrid work are here to stay. Of GBS firms, 17% are still investing in creating virtual work environments, up from 14% in 2021. 60% of firms have not changed the GBS footprint; instead, they have expanded the scope of their current SSCs or the amount of outsourcing. Organizations are aiming to back-shore services at a lower rate (4%) than they did in 2021 (20%).

India, Poland, and Mexico are the main three countries having the largest shared services centers, followed by the United States. China and Malaysia, two recent additions to the top 5, are closely separated. Since 2021, Poland, Mexico, Ireland, Bulgaria, and Malaysia have had the most percentage increases.

In the upcoming three years, businesses planning to refine their SSC (Shared Services Center) footprint. Approximately 70% of companies who intend to rearrange their portfolio currently have a variety of distribution sites and are seeking to update their skills. The majority of respondents said they were relocating in order to pursue less prices (51%) and improved access to the talent pool (27%).

As can be seen in Figure 2 Attachment 3, the establishment of a strong culture was the primary priority for several years, but post-COVID trends in GBS indicate that firms are refocusing their people strategy to prioritize opportunities for well-being, talent upskilling, and market-based pay. In comparison to previous polls, developing employment branding and providing assistance for schooling have slipped in importance.

While companies with high turnover use market adjusted reimbursement (58%) to recruit and retain workers, those encountering challenges with career development are actively focused on well-being advantages (46%) and job rotations (46%). Employers are using chances for well-being (66%) and talent upskilling (63%) as means of retaining talent.

As can be seen in Figure 3 Attachment 3, while talent, inflation, and cost constraints are the main drivers of footprint strategy, GBS firms are more robust to geopolitical concerns and governmental laws. Organizations in the GBS sector are progressively using several tactics to guarantee that their workforce is equipped for a hybrid work environment. These tactics include remote work, digital agenda acceleration, flexible scheduling, and more (Deloitte, 2023).

Strategy and capabilities scope

As opposed to 21% in 2021, Figure 5 Attachment 3 demonstrates that 40% of firms that started utilizing GBS more than seven years ago are principally run by a dedicated GBS Leader.

Figure 4 Attachment 3 that shows the duration of organizations' involvement into Outsourcing and Offshoring activities, in their SSCs, more than one-third of the companies that started their GBS journey during the previous three to five years use a CXO-led reporting approach. With over 80% of CFO led GBS businesses having a multi-functional scope, the CFO position is quickly rising to the top among C-Suite leaders of GBS firms.

Only 1-2 functions make up 62% of SSCs, and they rely on outsourcing service providers and/or onshore shared service centers. Offshore SSC use rises from 13% to 33% as GBS businesses shift to a multi-functional scope.

Based on maturity, as shown in Figure 6 Attachment 3, organizations that have progressed in their GBS route see a decrease in on-shore SSCs and an increase in the use of off-shore/near-shore SSCs. Organizations utilize Center of Excellence models from the beginning and continue to do so throughout their GBS journey.

Functions performed by GBS organizations

Across all industries, as Figure 7 Attachment 3 demonstrates, the three conventional GBS functions—Finance, HR, and IT—remain the most prevalent.

GBS is evolving from a "labor arbitrage back-office center" to a "strategic partner and central business organization," as seen by the emphasis being paid to the deployment of interaction-heavy services like engineering and research and development.

Procurement, supply chain, and tax are among the departments in GBS that are seeing growing traction since they need to be closer to clients and corporations.

What are the primary responsibilities of SSCs?

Businesses that use SSCs additionally outsource out tasks to be delivered in segments of the process, as Figure 8 Attachment 3 shows.

According to past patterns, accounts payable, accounts receivable, and fixed asset accounting continue to be the three most important finance operations performed by SSCs. An increase since 2017 has been observed in the majority of financial operations, with 67% of businesses using SSCs for decision support and analysis (FP&A). In comparison to 2017, there has been a rise in the delivery of payroll and recruiting and personnel administration through SSCs.

The most important IT procedure carried out by SSC is still the IT service desk. Delivery of supplier master data management via SSCs is becoming more popular.

Objectives achieved by companies from GBS organization

The primary goal achieved by GBS enterprises is cost reduction, which businesses still prioritize, shows Figure 9 Attachment 3.

Process standardization and efficiency, as well as capability development, are intimately related and have always been concrete, immediate goals for a GBS company.

By putting Business Continuity Plans (BCP) into place and varying their service delivery methods, organizations are utilizing GBS as a strategy to lower operational risk. GBS is giving users a powerful tool in the talent wars by giving them access to vast and varied talent pools (Deloitte, 2023).

Enabling technology & ESG

Automation continues to be the most desired digital enabler for GBS businesses over the long term, shown in Figure 10 Attachment 3, and within the next one to three years, it is anticipated to be a major area of attention.

Centralized performance dashboards and analytics reporting have risen quickly from ninth place in 2021 to fourth place in 2023; 29% of respondents whose area of interest is automation currently use these tools as enablers.

Organizations are progressing in their digital transformation by utilizing persona-based performance dashboards that are connected to the goals and objectives of leadership. Consistent with recent trends, firms will prioritize self-service capabilities and global standard processes in the next one to three years.

Cloud computing has become standard equipment for many businesses, but GBS is using the cloud more and more to power its tools and capabilities, including analytics, workflow tools, automation, and ERP.

Savings and challenges of automation implementation

According to Figure 11 Attachment 3, process and technological complexity were the issues that respondents with automation savings of less than 10% found most challenging, followed by isolated automations. Single instance of ERP was used by 41% of respondents who reported savings of more than 20% through automation.

The majority of respondents (68%) reported that IT or SSCs possess the automation capabilities; 18% indicated that ownership of the automation is

distributed throughout business divisions, as shown in Figure 12 Attachment 3. 40% of GBS organizations—up from 23% in 2021—see a talent constraint as an implementation obstacle.

GBS organizations are focusing on Environmental, Social, and Governance (ESG), Figure 13 Attachment 3 represents. By supporting several ESG processes and advancing the goal of Net Zero, GBS is significantly influencing ESG results. While most industrial sectors estimate a 45–55% emphasis on ESG, ESG adoption is often industry-neutral (Deloitte, 2023).

Center office

At least 50% of GBS firms now include Intelligent Automation, Reporting & Analytics, Process Excellence, End-to-End Process Ownership, Change Management, and Business Continuity Planning. Process Excellence & Continuous Improvement were the primary areas of focus for GBS firms in 2023. This trend can be partially explained by the organizations' 2021–2023 concentration on RPA, automation, and reporting capabilities, indicated in Figure 14 Attachment 3.

Critical success factors in achieving End-to-End processes

According to Figure 15 Attachment 3, 32% of firms expect to adopt end-to-end procedures over the next three years, compared to 53% that have already done so. Roles and responsibilities are well defined in 85% of businesses, and these are the most important success elements. For more than half of the businesses, a top-down mandate and giving GPOs the authority to take charge of the E2E value chain are critical success factors.

Better customer experience drivers

User-centric design and customer experience have been used or planned by around 70% of GBS businesses, Figure 16 Attachment 3 indicates.

Through customer surveys, goal-aligning service levels, and raising standards from SSC to business, organizations are proactively working to improve the customer experience. In order to enhance customer experience, GBS is pushing for

greater visibility and transparency in response to the increasing need for self-service capabilities (Deloitte, 2023).

Enhancing Collaboration Throughout the Enterprise Ecosystem

Organizations must assess how they can use a comprehensive Global business services framework to get value beyond bargaining for labor and bring consistency to the formation, transition, and governance of global services strategies. This is because they need to quickly advance their business processes and, in some cases, source the previous sacrifices.

Dimension	Shared Services	Outsourcing	Global Business Services
Objective	Cost savings, improved efficiencies and occasionally compliance	Typically cost savings driven	Cost savings, efficiencies, compliance, service focus, agility, scalability and innovation
Scope	Typically 1-2 non-core process/es, May include business critical processes	Typically 1-2 non-core process/es 1 or more providers. Typically does not include business critical processes	2 or more processes, often including the less obvious choices Includes business critical processes Process are considered for GBS unless core to the business. Chooses best solution (i.e., shared services vs. outsourcing)
Scalability	Typically limited to initial scope	Highly scalable	Highly scalable by design
Efficiency	Leading practice is focused on driving reduced cost and process efficiency	Leading practice is focused on driving reduced cost and process efficiency	Ability to achieve greater efficiencies across processes (e.g., handoffs)
Effectiveness	Standardized processes but limited to those processes in scope	Ability to drive improved effectiveness depends on the provider	Highly focused on driving cross-process effectiveness Highly standardized processes Standard data model
Cost Savings	Cost savings of 20-50% typically achieved on the processes in scope	Cost savings of 20-50% typically achieved on the processes in scope	Cost savings are optimized across all processes in scope, often resulting in enhanced savings
Agility	Agile as it relates to in-scope processes	Limited by the scope of the contract with provider	High, because coordinated centrally
Process Reengineering (Innovation)	Very limited	Leverages provider-owned capabilities to drive process redesign, but is typically siloed	Focuses on cross-process redesign, which drives benefits Focuses on developing new services
Relationship Management	Tends to be arms length	Arms length with third-party	Strategic partner with the business

Dimension	Shared Services	Outsourcing	Global Business Services
Governance	Variety of approaches ranging from siloed to coordinated	Frequently managed as separate contracts within functions	Centralized and coordinated
Degree of Change from Decentralized Operations	Moderate	Significant	Transformational
Culture	Practice is to establish a service-focused culture	Typically approached as managing a third-party contract	Service-focused culture is fundamental Work as a single team regardless of whether shared services or outsourced. Transformational change
Integration	Typically depends on number of shared services locations	Varies depending on size of service provider portfolio	Highly integrated sourcing strategy and execution across processes, leveraging leading practices and lessons learned
Information Technology Alignment	Alignment with IT depends on whether IT is in shared services	Limited opportunity to achieve alignment even if IT is part of contract	Strong coordination between IT and processes Becomes a provider of solutions, not technology. Leverage common IT platform (not necessarily single ERP)
Impact on M&A Activity	Can provide some synergies, depending on level of maturity	Can be challenging to bring processes back in-house, if that is the intent Opportunity to leverage existing contract	Very high degree of synergies can be achieved Speed of integration is improved significantly

Figure 2.5. The greater benefit of a global business services framework over settings with fragmented shared services and outsourcing

Source: HfS Research (2011)

To set explicit innovation and transformative goals that consider investment models, gain sharing, and ownership, enterprises must unify their functional leaders under a unified operating structure and collaborate with their service providers. Organizations may occasionally need to utilize the world-class applications and global reach of service providers.

Outsourcing or shared services are not the same as a global business services framework. The distinction is that a complete organization uses global business services to advance the achievement of corporate strategy, even if the framework

asks for the assessment of outsourcing and shared services. The previous example highlights the fact that several outsourcing and shared services approaches are still isolated and inadequately incorporated into company strategy, resulting in low internal alignment and functional operational efficiency. A functional strategy is combined with an enterprise-wide plan to accomplish goals through a global business services strategy. Figure 2.5 explains why outsourcing and shared services strategies are less effective on their own than global business services structures.

Global business services strategies have been effectively applied by several organizations. One major international consumer products corporation is especially well-known for creating a shared services organization that has fueled the enterprise's initiatives. It drove worldwide compliance, cut operational expenses by up to 50%, and used cutting-edge, best-in-class solutions for all of its international business divisions by leveraging its third-party service providers. As a result of continuous cost-cutting measures, the shared services function changed from being a place that employees feared to one that the company's top workers want to work. All of this is a result of the organization's substantial value contribution to corporate goals and the desire of the workforce to participate in that transformation.

The Framework for Global Business Services and Corporate Strategy Are Interconnected

Three factors may generally be used by senior executives to assess the degree of influence that global business services strategy will have on their organization, which illustrated by Figure 2.6.

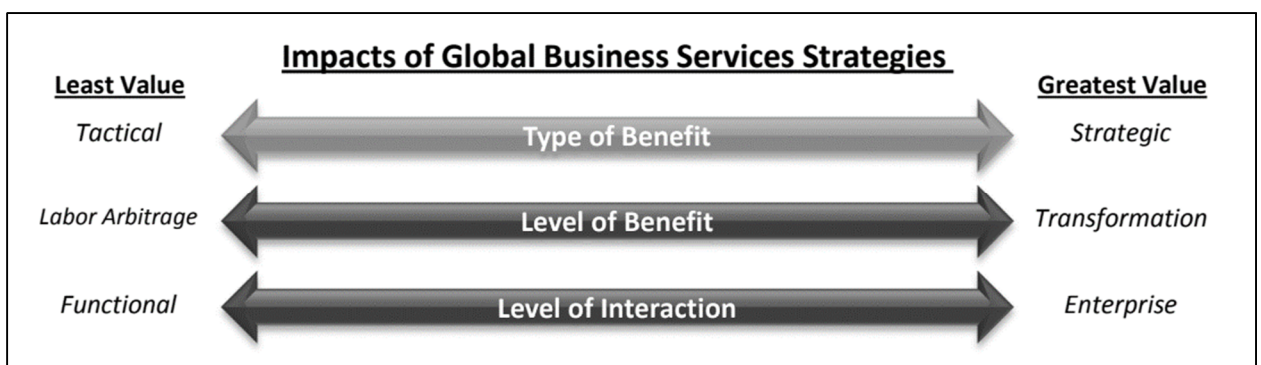


Figure 2.6. Value impacts of global business services

Source: HfS Research (2011)

A global business services strategy's anticipated benefit to the organization is the first criterion. A method that strategically combines service provider skills and internal functional plans to accomplish company goals is known as a global business services strategy. Procurement, supply chain, customer service, and operational activities are prioritized in order to achieve market share gains, going beyond labor arbitrage in non-core areas such as finance, HR, and IT. To drive decision-making with this method, cross-disciplinary cooperation and a solid foundation in company objectives are necessary. For instance, a sizable international software and services company encountered difficulties as a result of inadequate investment in technology for procurement, HR, and accounts receivable as well as a lack of global, uniform procedures. The firm invested in technology, collaborated with a sizable outsourcing provider, and consolidated its operations into regional hubs near clients in order to solve these problems.

The desired degree of value that a firm will receive from a global business services strategy is the second criterion. Some businesses still employ labor arbitrage solutions to accomplish their goals, which include cutting expenses and sharpening managerial focus. Others, such as the CFO of an insurance company, concentrate on change and raise the advantages obtained by outsourcing their print business to a vendor who employs cutting-edge technology to lower client mailing and postage expenses.

The degree of cross-functional contact required to achieve the desired outcomes is the third criterion. IT must communicate with HR-specific shared services in order to provide a platform, but not much with other departments. A shared services approach including IT, order entry, and warehousing/logistics companies would be taken into consideration by a medical device service provider looking to increase cash flow through better order and inventory management.

Since every company has a different corporate strategy, global business services strategies are not always suitable. As such, different firms may receive different results from an evaluation methodology for global business services. Because regional operational and regulatory variances exist, for example, the North

American business of a big automotive firm required a distinct approach to consolidation and strategic technology. On the other hand, in order to take advantage of superior technological expertise and function as a regional center for innovative insurance products, a major insurer consolidated its shared services in India. As a result, distinct corporate strategies will lead to distinct strategies for global business services.

Formulating a Governance Plan for Global Business Services

Formalizing roles, duties, and processes inside a specialized governance structure is critical to the success of a global business services company. This entails formulating strategic goals for global sourcing, taking command of choices, encouraging service providers to innovate, and overseeing intricate contracts. The significance of these abilities in accomplishing corporate objectives is becoming more and more apparent to executives.

The majority of governance organizations face two main challenges: 1) creating complex, well-developed governance procedures; and 2) aligning organization models ideally to meet their goals while giving the governance organization enough power to make decisions.

Although there isn't a single global sourcing approach that works for every scenario, we think there is a leading practice standard for the organizational structure of a global business services governance team. The foundational ideas that underpin this standard are as follows:

- Aligning internal stakeholder strategies with the optimal global business services solution should be the primary emphasis of governance organizations.
- Governing bodies need to offer solutions, not just isolated labor or IT services.
- It is imperative for governance organizations to deliberately oversee a wide range of services in order to guarantee their flexibility and scalability.
- Organizations for governance need to be organized centrally.

- In order to apply uniform governance and rigor across all processes, governance organizations must have control over all of the organization's global business services operations.
- Governance organizations need to have a continual improvement culture and handle results with great care. Governance teams need to carry out the tasks listed in Figure 2.7 in order to successfully accomplish their goals.

Strategy and Relationship Management	Sourcing
• Aligning Corporate Strategy with Global Business Services Strategy • Aligning Service Provider Strategies with Corporate Objectives • Organizational Change Management • Refining Global Sourcing Strategies Based on Changes • Business and User Relationship Management	• Requirements Definition • Service Provider Selection • Contract Negotiation • Contract Management • Invoice Review and Approval
Implementation and Transition	Operational Effectiveness
• Transition Project Management • Retained Organization Design • M&A Integration and Divestiture Management	• Day-to-Day Process Management • Service Level Management • Communication and Training • Issue Management and Root Cause Analysis • Program and Risk Management

Figure 2.7. Crucial roles for governance teams in Global business services

Source: HfS Research (2011)

Goals must be in line, and the internal operations owner must take a leading role in the daily management of business processes, as service providers' execution of business processes is frequently entwined with the operations of company owners. Nonetheless, cross-functional strategic decision-making is necessary for many governance procedures. Thus, it is not appropriate for governance organizations to act as their internal stakeholders' command centers. Instead, they must proactively manage change, advance performance management, enforce contractual obligations, and aggressively promote the conversation about how to connect efforts with strategic objectives. For this to be possible, they need to be able to take action and initiate constructive dialogue inside the company.

Choosing how the governance team is organized is one important consideration. The governance organization must be far more senior than is typical for the administration of tactical outsourcing relationships in order to be cross-functionally influential and strategic in order to drive implementation of corporate strategy.

	Decentralized			Centralized			Center-Led		
	Perform	Approve	Consulted	Perform	Approve	Consulted	Perform	Approve	Consulted
Develop Global Business Services Strategy	B	B	C	C	C	B	C	C	B
Assess Global Business Services Alternatives	B	B	C	C	C	B	C	C	B
Design Shared Services	B	B	C	C	C	B	C	C	B
Select and Contract with Service Providers	B	B	C	C	C	B	C	B	B
Transition to Shared Services	B	B	C	B	C	C	B	B	C
Transition to Service Providers	B	B	C	B	C	C	B	B	C
Operate Shared Services	B	B	C	B	C	C	B	B	C
Govern Shared Services	B	B	C	C	C	B	C	C	B
Govern Service Providers	B	B	C	C	C	B	C	C	B

Figure 2.8. Principal duties for global business services across various organizational structures (C - Centralised Team; B - Business Process Owner)

Source: HfS Research (2011)

In order to encourage cross-functional cooperation, businesses creating a governance team have to carefully consider many choices. The ownership of the governance process is ultimately decided in terms of how much it is centrally or decentralized. Business process owners and governance organizations' shared major duties are shown in Figure 2.8.

In the decentralized model, provider management teams and decentralized pseudo-governance teams form a loose confederation under which a governance team assists in the formulation of a global business services strategy. Every process stakeholder creates and evaluates strategies, and the governance team makes sure they are visible. While the governance team might offer a shared framework, all suggestions, choices, and governance are made by the business process owners. Although this style of organization design promotes flexibility and decision-making, it may also lead to goals that are not aligned and missed chances for developing and implementing strategies. Even when conveyed, leading practices might not be taken seriously.

Under a centralized model, the governance team develops the global business services strategy of the firm based on input from stakeholders and makes all final decisions. The governance team handles transitions, but business process owners have a large workforce. Contract modifications, reporting, and performance management are handled by the governance organization. Business process owners oversee the vendor management frameworks, which are defined by the governance organization. Better alignment between functional process owners and predictable results are produced by this strategy. Some businesses, nevertheless, would rather have business process owners oversee their strategy. Talent in centralized companies is more skilled, and career advancement opportunities are more transparent.

Under the center-led model, a governance team creates a global business services strategy, and each business process owner defines and implements their own plan using common frameworks. While upholding ultimate governance authority, this approach encourages cooperation within functional sectors. Nonetheless, business process owners continue to be in charge of daily operations. Although dispersed decision-making about service provider selection may result in less ideal results, this approach is efficient and productive in that it embeds responsibility and focuses on strategy alignment.

Governance organization	Performance Management	Overseeing root cause analysis, finding process improvements, and managing performance in accordance with Service-level agreements (SLAs)
	Sourcing and Negotiation	Negotiating contracts and objectives of work, choosing service providers, and establishing selection criteria
	Reporting and Compliance	Monitoring, sharing with stakeholders, and satisfying compliance obligations with regard to Key performance indicators (KPIs)
	Transition Management	Creating work breakdown structures, deciding on transition schedules, and overseeing projects throughout stabilization and transition
	Demand Management	Finding chances for in-house sourcing and handling shifting quantities, requirements, and systems
	Process Strategy and Transformation	Finding the best practices and standards needed to match company goals with global business services strategy
	Program/Portfolio Management	Monitoring the advancement of global business services initiatives and their contributions to corporate goals
	Risk Management	Monitoring service provider stability and preparing for business continuity

Figure 2.9. The organization's functional procedures for governance

Source: HfS Research (2011)

The functional procedures of the governance organization are the subject of the second set of decisions. As shown in Figure 2.9, whichever model is used, there are still some essential tasks that the team must complete.

Key Drivers for Successful Global Business Services Execution

The development of an international business services strategy facilitates the accomplishment of corporate strategic goals. Executives must continue to place a high priority on the transformation, regardless of the industry, particular strategic goals, range of reporting structures, or alignment of functional duties of the company. According to HfS Research (2011), the following crucial elements will eventually decide both their and a worldwide company strategy's success:

1. Global business strategies are shaped by corporate strategy. Prioritize enterprise strategies in global business strategy. Restrict change orders, ancillary decisions, and stakeholder alignment strictly.
2. As markets evolve, international company plans need to be modified. Global business plans must continuously adjust to the demands of the marketplace on a company, even with the greatest of intentions to foresee needs for scalability, extensibility, and adaptability. Executives must refocus global company plans in

order to maximize their corporate objectives, regardless of the momentum of present strategies or the work needed to realign them.

3. Investing in the creation of concepts and the application of fixes is necessary for innovation. Although the majority of enterprises feel that service providers don't provide them enough innovation, the majority of them actually underinvest in innovation. If they make an investment in innovation, they will be rewarded and profit from it.

4. Establish a culture that values sharing best practices, doing root cause analysis, and open issue solutions. There will be challenges in putting an international business services plan into action and running it. Encourage honest, prompt disclosure of issues before they get out of hand. Teams should share best practices and concentrate on root cause analysis. No matter how different two processes are from one another, the teams in charge of them may still benefit greatly by sharing transition, management, and contracting best practices.

5. Create a thorough strategy including several processes and years. Effective global business services strategies take time to develop and implement. Excessive ambition on the part of teams who take on more than they can handle frequently results in failed attempts. Create a two- to three-year strategy to accomplish your goals.

6. Professional, seasoned personnel and close consideration of career growth are necessary for governance. The global business strategy implementation is led by the governance team. Success requires developing the proper blend of operational concentration, strategic thinking, and relationship management abilities. Additionally, providing clear career growth options and creating new chances for skilled workers are necessary to retain this team.

7. Take a prescriptive approach to vendor management activities. Inadequate vendor management initiatives spearheaded by business process owners undermine several global services plans. Institutions of governance are not isolated from reality. By implementing and keeping an eye on typical procedures, they must

guarantee that company units are managing service providers consistently and dependably.

8. Culture and suitable people are essential. Collaborating with a variety of internal stakeholders demands a solid foundation. It is important for counterparts at other firms to come up with new ideas, find solutions to issues, and collaborate when the correct individuals are assigned to drive the development of global business services initiatives.

2.3. Global Business Services: Bosch's outsourcing and offshoring practices

The Bosch Group, often referred to as Bosch (stylised as BOSCH), is a leading global supplier of technology and services. It employs roughly 421,300 associates worldwide (as of December 31, 2022). The company generated sales of 88,2 billion euros in 2022.

Its operations are divided into four business sectors: Mobility Solutions, Industrial Technology, Consumer Goods, and Energy and Building Technology. As a leading IoT provider, Bosch offers innovative solutions for smart homes, Industry 4.0, and connected mobility. Bosch is pursuing a vision of mobility that is sustainable, safe, and exciting. It uses its expertise in sensor technology, software, and services, as well as its own IoT cloud, to offer its customers connected, cross-domain solutions from a single source.

The Bosch Group's strategic objective is to facilitate connected living with products and solutions that either contain artificial intelligence (AI) or have been developed or manufactured with its help. Bosch improves quality of life worldwide with products and services that are innovative and spark enthusiasm.

In short, Bosch creates technology that is "Invented for life." The Bosch Group comprises Robert Bosch GmbH and its roughly 470 subsidiary and regional companies in over 60 countries. Including sales and service partners, Bosch's global manufacturing, engineering, and sales network covers nearly every country in the world. With its more than 400 locations worldwide, the Bosch Group has been

carbon neutral since the first quarter of 2020. The basis for the company's future growth is its innovative strength. At 136 locations across the globe, Bosch employs some 85,500 associates in research and development, of which nearly 44,000 are software engineers.

The company was set up in Stuttgart in 1886 by Robert Bosch (1861–1942) as “Workshop for Precision Mechanics and Electrical Engineering.” The special ownership structure of Robert Bosch GmbH guarantees the entrepreneurial freedom of the Bosch Group, making it possible for the company to plan over the long term and to undertake significant upfront investments in the safeguarding of its future. 94 % of the share capital of Robert Bosch GmbH is held by Robert Bosch Stiftung GmbH, a charitable foundation. The remaining shares are held by Robert Bosch GmbH and by a corporation owned by the Bosch family. The majority of voting rights are held by Robert Bosch Industrietreuhand KG, an industrial trust. The entrepreneurial ownership functions are carried out by the trust (Robert Bosch GmbH, 2022).

“As a leading technology company, we want to help shape tomorrow's world with technology that is ‘Invented for life.’

- Dr. Stefan Hartung, Chairman of the board of management

Bosch Global Business Services, as the integrated and process-oriented service unit of Bosch, provide best-in-class services to Bosch's internal divisions in order to support their business. Over 9,500 associates all over the world deliver services across seven process lines, serving over 300 Bosch legal entities. With their End-to-End (E2E) process organization, they overcome functional boundaries to ensure the best possible customer experience. Supported by a central key account management team, customer requests and feedback are processed systematically and in close collaboration with the respective Service Owners. This business model welcomes the creation and improvement of standard processes that allow individualization, with the goal of providing five-star service to Bosch customers (Bosch Global Software Technologies Private Limited, 2022).

Bosch's Global Business Services division focuses mainly on two fields of operations – Business Services and Global Services.

Business Services (SO)

Bosch Service Solutions (SO) is an industry leader in Business Process Outsourcing and can be considered a Shared Service Center. They assist internal customers in optimizing four main aspects of service offering: Customer Experience Services, Mobility Services, Monitoring Services, Production Support, and Business Services. SO also collaborates with their customers to create, implement, and run innovative business models. Their technical support offers fast and efficient solutions in response to requests concerning our technology and products - for customers as well as for their technical partners and associates.

The top partners are partnered with by the Bosch Group. In their particular field, everyone is at the height of expertise. Collaborating with them yields a full consumer experience that is unattainable for a single firm. Their combined skills offer sophisticated solutions in cutting-edge fields including CRM, automation, and IoT technology interface. Business process management, customer relationship management, automation, and artificial intelligence (AI) are among the areas in which the partner specializes. It is a strategic advantage for Bosch Service Solutions to have amazing partners that are equally motivated to develop and grow their offerings.

Global Business Services (GS)

Bosch Global Business Services (GS) supports the Bosch Group in areas such as Finance, Accounting, Controlling and Purchasing and positions itself as a Global Business Services organization.

Finance & Accounting specialists find efficient solutions to ensure the smooth running of all finance and accounting processes.

Controlling Shared Service portfolio includes a broad range of services such as cost center controlling, budgeting and forecasting, controlling of internal and external charging, monthly business reporting, and sales analysis.

Commercial Customer Support performs activities related to commercial and logistics topics for automotive customers. It includes: tracking and monitoring of sales targets, supporting collection and dispute management, maintenance of customer specific logistics and sales elements.

Purchasing Business Operations specialists offer a wide range of services: processing purchase requisitions to purchase order, including parts-on-stock, processing invoice clearing, negotiating Bosch suppliers offers, managing suppliers changes, on-boarding and maintaining globally Bosch suppliers e-Catalogues, offering global support for tenders and general back-office support for our clients for any indirect purchasing activity.

The Strategic Purchasing Category Management team drives strategic supplier management and contract negotiations for all indirect demands at the Eastern Europe and DACH level through the active presence of our strategic buyers team specialized in different commodities (Bosch Service Solutions GmbH, 2023).

Automation and digitalization are key components of Bosch Global Business Services' improvement approach because they allow for the inclusion of customer-driven priorities. At Bosch Global Business Services, they work to improve customer satisfaction and position Bosch as a top AIoT business globally by offering tailored services and products that help clients become more productive.

Martin H. Gladigow, Vice President and Center Manager of Timisoara's Global Business Services (GBS) at Bosch, underscores the company's commitment to excellence by focusing on providing top-notch services exclusively to internal customers. Remarkably, Bosch GBS has no intention of extending its services beyond the Bosch Group to external customers. This steadfast dedication to serving internal stakeholders showcases Bosch's strategic approach to delivering unparalleled value within its organizational ecosystem.

GS Service Portfolio

As an integrated Global Business Service (GBS) organization, they offer substantial expertise across seven different service areas with a clear focus on internal customers.

Source-to-Contract (S2C)	Purchasing services include category and supplier management, as well as related IT tools and services on negotiation, innovation, and quality.
Procure-to-Pay (P2P)	Procurement services include purchase requests and order creations for material or services, goods receipt, invoice receipt, invoice processing, and invoice payment.
Source-to-Deliver (S2D)	Logistics services include transportation services, warehousing and material flow, packaging, foreign trade, planning, and much more.
Bill-to-Cash (B2C)	Bill-to-Cash accounting services include customer invoicing, payment receipt, and accounts receivable management.
Book-to-Report (B2R)	Book-to-Report accounting and controlling services include the handling of general ledger, asset transactions, bank accounting, and budgeting, as well as reporting according to international financial reporting standards (IFRS), local generally accepted accounting principles (GAAP), and internal management requirements.
Hire-to-Retire (H2R)	HR shared service includes operations for associates like selection and onboarding, organizational changes and transfers, international assignments, reimbursements, payroll, and overall travel management.
Risk-to-Secure (R2S)	GS is a worldwide partner providing excellent expert and operational services in complex areas like risk management, data protection, and information security, as well as access management and audit management.

Figure 2.10. GS Service Portfolio

Source: Bosch Global Software Technologies Private Limited, 2022

Taking into consideration the list above, we can state that Bosch GS achieves unparalleled support for internal customers through its diverse service portfolio and creates an End-to-End process organization level. By offering a comprehensive range of services across technology, logistics, and operations and some other, the organization ensures agility and responsiveness. This diverse approach not only streamlines internal processes but also promotes cross-functional collaboration. Bosch GS's commitment to adaptability positions it as a strategic partner, providing tailored solutions to meet the unique needs of each division or entity. In essence, the organization's diversified service portfolio serves as a catalyst for internal excellence, driving efficiency and innovation throughout the entire organizational landscape.

GS Process Landscape

In the dynamic realm of modern business operations, the intricate web of services and their interconnectedness within an organization forms the foundation of operational efficiency and strategic decision-making. This part delves into the

comprehensive framework known as the GS Process Landscape at Bosch GS, an encompassing roadmap of all services provided by an organization and the nuanced relationships that bind them together.

Understanding this landscape is crucial for organization seeking to optimize their processes, enhance productivity, and adapt to the ever-evolving business landscape. By unravelling the complexities inherent in the GS Process Landscape, this aims to shed light on the synergies that drive organizational success and propel businesses toward innovation and sustained growth.

The GS Process Landscape in Figure 2.11 below and in Attachment 4 contains the global processes which are binding for all areas/departments within Global Business Services worldwide. Exceptions (e.g. optional methods just for guidance) are clearly stated as so in each subsequent processes description.

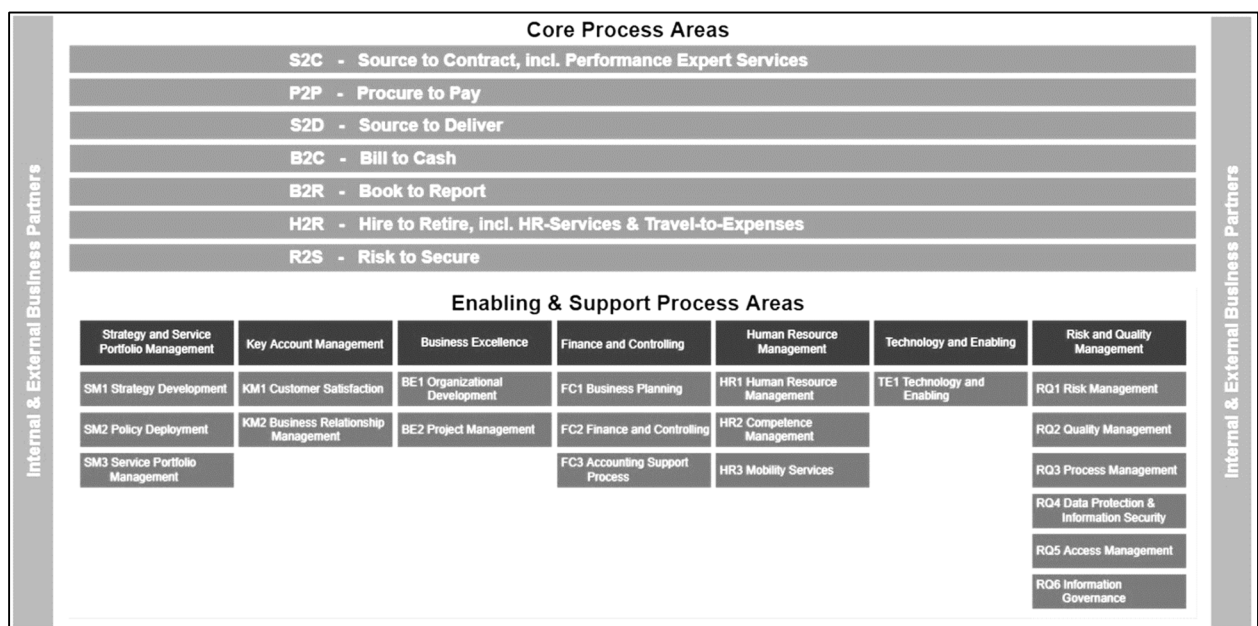


Figure 2.11. GS Process Landscape

Source: Robert Bosch GmbH, internal data

The processes are split into 2 sections:

- Core Process Areas, such as Source to Contract (S2C), Procure to Pay (P2P), Source to Deliver (S2D), Bill to Cash (B2C), Book to Report (B2R), Hire to Retire (H2R), Risk to Secure (R2S), with services provided to the customers being shown as separate process lines,

- Enabling & Support Process Areas, such as Strategy and service portfolio management, Key account management, Business excellence, Finance and controlling, Human resource management, Technology and enabling, Risk and quality management, that facilitate the high quality of services delivered and business continuity, with the sub-space process lines.

Sub-spaces are being created, at regional level, to manage process variants due to local specific regulations and customer requirements.

Process risk and opportunities are continuously analyzed and processed.

The measure for avoiding risk and increasing opportunities in GS are described in detail in the relevant process areas.

Going forward, the sub-spaces analysis gives a more detailed picture of the complexity of business processes performed within Core Process Areas, as well as Enabling & Support Process Areas.

Core Process Areas landscapes

Procure to Pay (P2P) sub-space, as can be seen in Figure 2 Attachment 4 includes the following sub-processes: Requirement to Requisition (PR), Purchase order (PO), Invoice to pay (I2P) including all Purchasing Areas, Affiliate business (A2A), Master data management, Risk management in P2P, P2P Ensure service delivery.

The P2P sub-space is a complex structure due to the interdependence of these sub-processes, involving multiple stakeholders, intricate workflows, and a number of regulatory and compliance considerations. Its complexity is driven by factors such as the interconnectedness of processes, the need for diverse stakeholder collaboration, and the management of extensive data. That being said, the Procure-to-Pay sub-space is a multifaceted structure that, despite its complexity, is essential for organizations seeking efficient, cost-effective, and compliant procurement and payment processes.

Purchase Order (PO), sub-space PO1 Purchase Order Creation process will be subject to a closer inspection in the Core Process Area.

According to the Bosch internal process description, Automation of Purchase Order (PO) creation in i-Cockpit where purchasing activities have been fully done in upstream processes and need no manual intervention. Creation is made based on content of a Purchase Requisition (PR)/Shopping Cart (SC) and corresponding Master Data where applicable. Automation of PO creation is applicable for multiple buying channels: Catalogue, easyRFQ and Consolidator, Material Process: Order type YC; Bosch4You from MiP: Order type YK; Standard and Framework orders from the S2C-P2P integration(i-Source): Order types YF and FO.

The process target is having a PO created, sent to supplier and archived automatically.

Stakeholder	Expectations
Internal Business Partner (IBP)	Instant PO creation after approval of the PR
Business Operators	No manual effort for PO creation
Operations Service Mangers	No approval of PO
Category Experts	PO creation based on pre-agreed conditions
Suppliers	Receipt of PO in short time

Figure 2.12. Customer Expectations for Purchase Order Creation process

Source: Robert Bosch GmbH, internal data

As Figure 2.12 demonstrates, Internal Business Partners (IBP) emphasize the immediate creation of Purchase Orders (PO) following the approval of Purchase Requisitions (PR), aiming for a swift and efficient workflow. Business Operators seek a streamlined process with no manual effort involved in PO creation, highlighting their focus on automation and efficiency. Operations Service Managers prioritize the elimination of the PO approval step, emphasizing a streamlined and expedited procurement process. Category Experts advocate for PO creation based on pre-agreed conditions, emphasizing the importance of aligning procurement activities with specific category requirements. Lastly, Suppliers emphasize the need for a quick turnaround in receiving POs, underscoring the significance of timely and

efficient communication for their operational processes. Each stakeholder's key focus contributes to an overall procurement strategy that emphasizes speed, efficiency, and alignment with specific conditions to enhance the effectiveness of the entire supply chain.

Process interactions

The Purchase Order Creation process requires the following inputs: approved Purchase Requisition (PR) or Shopping Cart (SC) from Internal business partner (IBP).

The suppliers for the described inputs are:

- AB1.02 Intercompany PO Process,
- MP1.01 Supplier Creation (A+B+M Segment),
- PR2.04 Monetary Approval.

As for the Strategy Development process requires outputs, they are: New PO created, sent to supplier and archived.

The customers for the outputs are:

- RP1.02 Other Detective Controls,
- IP2.01 Invoices with PO,
- PO3.04 PO activities related to Invoice Verification,
- RP1.01 FrEP Data Analytics (DA),
- PO3.03 Goods Receipt (GR),
- RP1.03 FrEP Self-Assessment (SA),
- PO3.02 Purchase Order Response (POR),
- FC2.73 YTD Reporting and Analysis,
- IP2.08 Returns with ERS Self-billing.

The Purchase Order Creation process is initiated with an approved Purchase Requisition or Shopping Cart from Internal Business Partner. The inputs are supplied by various processes, including Intercompany PO process, supplier creation, and monetary approval. These processes collectively contribute to the generation of a new purchase order, which is then transmitted to the supplier and archived. The outputs from this process cater to a diverse set of customers. These

customers include stakeholders involved in detective controls, invoice verification, PO activities related to Invoice verification, data analytics, goods receipt, self-assessment, purchase order response, year-to-date reporting and analysis, and returns with ERS self-billing. The interconnectedness of these processes highlights a seamless flow of information and actions, demonstrating a comprehensive procurement ecosystem that contributes to effective financial controls, analysis, and supplier interactions.

Bill to Cash (B2C) sub-space, as can be seen in Figure 2.13 includes the following sub-processes: B2C SAP R3 Processes (BC1-BC8), BC9 BRIM Processes and B2C – Ensure Service Delivery.

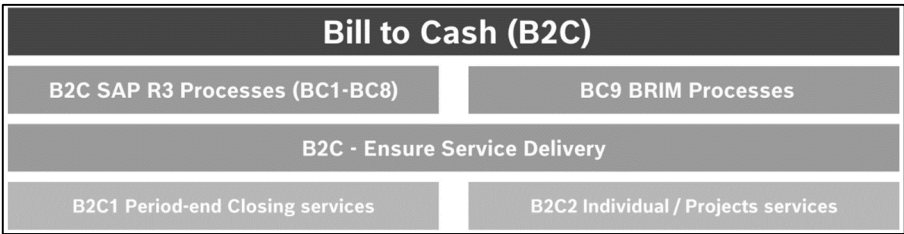


Figure 2.13. Bill to Cash (B2C) Process Landscape

Source: Robert Bosch GmbH, internal data

The B2C sub-space is crucial for organizations as it ensures a smooth and controlled flow of transactions from the point of generating invoices to the receipt of payments. Efficient credit management, billing, and receivables processes contribute to financial stability, customer satisfaction, and overall business success. Detective controls and special topics address potential issues, while reporting and data management support strategic decision-making and compliance.

Following further the Bill to Cash (B2C) sub-space process map, B2C SAP R3 Processes can be seen in Figure 4 Attachment 4, which includes the following sub-processes: BC1 Credit management, BC2 Billing, BC3 Payment Receipt, BC4 Receivables management, BC5 Closing & Reporting, BC6 Detective Controls, BC7 Special topics, BC8 Customer Master Data (External).

The B2C SAP R3 processes form a comprehensive framework that spans from credit assessment to reporting, emphasizing efficient billing, payment handling, and

proactive credit management. This structure is crucial for organizations to optimize cash flow, maintain healthy customer relationships, and ensure compliance with financial reporting standards based of SAP R3 system.

Book to Report (B2R) sub-space, as can be seen in Figure 2.14 and Attachment 4 includes the following sub-processes: GL Accounting Services, Investment to Disposal, Controlling Services and B2R – Ensure Service Delivery.

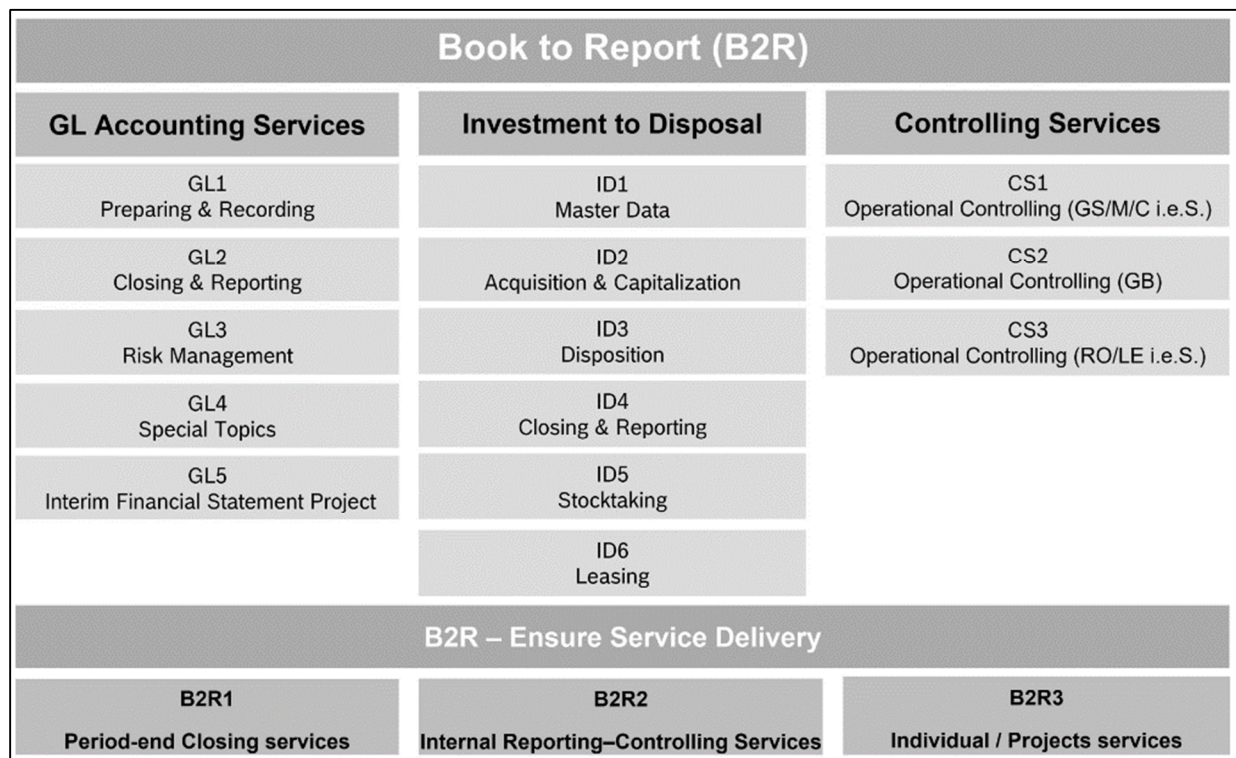


Figure 2.14. Book to Report (B2R) Process Landscape

Source: Robert Bosch GmbH, internal data

The B2R sub-space is a critical component of an organization's financial management, and each sub-process serves a specific purpose in maintaining accurate financial records, facilitating decision-making, and meeting regulatory obligations. The coordination and integration of these sub-processes contribute to the overall financial health and transparency of the organization.

The B2R process is vital for internal and external stakeholders, including management, investors, and regulatory bodies, as it provides insights into the financial performance and position of the organization.

Strategy and Service Portfolio Management, sub-space SM1.01 Strategy Development process will be subject to a closer inspection in the Enabling & Support Process Area.

According to the Bosch internal process description, this process encompasses the systematic development or revision of a GS strategy with focus on optimal support for Bosch's operating business.

The process target is to develop and regularly review a GS overall strategy based on internal and external input. The GS strategy supports the GS vision and mission by describing strategic objectives. Other than that, the GS Strategy provides orientation for all process areas and derived sub strategies, e.g. on service, regional or department level.

Stakeholder	Expectations
RB-GF	GS strategy supports the strategic targets of RB
GS-BV	GS focuses efforts on the same important issues throughout the organization
GS Global Service Owners	A framework that enables definition of service-specific strategies
GS/ORs. -/OGs, GS projects	A framework that enables definition of initiatives in the respective area

Figure 2.15. Customer Expectations for Strategy Development process

Source: Robert Bosch GmbH, internal data

As Figure 2.15 shows, the key focus for Robert Bosch Global Functions (RB-GF) is ensuring synergy between GS strategy and RB's overarching strategic goals. For GS Business Verticals (GS-BV), the key focus lies in aligning GS initiatives with critical organizational priorities. GS Global Service Owners aim to enable a strategic approach for each global service area through a defined framework. Lastly, Operational Regions, Operational Groups, and GS Projects seek to provide a structured approach for the development and execution of initiatives at the operational and project levels within their respective areas. The importance lies in

fostering alignment, strategic enablement, and structured execution to support RB's overall objectives and organizational priorities.

Process interactions

The Strategy Development process requires the following inputs: RB/GB strategies, Global economic environment, Market and technology trends, Benchmarks and other peer group data, G2 target setting for GS, Service Portfolio Analysis, Customer/Key Account Management data.

The suppliers for the described inputs are:

- FC1.02 Business planning budget,
- KM2.01 Customer relationship management.

As for the Strategy Development process requires outputs, they are: Updated GS strategy including main strategic GS objectives, Strategic guidance for Global Service Owners, regional leaders and all GS associates.

The customers for the outputs are:

- RQ1.01 Business risk management (RMS), RQ2.01 Quality management, RQ3.01 Create new process, RQ3.02 Change existing process;
- SM2.01 Policy deployment, SM3.01 Business opportunity management;
- BE1.01 Organizational development, BE2.01 Project management;
- KM1.01 Customer satisfaction survey,
- MC1.01 Category strategy,
- HR2.01 Competence management,
- PE1.01 Acquisition, execution, delivery monitoring and charging of performance expert services.

The Strategy Development process relies on various inputs, including RB/GB strategies, economic factors, market trends, benchmarks, and customer data. These inputs are supplied by the Business Planning Budget and Customer Relationship Management. The outputs of the Strategy Development process, which include an updated GS strategy and strategic guidance, serve multiple customers across different processes, such as Business Risk Management, Quality Management, Policy Deployment, and more. This interconnectedness highlights the

interdependence and cross-functional nature of the Strategy Development process within the broader organizational framework, where inputs from one process contribute to the outputs of another, creating a seamless and integrated operational framework.

That being said, such an interconnected process organization comes with its risks and opportunities, as well as requires the standards and regulations to facilitate the smooth running of them and means to guide any process when the issue occur.

Internal Robert Bosch – Standards & Regulations consists of a number of documents that are specifically made to serve at different managerial levels. They include: RB/GF Directives, Central Directives (C), Standards (Norm Master), GS guidelines, DESADV Message Guide Bosch, GTL Guideline Bosch, Supply Chain Manual - Regulations translated by Regions (BGN) and Principles for Conducting Internal RB Associate Surveys.

Across all processes within the Global Services (GS) framework of Bosch, thorough risk assessments are conducted to identify potential challenges and uncertainties. These risk evaluations encompass various aspects of each process, ranging from input stages to the generation of outputs. However, it is essential to note that extreme situations are deliberately excluded from the identified risks. This intentional exclusion is a testament to the stringent standards and regulations implemented by Bosch, which play a pivotal role in diminishing the likelihood of extreme risk occurrences to a significant extent. The proactive adherence to high standards across all GS processes demonstrates Bosch's commitment to risk mitigation and ensures the robustness and reliability of its operational framework.

In the context of Business continuity planning, a comprehensive approach is taken to consider opportunities for improvement. These opportunities are identified with the aim of enhancing the efficiency, harmony, and accuracy of each process. The exploration of opportunities encompasses various dimensions, including the potential to streamline processes, foster harmonious interactions, and eliminate elements that could contribute to errors or mistakes. By proactively seeking and implementing these opportunities, Bosch ensures a continuous commitment to

refining its operational framework. This approach reflects Bosch's dedication to innovation and excellence, aiming to create processes that not only meet but exceed expectations, fostering a culture of continuous improvement across all facets of its Global Services.

Geography of Bosch GS

In the year 2020, Bosch Global Business Services (GBS) undertook a significant initiative by formulating a comprehensive location strategy. As part of this strategic development, Bosch GBS established defined levels that serve as a framework for executing various processes based on specific geographic locations. This strategic move reflects Bosch's commitment to optimizing its global operations, ensuring that processes are strategically distributed and executed in locations that align with the company's overarching objectives. The formulation of location-based levels underscores Bosch's dedication to efficiency, agility, and strategic alignment within the dynamic landscape of global business services.

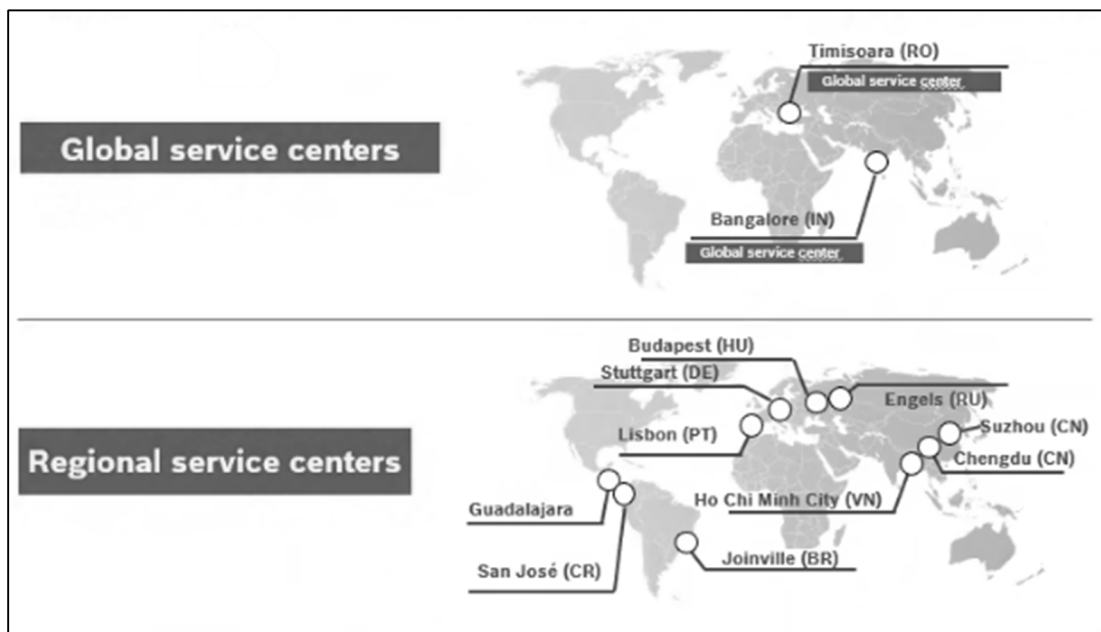


Figure 2.16. Official Global and Regional Service Centers

Source: Robert Bosch GmbH, internal data

Figure 2.16 visually represents the global distribution of offices for Bosch service centers. This illustration serves to provide a geographical overview of the

locations where Bosch has established offices of Global Service centers and Regional service centers around the world. Their offices can be found in:

- Americas: Brazil, Costa Rica, Mexico;
- Asia: China, India, Vietnam;
- Europe: Germany, Hungary, Portugal, Romania.

Location strategy

The genesis of Bosch Global Services (GS) emerged from the consolidation of approximately 50 locations, prompting the formulation of a strategic framework aligned with various critical requirements. Foremost among these requirements is the imperative to optimize costs. Historically, Bosch had a considerable share of operations in high-cost locations, and the strategic goal is to shift this balance by increasing the presence in low-cost locations. This strategic move is not only aimed at reducing operational expenditures but also at enhancing cost-effectiveness and competitiveness.

Another pivotal criterion guiding the GS strategy is the rationalization of the number of locations. This is motivated by the desire to increase synergies across operations and alleviate structural costs, extending beyond office maintenance to encompass staffing considerations. By consolidating locations, Bosch aims to streamline departmental structures, ensuring that personnel resources are allocated efficiently. This strategy also addresses the need for optimal management ratios, preventing potential overstaffing at the managerial level.

Integral to the GS strategy is a focus on digitalization. Embracing digital technologies forms a key component in enhancing operational efficiency, agility, and overall service quality. By leveraging digitalization strategies, Bosch seeks to modernize processes, foster innovation, and elevate the standard of services delivered. In essence, the GS strategy, anchored in cost optimization, location consolidation, and digitalization, collectively aims to bolster operational excellence, maximize synergies, and elevate the overall quality of services provided.

Location validation & assessment

Bosch GS employs a systematic approach for location validation and assessment, relying on the established criteria in Figure 2.17 developed by the Hackett Group. The Hackett Group, known for its expertise in benchmarking and business advisory services, provides a comprehensive set of criteria that Bosch utilizes to make informed decisions regarding the placement of its locations. These criteria encompass various factors, including economic considerations, talent availability, infrastructure, regulatory environment, and other relevant indicators.

By leveraging the criteria developed by the Hackett Group, Bosch GS ensures a structured and well-informed process for evaluating potential locations for both Regional and Global service centers. This approach enhances the precision and effectiveness of the location validation and assessment process, enabling the company to strategically position its facilities in alignment with its business objectives and the unique requirements of each operational context.

Economic Considerations 60%	Quality Business Environment 5%	Workforce Quality 20%	Infrastructure 10%	Risk Assessment 5%
Labor Cost 50%	Ease of doing Business 15%	University Workforce Availability 20%	Office Space 35%	Fraud Risk 10%
Cost of Office Space 15%	Economic Health 10%	Quality of Education 5%	Digital Infrastructure 25%	Political Risk 15%
Consumer Price Index 10%	Quality of Life Index 10%	Talent 0%	General Physical Infrastructure 10%	IP Protection 10%
Travel Cost 5%	Labor tax 5%	Digital Skills 30%	Electricity 20%	Data Protection (Electronic) 15%
Inflation 20%	Total Tax & Contribution rate 15%	Language Skills 30%	Air travel Infrastructure 10%	FOREX Risk 10%
	Digital Capabilities 30%	Rigidity of Labor Law 5%		Natural Disaster Risk 10%
	Period of Notice 15%	Human Capital Index 5%		Quality of Judicial System 10%
		Workforce Availability 5%		Country Credit Rating 10%
				Strength of Auditing & Accounting 10%

Figure 2.17. Location assessment criteria

Source: Hackett for Robert Bosch GmbH (2020), internal data

Framework for evaluation process

In the strategic determination of the optimal transition of specific process components or entire process lines to service centers, whether on a global or regional

scale, Bosch actively engages the consultative expertise of external companies. This collaborative initiative is intricately interwoven within a methodically developed framework that serves as a guiding paradigm for decision-making. The consulting company evaluates which process line and the scope of process to be transferred. Based on the results, Bosch uses the following framework:

- Automate, if standardization level is sufficient (expert decision), and immediate automation feasible (resources, etc.),
- If global service delivery is feasible, activities are bundled globally,
- If regional requirements (time zone, language etc.) impede bundling globally, activities are bundled regionally,
- GS residents remain for activities that must be performed in the countries due to legal requirements or customer proximity.

The approach to automation and bundling within Bosch's GS is characterized by a nuanced decision-making process, where standardization, feasibility, and regional considerations collectively guide the optimization of activities to achieve a balance between efficiency and compliance with local requirements.

Talent retention policies

While shared service centers may carry a perception among job seekers as hubs for low-skilled jobs, Bosch Global Services (GS) is steadfastly challenging and reshaping this narrative. GS is committed to reframing the image of the Global Business Services (GBS) organization, actively working to establish it as a center of expertise that offers diverse and meaningful career opportunities.

In the evolving landscape of career aspirations, not all candidates are solely focused on vertical advancement, and Bosch GS recognizes and accommodates this shift. The contemporary trend indicates a growing desire among individuals to seek purpose in their professional lives by engaging with different processes and gaining a holistic understanding of end-to-end operations. Bosch GS facilitates this through various talent management, career development, and mentorship programs, supported by senior managers.

The uniqueness of the career paths available within Bosch GS serves as a significant selling point. Employees have the flexibility to transition between roles without the need to change locations or entirely shift their working environment. This is particularly valuable for talent retention, allowing Bosch to invest in employee education without the concern of losing that investment. Such an approach not only attracts highly skilled young professionals but also aligns with the preferences of those who value mobility and cross-departmental movement opportunities. This strategic approach not only fosters an environment of continuous learning and growth but also positions Bosch GS as an appealing choice for individuals exploring and honing their passions within a dynamic and supportive organizational framework.

Business model innovation

Bosch GS expert groups invest significant time in rigorous benchmarking activities. This entails visiting other Shared services and Global business services companies or those with established Shared services models to compare and analyze organizational steering and performance management in intricate areas such as quality management, charging models, process mapping and approaches to process line transitions etc. This process facilitates the exchange of highly technical information on specific subjects.

As a strategic decision, Bosch GS in Timisoara, Romania, has recently undertaken a comprehensive reorganization of its existing company structure. The plan involves the division of the business into distinct Business Services (SO) and Global Business Services (GS) business units, effective from 2024. According to expert analysis, this strategic move aims to fully integrate support functions into the overall strategy process. As part of this integration, the GS HR local manager is envisioned to become an integral part of the GS HR community. This integration is designed to enhance efficiency in talent acquisition.

Furthermore, the restructuring will result in increased financial independence, allowing for more targeted allocation of resources to areas of growth. This, in turn, is expected to amplify the overall value contribution of Bosch GS in Timisoara to

the broader Bosch group. A subsequent phase of the business model innovation will involve a detailed analysis of service type overlaps between SO and GS. This not only promises cost optimization but also ensures an elevation in the quality of services delivered to internal customers. The concentration of expertise within a unified business unit is anticipated to yield synergies that enhance both efficiency and the overall quality of services provided.

The EMEA region stands out as a focal point for Global Services (GS), positioning the Timisoara office at the forefront with the highest volumes of transitions, customer interfaces, and a diverse range of tasks that extend beyond the routine accounting responsibilities seen in other GS regional centers. This distinction is driven by its strategic proximity to headquarters and the Bosch group's primary business concentration in the European region.

In contrast, the APEC and Americas regions have largely completed the transition of most processes, resulting in comparatively fewer anticipated movements for GS centers in these areas in the coming years. Conversely, the EMEA region presents a continuous opportunity for optimization, reflecting a seemingly perpetual process of refinement and enhancement. The dynamic nature of this region implies that the pursuit of efficiency and improvement is ongoing, making it a focal point for sustained strategic initiatives within the Bosch GS framework.

Strategic value of GBS for the Bosch Group

The overarching objective has consistently been and will continue to be cost optimization within the Global Services (GS) framework. The assurance of service quality, particularly in processes like accounting and controlling, is inherent, guided by international standards that are non-negotiable. Performance directly influences costs, whether it's a seamless execution or a scenario of disorganized financial flows leading to losses.

The presence of GS in Timisoara, offering a diverse spectrum of services, presents a prime opportunity for automation, standardization, and the consolidation of synergies. Additionally, it serves as a pivotal element in risk mitigation. The broad

array of services ensures that even during periods of employee absence due to vacations or illness, there is a backup in place to seamlessly uphold service delivery. This not only enhances operational resilience but also contributes significantly to maintaining consistent and reliable service levels.

"Establishment of GBS structure in Bosch was an unavoidable development. We did it 130 years ago when the business transitioned from a small home-made product company to factories, the invention of the production line, conveyor belt, and mass production. The laws of mass production apply equally to car production, electronics production, and invoice posting.

The trend began a bit more than 20 years ago, and Bosch was not even a fast follower; we were very late to build a center like this. Companies like Bosch can no longer afford to have people in hundreds of locations doing whatever they want, and the company can't cover the costs for 100 locations either. Of course, in 10 years, GBS will not look the same as today; automation, artificial intelligence, and other future technologies will impact us, and many of the jobs we know today may no longer be needed. However, a center like the one in Timisoara will remain a significant part of a company like Bosch.

The only question is: will we manage the change and transformation that is coming?"

- *Marting H. Gladigow, VP GBS - Center Manager Timisoara (RO)*

2.4. Conclusions to Chapter 2

Corporate outsourcing and offshoring strategies have transcended the conventional "make vs. buy" paradigm, particularly due to substantial switching costs and the interdependence between buyers and suppliers. Dr. Oliver E. Williamson's Transaction Cost Economics challenges the traditional approach, advocating for a sourcing continuum that considers both corporate hierarchies and free market forces. The International Association for Contract and Commercial Management (IACCM) underscores the limitations of transactional models,

promoting alternative output- and outcome-based methodologies for intricate contracts.

Seven procurement business models, categorized as Transactional, Relational, and Investment, offer varied approaches to cater to distinct procurement requirements. These models include the Basic Provider Model, Approved Provider Model, Preferred Provider Model, Performance-Based/Managed Services Model, Vested Business Model, Shared Services Model, and Equity Partnership Model. Each model aligns with specific risk and return considerations, emphasizing collaboration, performance-oriented agreements, and strategic partnerships for optimal outcomes.

The sourcing continuum illustrated the placement of these Sourcing Business Models, providing a comprehensive guide for organizations to select the most fitting model based on their unique needs. This shift towards diversified and collaborative models reflects an understanding that procurement strategies should align with organizational goals, considering crucial operational factors for enhanced efficiency and effectiveness in the evolving landscape of outsourcing and offshoring.

Deloitte's Global Shared Services and Outsourcing Surveys offer a comprehensive overview of key trends in Global Business Services (GBS). Cost reduction takes precedence for GBS firms combating global economic shifts, prompting a strategic shift of work to more cost-effective locations. Influencing factors include competitive labor markets and overall cost considerations. GBS entities are actively incorporating facilitators like automation, single-instance Enterprise Resource Planning (ERP), and workflow tools, with anticipated rises in self-service, centralized analytics, and standardized procedures over the next one to three years. Notably, matured GBS entities (>3 years) increasingly adopt the End-to-End (E2E) process ownership model.

Environmental, Social, and Governance (ESG) initiatives are gaining prominence, with approximately 50% of GBS firms prioritizing ESG, particularly emphasizing diversity and social responsibility. A growing number (60%) endorse various ESG objectives, including ESG reporting.

The connection between the C-suite and GBS is strengthening, especially in mature GBS companies (>7 years), where GBS leaders receive the majority of reports. CFOs are frequently identified as GBS leaders. GBS enterprises are evolving from transaction-processing back-offices to strategic business partners, emphasizing customer and user experience. Automation, reporting & analytics, process excellence, E2E process ownership, and business continuity planning are implemented in over half of GBS firms.

GBS organizations are proactively addressing talent challenges through flexible and robust talent models. Work-from-home opportunities, digital agenda acceleration, and flexible schedules are employed to retain personnel, complemented by market-based pay, upskilling opportunities, and well-being initiatives.

In terms of organization structure, the survey indicates a lasting commitment to remote and hybrid work environments. Leading countries for shared services centers are India, Poland, and Mexico, with China and Malaysia making notable strides. Organizations are refining their Shared Services Center (SSC) footprint, driven by objectives like cost reduction (51%) and enhanced access to the talent pool (27%).

The research underscores the need for aligning GBS strategies with corporate goals, with a focus on innovation, collaboration, and effective governance. The transition from transactional processing to strategic partnership, emphasis on ESG, and adaptation to flexible talent models are indicative of the evolving landscape of GBS, positioning it as a crucial component for organizations navigating global economic complexities.

Bosch Global Business Services (GS) serves the Bosch Group in Finance, Accounting, Controlling, and Purchasing, emphasizing its role as a Global Business Services organization. The diverse service portfolio includes Finance & Accounting, Controlling, Commercial Customer Support, Purchasing Business Operations, and Strategic Purchasing Category Management. Automation and digitalization drive Bosch GS's improvement approach, focusing on customer satisfaction and positioning Bosch as a top global AIoT business.

The GS Process Landscape categorizes global processes into Core and Enabling & Support Process Areas, fostering organizational efficiency and innovation. In 2020, Bosch GBS implemented a location strategy, consolidating around 50 locations globally, optimizing costs, and enhancing competitiveness through digitalization.

The location validation and assessment process, guided by criteria from the Hackett Group, ensures a structured approach for placing Regional and Global service centers based on economic considerations, talent availability, infrastructure, and regulatory environment. This strategic framework aligns facilities with business objectives and operational needs, emphasizing precision and effectiveness.

Bosch Global Services (GS) is redefining the perception of shared service centers, offering diverse career paths and flexibility for employees to transition roles without changing locations. This approach fosters talent retention and attracts skilled professionals who value mobility and continuous learning. The strategic business model innovation involves a comprehensive reorganization in Timisoara, Romania, dividing the business into distinct Business Services (SO) and Global Business Services (GS) units for increased financial independence and resource allocation efficiency.

The restructuring aims to integrate support functions into the overall strategy process, enhance talent acquisition efficiency, and optimize costs. The EMEA region, with a focus on the Timisoara office, stands out as a strategic hub for GS, emphasizing continuous optimization. The strategic value of GS within Bosch lies in cost optimization, service quality assurance, and operational resilience through automation and standardization. needs, emphasizing precision and effectiveness.

CHAPTER 3. OUTSOURCING AND OFFSHORING IN THE TIME OF A GLOBAL RECESSION

3.1. Recent recessions' impact on companies

The impact of external variables has caused firm settings to shift during the past thirty years, more quickly, dramatically, and with larger implications. Environmental factors that impact businesses include climate change and the COVID-19 epidemic, which ravaged the planet between 2020 and 2023 and disrupted whole industries and interwoven value chains. Businesses have had to deal with political influences like the European Green Deal (2019), which is a political response to climate change, and Russia's invasion of Ukraine, which hastened additional changes in the political and economic landscape by, for example, driving up electricity prices dramatically (Niehaus et al., 2023).

Markets, companies, and economies are now intertwined due to globalization. Recessions are cyclical events in the economy that can have an impact on growth. The numerous ups and downs of the economic cycle are reflected in the oscillations of the global economy. Recessions, which are periods of the economic cycle marked by declines in real GDP and economic activity, are a concern that economies experiencing globalization may have to deal with. In general, government policies, private consumption, and foreign demand are the main causes of inflation. It affects products and services, and during a recession, investment and consumption levels fall. A spike in inflation may lead to problems with purchasing power.

Companies and enterprises should thus figure out how to be resilient during recessionary times. Because globalization spreads economic trends, advanced economies are better able to weather recessions. This is seen by the parallel lines of variation that the real GDPs of developed and emerging nations exhibit. The greatest strategy to enhance the outlook for the economy is still to strengthen international collaboration. In addition, during recessions, investments, skillful negotiating, and political changes may come in handy. Globalization and internationalization have

made connections between developed and emerging economies stronger (Benabed & Grünbichler, 2023).

The world recession was at its worst since World War II as a result of the COVID-19 pandemic (World Bank, 2020). The world economy suffered greatly as a result. The gross domestic product (GDP) of the entire world decreased by 3.4 percent in 2020. In 2020, the global GDP was valued at 84.9 trillion dollars. This means that a 3.4 percent decline in economic growth translates into a loss of nearly two trillion dollars in economic production. Nonetheless, the world economy bounced back swiftly following the first setback, returning to positive growth in 2021. It hit 96.3 trillion dollars that year, and it is predicted to rise in the upcoming years despite the possibility that economic development may be hampered by Russia's conflict in Ukraine, which has been going on since February 2022 and its effects on the global economy. The world GDP did, however, increase by more than three percent in 2022. Even though they were able to swiftly recoup from their losses, global financial markets saw sharp declines following the coronavirus pandemic.

Different sectors and industries were affected differently by the COVID-19 pandemic. The travel and tourism sector was particularly badly impacted when nations all over the world enacted travel bans and locked their borders. The number of flights operating globally fell precipitously as a result of the travel restrictions. However, as more individuals choose to purchase non-essential items online or were compelled to do so because stores had to close during the epidemic, the Internet economy flourished (Dyvik, 2023).

The invasion of Ukraine by Russia has had a significant negative impact on the world economy. Although Ukraine has suffered greatly, the effects are seen well beyond its boundaries. The degree to which supply chains and commodities markets have been disrupted will have a significant impact on macro financial stability and growth, complicating the already challenging policy landscape for nations still catching up from the COVID-19 epidemic.

Due to supply and demand mismatches and government support during the epidemic, inflation, which had already begun to rise in many nations, is probably going to stay higher for longer. A number of emerging market and developing economies are under pressure due to the tightening financial conditions, which also increase the possibility of capital outflows and rising borrowing rates (IMF, 2022).

The epidemic touched every aspect of the world economy, although certain nations and areas were more severely struck than others. Amidst the economic downturn, many countries enacted stimulus plans aimed at bolstering their own economies and alleviating joblessness. The fact that the global GDP has increased since its initial decline in 2020 and that the GDPs of the G20 countries are expected to rise by 2026 highlights the benefits of the stimulus plans and the relaxation of regulations (Dyvik, 2023).

According to the International Monetary Fund's (IMF, 2023) baseline prediction, growth would slow down from 3.4 percent in 2022 to 2.8 percent in 2023 and then reach 3.0 percent in 2024. It is anticipated that growth in advanced economies would slow down particularly sharply, from 2.7% in 2022 to 1.3% in 2023. A credible alternative scenario with more strain on the financial sector predicts that global GDP would drop to around 2.5 percent in 2023, with growth in advanced economies dropping below 1 percent. Due to decreased commodity prices, global headline inflation is predicted by the baseline to drop from 8.7% in 2022 to 7.0 % in 2023; however, underlying (core) inflation is probably going to decrease more gradually. In most circumstances, inflation is unlikely to return to goal until 2025.

According to the experts of Investopedia (2023), during an economic downturn, revenues and sales drop for any company, regardless of size. Along with restricting loan availability, they may also impede collections and encourage company bankruptcy. Furthermore, depending on the nature and scale of the company, many of the difficulties associated with recessions are predicted. A corporation or business may assist assure it won't be one of the victims of the next recession by recognizing how a downturn in the economy may effect it.

The research by Bruhn et al. (2023) concludes, that businesses with higher levels of productivity before to the crisis fared better overall, especially in nations with more competitive business environments. The research finds that:

- According to the findings, smaller firms were more severely affected by the COVID-19 issue, and economic activity was actually concentrated in more productive firms. Compared to businesses with low labor productivity before to the crisis, those with high labor productivity had lesser declines in revenue and employment. Increased remote work was another way that more productive firms responded to the crisis.

- Compared to nations with weak competition environments, those with strong competition environments saw a greater reallocation from less productive to more productive firms. This outcome holds up well when other metrics of the competition environment are used. Businesses in the 10th percentile of the pre-crisis labor productivity distribution had an 18% greater decline in sales than those at the 90th percentile in nations with high levels of competition; in nations with low levels of competition, this difference was just 10 percentage points. Similarly, firms in the 10th percentile of the labor productivity distribution were 16 percentage points more likely to anticipate falling into arrears and 15 percentage points more likely to cut employment than firms in the 90th percentile in nations with high petition rates. In contrast, the differences were 5 and 8 percentage points in the least competitive countries. Compared to the highest productivity firms, those in high competition were 19 percentage points less likely to have expanded their remote work; in low competition, this difference was just 5 percentage points.

- Examining the differences between reallocation before and during the COVID-19 pandemic, we discover that there was a higher correlation between job growth and productivity during the pandemic. Prior to COVID-19, more productive firms saw slower sales growth than less productive ones; however, this tendency was reversed during the crisis. More productive firms had more job growth before to the crisis, but to a smaller or equal degree than during the crisis, when compared to less

productive firms. It should be noted that there are certain restrictions on how closely the growth rates of sales and employment may be compared.

- After looking at the factors that influence getting government funding, we have three key conclusions. Firstly, after accounting for the decline in sales and employment that the firm had suffered, productive firms were shown to have a lower probability of receiving government assistance of any kind. Second, even after adjusting for factory productivity, smaller farms were not only more negatively affected by the COVID-19 problem than bigger farms, but they were also less likely to obtain some forms of government assistance. This finding would suggest that support for politically connected firms was higher. Third, governments supported firms regardless of how innovative they had been before to the crisis.

Ultimately, the study demonstrates that, irrespective of their level of innovation prior to the crisis, bigger and less productive firms benefited from government support measures put in place in reaction to it. Therefore, it's possible that government assistance programs during the COVID-19 crisis had a negative impact on productivity development and competitiveness. Policymakers should concentrate on creating a competitive business climate and phase down assistance measures as soon as appropriate when economies start the economic recovery phase.

3.2. Thriving amidst global turbulence

For advanced economies today, boosting long-term productivity while also encouraging more resilient and sustainable growth routes is a major issue, OECD (2021) research shows. To overcome the false dichotomy that suggests productivity interventions and metrics undermine resilience and resilience-oriented initiatives are ineffective, it is imperative to recognize the areas where productivity and resilience overlap. However, the delicate balance between resilience and productivity makes this a difficult task. In terms of theoretical and empirical study, this is also a new field given the dearth of publications that explicitly address the trade-offs and synergies that exist between these outcomes. In a crisis or pandemic, these are important unanswered issues that are both fundamental and compelling.

To establish a business model that is both resilient and productive, companies are increasingly turning to the concept of business model innovation. This strategic approach involves a thorough reevaluation and redesign of how a company generates value, delivers its products or services, and captures market opportunities. A notable study in this realm has been undertaken by Volkmar Denner (2017), the former C-suite member of Bosch. Denner's comprehensive examination of business model innovation and its key success factors at Bosch highlights the significance of this strategic initiative. The overarching goal is to enable companies to thrive in dynamic and evolving business landscapes.

Business models, or "business model innovation," have gained popularity due to the success of start-ups like Uber and Airbnb, but in essence only describes how a company makes money. However, adapting business methods has always been crucial for sustainable success. McDonalds and Dell revolutionized industries in the 1950s and 1980s, respectively, by building on franchise systems and providing individualized hardware.

Bosch, a leading automotive company, has a diverse business portfolio that includes industrial, consumer goods, energy, and building sectors. The company's innovation strategy centers around technology, with total sales of around EUR 88 billion in 2022. However, Bosch must constantly monitor its competitive environment and be aware of potential disruptive threats, especially in the era of the Internet of Things. The revenue model is the most disruptive element for businesses, and the ease of technology deployment over the internet leads to shorter life cycles, especially for software. Companies like Uber and Airbnb have successfully based their businesses on platforms, capitalizing on inefficiencies in their value chains. Bosch is striving for a leading position in the Internet of Things, and it is crucial for the company to capitalize on its strengths and products while continuously reinventing its business to prevent disruptions.

The following key success factors for business model innovation, created by Denner (2017) based on his expertise as a C-suite member at Bosch, can serve as a valuable example for companies of all scales.

Make Room for Creativity. Bosch aims to counterbalance the trend of acceleration in go-to-market strategies by focusing on the idea stage and transferring the results into business units. The Corporate Research Group at Bosch focuses on the idea stage, ensuring that only the best ideas come through. To enhance the chances for great technologies and products, the Corporate Research Group reserves 10% of its budget for idea generation, which is reflected in the work routines of each associate. This budget is spent on "concept time," allowing associates to work on their own ideas, concept studies, or projects. Every Tuesday morning, management is available for coaching and feedback, allowing associates to experiment and work with colleagues across projects, functionalities, and regions. This concept time is one measure of management to initiate "outside-of-the-box" thinking and foster business model innovation.

Dare to Explore New Territories. Bosch Sensortec, a spin-off of the division "Automotive Electronics," was created in 2005 to serve the consumer electronics market with sensors based on initial developments in the automotive division. The start-up required a full start-up mindset from the first day, with a management team with courage and entrepreneurial thinking. The team had the freedom to choose its location outside of Bosch premises and reduce corporate directives to a minimum. The challenge was to adapt procedures to market requirements, leaving known grounds to explore new markets.

The management team installed newly hired talents on interfaces to the market, recruiting Bosch experts for the technology part. This created friction among team members but allowed for the quick implementation of the "consumer DNA" into the newly created entity.

On the business side, the leadership team had the chance to dive into full risk and explore new territories, requiring flexibility and resilience. To legitimize the risk and reward the team, it was clear from the beginning that quick wins, such as first purchase orders, were required. The management team had to define and report potential exit scenarios at all times, but in hindsight, the risk fully paid off.

Find a Strong Mentor in the Organization. The success of disruptive ideas like "Platform 12" and Bosch Sensortec is largely dependent on creativity, entrepreneurial mindset, and resilience. The starting management team plays a crucial role in implementing these ideas, and it is essential for a corporate start-up to have a steering committee and at least one senior management executive as a mentor. The mentor's role can be to protect the idea from initial skepticism and help overcome challenges.

In 2011, Bosch sold the first components for electrified bikes, which initially faced skepticism due to the limited market for electric bikes. However, the market reality proved otherwise, with around 400,000 e-bikes sold in 2014 in Germany, bringing the total to 1 million.

Similarly, Bosch Sensortec also benefitted from senior management executive support during tough times, such as when a lead customer refrained from cooperation. The mentor's role is to protect the venture from being stopped due to setbacks, help find a way to overcome challenges, and provide the start-up team with a visionary framework.

Starting a business can involve daily operational tasks, but the overall goal of making the venture happen is what holds the team together. Therefore, the mentor must believe and remind the team of this overall goal.

Denner (2017) concludes, that innovating business—this is necessity, fun, and challenging at the same time. Bosch has successfully used cross-industry approaches and built on its strengths to innovate and reinvent its business. By leveraging best practices and insights from the start-up scene and academic research, Bosch has successfully brought internal start-ups to life and leveraging its strengths for business model innovation. However, this risky approach requires risking resources, time, and money. The company's success stories, such as the evolution of the Bosch Engineering Group and the Bosch Sensortec, demonstrate the potential of internal ventures. Leadership is crucial for creating new business models, as it allows for exploration, experimentation, and the courage to explore unknown territories. With globalization, knowledge sharing, and full transparency, cross-industry innovations

are becoming more important and shaping businesses more. Companies and executives need to foster collaboration and the ability to “think outside the box”. Different phases of ventures require dedicated approaches, with the ideation phase requiring an entrepreneurial mindset and industry expertise. Business models provide businesses with an extra something, fun, and challenge, and business innovation is always about leadership.

GBS as key to resilience and productivity

In the dynamic landscape of global business, the implementation of a robust Global Business Services (GBS) strategy emerges as a pivotal factor in fortifying companies against uncertainties. As organizations navigate through times of turbulence, GBS stands as a key enabler, streamlining operations ensuring adaptability and resilience to crises. We will delve into the critical aspects that any already existing GBS, or a company aspiring to establish one, must consider to successfully future-proof their endeavors.

GBS organizations and leaders need to assess where they are strong and where their capabilities might not be in line with the expectations of the changing market in order to effectively navigate this dynamic environment. Building a strong digital foundation, giving data transparency first priority, implementing cutting-edge services, and setting up an agile corporate structure are essential. Organizations may prosper in the dynamic global business environment by seizing the possibilities provided by GBS and making proactive adjustments to market dynamics.

The following tactics, concluded in the research by Wason (2023), are necessary for GBS companies and executives to successfully manage the changing terrain as they begin on the future roadmap:

Modify Strategies: GBS companies must modify their approaches to take into account the shifting expectations of their clients and the shifting nature of the market. This might entail evaluating target markets again, looking at fresh service options, or implementing creative company strategies.

Drive Digitalization: GBS enterprises must embrace the digital shift. To boost operational effectiveness, enhance customer experience, and spur innovation, they must take use of cutting-edge technology like automation, artificial intelligence, and analytics.

Strengthen Capabilities: In order to accommodate new, enhanced scopes of work, GBS companies should constantly strengthen their capacities. This might entail investing in cutting-edge skill sets like process optimization, cybersecurity, and data analytics, as well as upskilling the workforce and promoting a culture of constant learning.

Create an Adaptable and Resilient Global Network: To reduce risks and take advantage of a variety of talent pools, it is essential to create an adaptable and robust global network. Establishing centers of excellence in important areas, looking into collaborations, and proactively evaluating their geographical plan are all recommendations for GBS firms.

Change Management: Efficient change management is necessary for the GBS projects to be implemented successfully. Prioritizing change communication, including stakeholders, and offering the required assistance and training are all essential for a seamless transition inside an organization.

Periodic Governance: Organizations that use GBS still need to practice governance. For compliance, risk management, and performance monitoring to be guaranteed, they must set up strong governance structures. Regular evaluations and modifications will provide ongoing enhancement and conformity with company objectives.

GBS businesses and executives can successfully navigate the changing environment, take advantage of new possibilities, and proactively build their future roadmap by adopting five key lessons.

Successful Transition and Efficient Governance

In order to optimize the advantages of Global Business Services (GBS) and guarantee a smooth transition, it is imperative for enterprises to embrace a

methodical strategy and establish efficacious governance. The main suggestions that Wason (2023) provides to ensure a smooth transition and reduce interruptions are outlined in this section.

Phased-wise Charge Gated Process Transition: By moving through procedures in stages, business disturbance is kept to a minimum. For a regulated and seamless transformation, transactional processes such as Accounts Receivable (AR) and Accounts Payable (AP) should come first, then Record to Report (RTR) and Financial Planning & Analysis (FP&A).

Robust and Well-Defined Governance: Creating a well-defined governance structure facilitates efficient communication between the client and service provider teams. Transparency, expectation congruence, and proactive issue resolution are made possible by regular, periodic governance meetings.

Detailed Risk Assessment and Mitigation Planning: Make careful evaluations of the risks and create a detailed strategy to reduce the risks. Disruptions during the transition are minimized by identifying possible hazards and taking preemptive actions.

Effective Change Management: To ensure that corporate activities are uninterrupted, an efficient change management plan must be put into place. A seamless transition is ensured by cooperative efforts between the teams of the client and service provider, making use of their knowledge and skills.

In order to guarantee a smooth and uninterrupted shift to Global Business Services (GBS), companies had to put these methods into practice. First, a toll-gated process transition method that is phased in should be used. This approach should include all necessary stages, including ramp-up, stabilization to steady state, knowledge capture and documentation, knowledge transfer, and transition analysis. Secondly, to promote efficient communication and avoid unforeseen circumstances, a robust and well-defined governance framework need to be instituted. Project owners, business leaders, and Process Subject Matter Experts (SMEs) are involved in a three-tier governance architecture. Comprehensive risk and mitigation planning should also be carried out, including possible issues in the realms of people and

business, process and technology, governance, and transition. Finally, it is imperative to execute a comprehensive change management strategy that includes leadership development, engagement, measurement, and cultural and behavioral evolution. By using this strategy, firms may successfully implement GBS, manage risks, and provide a seamless transition.

During the pandemic crisis, Global Business Services (GBS) have demonstrated their importance as a fundamental component of corporate resilience. Changes in strategy, more digitization, enhanced capabilities to support advanced scope of work, and ongoing development of a flexible and robust global network are all necessary for GBS companies and leaders to effectively start on the future roadmap. GBS may react to shifting market circumstances, improve operational effectiveness, and provide outstanding value to their clients by adhering to these principles.

3.3. The future of Global business services

Global Business Services (GBS) are the result of enterprises' advancement of support tasks due to interconnected value chains, financial restrictions, and market volatility. GBS has spread over the world, with over 10,000 locations mostly located in Brazil, Romania, Poland, India, China, and Hungary (Wason, 2023).

These support services effectively transitioned to remote operations during the pandemic, putting them to the test. Their strength, stability, confidence, and self-perception have been reinforced by their amazing resilience both during and after lockdowns. The pandemic served as a catalyst, forcing the industry to embrace sustainable trends, particularly in technology-driven disruptions that offered dependable responses in times of comparable emergency. The GBS ecosystem has grown and has enormous development potential, according to a new BCG (2022) analysis. It is expected to reach USD 2,5 trillion by 2025, up from USD 1,8 trillion in 2022.

Tom Bangemann, Head of Data Development & Research at SSON Research & Analytics (SSON, 2022) delves straight into how GBS will be managed for service

delivery in the future. “If we include all the different sourcing models into this model (i.e., GBS), then I would say GBS is also going to be the delivery model of the near future. Of course, on the location and sourcing side, lots of things might change. But for many, there is no real alternative in going back to decentralized delivery. Apart from some e-commerce or internet activities, I don't think anybody is even close to being advanced in automation/decentralization.

The target idea is that everything is automated, and we don't need to touch or manually do anything anymore. We're not there yet. Business, as we carry it out now, is immediately reflected in support systems, reporting, and other transactions. And the only thing that a service center, which will still exist, would then do is what we call ‘exceptions handling.’ So there will still be things that fall out of the process because there's a mistake, or an interface is not working, or whatever may be impacting the system. But that would be the only activity a center would have in the fantastic world of the future!”.

SSON experts believe that GBS will no longer be known as GBS in five years. The phrase "shared services center" will have given way to "shared services organization" or "global business organization" in the model. GBS is expected to see a more advanced scope of activities in the near future, with companies focusing on automation. SSON's latest research indicates a renewed focus on automation, possibly due to the pandemic, and a wave of interest in increasing automation levels. Automation-led decisions are challenging from a business perspective and ensuring knowledge translation for senior leadership. The solution lies within the talent base, as it is a core activity in GBS. The focus on automation is expected to be refreshed and stronger due to the pandemic.

Experts propose a framework for transitioning from efficiency to effectiveness and from effectiveness to experience. Experience delivery in 2022 is strongly influenced by customer-centric activities. They argue that treating employees well and ensuring their satisfaction leads to customer satisfaction. Instead of mandating tasks that may not make sense to employees, it is suggested to explain the target and purpose of the activity to ensure they understand their contribution to the overall

goal. This approach ensures employees are well-informed about their role in the organization.

Even in the absence of the pandemic, businesses are facing pressure from global value chains, rising customer demands, the quicker adoption of new technology, and remote working practices. To succeed in this climate, GBS firms will need to adapt their operating models, and our research indicates that four essential elements are what GBS executives see as influencing this evolution: GBS will keep performance as its primary priority, start to drastically change to greater digitization, concentrate far more on providing value, and advance the company's efforts to become more customer-centric, Saggese & Bachinger (2022) conclude.

But the legacy and expertise of GBS enterprises today influence these future goals. For instance, compared to smaller GBS companies, more established GBS entities—which are often larger—tend to be more customer-centric and value-delivery oriented. These GBS firms, which are often less developed, will still place a higher importance on performance as a "table stake." Relatively few GBS firms define their future position as either entrepreneurial or as real ecosystem orchestrators beyond these four future traits; these organizations are leading the way in these areas, but they have not yet become mainstream.

Ukraine's potential as a center of business process outsourcing

Ukraine has been recognized as a promising destination for business process outsourcing (BPO) due to several factors:

Skilled Workforce: Ukraine has a well-educated and skilled workforce, particularly in IT and technical fields. The country has a strong emphasis on STEM (science, technology, engineering, and mathematics) education, producing a pool of qualified professionals.

Cost-Effective Labor: Labor costs in Ukraine are relatively lower compared to many Western European countries and the United States. This cost advantage makes it an attractive destination for companies looking to outsource various business processes.

Time Zone Advantage: Ukraine's time zone is advantageous for companies in Western Europe. This proximity allows for easier communication and collaboration compared to outsourcing to countries with larger time differences.

Growing IT Industry: Ukraine has gained a reputation for its growing IT industry. The country has a thriving community of software developers, engineers, and IT professionals who contribute to the global tech landscape.

Government Support: The Ukrainian government has shown interest in developing the IT and outsourcing sectors. Supportive policies and initiatives have been implemented to attract foreign investment and foster the growth of the outsourcing industry. There is also an investment in infrastructure, including telecommunications and IT infrastructure. This is crucial for businesses that rely on seamless connectivity and communication.

Cultural Compatibility: Ukraine's cultural compatibility with Western countries, especially in terms of work culture and communication styles, can make collaboration between businesses smoother.

Multilingual Talent: Many Ukrainians are proficient in multiple languages, including English. This linguistic diversity is crucial for BPO operations, where language proficiency is often a key requirement. Ukraine has a moderate level of English competence, lower than other EU members, especially Romania and Bulgaria, which are the two EU comparator nations. Nonetheless, the data emphasizes the nation's ability to increase English competence given the current direction of focus on English language instruction (Luis et al., 2023).

Due to the ongoing geopolitical uncertainties and periodic instabilities in Ukraine, many large companies may approach the prospect of investing in the country with caution. While Ukraine offers several advantages for business process outsourcing (BPO), including a skilled workforce, cost-effective labor, and a growing IT industry, the geopolitical situation has been a deterrent for some potential investors.

Several countries within the European Union (EU) present themselves as viable alternatives for companies seeking stable environments with similar benefits. These

EU member states combine the advantages of a skilled workforce, linguistic diversity, and proximity to Western markets with the added assurance of political and economic stability. Some of these countries include Poland, Romania, Hungary, and the Baltic states.

The stability afforded by EU membership and adherence to common regulations can be a compelling factor for businesses, particularly large enterprises that prioritize a secure and predictable operating environment. Additionally, the economic and political integration within the EU provides a level of cohesion and cooperation that may be perceived as advantageous compared to regions with geopolitical uncertainties.

It is essential for businesses to carefully weigh the benefits and risks associated with each potential outsourcing destination. While Ukraine has its merits, the decision to invest in a particular location should consider the overall geopolitical climate, regulatory framework, and the specific needs and risk tolerance of the investing company. Factors such as cultural compatibility, legal infrastructure, and long-term political stability play pivotal roles in the decision-making process for businesses considering outsourcing destinations.

The prospect of Bosch making an investment in Ukraine

As of my last knowledge update in January 2022, I do not have specific information on Bosch's plans regarding the establishment of a Global Business Services (GBS) center in Ukraine. Therefore, the following response is based on a hypothetical scenario and the information available up to that point.

As of now, there have been no discussions or indications from Bosch regarding the establishment of a GBS center in Ukraine. Bosch, being a careful and prudent company, is likely to take into consideration the complex geopolitical situation when making investment decisions.

Bosch already operates a Global GBS center in Eastern Europe, specifically in Romania. Given the challenges posed by the geopolitical situation, especially in Ukraine, Bosch may exercise caution in expanding its operations to a new location in the region. The presence of an established GBS center in Romania could influence

the decision-making process, as Bosch may weigh the advantages of stability and familiarity offered by its existing Eastern European center.

It's worth noting that Bosch has invested in Ukrainian industrial production in the past, notably with a factory in Krakovets. However, if the volatile situation in the region has led to the temporary closure of this facility, it indicates a recognition of the challenges and risks associated with doing business in Ukraine under such circumstances.

Until the current business environment stabilizes and returns to a more predictable state, it's reasonable to assume that Bosch may adopt a cautious approach and refrain from initiating new investments in Ukraine. The company's historical practice of investing in Ukrainian industrial production suggests a willingness to engage with the market, but the current circumstances may necessitate a period of reassessment and careful consideration before any new ventures are pursued.

To succeed in a world that is changing structure, one must be able to adapt to change, which means developing new skills and using flexible execution techniques, BCG (2022) emphasizes. In addition to changing the principles of ownership, talent, innovation, and governance, global business services (GBS) may also shift the development trajectory of multinational corporations while maintaining operational efficiency. The parent organization's leadership and GBS have a huge chance to work together to create the "Next Normal," according to the study. Driving the talent agenda and taking ownership of the value equation calls for a strict focus. Even if GBS companies have a ton of opportunity, there are a few obstacles that need to be removed before they can reach their full potential. The main issues facing GBS leadership, according to this poll, are high attrition, resilience risk, low automation program efficacy, and unclear result measures.

GBS has an incredibly promising future, but the parent and the GBS itself need to ask the correct questions. To encourage innovation and knowledge management, they need to move away from the conventional center and the use of FTE counts as a stand-in for success. Instead, they should create a talent proposal that combines known career progression methods, brand, and gig-friendly talent models. It is not possible to remain still.

CONCLUSIONS

The modern search for the optimal configuration for a global company has evolved over time, influenced by historical forces like labor specialization, technological innovation, and transaction cost theories. Concepts like outsourcing, initially proposed by Adam Smith and developed by Williamson, have played a crucial role in this evolution. Contemporary companies, influenced by the Core Competency idea, grapple with decisions about optimal configurations, striking a balance between outsourcing and in-house production. Outsourcing and offshoring strategic decision-making involves breaking down a company's value chains, merging functions across departments, and determining optimal global locations and organizational structures. Effective sourcing requires evaluating processes based on their significance, technological evolution, and potential risks. Tools and mechanisms for regulating outsourcing and offshoring operations involve a strategic lifecycle approach.

Corporate outsourcing and offshoring strategies have evolved beyond the traditional "make vs. buy" paradigm due to significant switching costs and the interdependence between buyers and suppliers. Deloitte's Global Shared Services and Outsourcing Surveys reveal key trends in Global Business Services (GBS), with cost reduction being a top priority. Organizations are shifting to cost-effective locations, offering work-from-home opportunities, digital agenda acceleration, and flexible schedules to retain personnel. Market-based pay, upskilling opportunities, and well-being initiatives are also being implemented.

Organizations are refining their Shared Services Center (SSC) footprint to reduce costs and enhance access to talent. The evolving landscape of GBS is characterized by a shift from transactional processing to strategic partnership, emphasis on ESG, and flexible talent models. The GS Process Landscape categorizes global processes into Core and Enabling & Support Process Areas, promoting organizational efficiency and innovation.

In 2020, Bosch GBS implemented a location strategy, consolidating around 50 global locations to optimize costs and enhance competitiveness through digitalization. Bosch Global Services (GS) is redefining shared service centers by offering diverse career paths and flexibility for employees to transition roles without changing locations. A strategic business model innovation involves a reorganization in Timisoara, Romania, dividing the business into distinct Business Services and Global Business Services units for increased financial independence and resource allocation efficiency.

Over the past thirty years, external factors have significantly impacted firm settings, with environmental and political influences causing disruptions in industries and value chains. Globalization has intertwined markets, companies, and economies, and recessions are cyclical events in the economic cycle. Advanced economies are better able to weather recessions due to the spread of economic trends.

The COVID-19 pandemic has had a significant negative impact on the world economy, with supply chains and commodities markets disrupted, impacting macro financial stability and growth. The IMF predicts a slowdown in global GDP from 3.4% in 2022 to 2.8% in 2023, with advanced economies expected to slow down sharply. Global headline inflation is predicted to drop from 8.7% in 2022 to 7.0% in 2023, but underlying inflation is expected to decrease gradually.

Business model innovation is a strategic approach that involves reevaluating how a company generates value, delivers products or services, and captures market opportunities. Key success factors for business model innovation include creativity, daring to explore new territories, and finding a strong mentor within the organization.

Global Business Services (GBS) have grown significantly due to interconnected value chains, financial restrictions, and market volatility. To succeed in this climate, GBS firms must adapt their operating models, prioritize performance, focus on digitization, provide value, and become customer-centric. GBS leaders must develop new skills and use flexible execution techniques to encourage innovation and knowledge management.

ABSTRACT

Anastasiia V. Shevchenko. Outsourcing and Offshoring Strategies of Global Companies. – Master's thesis, Kyiv National Economic University named after Vadym Hetman, Kyiv, 2023.

This paper thoroughly examines the theoretical and practical dimensions of outsourcing and offshoring strategies employed by global companies, with a specific focus on large enterprises. Investigating the theoretical foundations and practical mechanisms, the study explores the origin, nature, and widespread application of these strategies. It discerns the global imperatives compelling leading corporations, such as the Bosch Group, to formulate and implement outsourcing and offshoring strategies. Additionally, the research distinguishes between outsourcing, shared services, and global business services strategies.

The assessment encompasses economic efficiency and strategic advantages associated with these strategies, highlighting their pivotal role in crafting resilient business models. It delves into the future of Global Business Services (GBS) structures, exploring their evolving role in the dynamic landscape of global business operations. This includes an analysis of emerging trends and considerations that will shape the strategic direction and impact of GBS structures in the years to come. The thesis utilizes Bosch Global Business Services as an exemplary case, offering insights into the practical application of outsourcing and offshoring strategies within a renowned global company.

Keywords: outsourcing, offshoring, global companies, global business services (GBS), shared service centers, outsourcing business models.

BIBLIOGRAPHY

1. Alexander M., and Young D. (1996). Strategic outsourcing, *Long Range Planning*, 29(1): 116–119.
2. Andreff W. (2009). Outsourcing in the new strategy of multinational companies: Foreign direct investment, international subcontracting and production relocation, *Papeles de Europa* 18: 5-34.
3. Aron R. and Singh J.V. (2005). Getting offshoring right, *Harvard Business Review*, 83(12): 135–143.
4. Azoulay P. (2004). Capturing knowledge within and across firm boundaries: evidence from clinical development, *American Economic Review*: 1591–612.
5. Balconi M., Pozzali A., and Viale R. (2007). The ‘codification debate’ revisited: a conceptual framework to analyze the role of tacit knowledge in Economics, *Industrial and Corporate Change* 16(5): 823–49.
6. Bardhan A. D. and Jaffee D. (2013). Globalization of R&D: offshoring innovative activity to emerging economies.
7. Bardhan A.D. and Kroll C. (2003). The new wave of outsourcing, *FCREUE Research Report*.
8. Barney J.B. (2001). Resource-based theories of competitive advantage: a tenyear retrospective on the resource-based view, *Journal of Management* 27(6): 643–50.
9. Barthelemy J. (2001). The hidden costs of IT outsourcing, *MIT Sloan Management Review* 42(3): 60–69.
10. Barthelemy J. (2003). The seven deadly sins of outsourcing, *The Academy of Management Executive* 17(2): 87–98.
11. BCG (2022). GBS: Yielding the Butterfly Effect, The changing role of Global Business Services by Rajiv Gupta, Sreysha George, Snehil Gambhir, and Amit Kumar, Boston Consulting Group. Electronic resource: www.bcg.com
12. Belderbos R. (2003). Entry mode, organizational learning, and R&D in foreign affiliates: evidence from Japanese firms, *Strategic Management Journal* 24: 235–59.
13. Benabed A., Grünbichler R. (2023). Economic fluctuation and global recession: trends for economies, markets and business in times of globalization, University of Zagreb, Faculty of Economics and Business.
14. Blinder A. (2006). Offshoring: the next industrial revolution? *Foreign Affairs* 85(2): 113–28.
15. Bosch Global Software Technologies Private Limited (2022). Global Business Services. Electronic resource: www.bosch-softwaretechnologies.com
16. Bosch Service Solutions GmbH (2023). Electronic resource: www.boschservicesolutions.com.
17. Bruhn M., Demirguc-Kunt A., Singer D. (2023). Competition and firm recovery post-COVID-19, World Bank, under exclusive licence to Springer Science+Business Media, LLC, part of Springer Nature 2023

18. Contractor and Lorange (eds.), *Cooperative Strategies and Alliances*. Oxford: Elsevier.
19. Contractor F. and Lorange P. (2002). "The growth of alliances in a new knowledge-based economy," in
20. Contractor F. and Ra W. (2002). How knowledge attributes influence alliance governance choices, *Journal of International Management* 8: 11–27.
21. Contractor, F. J., Kumar, V., Kundu, S., & Pedersen, T. (2010). *Global Outsourcing and Offshoring: An Integrated Approach to Theory* B1:B49 and *Corporate Strategy*. Cambridge University Press.
22. Coppola M. (2019). Building business resilience to the next economic slowdown: Perspectives from CFOs, Deloitte Insights. Electronic resource: www2.deloitte.com.
23. Deavers K. L. (1997). Outsourcing: A corporate competitiveness strategy, not a search for low wages. *Journal of Labor Research*, 18(4):503-519.
24. Deloitte Consulting LLP (2005). *Calling a Change in the Outsourcing Market: The Realities for the World's Largest Organizations*.
25. Deloitte Consulting LLP (2007). *Why Settle for Less? Deloitte Consulting 2008 Outsourcing Report*.
26. Deloitte Consulting LLP (2013). *The Risk Intelligent approach to outsourcing and offshoring*. Electronic resource: www2.deloitte.com
27. Deloitte Development LLC (2016). *Global Business Services Performance improvement: from cost center to competitive advantage*, Deloitte Consulting reader. Electronic resource: www2.deloitte.com.
28. Deloitte Development LLC. (2021). *2021 Global Shared Services and Outsourcing Survey Report*. Electronic resource: www2.deloitte.com.
29. Deloitte Development LLC. (2023). *2023 Global Shared Services and Outsourcing Survey Executive Summary*. Electronic resource: www2.deloitte.com.
30. Denner V. (2017). *Business Model Innovation: Some Key Success Factors at Bosch*, Springer International Publishing AG.
31. Dolgui A., Proth J.-M. (2013). Outsourcing: definitions and analysis. *International Journal of Production Research*, 51(23-24):6769-6777.
32. Dosi G., Malerba F., Ramello G., and Silva F. (2006). Information, appropriability, and the generation of innovative knowledge four decades after Arrow and Nelson: an introduction, *Industrial and Corporate Change* 15(6): 891–901.
33. Duffy, M. N. (2001). "Outsourcing a 401(K) plan". *Journal of Accountancy*, 191(5), 30–35.
34. Dyvik E. H. (2023). *Impact of the coronavirus pandemic on the global economy - Statistics & Facts*, Statista.
35. Earley P.C. and Mosakowski E. (2000). Creating hybrid team cultures: an empirical test of transnational team functioning, *The Academy of Management Journal* 43(1): 26–49.
36. Farrell D. (2006). Smarter offshoring, *Harvard Business Review* (June): 85–92.

37. Farrell D. (2006). Smarter offshoring. *Harvard Business Review*, 85–92.
38. Franz C. et al. (2017). *Evolving Business Models*, Management for Professionals, Springer International Publishing AG.
39. Hackett (2020). The Hackett Group consulting and process reengineering solution for Robert Bosch GmbH.
40. Harland C., Knight L., Lamming R., Walker H. (2005). Outsourcing: assessing the risks and benefits for organisations, sectors and nations. *International Journal of Operations & Production Management*, 25(9):831-850.
41. HfS Research, Ltd. and PwC, Ltd. (2011). *The Evolution of Global Business Services: Enhancing the Benefits of Shared Services and Outsourcing*. Electronic resource: www.hfsresearch.com, www.pwc.com.
42. Hinds P. and Bailey D. (2003). Out of sight, out of sync: understanding conflict in distributed teams, *Organization Science* 14(6): 615–32.
43. IACCM (2010). *Contract Negotiations Continue to Undermine Value*, International Association of Contracting and Commercial Management Ninth Annual Top Ten Terms Report, April.
44. IMF (2022). International monetary fund: Crisis upon crisis, Annual Report 2022. Electronic resource: www.imf.org.
45. IMF (2023). International monetary fund: A rocky recovery, *World Economic Outlook 2023*. Electronic resource: www.imf.org.
46. Investopedia (2023). *The Impact of Recessions on Businesses*, The Investopedia team, reviewed by David Kindness. Electronic resource: www.investopedia.com.
47. Karmarkar U. (2004). Will you survive the services revolution? *Harvard Business Review*: 101–07.
48. Kearney analysis (2023). *Kearney Global Services Location Index 2023*. Electronic resource: www.kearney.com
49. Khan N. and Fitzgerald G. (2004). Dimensions of offshore outsourcing business models. *Journal of Information Technology cases and Applications (JITCA)*, 6(3) pp. 35–50.
50. Lonsdale C, Cox A. (2000). The historical development of outsourcing: the latest fad? *Industrial Management & Data Systems*, 100(9):444-450.
51. Luís A. L., Kornieieva T., Braz R. (2023). The importance of English proficiency: the particular case of Ukraine, *INTED2023 Conference* March 2023.
52. Manning S., Massini S., and Lewin A. (2008). A dynamic perspective on next-generation offshoring: the global sourcing of science and engineering talent, *Academy of Management Perspectives* 22(3): 35–54.
53. McKinsey Global Institute (2007). *The Emerging Global Labor Market* (April).
54. McKinsey Global Institute (2003). *Offshoring – Is It a Win-Win Game?* (August).
55. McKinsey Global Institute (2009). *Changing the Fortunes of America’s Workforce: A Human Capital Challenge* (June).

56. Melicher R. W., Rush D. F. (1973). The performance of conglomerate firms: recent risk and return experience. *The Journal of Finance*, 28(2):381-388.
57. Metters R. (2008). A typology of offshoring and outsourcing in electronically transmitted services, *Journal of Operations Management*, 26(2): 198–211.
58. Mol M., Pauwels P., Matthyssens P., and Quintens L. (2004). A technological contingency perspective on the depth and scope of international outsourcing, *Journal of International Management* 10: 287–305.
59. Niehaus M., Hansen K., Mocan M., Barmayoun D. (2023). Unraveling Successful Company Organizations: A Research Design to Explore Strategies for Thriving Amid Market Turbulence, *Administrative Sciences* 13: 204.
60. OECD (2021). Productivity and resilience: A post-COVID-19 perspective, Faggian A. and Ascani A., Gran Sasso Science Institute. Electronic resource: www.oecd.org
61. Palmisano S. (2006). The globally integrated enterprise, *Foreign Affairs* 85(3): 127–36.
62. Pereira V., Munjal S. and Ishizaka A. (2019). Outsourcing and offshoring decision making and its implications for businesses - A synthesis of research pursuing five pertinent questions. *Journal of Business Research*, 103. pp. 348-355.
63. Porter G. (1992). *The rise of big business, 1860-1920*. Arlington Heights, IL: Harlan Davidson; 1992.
64. Prahalad C.K., Hamel G. (1990). The Core Competence of the Corporation. *Harvard Business Review*, May;68(3):79-91.
65. Riordan M. H., Williamson O. E. (1985). Asset specificity and economic organization. *International Journal of Industrial Organization*, 3(4):365-378.
66. Robert Bosch GmbH (2022). *Onwards. Annual report 2022*, Communications and Governmental Affairs.
67. Rumelt R. P. (1974). *Strategy, structure, and economic performance*. Boston, MA: Harvard University. Graduate School of Business Administration. Division of Research.
68. Saggese M. and Bachinger R. (2022). BCG, EY and SSON GBS survey analysis: The future of GBS is digital, Gbs as a powerful transformation engine. Electronic resource: www.ey.com.
69. Sanchez R. and Mahoney J. (1996). Modularity, flexibility, and knowledge management in product and organization design, *Strategic Management Journal* 17 (Winter Special Issue): 63–76.
70. Sen F. and Shiel M. (2006). From business process outsourcing to knowledge process outsourcing: some issues, *Human Systems Management* 25: 145–55.
71. Smith A. (1791). *An Inquiry into the Nature and Causes of the Wealth of Nations*, Librito Mondì.
72. Snippe L. and Kara A. (2023). Strategic Risk Leadership and Sustainability in an Ever Changing Environment, *Studies in Risk and Sustainable Development Journal*, 397: 1-18.

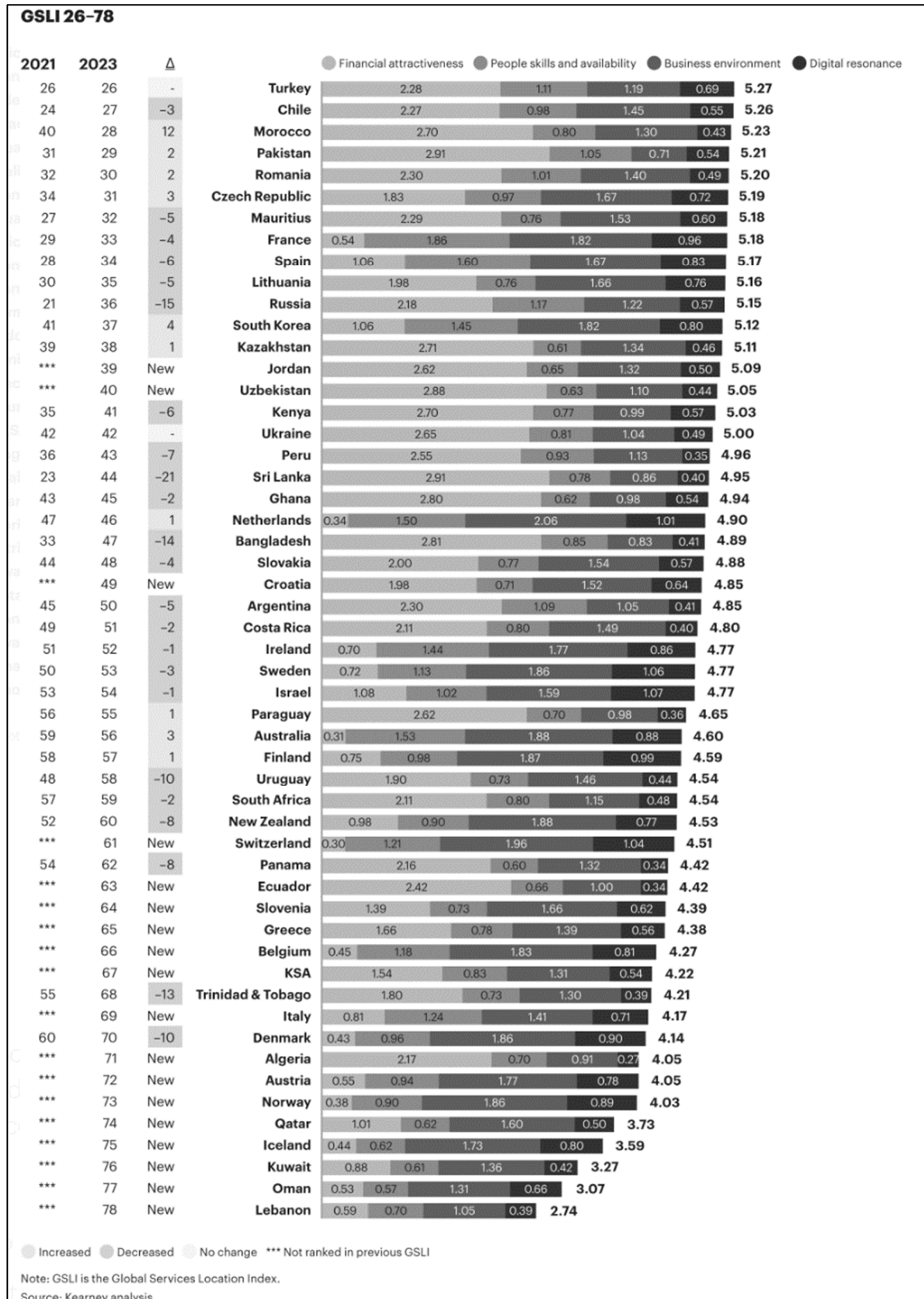
- 73.SSON (2022). Predicting the Future of Global Business Services, Shared Services & Outsourcing Network. Electronic resource: www.ssonetwork.com.
- 74.Sutton, J. (2004). The auto-component supply chain in China and India – a benchmark study, STICERD - Economics of Industry Papers 34, Suntory and Toyota International Centres for Economics and Related Disciplines, LSE.
- 75.Teece D.J. (1992). Competition, cooperation, and innovation: organizational arrangements for regimes of rapid technological progress, *Journal of Economic Behavior & Organization* 18(1): 1–25.
- 76.UNCTAD (2022). World Investment Report: Transnational Corporations and Export Competitiveness. New York and Geneva: United Nations.
- 77.Vashistha A., and Khan I. (2008). Top 50 emerging global outsourcing cities.
- 78.Vitasek K. and Ledyard M., Manrodt K. B. (2013). *Vested Outsourcing: Five Rules That Will Transform Outsourcing*, Second Edition; New York: Palgrave MacMillan.
- 79.Vitasek K., Keith B., Manrodt K., Kling J., Frydlinger D., Kawamoto K., Cambresy E., Tiura D., Holliman S. (2019). *Unpacking Sourcing Models: 21st-Century Solutions for Sourcing Services*, University of Tennessee Center for Executive Education, Sourcing Interests Group, Centers for Outsourcing Research & Education, International Association for Contract and Commercial Management.
- 80.Wason A. (2023). *Global Business Services: Thriving in the Era of Resilience, Digital Transformation, and Client-Centricity*, Wipro Limited. Electronic resource: www.wipro.com
- 81.Weston J. F., Mansinghka S. K. (1971). Tests of the efficiency performance of conglomerate firms. *The Journal of Finance*, 26(4):919-936.
- 82.Willcocks L.P., and Craig A. (2008). *The Outsourcing Enterprise: Building Core Retained Capabilities*, Logica Internal Report.
- 83.Willcocks L.P., and Lacity M. (2009). *The practice of Outsourcing: From IT to BPO and Offshoring*, Palgrave, London.
- 84.Willcocks L.P., Petherbridge P. and Olson N. (2002). *Making IT count. Strategy, Delivery, Infrastructure*, Butterworth Heinemann, Oxford.
- 85.Williamson O. E. (1979). Transaction-Cost Economics: the governance of contractual relations. *The Journal of Law and Economics*, 22(2):233-261.
- 86.Williamson O. E. (1985). *The economic institutions of capitalism firms, markets, relational contracting*. New York, NY: Free Press.
- 87.Williamson O. E. (2008). Outsourcing: Transaction Cost Economics and Supply Chain Management, *Journal of Supply Chain Management* 44.2: 5-16.
- 88.World Bank (2020). *Global economic prospects*, June. Wasington, DC: World Bank.
- 89.WTO (2023). *World Trade Statistics, 2023*. Geneva: World Trade Organization.
- 90.Zaheer S. and Zaheer, A. (2001). Market microstructure in a global B2B network, *Strategic Management Journal* 22(9): 859–73.

ATTACHMENTS

Attachment 1

Kearney Global Services Location Index, 2021/2023

Source: Kearney Analysis



Attachment 2

Figure 1. Functions performed and the preferred governance model

Source: Deloitte, 2021

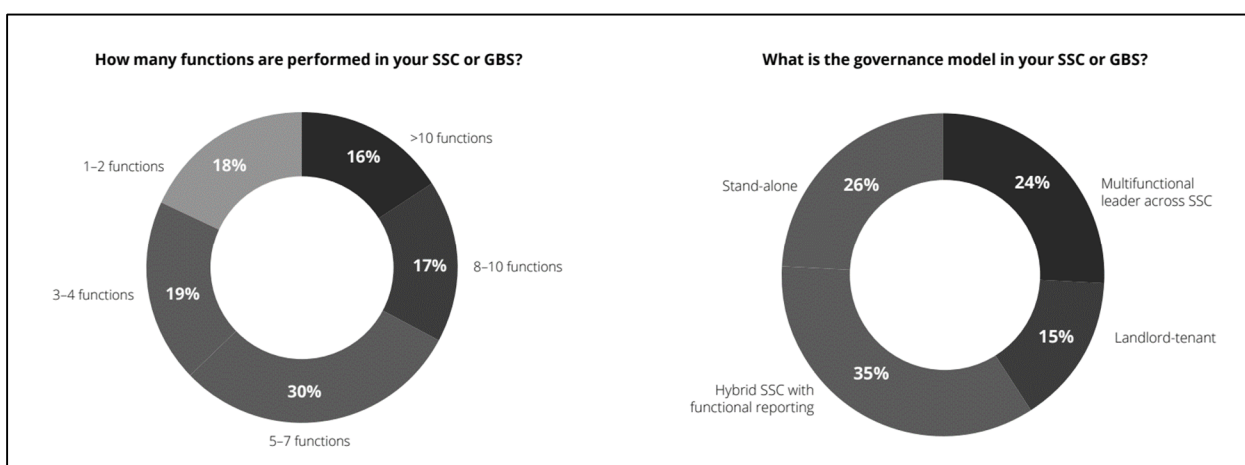


Figure 2. Percentage of the total FTEs located in the local business, at corporate, or in a GBS model

Source: Deloitte, 2021

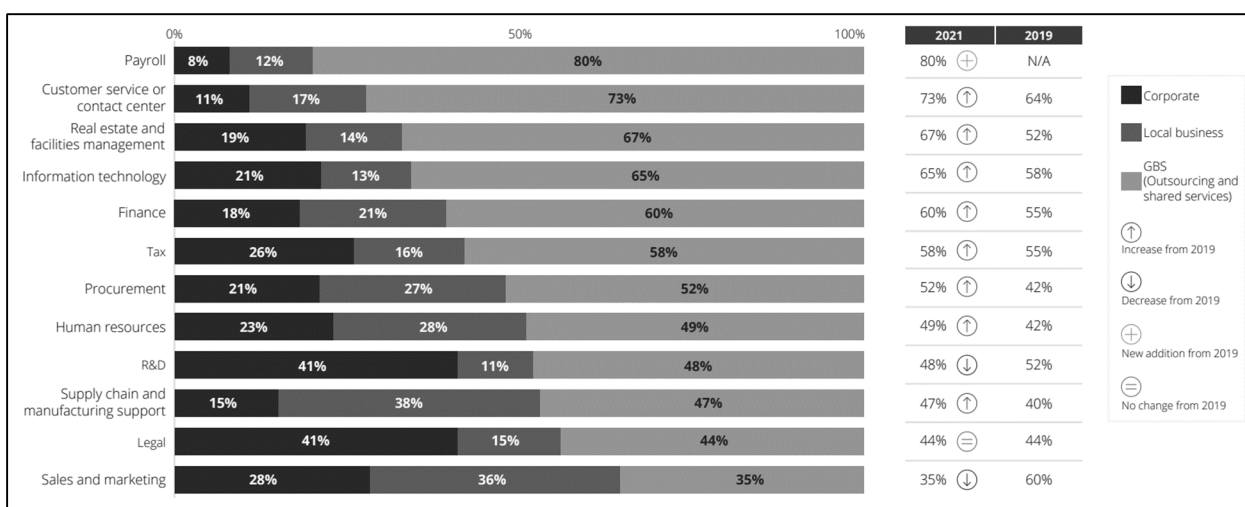


Figure 3. Functions performed by both SSCs and outsourcing providers

Source: Deloitte, 2021

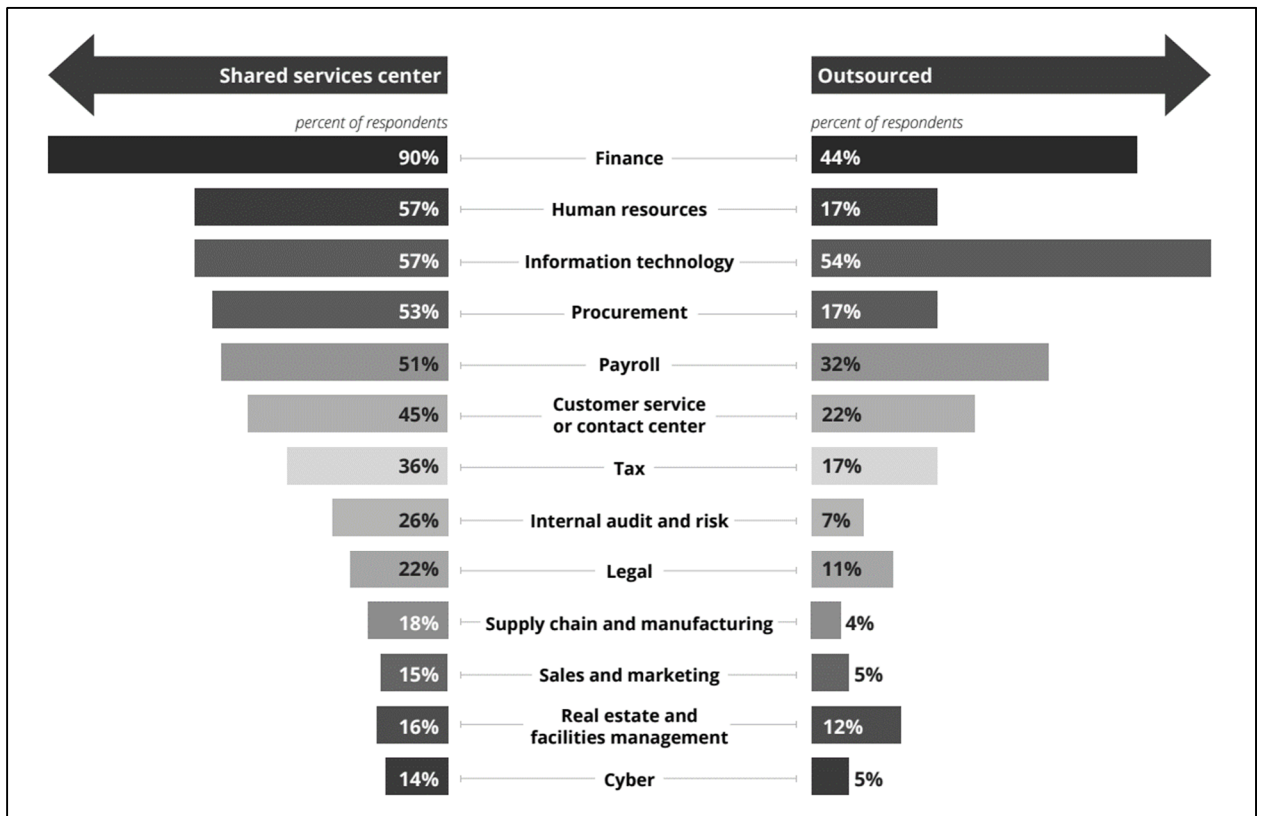


Figure 4. The capabilities implemented or planned to be implemented in GBS organizations

Source: Deloitte, 2021

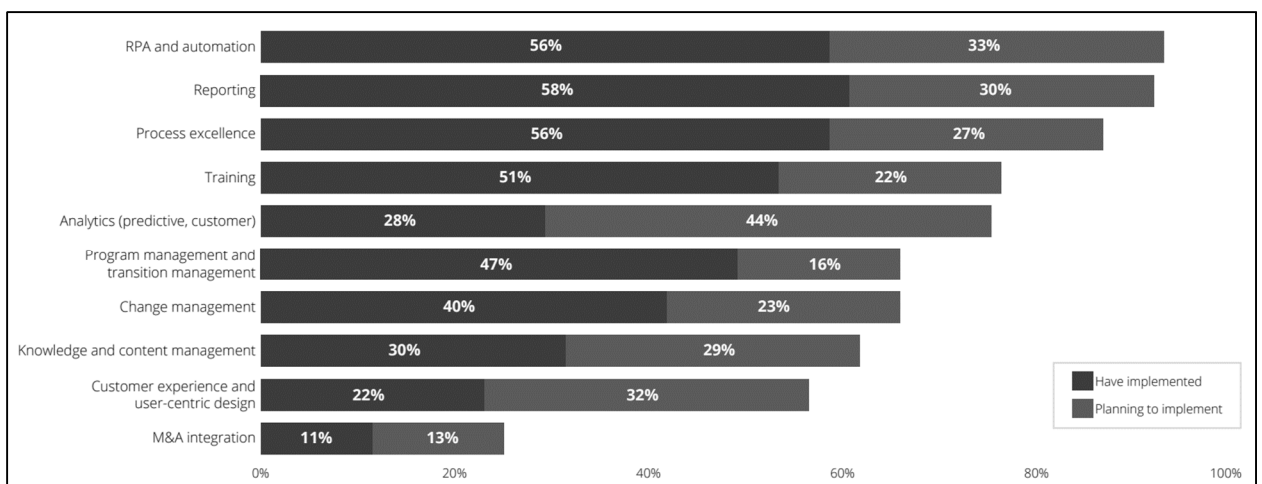


Figure 5. Better customer experience drivers

Source: Deloitte, 2021

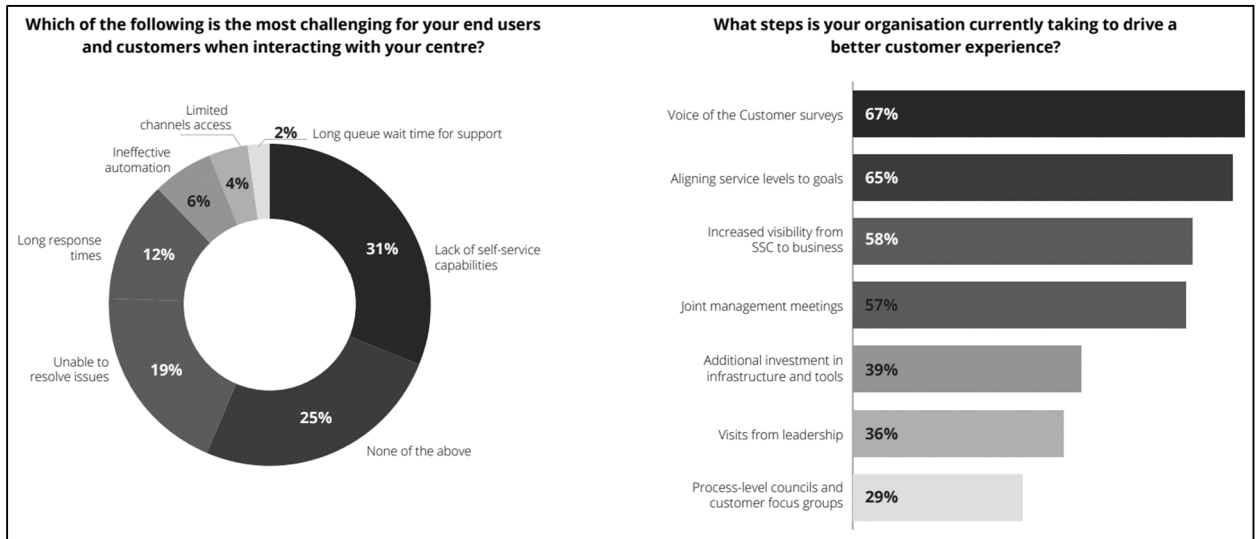


Figure 6. Attraction and retention of talent in SSCs and GBS, and non-traditional talent models considered

Source: Deloitte, 2021

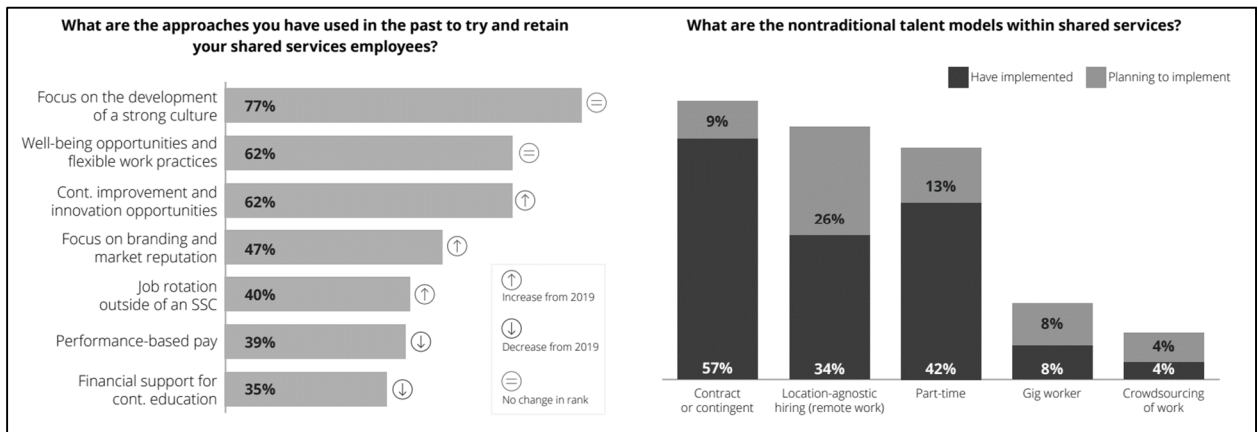


Figure 7. Preparation of the retained organization for talent and management changes when shifting work to a GBS model

Source: Deloitte, 2021

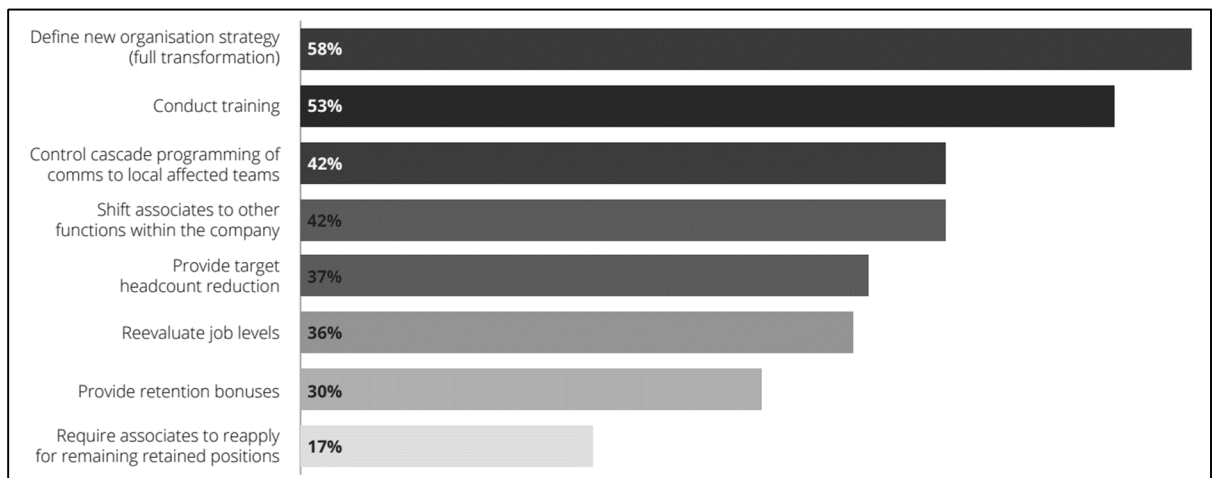


Figure 8. Preferred locations for SSCs (based on industry)

Source: Deloitte, 2021

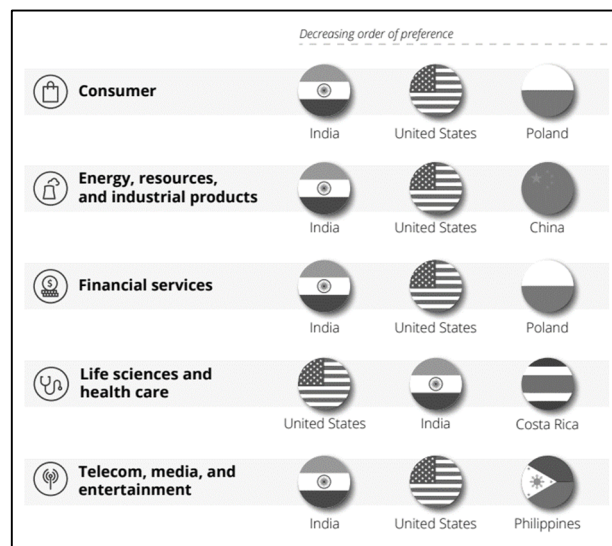
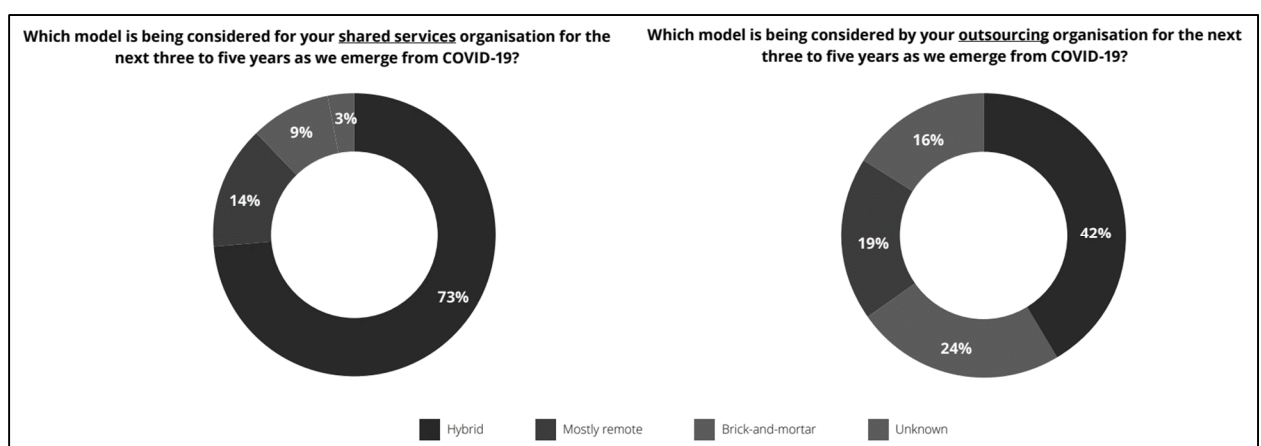


Figure 9. Role of remote or hybrid models in the future of GBS location strategy

Source: Deloitte, 2021



Attachment 3

Figure 1. GBS footprint change in the last 3 years

Source: Deloitte, 2023

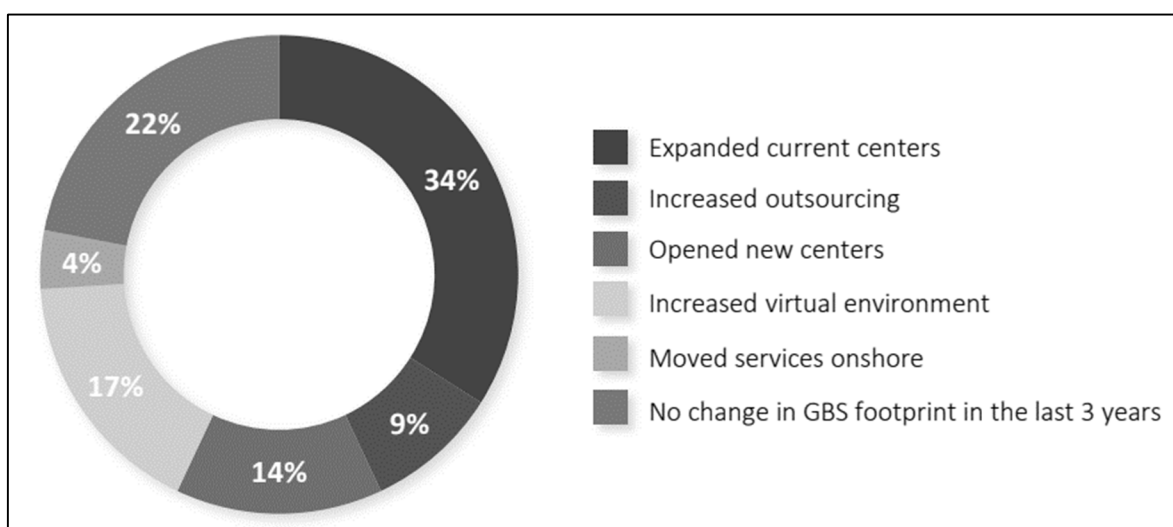


Figure 2. Talent management within GBSs

Source: Deloitte, 2023

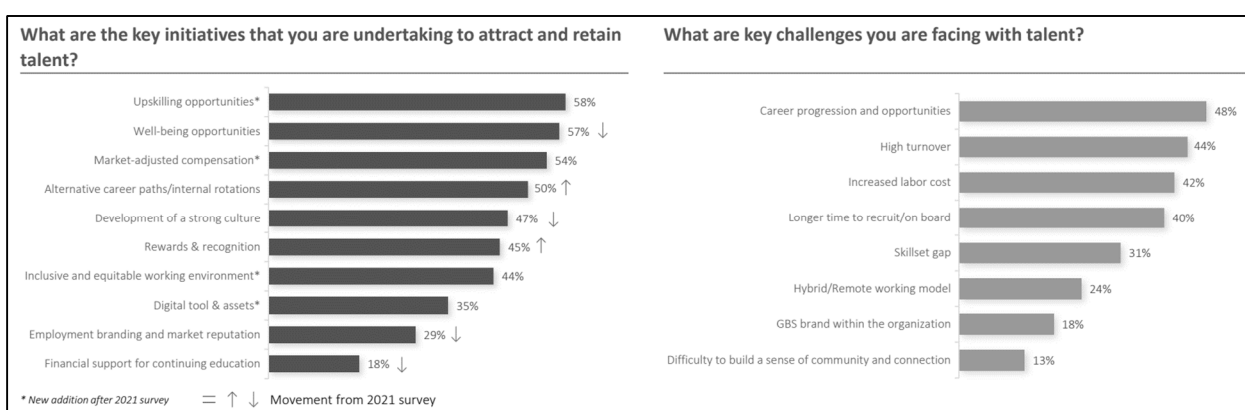


Figure 3. Added agility and resilience to business models tools

Source: Deloitte, 2023

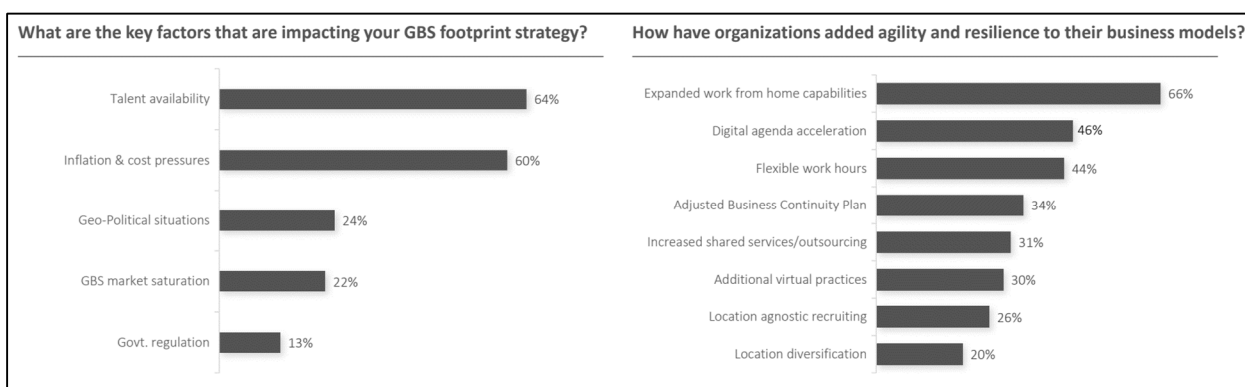


Figure 4. Duration of organization's involvement into Outsourcing and Offshoring

Source: Deloitte, 2023

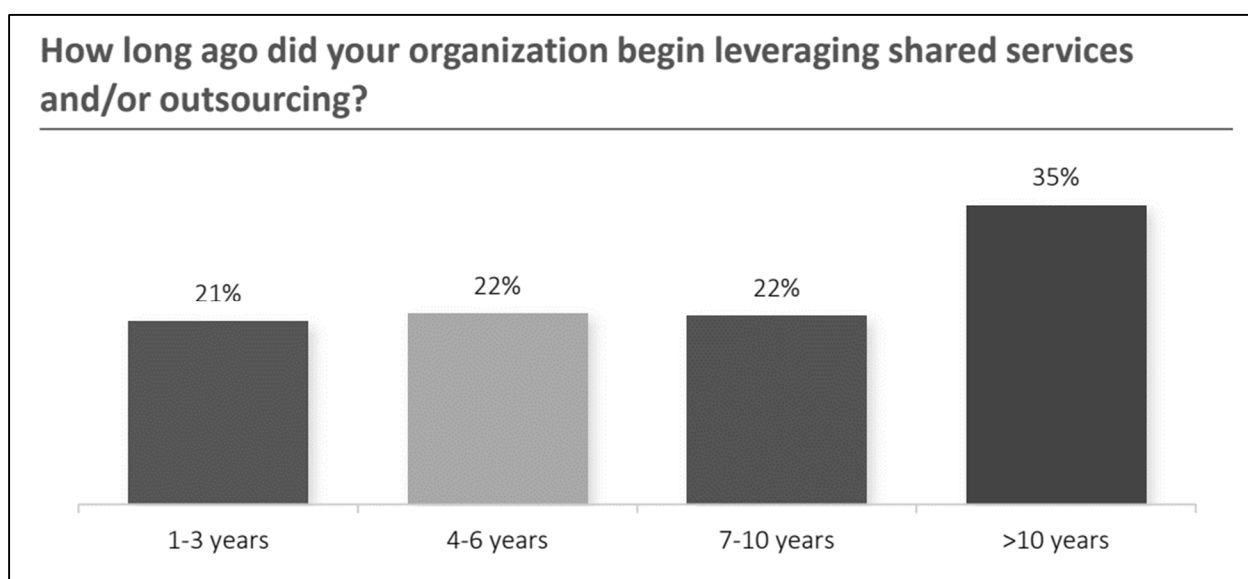


Figure 5. Functions performed and organization leaders for GBS's

Source: Deloitte, 2023

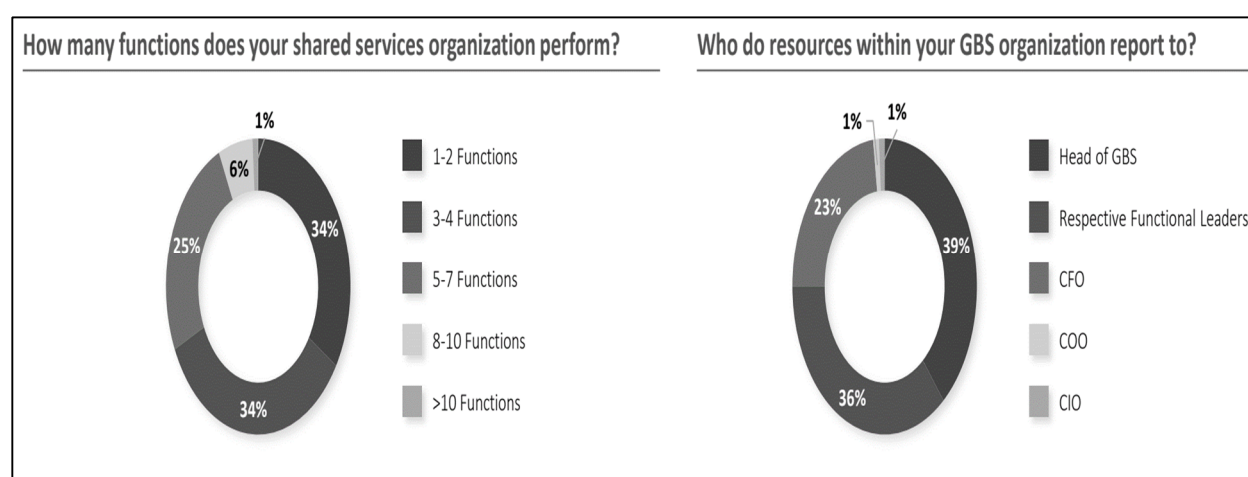


Figure 6. GBS organizations' preferred service delivery approach, maturity-based

Source: Deloitte, 2023

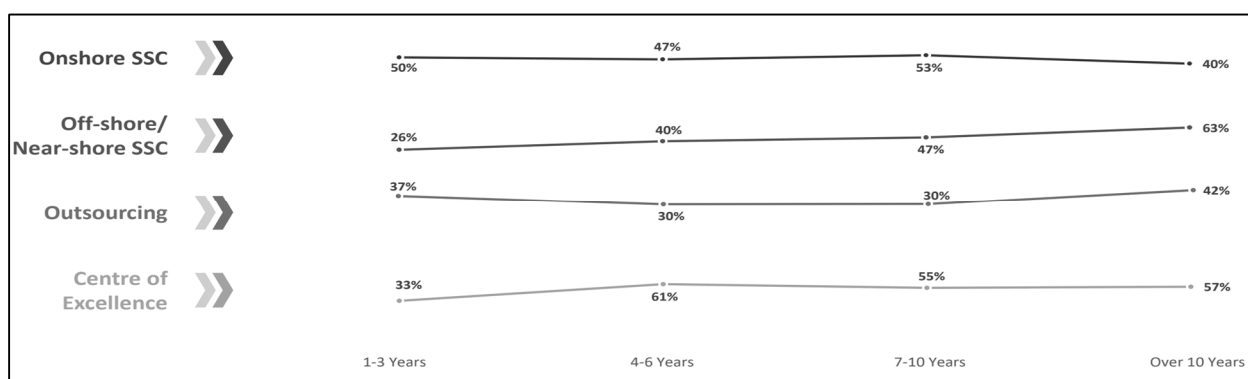


Figure 7. Functions performed by GBS organizations

Source: Deloitte, 2023

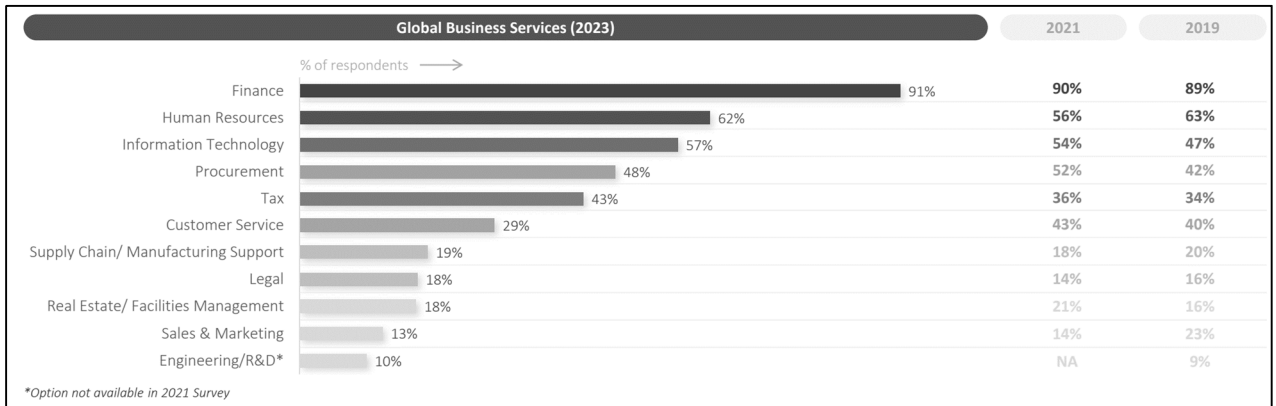


Figure 8. Key function processes performed via SSCs

Source: Deloitte, 2023

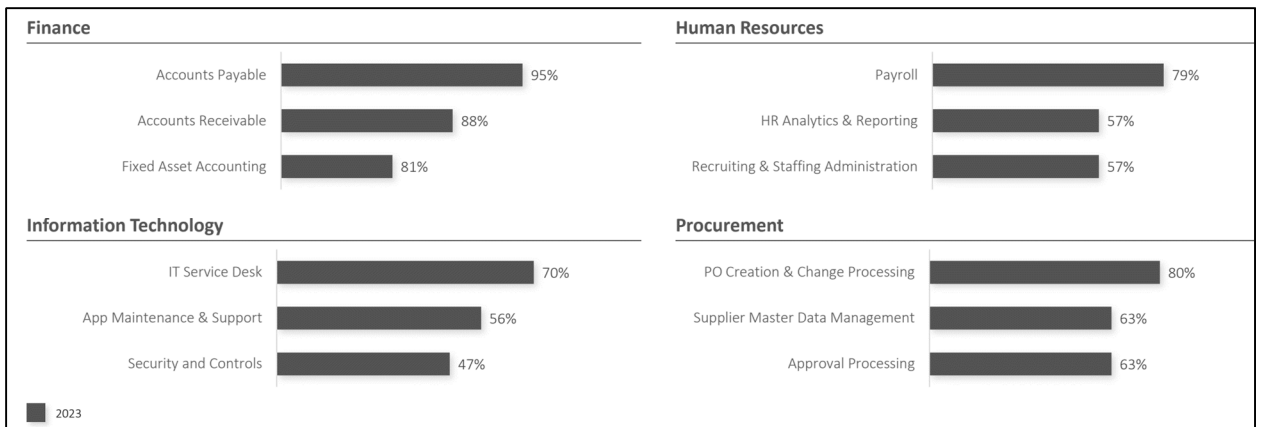


Figure 9. Objectives achieved by companies from GBS organization

Source: Deloitte, 2023

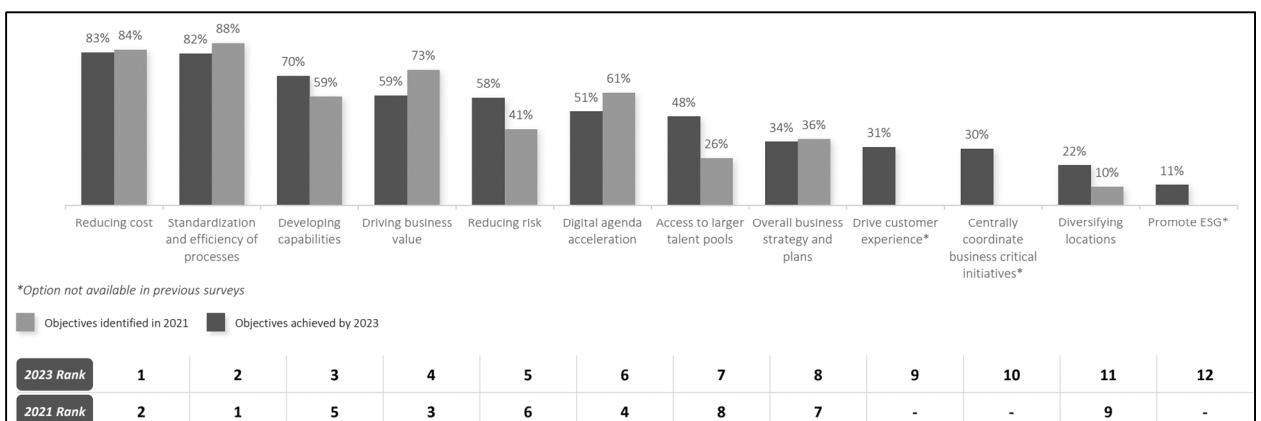


Figure 10. Key enablers employed by GBS organizations

Source: Deloitte, 2023

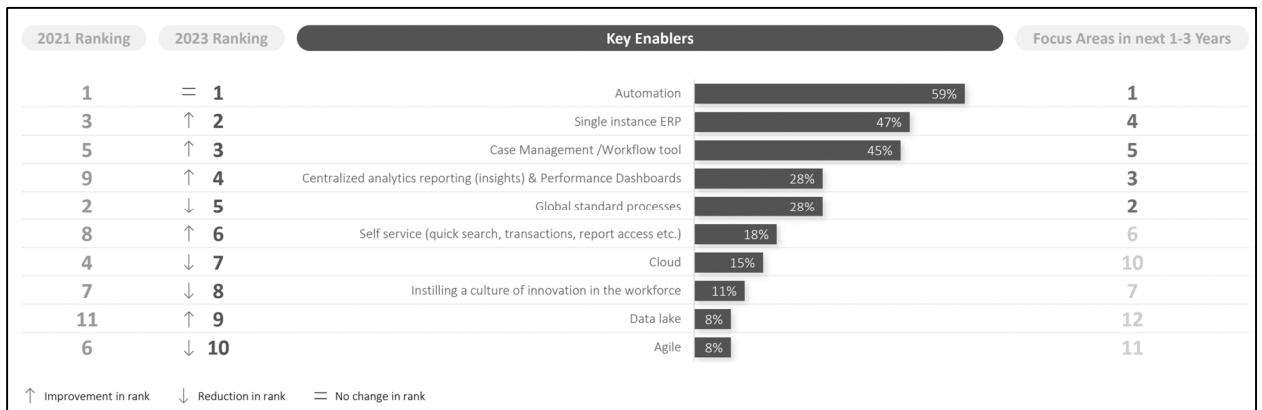


Figure 11. Savings and challenges of automation implementation

Source: Deloitte, 2023

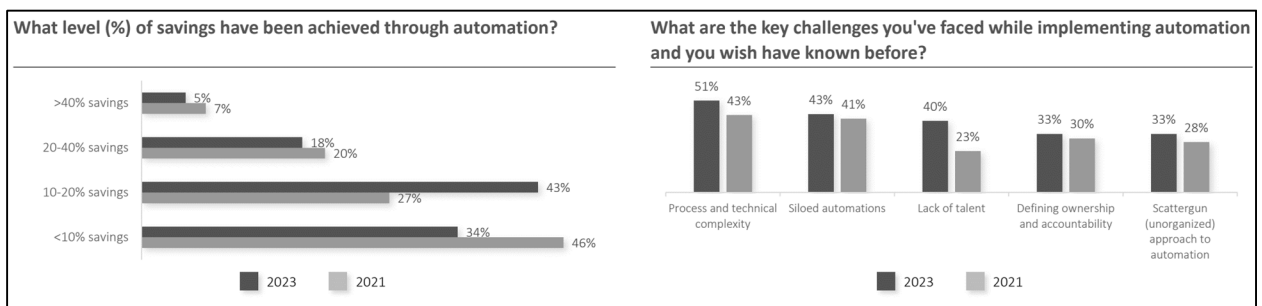


Figure 12. The owners of automation capabilities in companies

Source: Deloitte, 2023

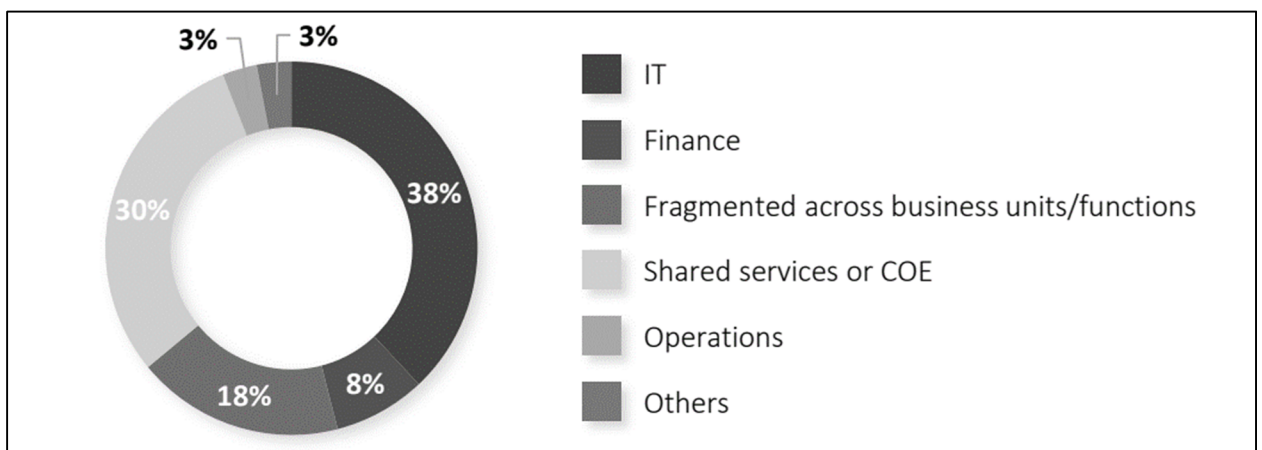


Figure 13. ESG implementation in GBS organizations

Source: Deloitte, 2023



Figure 14. Capabilities that GBS organizations have either deployed or aim to implement

Source: Deloitte, 2023

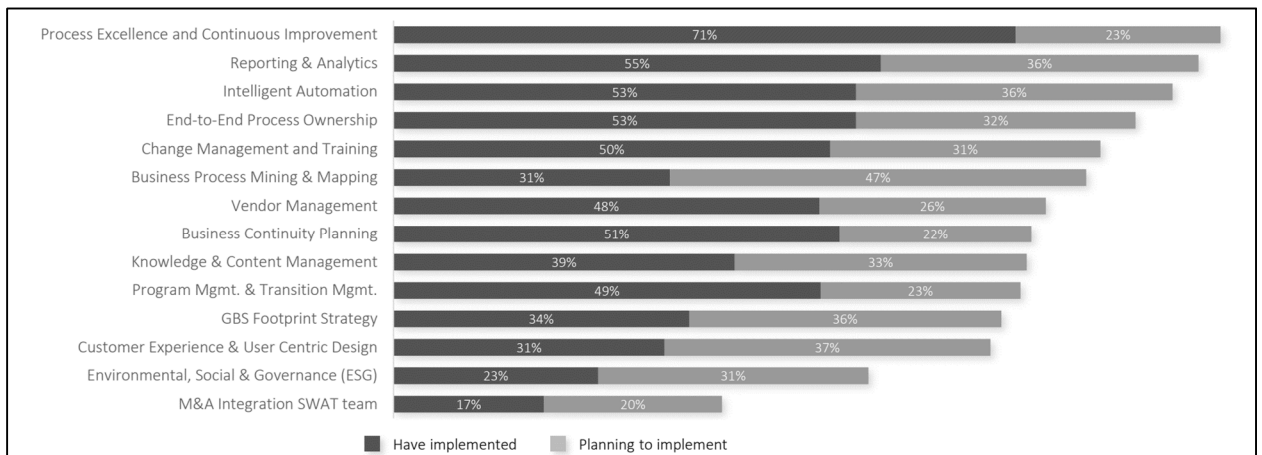


Figure 15. Critical success factors in achieving End-to-End processes

Source: Deloitte, 2023

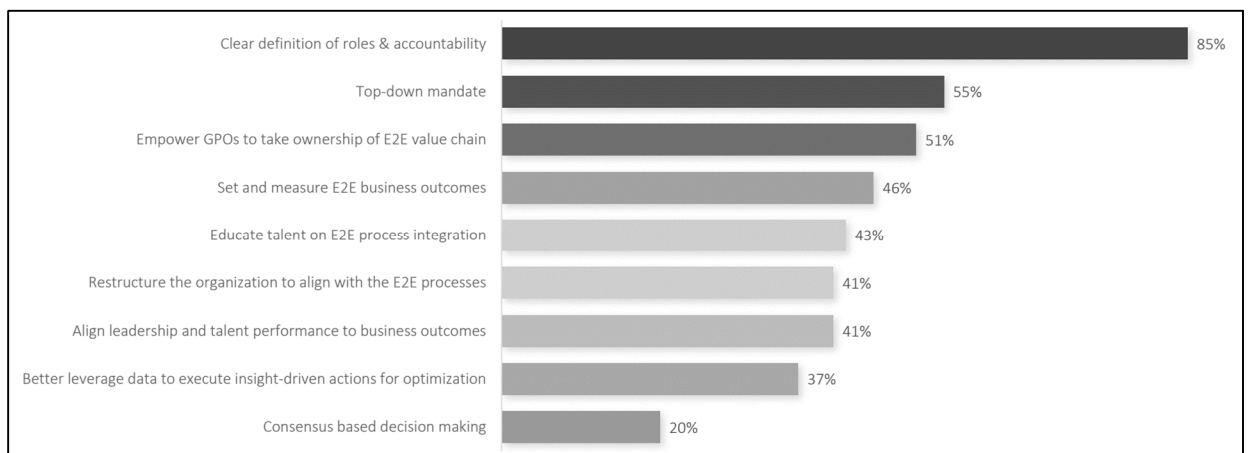
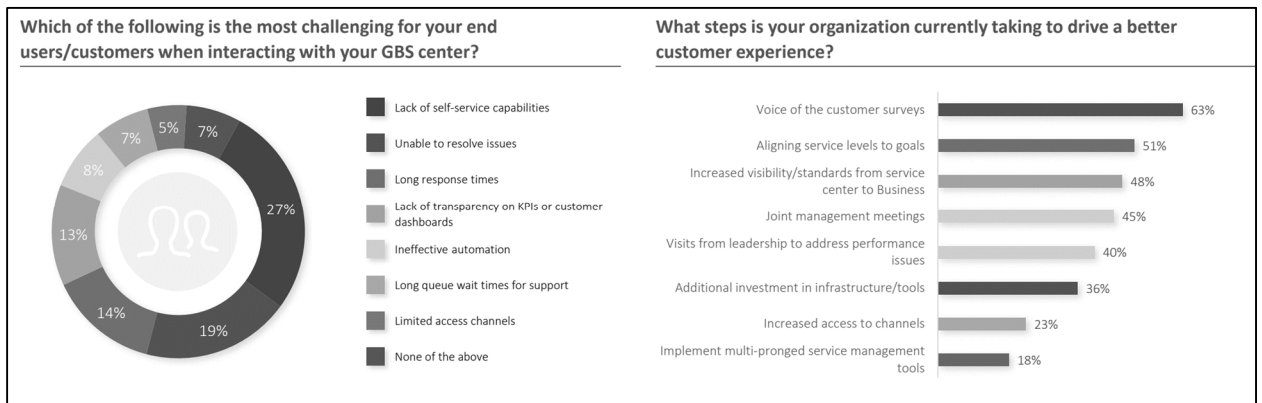


Figure 16. Better customer experience drivers

Source: Deloitte, 2023



Attachment 4

Figure 1. GS Process Landscape

Source: Robert Bosch GmbH, internal data

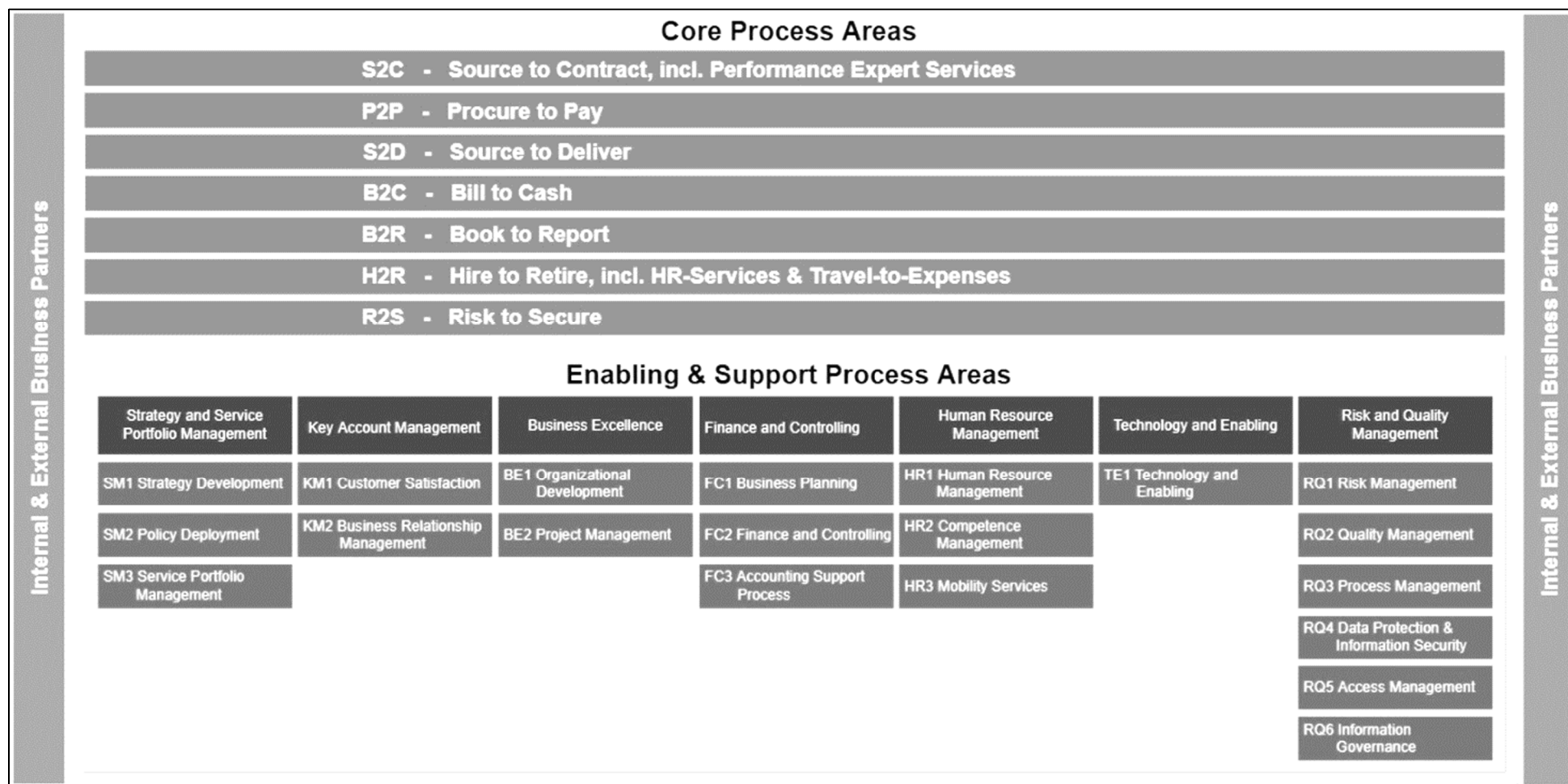


Figure 2. Procure to Pay (P2P) Process Landscape

Source: Robert Bosch GmbH, internal data

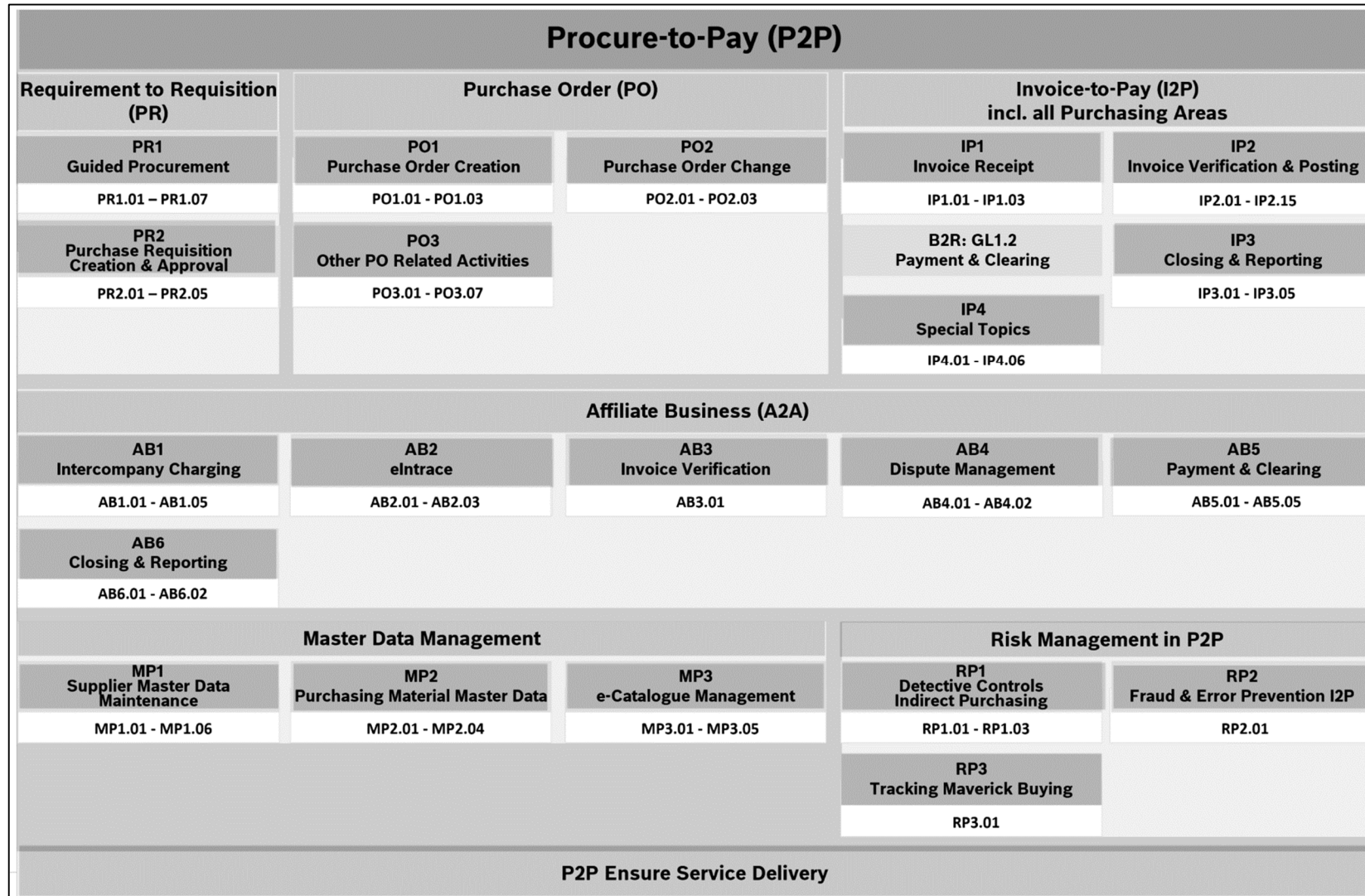


Figure 3. Book to Report (B2R) Process Landscape

Source: Robert Bosch GmbH, internal data

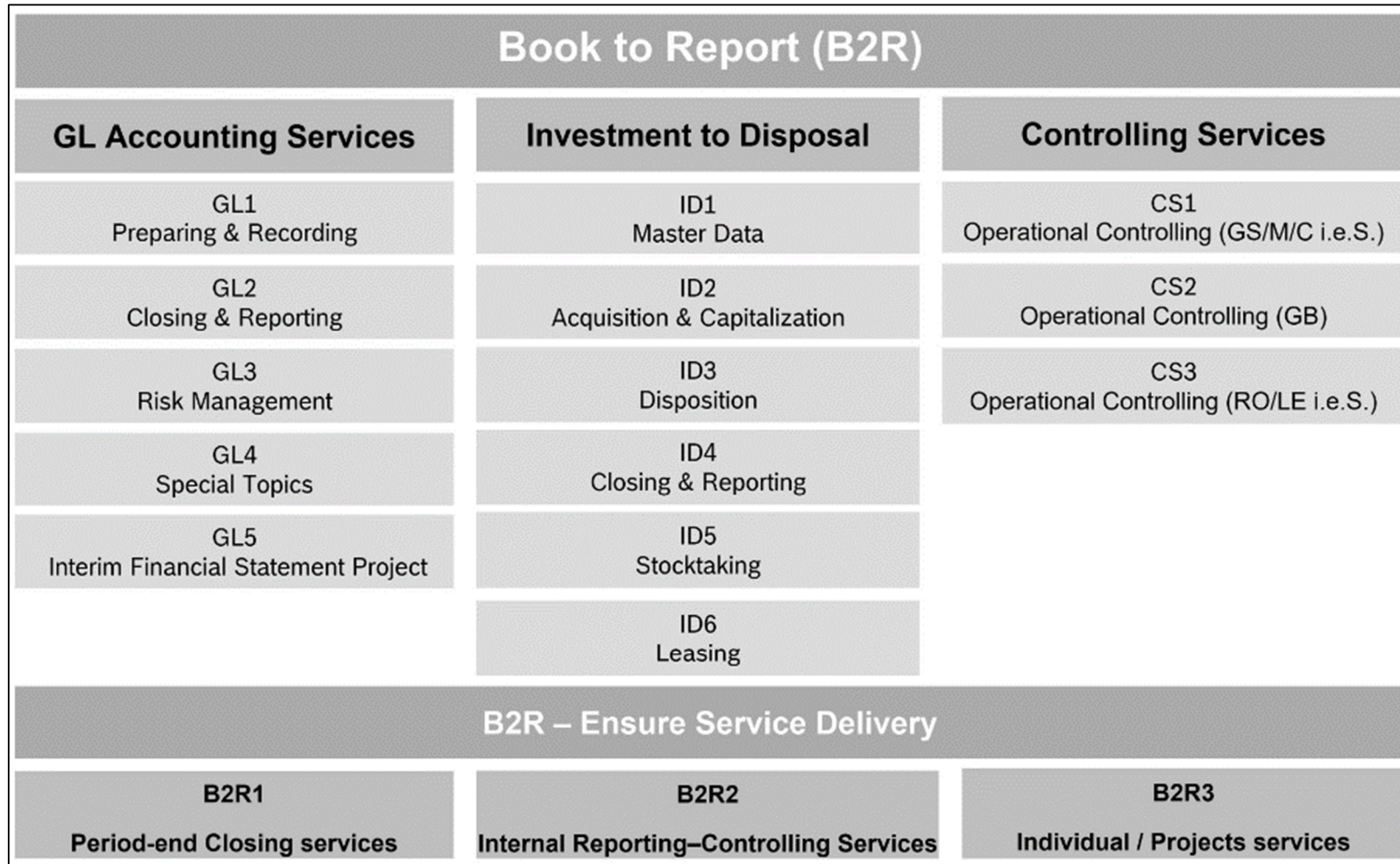


Figure 4. B2C SAP R3 Processes Landscape

Source: Robert Bosch GmbH, internal data

B2C SAP R3 Processes							
BC1 Credit Management	BC2 Billing	BC3 Payment Receipt	BC4 Receivable Mgmt.	BC5 Closing & Reporting	BC6 Detective Controls	BC7 Special Topics	BC8 Customer Master Data (External)
BC1.01 Credit limit definition new and existing Customers	BC2.01 Billing period management	BC3.01 Cheque payment	BC4.01 Collections management	BC5.01 Debtor/Creditor reclassification	BC6.01 Calculation and maintenance of Credit limit (for external customers only)	BC7.01 General Inquiries	BC8.01 A-/B-/V-Segment creation (non RB90/RB91)
BC1.02 Credit limit monitoring/reporting	BC2.02 Invoice & credit note issuance	BC3.02 Manual processing customer payments	BC4.02 Dispute management	BC5.02 Revenue Correction	BC6.02 Exceeding of Credit limits (for external customers only)	BC7.02 Entity/Country specific guidelines & Policies	BC8.02 A-/B-/V-Segment Change (non RB90/RB91)
BC1.03 Override/blocking request		BC3.03 Reconciliation of incoming payment intermediate account	BC4.03 Standard dunning	BC5.03 Bad Debt Allowance	BC6.03 Extension of due dates of billing documents (for external customer only)	BC7.03 Periodic archiving	BC8.03 A-/ B-Segment Blocking/Unblocking (Non RB90/RB91)
BC1.04 Payment safeguarding/insurance		BC3.04 Payment advice	BC4.04 Debtor insolvencies	BC5.04 Balance confirmation/reconciliati on with customer	BC6.04 All deliveries and services have to be billed	BC7.04 Document retrieval	BC8.04 BC8.04 Migration (IDOC Migration Tool)
		BC3.05 Customer refund	BC4.05 Write-offs	BC5.05 AR Reconciliation to GL	BC6.05 All billing documents have to be posted	BC7.05 IoT invoicing and accounting (BRIM)	
		BC3.06 Down Payment	BC4.06 Extension of Due Dates	BC5.06 Reports	BC6.06 Manual FI posting on customer account		
		BC3.07 Customer bill of exchange			BC6.07 Match between Single sales order and Billing document		
		BC3.08 Customer direct debit			BC6.08 Cancellation of billing documents		
					BC6.09 Derecognition (for external customers)		

**МІНІСТЕРСТВО ОСВІТИ І НАУКИ УКРАЇНИ
КИЇВСЬКИЙ НАЦІОНАЛЬНИЙ ЕКОНОМІЧНИЙ УНІВЕРСИТЕТ
імені ВАДИМА ГЕТЬМАНА**

Факультет міжнародної економіки і менеджменту

**ЗБІРНИК ДОПОВІДЕЙ
Ювілейної 90-ї щорічної студентської
наукової конференції**

**«ІННОВАЦІЙНІ ПРОЄКТИ ДЛЯ ПІСЛЯВОЄННОГО
ВІДНОВЛЕННЯ ТА РОЗВИТКУ УКРАЇНИ»**

(17 квітня – 20 травня 2023 р.)

Andriichuk Yelyzaveta	161
Migration as an economic resource: opportunities and challenges for Ukraine	
Briuzghina Yana	164
Green Development of "Asian Tigers": Conceptual Directions and Experience for Ukraine	
Dmytriienko Fedir	167
Innovation and green development of the country: challenges and opportunities	
Khomchak Oleksii	169
Green development strategies for the country: obstacles and ways to success	
Kostovetska Alla	172
Formation of Ukraine's Information Security in the Context of Geopolitical Challenges	
Manzar Mammadova	174
Implementation of US experience in the development of the high-tech sector of Ukraine	
Mohammed Malki	178
Priority areas of Ukraine's integration into the global commodity market	
Petrenko Valeriia	180
Prospects for the development of intellectual capital in Ukraine in the post-war period	
Podkovko Yuliia	184
Digital transformation of Ukraine as a key to economic development	
Pyvovar Mariia	188
Green Innovations in Logistics Technologies, Processes and Services	
Shevchenko Anastasiia	190
Outsourcing in the time of a global recession	
Stepanova Daria	193
Prospects of cooperation between Great Britain and Ukraine in the post-war period	
Stohniichuk Tetiana	196
Foreign investment of the CEE countries in the post-war recovery in the economy of Ukraine	
КАФЕДРА МІЖНАРОДНИХ ФІНАНСІВ	
ПЛАТФОРМА	199
«МІЖНАРОДНА ФІНАНСОВА ПІДТРИМКА ЕКОНОМІЧНОЇ РОЗБУДОВИ УКРАЇНИ»	
Аршакян Р.Т.	199
Міжнародні інвестиції та розвиток спеціальних економічних зон як один з напрямків відновлення України	
Левченко С.	203
Цифрові технології у відновленні інфраструктури України у післявоєнний період: можливості та виклики	
КАФЕДРА МІЖНАРОДНОЇ ТОРГІВЛІ І МАРКЕТИНГУ	
ПЛАТФОРМА	206
«ІННОВАЦІЙНІ ВЕКТОРИ МІЖНАРОДНОЇ ТОРГОВЕЛЬНО-МАРКЕТИНГОВОЇ ДІЯЛЬНОСТІ ДЛЯ ПІСЛЯВОЄННОГО ВІДНОВЛЕННЯ ТА РОЗВИТКУ УКРАЇНИ»	
Корнякова Марія	206
Створення сучасної інфраструктури експорту аграрної продукції України	
Герасименко Ірина	209
Інноваційний розвиток аграрного сектору як фактор зміцнення позицій України на світовому ринку сільськогосподарської продукції у післявоєнний період	
Коваленко Анна	211
Маркетингова підтримка залучення іноземних інвестицій у післявоєнне відновлення економіки України	

OUTSOURCING IN THE TIME OF A GLOBAL RECESSION

Recent years' economic crisis has started with Covid-19 pandemic that impacted the world in several different ways, pushing markets into a global economic and geopolitical recession. An induced increase in uncertainty made professionals and companies of all scales, governments, economies and most of markets to alter their trajectories, shift, adapt or even suspend their operations making never thought about changes to become a common practice. Companies needed to reassure their stakeholders that they are able to manage hurdles and respond to an occurred unprecedented crisis in customer behaviour and market risks, which led to considering digital and operations transformation to be one of the key enablers of change and development of their business.

According to OECD Economic Outlook, Russia's war of aggression against Ukraine persistently overshadows the world economy and, in spite of recent signs of improvement, recovery over the next 2 years is expected to be moderate. Even higher than before, uncertainty leaves outlooks fragile with a high downside risk, it takes a heavy toll on activities, trade tensions and financial vulnerabilities have increased. Although inflation has started to decline, it might persist longer and remains elevated. Global GDP growth slowed in 2022 to 3.2%, that is more than 1 percentage point weaker than it was expected at the 2021 end, mainly pinned down by war and the associated cost-of-living crisis in many countries. GDP growth is projected to remain at below-trend rates in 2023/2024 (OECD Economic outlook, 2023).

The existent economic environment created a ground for businesses to realise that funds utilisation and expenses optimisation have become increasingly crucial for staying afloat and, even more so, developing and growing. Peter Drucker's advice to "*do what you do best and outsource the rest*," has become especially relevant. Channelling capital towards core business operation and using outsourcing in this case could be the most effective and efficient strategy.

The practice to use outsourcing and offshoring for knowledge intensive activities, above or including the low value adding activities, is driven by the need to enhance the company's competitive advantage by using outside-of-organisation talent and expertise, which is especially important in uncertainty management in global recession times. 'Outsourcing' is usually understood as subcontracting of one or more of a company's business process to an outside service provider to help increase shareholder's value, by primarily reducing operating costs and focusing on core competencies. 'Outsourcing' (onshoring) is used for describing work/service sourced locally, while 'offshoring' describes work/service sourced outside the country, which makes it 'international outsourcing'.

During the last decades, researchers examine this practice at the country, industry/sector, company and managerial levels. High competition in global markets has stimulated businesses to participate in cross-border trade and investment, which includes the transfer of knowledge, technology, workforce as well as intermediate activities forming global value chains (GVCs). Buckley (2009, 2011 and 2016) has suggested the 'Global Factory' model which designs the architecture of the company seeking to achieve a balance between: internalisation of core activities

and externalisation of non-core activities and contrast between global and local strategy, which makes the firm more flexible, agile and resilient to external shocks. Pereira and Munjal (2019) have further studied available researches on five core questions: “where to outsource”, “what to outsource”, “how to outsource”, “when to outsource”, “why to outsource” to help in developing a finer grained analysis to advance outsourcing and offshoring, at deeper, sophisticated and critical levels. In the times of global recession, these questions can help the company to choose outsourcing strategy that fits best for their uncertainty management path.

So, “why to outsource” is bringing up a choice for the organisation between “buying” or “making”. Outsourcing may increase profits and make company leaner, optimise time to market, provide access to new technology and knowledge. Studies indicate, that companies may achieve competitive advantage in an emerging economy, search knowledge (to exploit or explore) to improve R&D performance, form collaborative ventures by choosing to outsource. In contrast, several companies have not achieved the cost saving effect while sourcing from low-wage countries. Horn, Schiele (2013) research shows that 75% of projects that used outsourcing to non-developed supplier markets failed, so that companies had to re-source from high-wage countries. Outsourcing also includes hidden costs and associated risks of knowledge and technology leaks that may occur due to lack of integration of activities.

“What to outsource” outlines non-core activities as first to be considered candidates for this. What is core and non-core activities is a sensitive question that researches show different results in. This highlights outsourced activity choice as a strategic decision and should include consideration of long- and short-term concerns. Manufacturing has been the first area outsourced, but recently business processes and functions (especially IT and accounting) outsourcing is on the rise. HR activities may or may not enhance its strategic position through outsourcing, while R&D offshore exploration definitely benefits from it, though company’s competencies and costs should be considered more.

Location choice, or “where to outsource”, includes micro and macro levels. Micro level aims at selecting a provider from a well-defined set, while on the macro level several criteria (e.g. culture, labour costs, infrastructures etc.) need to be considered. In spite of being an important aspect, there are only a few describing methodologies to select a location. Research findings conclude that project characteristics (speed, quality, interactivity, innovativeness, routineness) have a higher impact on “where” choice decisions than traditional cost and wage. Also, location choice should improve existing supply chain resilience capabilities and bring additional value, opportunities and safeguard technologies.

“How to outsource” refers to harmonisation and avoiding negative disruptions to existing working patterns, organisational culture and management styles while adapting to post outsourcing decision implementation change. Some researches state, that offshoring is now an integral part of corporate strategies and the specific offshoring operation model choice is a crucial decision for CEOs. Moreover, findings suggest that instead of being an intermediary between the 'make or buy' decision, concurrent offshoring may be a final evolutionary state of MNEs’ strategies. It is also suggested that intra- and inter-organizational distances, physical and psychic dimensions in offshore outsourcing of innovation needed to be considered, though this distance is most likely to lead to successful collaborative outcomes. Designing the ways of reducing uncertainties, facilitating competition between multiple vendors and organisation of effective and efficient cooperation of the company with multiple vendors is a key to maximise benefits and minimise the hurdle from dependency in an outsourcing relationship.

Timing of “when to outsource” or keep in-house encompasses not only the introduction of the company to outsourcing, but also when to renew contracts. For each partnership performance analysis is a must and if it goes not as expected, another vendor can be found or back-sourcing can be used. Temouri, Driffield, Delis (2017) research shown that an increase in re-shoring was caused by global financial crisis and the following downturn in the West. The results show that the effect of the downturn on re-shoring is lower when the distance between parent and subsidiaries becomes larger. Interestingly they portray how in turn, as distance increases, the importance of relative costs declines in explaining re-shoring activity.

So, is outsourcing implementation helpful for companies in the times of global recession? Yes. Outsourcing decisions suggest access to new labour markets, resources, expanded vision and expert insights that leads to improved focus on core business activities, greater competitive advantage and stricter control over costs. Even though there might be complications with service delivery, data protection and management difficulties, with proper management strategy these complications are eliminated. Is outsourcing implementation helpful for global economy? Yes. Outsourcing plays a beneficial and cyclical role in the world economy by re-distributing money between high- and low-income countries. It facilitates growth in developing economies, creates new working places and allows consumers to enjoy a wider variety of products both in price and types. Is outsourcing a universal remedy for companies of all sizes? No. The benefits of outsourcing in terms of higher profitability are more pronounced for small rather than large firms, especially when small firms have higher growth rates and financial slack. Each company should consider all possible benefits and risks it can bring before “buying” on outsourcing and not “making” in-house.

Outsourcing is a currently growing industry and wide spread business practise aimed at creating value. Companies of different sizes use outsourcing for different processes of their businesses. Economic conditions in the time of a global recession often enhance the beneficial impact of outsourcing for outsourcing clients.

LITERATURE:

1. OECD Economic Outlook, Interim Report March 2023.
2. Buckley, P. J. (2009). Internalisation thinking: From the multinational enterprise to the global factory. *International Business Review*.
3. Buckley, P. J. (2011). *Globalization and the Global Factory*. Cheltenham: Edward Elgar.
4. Buckley, P. J. (2016). The contribution of internalisation theory to international business: New realities and unanswered questions. *Journal of World Business*, 103.
5. Pereira, V, Munjal, S and Ishizaka, A (2019) Outsourcing and offshoring decision making and its implications for businesses - A synthesis of research pursuing five pertinent questions.
6. Horn, P., H. Schiele and W. Werner (2013). "The “ugly twins”: Failed low-wage-country sourcing projects and their expensive replacements." *Journal of Purchasing and Supply Management* 19(1).
7. Temouri, Y., Driffield, N., Delis, A. (2017). "The global recession and the shift to Re-shoring: Myth or reality?". *Journal of Business Research*, 103.