



# The 2004 Outsourcing World Summit

*Conference & Exposition*

February 23–25, 2004 • Disney's Yacht & Beach Club Resorts • Lake Buena Vista, Florida

## PMO as a Governance Tool

Tuesday, February 24, 2004

2:40 – 3:30 PM

**William Metz**

*Section Manager Global Business Services Next Generation – PMO*

Procter & Gamble



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**William Metz**  
Section Manager Global Business  
Services  
Next Generation - PMO  
Procter & Gamble

Mr. Metz has spent the last eighteen years delivering IT solutions for some of the world's largest companies including Procter & Gamble, General Electric, AT&T, American Electric Power and Marathon Oil. He also started and later sold a successful .com. Mr. Metz has delivered IT solutions in a wide variety of areas including product design and development, telecommunications network management, desktop software deployment and management, data warehousing and information delivery, and finance and accounting. His specialty areas include architecture consulting, application development & support, IT competency development, and IT sourcing.

Mr. Metz has been on the forefront of the trend to adopt a global approach to sourcing IT work. Currently IT Strategic Sourcing Section Manager at Procter and Gamble, his work to move P&G's IT organization toward a global sourcing model has delivered significant savings and flexibility.



## PMO as a Governance Tool

*getting the right projects done right*



**Outsourcing World Summit**  
February 23 & 24, 2004 Orlando, Florida



## Procter & Gamble



- ❖ \$44 billion consumer goods corporation
- ❖ Nearly 100,000 employees worldwide
- ❖ 23 on the Fortune 500 list
- ❖ Markets more than 300 brands to more than 5 billion consumers in over 160 countries
- ❖ Made up of Global Business Units (product categories), Market Development Organizations (geographical units), and Global Business Services (a shared services organization)



Procter & Gamble



## William P. Metz

- ❖ Current role:
  - ❖ Section Manager Global Business Services - PMO
- ❖ Previous experience:
  - ❖ Project Manager for recent Application Development & Maintenance outsourcing effort
  - ❖ Section Manager IT Strategic Sourcing and Technology Solutions Consulting
  - ❖ Application & Data Technologies Architect with responsibility for application development technologies
  - ❖ Founder of P&G's Jedi competency development program

**Contact Information: [metz.wp@pg.com](mailto:metz.wp@pg.com)**

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## What We'll Cover

- ❖ P&G's Sourcing Story
- ❖ Why a PMO is important in an outsourced environment
- ❖ PMO Mission
- ❖ PMO Value Creation
- ❖ PMO Organization
- ❖ PMO Processes & Tools



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## P&G's Sourcing Story

### 1999 Created Global Business Services (GBS) organization

- ❖ Central shared services provider, 8500 employees, more than 40 products and services.
- ❖ Organized in service bundles which include: Central IT, Workplace Services, IT Business Solutions (Supply Chain), Accounting & Financial Reporting, Employee Services, Purchasing Services and Business Information Services.
- ❖ Established global data centers in Cincinnati, Brussels, and Singapore and shared service centers in Manila, Costa Rica, and Newcastle.
- ❖ Globalized, consolidated, integrated hundreds of work processes, systems, and technologies in more than 70 countries.
- ❖ Delivered \$500 million in savings in 3 years.



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## P&G's Sourcing Story

- 1999 Established low cost ADM centers in Warsaw and Toronto and began setting up low cost offshore IT services with third party suppliers (e.g. ABAP Factory, Notes Factory, etc...).
- 2001 Established IT Strategic Sourcing organization and continued to build business with low cost offshore third party suppliers (e.g. Infrastructure Supply Line, Web Application Supply Line, eLearning Supply). Also eliminated large numbers of local staff augmentation contractors.

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## P&G's Sourcing Story

**2001**    **Launched Business Process Strategic Sourcing effort to take us to the next level, pursued mega BPO deal.**

- ❖ Lead the market with largest ever outsourcing deal
- ❖ More scale
- ❖ Greater innovation
- ❖ More savings
- ❖ Variable consumption based pricing
- ❖ Move employees from P&G's "back office" to the supplier's "front office"

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## P&G's Sourcing Story

**2002**    **The marketplace changed and we shifted strategies to a "Best of Breed" model to deliver GBS Next Generation**

- ❖ Economic slowdown
- ❖ BPO market slowdown
- ❖ Market concern with large deals and corporate accountability
- ❖ Shifted strategies to a more conservative approach
- ❖ Learn as we go, distribute risk
- ❖ Incubate new services
- ❖ Captured learnings for future use

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## P&G's Sourcing Story

**2003 Signed a number of outsourcing deals, others in progress**

- ❖ IT Infrastructure, Desktops, Application Development & Maintenance (HP)
- ❖ Facilities Management (Jones Lang LaSalle)
- ❖ HR / Employee Services (IBM)
- ❖ Consumer Relations (Sykes)
- ❖ Transactional Accounts Payable (TBD)

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## Current Challenges

- ❖ Managing performance end-to-end across multiple suppliers and in-sourced service teams.
- ❖ Operational seams between suppliers and the retained organization.



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## Key Governance Processes

- ❖ Relationship Management
- ❖ Performance Management
- ❖ Change Management
- ❖ Issue and Escalation Management
- ❖ New Service Request
- ❖ Invoice/Payment Verification
- ❖ Contract Management
- ❖ **Program / Project Management (PMO)**



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## Why is a PMO important in an Outsourced Environment?

- ❖ More rigor is required, particularly in the areas of project definition, estimation, measurement
- ❖ Project spend often gets out of control
- ❖ Coordination of project work across suppliers

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## PMO Mission

*Make sure we do the Right projects Right*

What does that mean?

- ❖ Right Projects
  - ❖ Projects support business priorities
  - ❖ Projects that will deliver the most value
  - ❖ Project interdependencies are identified and leveraged
  - ❖ Don't exceed desired total project spend
- ❖ Done Right
  - ❖ Projects deliver expected results and value, on time within budget
  - ❖ Projects leverage adopted methods, processes, and tools to maximize velocity and quality

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## How Does PMO Deliver On It's Mission?

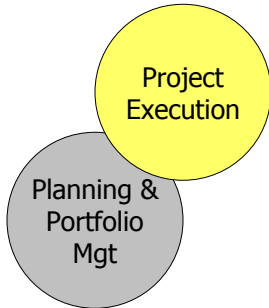
Planning &  
Portfolio  
Mgt

- Link Project Planning with Business and Budget Planning
- Facilitate Identification of and Legitimize potential projects
- Drive project Data Collection and Classification
- Facilitate project Prioritization
- Enable cross project Awareness & Coordination
- Support Supplier Demand Planning

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## How Does PMO Deliver On It's Mission?



- Standard Project Definition (Objectives & Requirements, SOW)
- Project Work Flow with Gates and SLAs
- Sourcing Principles
- “Should Cost” Methodology
- Processes for Change Management, Risk Management, and Major Issue Resolution
- Standard Measures
- Project Checkpoint Reviews
- Supplier Interaction / Relationship Management
- Audit for Adherence to Standards and Process

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## How Does PMO Deliver On It's Mission?

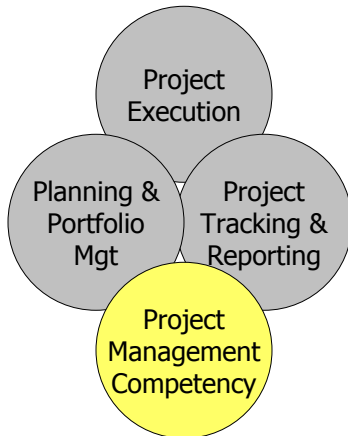


- Portfolio/Program/Project Dashboard
- Standard Measures Reporting (e.g. SPI, CPI, Customer Satisfaction)
- Project Spend Tracking
- Collect and Report Against Industry PM Benchmarks
- Provide Project Data and Artifact Repository

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## How Does PMO Deliver On It's Mission?



- Assist in the development of Standard Methodology, Processes, Templates, and Tools
- Provide a Center Of Expertise for Project Management Professionals
- Promote Training and Certification
- Project Management Consulting

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## PMO Value Contribution

- Projects that deliver maximum value (consistently meet objectives, on time, on budget)
- Identify and Eliminate redundant, overlapping, and off strategy projects
- Bubble up the projects with the greatest return
- Control spend, don't over pay or double pay

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## Assembling the Right PMO Team

Successful PMOs leverage resources with a variety of skills these include:

- ❖ Client Services Reps
- ❖ Portfolio Managers
- ❖ Process Design Specialists
- ❖ Finance
- ❖ Purchases
- ❖ Legal
- ❖ IT
- ❖ Project Management Experts



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## Key PMO Process Areas

- ❖ Portfolio Planning & Management
- ❖ Project Sourcing
- ❖ Supplier Engagement
- ❖ Project Cost Estimating
- ❖ Project Tracking
- ❖ Project Issue and Change Management
- ❖ Project Invoice Verification
- ❖ Project Closure



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## Key PMO Tools

- ❖ Portfolio Management
- ❖ Project Management
- ❖ Performance Management



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## Questions



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## Creating the Corporate Real Estate Model for the 21<sup>st</sup> Century

Tuesday, February 24, 2004

2:40 – 3:30 PM

David Jarman  
*U.S. WorkPlace Leader*  
*PricewaterhouseCoopers*



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David Jarman  
U.S. Workplace Leader  
PricewaterhouseCoopers

David Jarman leads The WorkPlace, the internal PwC business which manages the Firm's considerable real estate interests and also provides facility management and office operations services for all US offices. Over a career spanning three decades, David has directed real estate, facility operations and infrastructure services in several large company environments. He has received numerous national and global awards for innovation and leading edge initiatives, including the Corporate Real Estate Leadership award from CoreNet Global, the professional association for corporate real estate and infrastructure management. Most recently, The WorkPlace was also a finalist for CoreNet's Global Innovation Award. He has served on the faculty of the Institute for Corporate Real Estate and the Commercial Investment Real Estate Institute, where he developed the curriculum for the real estate industry's most prestigious professional designation. David is currently on the Board of Editors of the Journal of Corporate Real Estate.

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**Welcome to  
The WorkPlace**



## We created this charter for The WorkPlace...



*Contribute to the overall success of PwC through a business model that sustains extraordinarily close (“symbiotic”) working relationships with our internal clients and provides business solutions and insight that measurably add to their revenue and profitability goals.*

## We merged our services into one seamless offering...


Real Estate

Office Operations

**The WorkPlace**

Facilities Management

We combined our service delivery into one seamless delivery package...

PRICEWATERHOUSECOOPERS 

CBRE  
CB RICHARD ELLIS



We discovered a new value for our industry...

**Relationship Capital** = the exponential increase in corporate value that results when corporate real estate departments develop symbiotic relationships with their clients.

←

**We are creating the Corporate RE model for the 21<sup>st</sup> Century with a focus on:**

- ***Innovation***, not just ***Initiatives***
- ***Intimacy***, not just ***Implementation***
- ***Outcomes***, not just ***Output***
- ***Interdependence***, not just ***Integration***

←

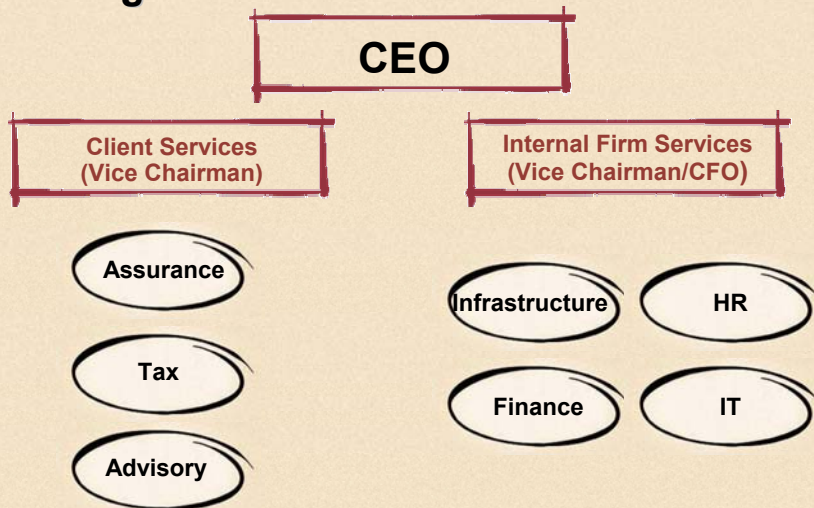
**Innovation not just Initiatives . . .**



## About PricewaterhouseCoopers

- Largest professional services firm in the world
- Audit, Tax and Advisory Services
- 25,000+ partners and staff
- 70 offices
- 4.6 million SF portfolio

## PwC Organization



## Dynamics of PwC

- Partnership not a corporation
- Owners/shareholders are our clients
- 25,000 internal clients in 70 centers
- Direct impact on external clients
- Trusted business advisors
  - Working within a simple structure
  - Delivering services in a seamless way

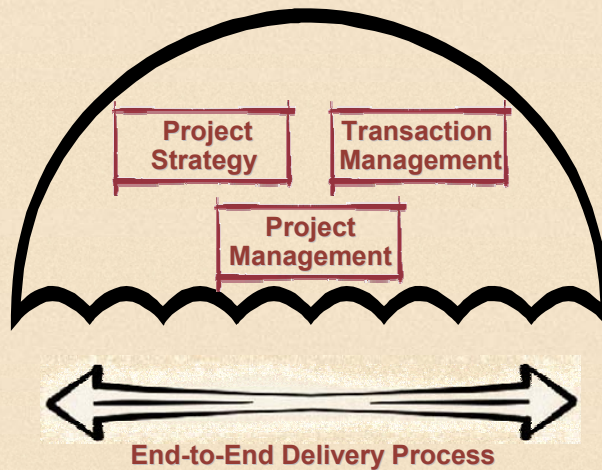
## The WorkPlace is innovative...

- Structured like a *service provider*
- *Client relationship management* is our #1 priority
- One *seamless* package of services (Real Estate, Facilities Mgt., Operations) eliminating silos and hand-offs
- Delivered through single point of contact – *CRM Engagement Leader*

## The WorkPlace is innovative...

- WorkPlace Partners has *shared accountability* for CRE vision, strategies, program direction and overall CRE results
- Service delivery using *Program Management Methodology*
- Program Managers fully responsible for *end-to-end* CRE delivery process

## Program Management





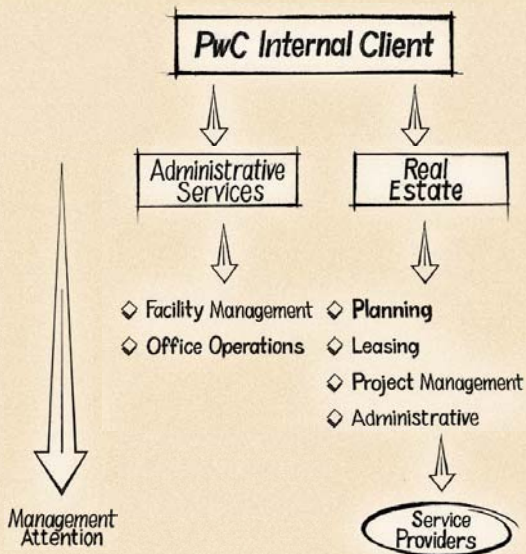
## Client Relationship Management is distinct within The WorkPlace...



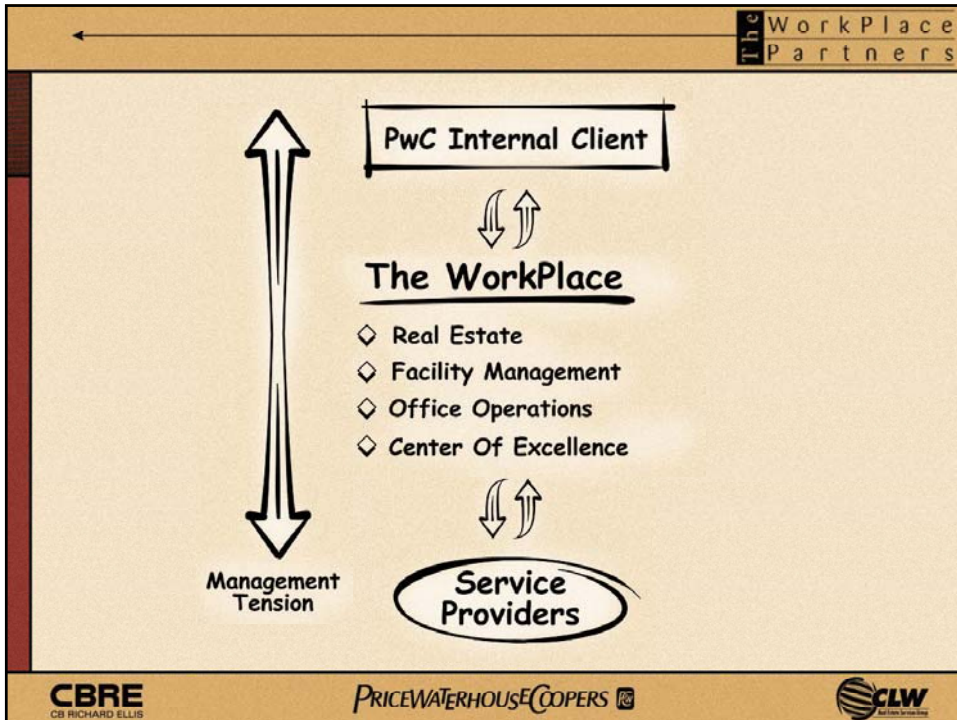
## CRM is supported by a strong Program Management discipline...



# Intimacy not just Implementation . . .







The WorkPlace Partners

## To make our model succeed, we needed a new approach to our service relationships...

Typical CRE Approach:	The WorkPlace:
<ul style="list-style-type: none"> <li>▪ Outsource</li> <li>▪ Non-Core CRE Functions</li> <li>▪ Strategic Alliance (but still Client/ Vendor)</li> <li>▪ Separate/Distinct Roles</li> <li>▪ KPI's/Metrics</li> </ul>	<ul style="list-style-type: none"> <li>▪ Embed</li> <li>▪ End-to-End Partnership</li> <li>▪ Strategic Interdependence</li> <li>▪ Pooled Resourcing</li> <li>▪ Shared Accountability based on Transformational Vision</li> </ul>

CBRE  
CB RICHARD ELLIS

PRICEWATERHOUSECOOPERS PC

CLW  
and more...

## Our service partners are a perfect fit within The WorkPlace



### Strategy and Positioning

- Portfolio Optimization
- New Products/Services
- Process Enhancements
- Branding/Marketing
- Gifts to Clients

### Strategy and Positioning Interface

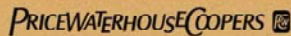
### Program Management

- Project Execution
- Project Information and Reporting
- Process Management
- Team Building

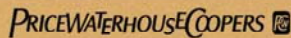
### Program Management Interface

### Transaction Management

### Transaction Management



**Outcomes not just Outputs . . .**



We created products and tools to maximize business results.....and market to other clients



“Heat Map” Tool

## Heat map tool.....optimizing portfolio strategy

### Business Value

- Portfolio Optimization
- Opportunity Identification
- Profitability Enhancement
- Participation In Strategy Creation

### Client Interaction

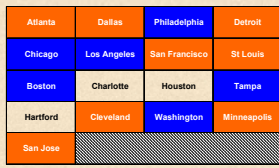
- Interactive Attribute Weighting
- Joint Development Of City Plans
- Macro Data For Marketing Client Services



# Heat Map Tool

White	= Cool
Blue	= Cool/Warm
Orange	= Warm
Red	= Hot

Market Economy Drivers (Marco Level)											25 Total Points		
QUESTIONS	1	2	3	4	5	6	7	8	9	10	TOT	Actual	Adjust.
Atlanta	4	4	3	0	0	0	0	0	0	0	0	11	44
Dallas	4	4	3	0	0	0	0	0	0	0	0	11	44
Philadelphia	4	4	0	0	0	0	0	0	0	0	0	8	32
Detroit	4	4	3	0	0	0	0	0	0	0	0	11	44
Chicago	4	4	0	0	0	0	0	0	0	0	0	8	32
Los Angeles	2	3	3	0	0	0	0	0	0	0	0	8	32
San Francisco	4	4	3	0	0	0	0	0	0	0	0	11	44
St Louis	4	4	3	0	0	0	0	0	0	0	0	11	44
Boston	4	4	0	0	0	0	0	0	0	0	0	8	32
Charlotte	3	2	0	0	0	0	0	0	0	0	0	5	20
Hartford	2	0	0	0	0	0	0	0	0	0	0	2	8
Washington	4	2	0	0	0	0	0	0	0	0	0	6	24
Cleveland	4	4	3	0	0	0	0	0	0	0	0	11	44
Minneapolis	4	4	3	0	0	0	0	0	0	0	0	11	44
San Jose	4	4	3	0	0	0	0	0	0	0	0	11	44
Houston	2	3	0	0	0	0	0	0	0	0	0	5	20
Tampa	1	3	3	0	0	0	0	0	0	0	0	7	28



PwC Real Estate Market Drivers											55 Total Points	
QUESTIONS	1	2	3	4	5	6	7	8	9	TOT	Actual	Adjust.
Atlanta	0	0	8	0	0	3	0	1			13	31
Dallas	17	8	0	8	5	0	2	0	1		31	58
Philadelphia	7	10	0	8	0	0	3	0	1		29	53
Detroit	13	0	0	0	0	2	3	0	0		18	28
Chicago	0	8	8	0	3	0	3	0	1		25	45
Los Angeles	0	0	8	0	0	3	2	1			12	22
San Francisco	10	10	8	8	3	0	3	0	1		44	78
St Louis	17	0	8	0	5	0	0	0	1		21	58
Boston	10	10	0	0	0	4	0	1			25	45
Charlotte	0	0	8	0	3	0	0	0	1		12	22
Hartford	7	8	0	0	0	0	0	0	0		15	27
Washington	7	8	0	8	0	0	3	0	1		27	48
Cleveland	10	0	0	0	3	0	0	2	1		16	29
Minneapolis	10	6	0	0	0	0	0	0	1		17	31
San Jose	9	8	0	8	8	0	3	2	1		28	51
Houston	2	8	8	0	0	6	2	0	1		27	48
Tampa	10	0	8	8	3	0	3	0	1		33	60

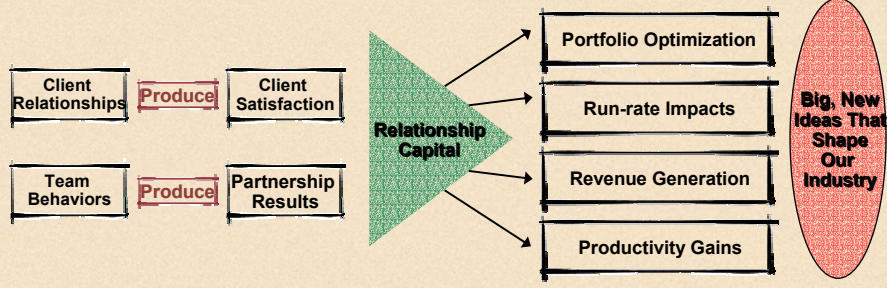


“Heat Map” Tool

Interdependency not just Integration...

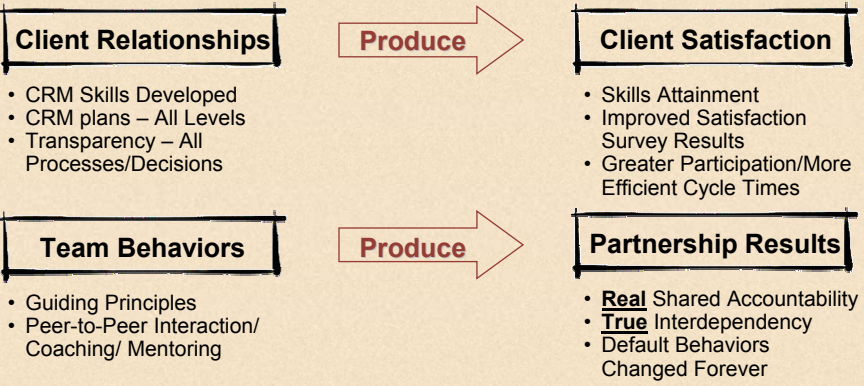
# The WorkPlace story.....our foundation.....the keys to our success

QUALITATIVE BEHAVIORS **RESULT IN** QUANTITATIVE OUTCOMES



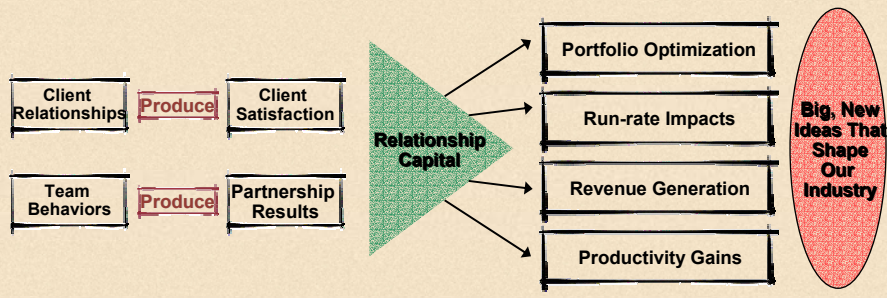
# The starting point is interdependence... changing the way we do business

QUALITATIVE BEHAVIORS



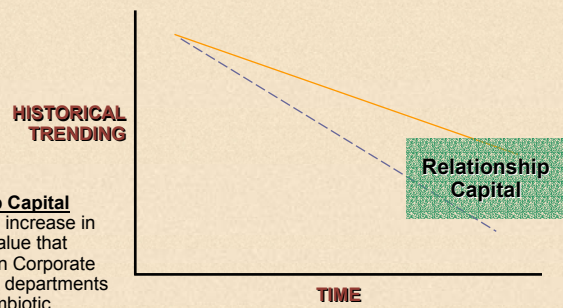
# Our value proposition is shaped by new behaviors.....

QUALITATIVE BEHAVIORS **RESULT IN** QUANTITATIVE OUTCOMES



# When qualitative behaviors change, relationship capital can be created...

Quantitative Outcomes...going beyond metrics

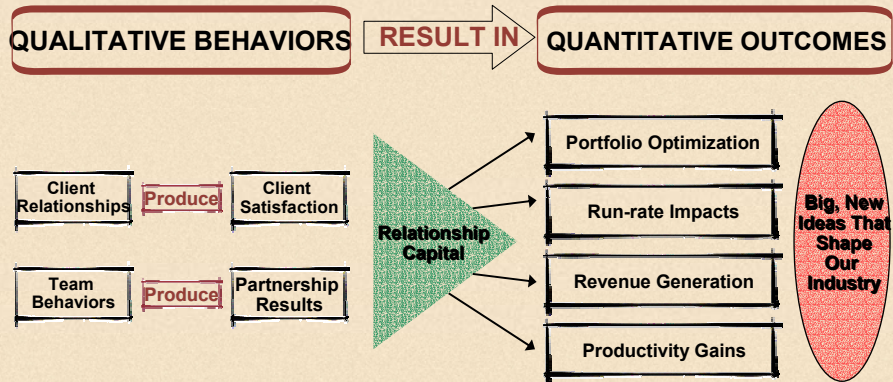


**Relationship Capital**  
 • Exponential increase in corporate value that results when Corporate Real Estate departments develop symbiotic relationships with their clients.

- Values**
- Portfolio Optimization
  - Run-rate Impacts
  - Revenue Generation
  - Productivity Gains



## The WorkPlace story in a picture.....



## .....and a CRE model for the 21<sup>st</sup> Century

- *Innovation*, not just *Initiatives*
- *Intimacy*, not just *Implementation*
- *Outcomes*, not just *Output*
- *Interdependence*, not just *Integration*



Thank you for joining us in  
**The WorkPlace**





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## HR Future State: Design and Implementation Through Outsourcing

Tuesday, February 24, 2004

2:40 – 3:30 PM

Lawrence Kaye  
*Senior VP, HR Consulting Services*  
Fidelity Investments



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Larry Kaye  
Vice President  
HR/Payroll Consulting  
Fidelity Investments

Larry Kaye has recently joined the HR/Payroll Practice to head up our new HR/Payroll Change Management Consulting organization. In this new role, Larry will be responsible for the assessment, development, and delivery of consulting and change management support to enable our clients to optimize their partnership with HR/Payroll.

Larry brings 20 years of experience in helping organizations improve business performance and organizational effectiveness. He has consulted to companies and managed projects in the areas of strategy implementation, organizational change, HR function re-design, service quality improvement, organizational design and executive and management development throughout the United States and Europe. Clients that Larry has worked with include: AT&T, Johnson and Johnson, Metropolitan Life, MediaOne, Cox Communications, American Airlines, Wal\*Mart, MDS International, Nautica, American Express and Carlson and Companies.

Larry joins Fidelity from Cap-Gemini Earnst & Young where, for the past five years, he was responsible for designing and delivering programs within their Accelerated Solutions Center to improve organizational effectiveness for several large global clients, including Fidelity. Larry has also held senior consulting positions with Coopers and Lybrand, Organizational Dynamics, and the Hay Group. He has both a BA and MA degree in Political Science and a PhD in Sociology from Brandeis University.

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## The 2004 Outsourcing World Summit

### Using Outsourcing as a catalyst for future HR Strategy and Design

Larry Kaye  
Senior Vice President  
Fidelity Investments

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### Our Time Together

- Promise and reality of HR Outsourcing
- HR Outsourcing: Designing for Success
- Dialogue and Questions

## The Promise of Outsourcing

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- Focus on what is core
- Create value through leverage
- Enable strategic change

## HR Outsourcing Focal Points

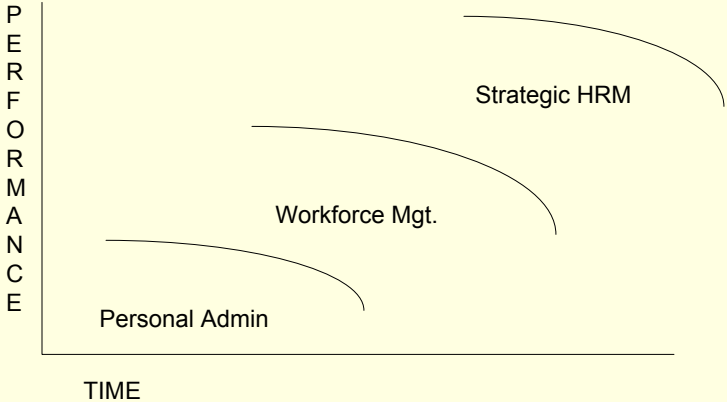
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- Cost Reduction
- Service Enhancement
- Process Efficiencies

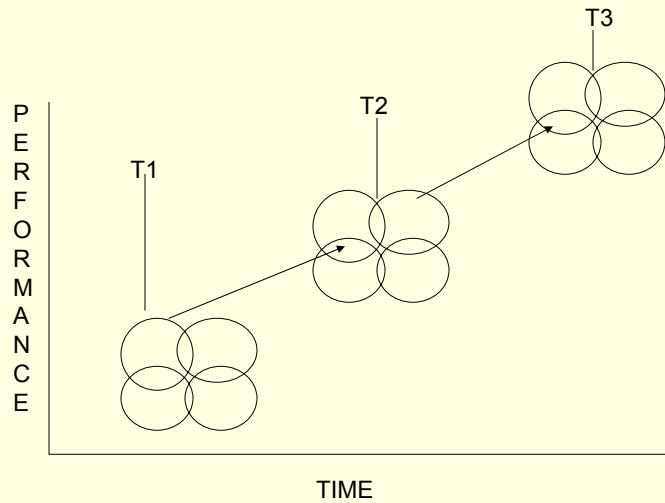
Are we still selling HR short?

4

Outsourcing HR: Vision LED



## Outsourcing HR: Performance LED



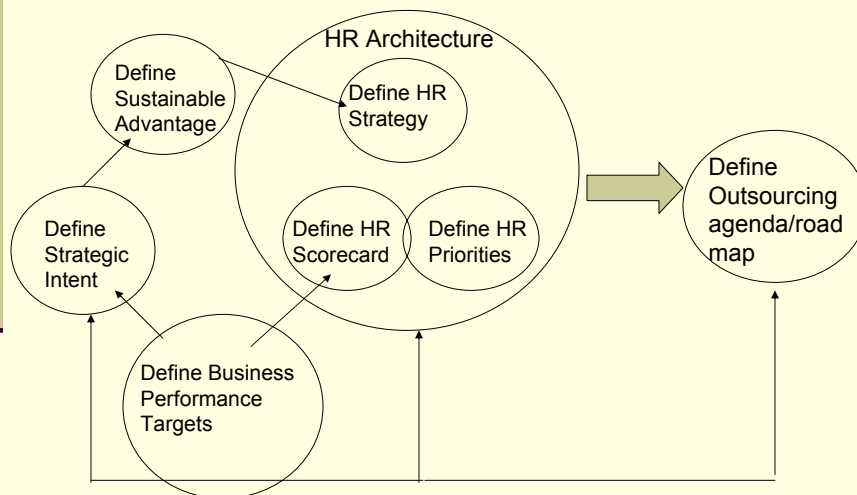
## Selling HR Short

- Strategy by "Substraction"
- "Freezing" the Function
- Change by "Default"

## Selling HR Short: So What?

- Business case for HR gets separated from the real case for change
- Line managers view HR as outside their performance frame
- HR pursues cost and efficiency
- No transformational agenda and roadmap

## HR Outsourcing: The Strategic View



## Architecting HR

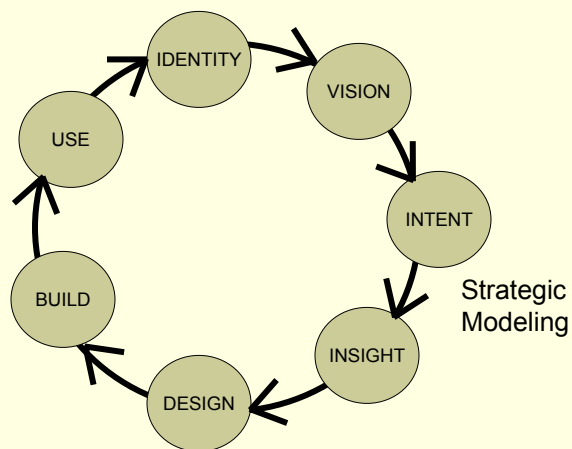
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- What does the business need from HR?
- What configuration of assets provides optimal value?
- How do we know we are partnering successfully?
- What needs to be in place to stay adaptable?

10

## HR Outsourcing: Design for Performance

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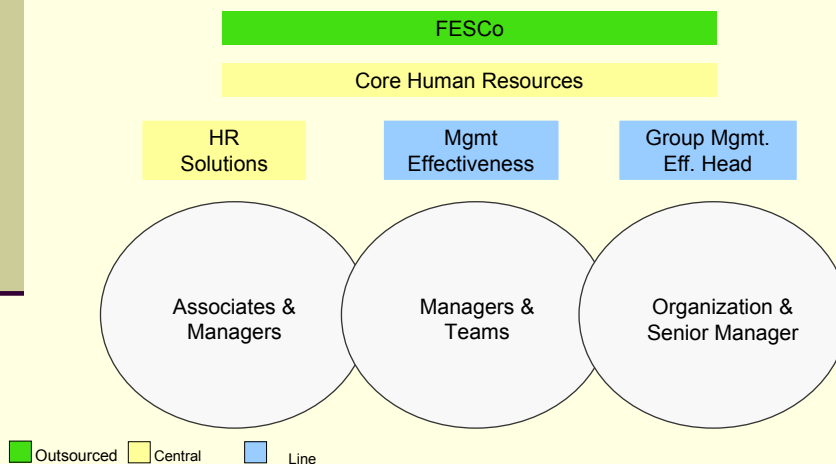




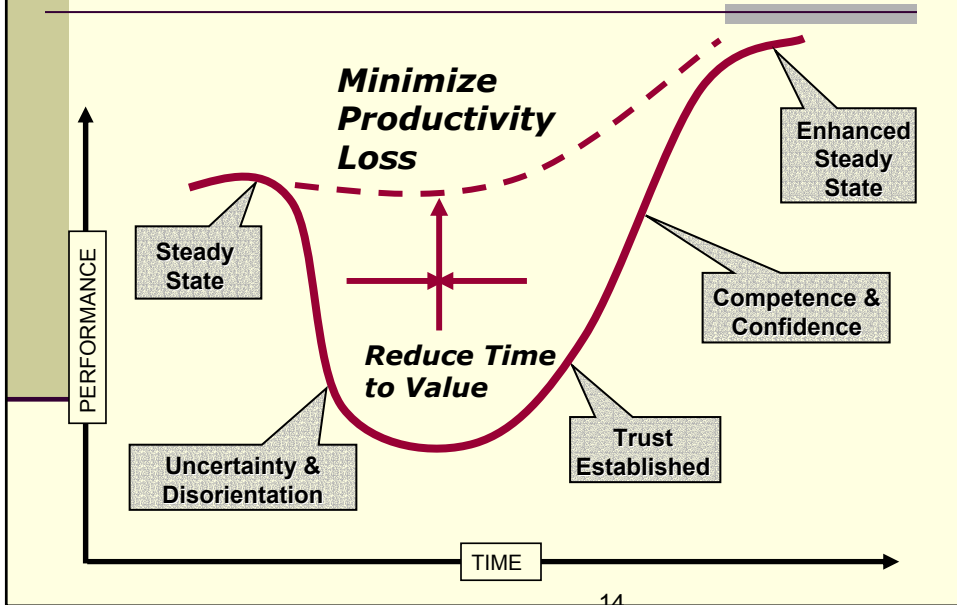
## Design Through Modeling

- Design is scalable and offers a powerful means of alignment
- Design forces trade off's
- Design drives engagement
- Design through modeling is an enabler of performance

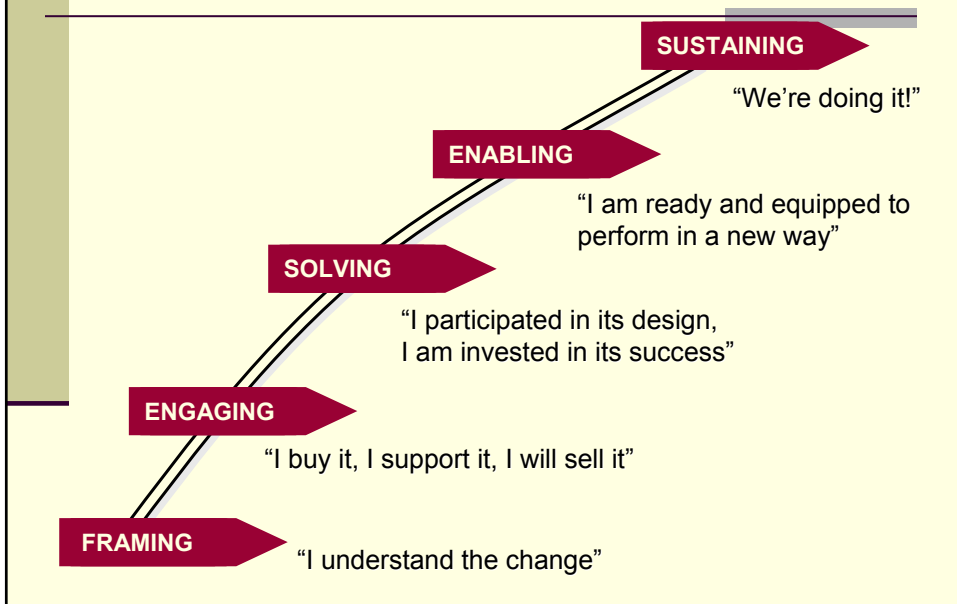
## How Fidelity HR is now organized to serve its internal customers



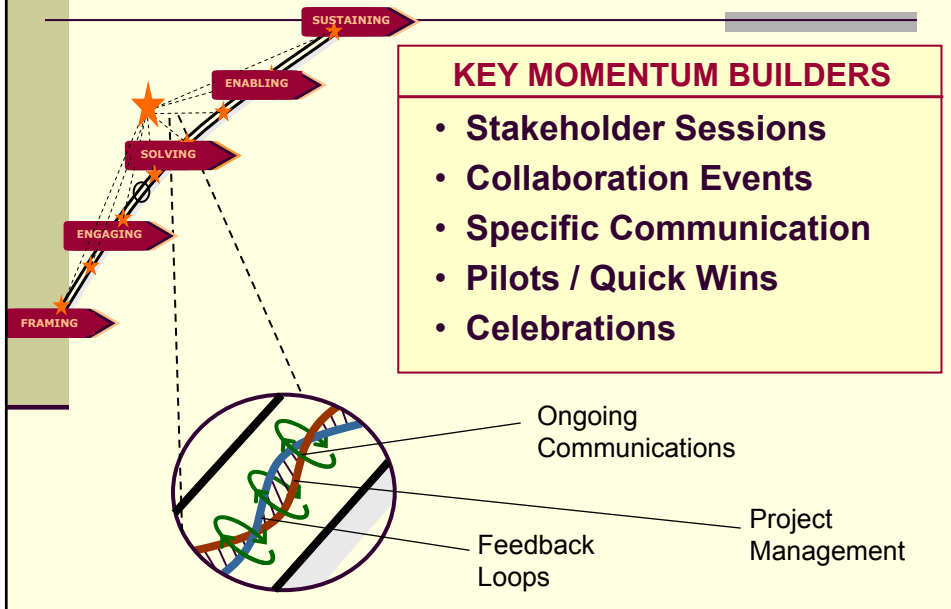
## Positive Effects of Managing Outsourcing Change



## Change Through Design



## Building Commitment, Momentum, and Performance



## Principles for using HR Outsourcing as a Catalyst for Change

- What & Why before How
- Purpose & Vision matter...start with the end in mind
- Design with the "Business System" in the room
- Use models & frameworks to initiate dialogue and create focus
- Understand the differences that truly make "the difference"

## Principles for using HR Outsourcing as a Catalyst for Change

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- Go slow to go fast.....but use “time compressions” to force
- Continually seek feedback and course correct as necessary
- Think big, build small, move fast

**Questions?**



# The 2004 Outsourcing World Summit

*Conference & Exposition*

February 23–25, 2004 • Disney's Yacht & Beach Club Resorts • Lake Buena Vista, Florida

## Outsourcing Contracts and Meeting Sarbanes-Oxley Requirements

Tuesday, February 24, 2004

2:40 – 3:30 PM

**Rick Julien**

*Executive, Corporate Governance*

Crowe Chizek and Company LLC

**Warren Chan**

*Executive, IT Audit*

Crowe Chizek and Company LLC



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**Rick Julien**  
Executive, Corporate Governance  
Crowe Chizek & Co. LLC

Rick Julien, CIA, CPA is Crowe Chizek and Company LLC's Executive of Corporate Governance. Rick began his career at Arthur Andersen in 1981 and spent several years in the areas of technology consulting and information technology auditing. In 1987 Rick moved to Carolina Power and Light (CP&L) as an internal audit manager. At CP&L, Rick worked on large operational audits and managed the information systems audit function. He returned to Andersen in 1990 to develop its internal audit outsourcing/consulting business. In this role, Rick took the lead in developing firm-wide internal audit services risk assessment, audit execution and reporting methodologies. In addition, he contributed extensively to the firm's internal audit best practices and human resource transitioning best practices. Rick has also authored articles and spoken on Corporate Governance, strategic outsourcing and numerous internal audit topics, including benchmarking and best practices.

In 1994, Rick moved to Andersen's Chicago office, where he was actively involved in a variety of client engagements and regularly consulted with organizations on improving internal audit practices. Rick has been actively involved in helping clients think about managing business risk as a strategy to increase shareholder value, as well developing optimal audit strategies for evaluating information technology functions. In this role, Rick pioneered internal audit's role as an integral component of organizations' risk management and information processes.

In addition to his leadership role in the Firm's Corporate Governance, Enterprise Risk management, and Internal Audit Services offerings, Rick also currently works with clients to efficiently and effectively respond to Sarbanes-Oxley requirements.



# The 2004 Outsourcing World Summit

## *Conference & Exposition*

February 23–25, 2004 • Disney's Yacht & Beach Club Resorts • Lake Buena Vista, Florida

Warren Chan  
Executive, IT Audit  
Crowe Chizek & Co. LLC

### Experience

Warren has over 20 years of experience in technology auditing and consulting experience that includes performing numerous technology risk assessments and technical audits for large multi-platform environments of Fortune 500 corporations. Some of his specific technology audit and implementation experience includes mainframe technologies such OS/390, CICS, VM, CA-ACF2, RACF, server operating systems such Windows NT, Citrix Metaframe, Novell NetWare, and applications such as Hyperion, PeopleSoft, MSA, and McCormack and Dodge. He has worked with senior executives of client companies in a variety of industries that include technology, manufacturing, healthcare, banking, energy and transportation.

A significant portion of Warren's career was spent at Arthur Andersen in which one of his responsibilities was leading the Firm's efforts in developing methodologies addressing security issues in IBM mainframe environments and application controls and the implementation of thin-client technologies such as Citrix MetaFrame. He has authored several Arthur Andersen internal publications on auditing IBM mainframe controls for MVS, VM, CICS, RACF, and CA-ACF2. He also instructed numerous Andersen training courses on information technology auditing in the United States and England as well as conducting presentations for ISACA.

### Education

Loyola University – New Orleans  
BBA with a concentration in computer science and management

The Unique Alternative to the Big Four<sup>SM</sup>



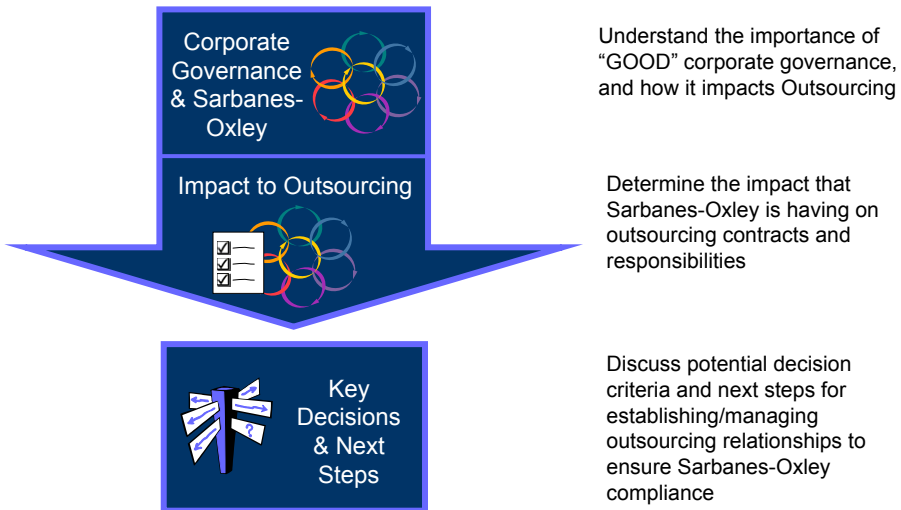
## Outsourcing Contracts & Meeting Sarbanes-Oxley Requirements

2004 Outsourcing World Summit Conference Series

## Session Agenda & Goals



### Why is this session important to you?





### “Good” Corporate Governance

- Good Corporate Governance requires **more than an active Board**, the right committees and meeting legal requirements. It requires:
  - Establishing a culture of sound business practices and ethics
  - Ensuring that management has a comprehensive understanding of how to manage risks
  - The right process for managing and monitoring risks
- The best Corporate Governance approach recognizes that the **stakeholders impacted are broader than the shareholders**. Impacted stakeholders also include employees, customers, vendors, the community, etc.
- All areas of a business are intrinsically connected and for this reason, we believe it is critical to assess, source, measure and manage risks across an enterprise.
- To meet the Board’s responsibilities, new expectations suggest that organizations implement **strong risk management processes**.

**Key Point:**

*Gain competitive advantage through reduction in business risks, improvements in internal controls and business ethics, and a reduction in the risk of financial reporting surprises.*

3

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### “Good” Corporate Governance – What does this mean to Outsourcing?

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4

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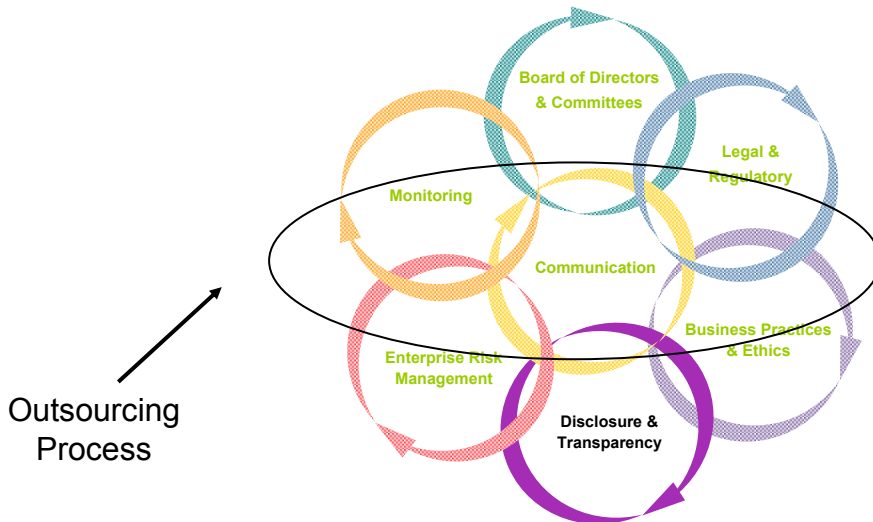
**Dynamics of Corporate Governance<sup>SM</sup>**

Corporate governance is the systems and processes an organization has in place to protect the interests of its diverse stakeholder groups, e.g. shareholders, employees, customers, vendors, community, etc.



"It's what counts, not how it's counted"- Warren Buffett

**Components of Corporate Governance – Relationship to Outsourcing**



### Three Important Sections for Outsourcers

The Public Company Accounting Reform and Investor Protection Act of 2002 ("Sarbanes-Oxley Act") and related SEC rules establish new requirements for **one type** of disclosure and transparency stakeholder – the public investor.

- Section 302 (a) - Management is responsible for establishing and maintaining "disclosure controls and procedures". The CEO and CFO must certify.

Disclosure controls and procedures are those designed to ensure that information required to be disclosed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported on a timely basis.

- Section 404 (b) - Each 10K must contain an internal control report that states that management is responsible for establishing and maintaining an adequate internal control structure and procedures for financial reporting and assess the effectiveness of the internal control structure and procedures for financial reporting.
- Section 409 – Calls for real-time reporting of material events that could affect a company's financial performance.

### 10/16/03 8-K Current Report Management Discussion & Analysis



#### Risk Factors that May Affect Results of Operations and Financial Condition

The risks and uncertainties described below are not the only ones facing eBay.

Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks or such other risks actually occur, our business could be harmed.

Our operating results may fluctuate.

Our operating results have varied on a quarterly basis during our operating history.

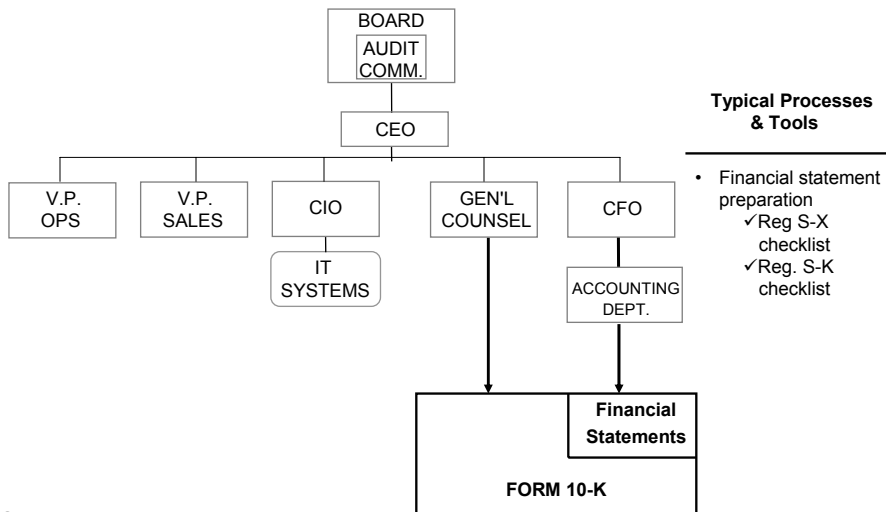
Our operating results may fluctuate significantly as a result of a variety of factors, many of which are outside our control. Factors that may affect our quarterly operating results include the following:

- Volume, size, timing and completion rate of transactions on our websites;
- Our ability to upgrade and develop our systems, infrastructure and customer service capabilities to accommodate growth at a reasonable cost;
- Technical difficulties or service interruptions involving our websites or services provided to our users by third parties (such as photo hosting);
- The continued financial strength of technology suppliers and other parties with which we have commercial relations;

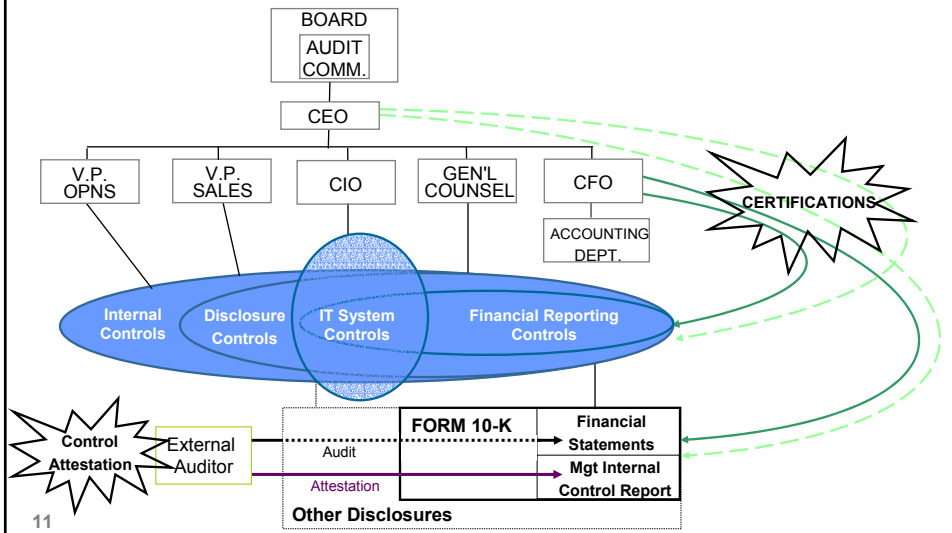
**Penalties of the Sarbanes-Oxley Act**

Action	Punishment	Reference
"Knowingly" altering, destroying, or falsifying documents in an effort to impede, obstruct, or influence an investigation	Fines up to \$15 million and/or Imprisonment up to 20 years	Title VIII, Sec. 802
Securities Fraud	Fines and/or imprisonment up to 25 years	Title VIII, Sec. 807
Mail and Wire Fraud	Imprisonment up to 20 years	Title IX, Sec. 903
"Willfully" certifying financial reports that do not meet regulatory requirements	Fines up to \$5 million and/or Imprisonment up to 20 years	Title IX, Sec. 906
Violating SEC regulations	May be ineligible to hold a director or officer level position at any publicly traded company	Title XI, Sec. 1105

**Traditional Financial Reporting Responsibilities (Simplified)**



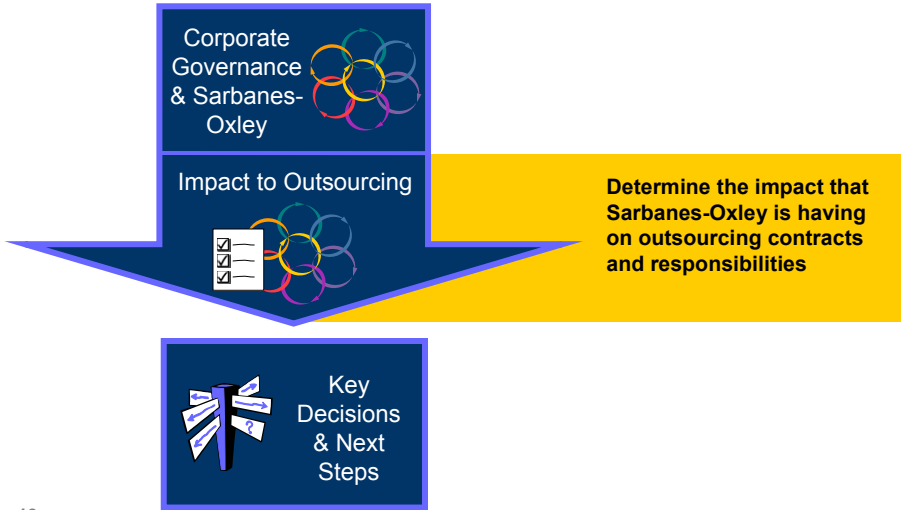
**Financial Reporting Responsibilities with Sarbanes-Oxley**



**Hackett Study**

“A year from now, it won’t just be about cost and value. The CIO and CFO have to come to grips with the integrity of their applications and integrity of their data.

Sarbanes-Oxley will have a serious impact on average companies”



You can outsource functions

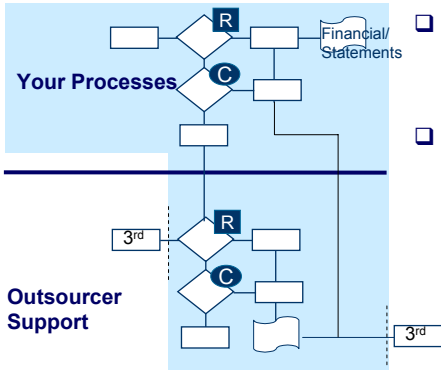
BUT

You cannot outsource responsibility

FOR

Sarbanes-Oxley 302/404/409 Compliance

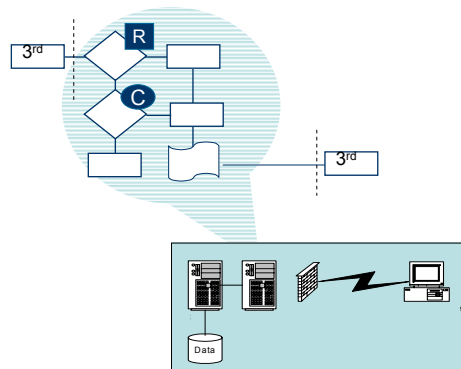
## BIG Picture

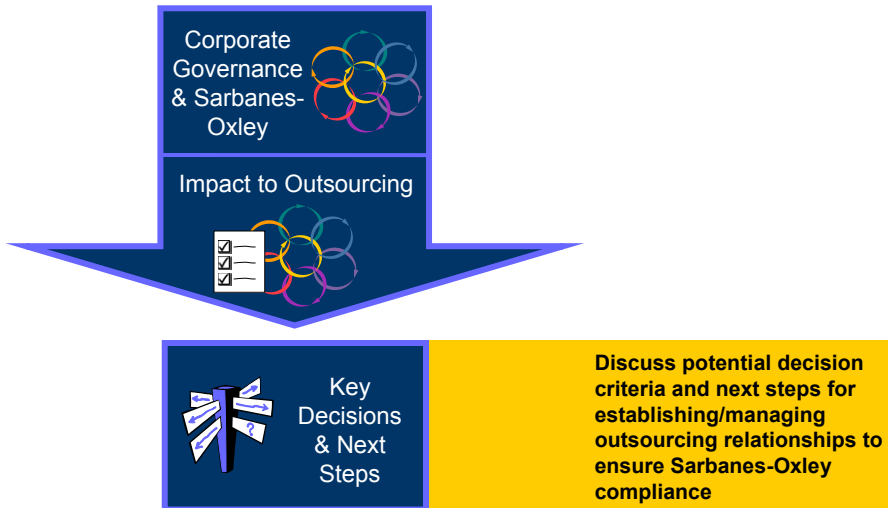


- ❑ Management's assertion on internal controls, and the external auditor's attestation required by law
- ❑ Scope focuses on internal controls over financial reporting (i.e. internal controls impacting the financial statements)
  - Internal control design & operations must be documented and tested annually)
  - Does not matter if function or technology is supported via internal or external resources

## Types of Controls

- Controls over financial reporting are relevant, which include:
  - Process controls
    - Manual
    - Automated
  - Pervasive controls
    - IT general controls impacting Sarbane relevant applications





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## How do you know if the outsourcer's controls are good?

- Statement on Auditing Standards (SAS) No. 70, Service Organizations, is an auditing standard developed by at the American Institute of Certified Public Accountants (AICPA). A SAS 70 audit represents that a service organization has been through an audit of their control activities, as defined by the company requesting a SAS-70 audit. A SAS 70 report is issued by an independent auditor ("service auditor") who issues an opinion on a service organization's description of controls through a Service Auditor's Report.
- SAS 70 is not a pre-determined set of control objectives or control activities that service organizations must achieve. These controls are defined by the requesting organization, and the service auditor confirms compliance through a formal audit process.
- You want a Type 2 SAS 70 Report – controls are tested

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### Reliance on Outsourcer Control Assertions

- The outsourcer should provide an attestation by an accounting firm as to control adequacy and operational effectiveness (i.e. SAS 70)
  - Will enable you (the customer) to rely on their control assertions, documentation and tests
  - Without a SAS 70, you will have to audit the outsourcer, creating any needed control documentation
  - The SAS 70 must have been conducted within the current fiscal year to be applicable

### Contracts

- Contracts should require:
  - Internal controls should be documented and tested (Section 404)
  - Annually independent auditors to attest on the state of internal controls (SAS 70 Type 2)
  - Monitoring risks of 3rd party providers on an as needed basis
  - Disclosures of business issues are made timely (Section 302)
  - Roles and responsibilities are adequately defined and agreed upon
  - Outsourcer will only assign/utilize competent/experienced personnel
  - Outsourcer will assume level of liability and responsibility
  - Performance requirements are identified and outlined
  - Only authorized activities will be conducted

### Monitoring

- You (the customer) must monitor outsourcer activities to ensure all contract requirements are met, especially that:
  - Outsourcing risks are managed
  - Only authorized activities are conducted
  - Internal controls are understood
  - Performance requirements are met
- Monitoring techniques/controls must be documented and testable

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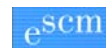
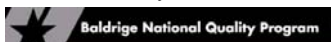
### SOX and Quality Assurance – Competitive Advantage

As outsourcing continues to mature, as is the case in IT outsourcing, quality will be a differentiator

#### Out of the Crisis

W. Edwards Deming

1. Create constancy of purpose toward improvement of service, with the aim to become competitive and to stay in business.
2. Eliminate the need for inspection on a mass basis by building quality into the product in the first place.
3. Move toward a single supplier for any one item, on a long-term relationship of loyalty and trust.
4. Improve constantly and forever the service, to improve quality and productivity, and thus constantly decrease costs.



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ITIL & Standards



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## Who Wins in Offshoring?

Tuesday, February 24, 2004

2:40 – 3:30 PM

Vivek Agrawal  
*Engagement Manager*  
McKinsey & Co.



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Vivek Agrawal  
Engagement Manager  
McKinsey & Co.

Vivek Agrawal is an Engagement Manager in the Minneapolis office of McKinsey & Company and a member of the firm's Business Process Outsourcing & Offshoring (BPO&O) practice. His client work focuses on strategy, operations, and organization issues across a wide range of industries including financial services, insurance and software.

At McKinsey, Mr. Agrawal has served a wide range of public and corporate clients, and led several research initiatives. Most recently, as a fellow of the McKinsey Global Institute, he led a major study on the impact of foreign direct investments in developing countries and spent a significant period of time studying the IT and offshored services sectors in India. He has also co-authored a study on the past and future trends in the Bay Area economy.

Prior to joining McKinsey, Mr. Agrawal practiced as an urban planner in Boston. He has published several articles in management, and on urban planning in professional journals and also taught graduate courses at the Department of Architecture and Urban Studies & Planning at MIT. He holds a Bachelor's degree in Architecture from IIT and an M.S. in Architecture and Urban Studies from MIT.



# Who Wins in Offshoring?

**McKinsey Global Institute**  
**February 24, 2004**

# OFFSHORING IS CREATING GREAT ANXIETY IN THE U.S.



**“Tech jobs leave U.S. for India, Russia. Who’s to blame?”**  
– July 2003



**“3.3 million U.S. service jobs to go offshore by 2015”**  
– November 2002



**“America’s pain, India’s gain”**  
– January 2003



**“American legislators are accusing India of stealing jobs”**  
– June 2003



*U.S. House  
Sub-business  
Committee*

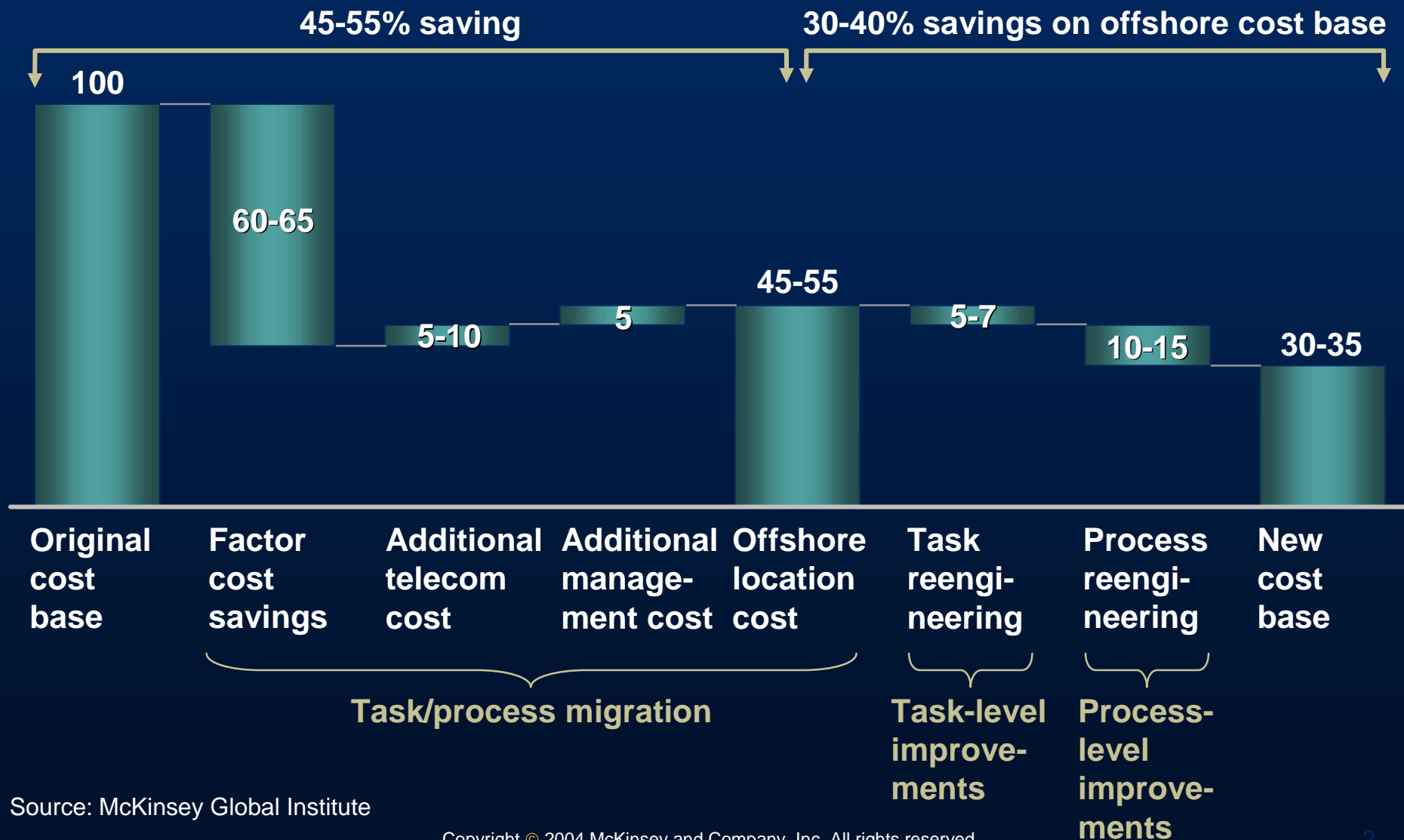
**“Can America Lose These Jobs and Still Prosper?”**  
– July 2003



**“Is your job next?”**  
– February 2003



# OFFSHORING DRIVES SIGNIFICANT PERFORMANCE IMPROVEMENT



Source: McKinsey Global Institute

# OFFSHORING OPPORTUNITIES CUT ACROSS THE ORGANIZATION

■ Low-cost labor  
■ Access to highly skilled labor pool



**Sample functions**

- |   |   |  |   |  |
|---|---|--|---|--|
| <ul style="list-style-type: none"> <li>• Basic data entry                             <ul style="list-style-type: none"> <li>– Application forms</li> <li>– Data conversion</li> </ul> </li> <li>• Transaction processing</li> <li>• Document management</li> </ul> | <ul style="list-style-type: none"> <li>• Customer relations                             <ul style="list-style-type: none"> <li>– Call centers (inbound and outbound)</li> <li>– On-line customer service</li> </ul> </li> <li>• Telemarketing</li> <li>• Collections</li> </ul> | <ul style="list-style-type: none"> <li>• Shared corporate services                             <ul style="list-style-type: none"> <li>– Finance/accounting</li> <li>– HR</li> <li>– Procurement</li> <li>– IT                                     <ul style="list-style-type: none"> <li>• Help desk</li> <li>• Maintenance</li> <li>• Infrastructure</li> <li>• Applications development</li> </ul> </li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• Research services</li> <li>• Customer analysis</li> <li>• Portfolio analysis</li> <li>• Claims processing</li> <li>• Risk management                             <ul style="list-style-type: none"> <li>– Credit underwriting</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• Content development, engineering and design</li> <li>• New product design                             <ul style="list-style-type: none"> <li>– Design specs</li> <li>– Pilot/prototypes</li> <li>– Testing</li> <li>– Production design and optimization</li> </ul> </li> </ul> |
|---|---|--|---|--|

**Sample companies**

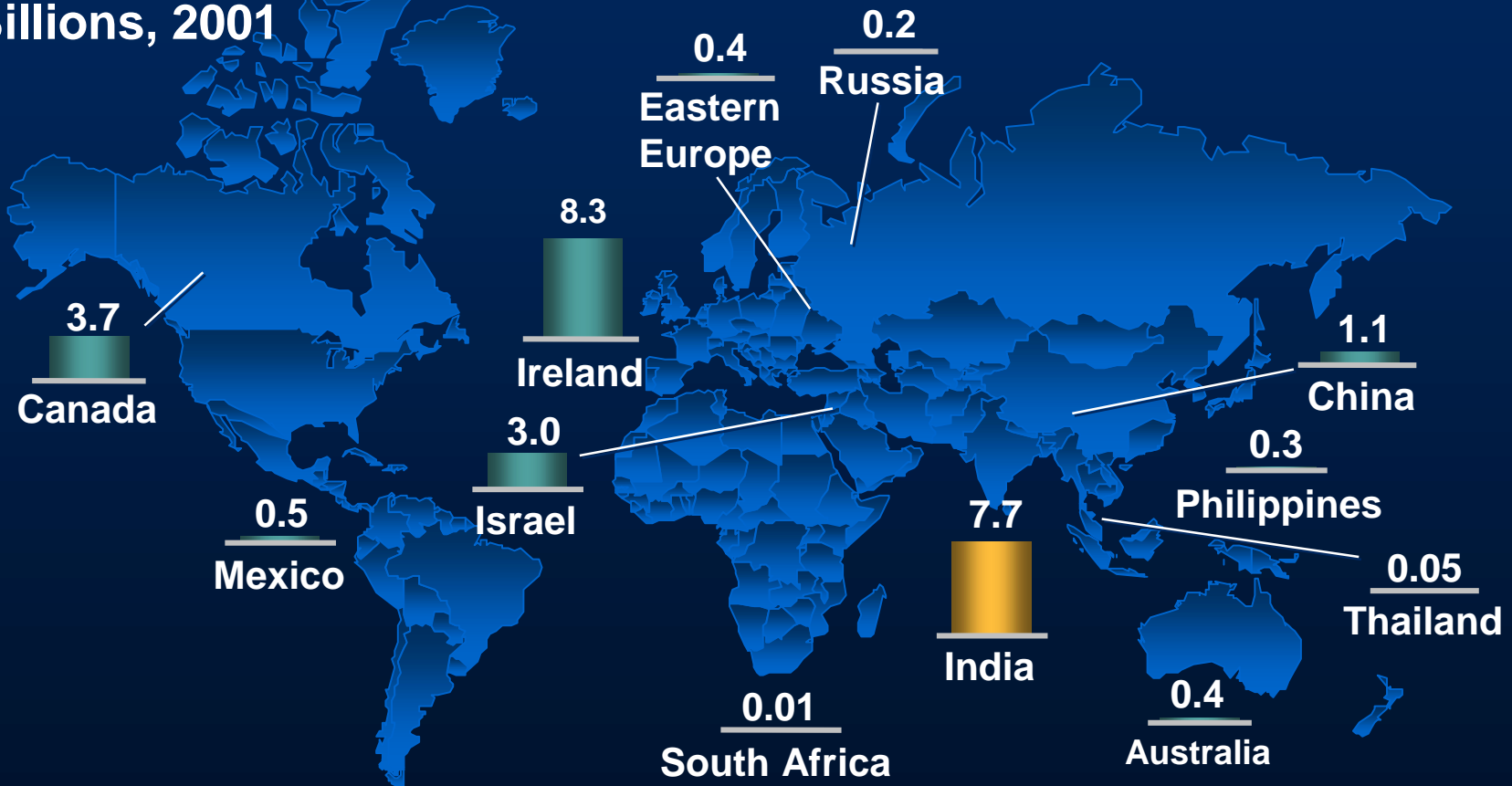


Source: Press releases and news; expert interviews; team analysis

# INDIA IS A DOMINANT PLAYER IN OFFSHORING

## Offshored services market size

\$ Billions, 2001



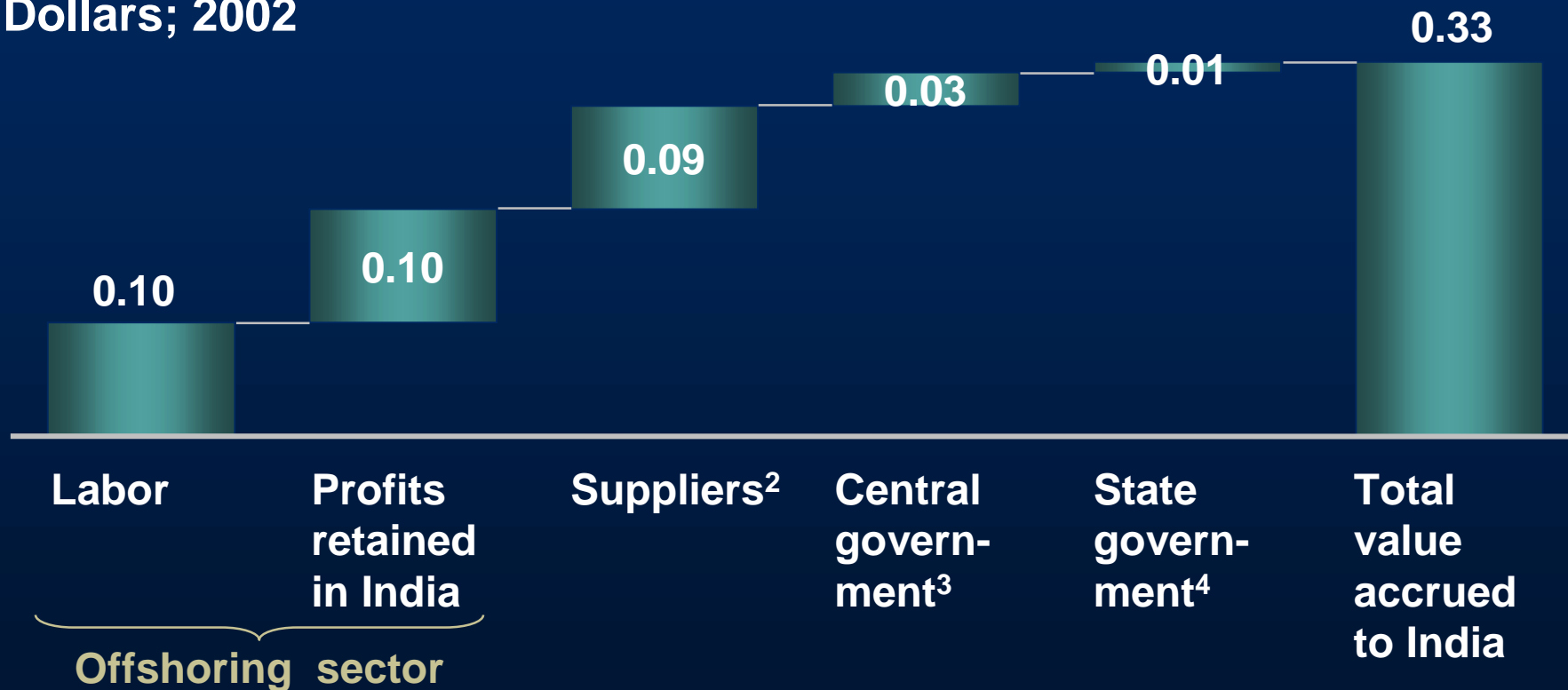
\* Includes Poland, Romania, Hungary, and Czech Republic

\*\* Primarily composed of MNC captives

Source: Software Associations; U.S country commercial reports; press articles; McKinsey analysis; Gartner; IDC; Country government websites; Ministry of Information Technology for various countries; Enterprise Ireland; NASSCOM

# INDIA CAPTURES 33 CENTS FROM EACH DOLLAR OF SPEND OFFSHORED BY THE U.S.

Value accrued from \$1 of U.S. spend offshored<sup>1</sup>  
Dollars; 2002



1 Estimated using the India offshored services industry case

2 Includes revenue accrued to the supplier industries less sales taxes, income taxes to employees and corporate taxes

3 Includes income tax from labor employed in the offshored services sector and the supplier industries and corporate tax on the supplier industries

4 Includes sales tax on the supplier industries and revenue from the sale of power to offshored service providers

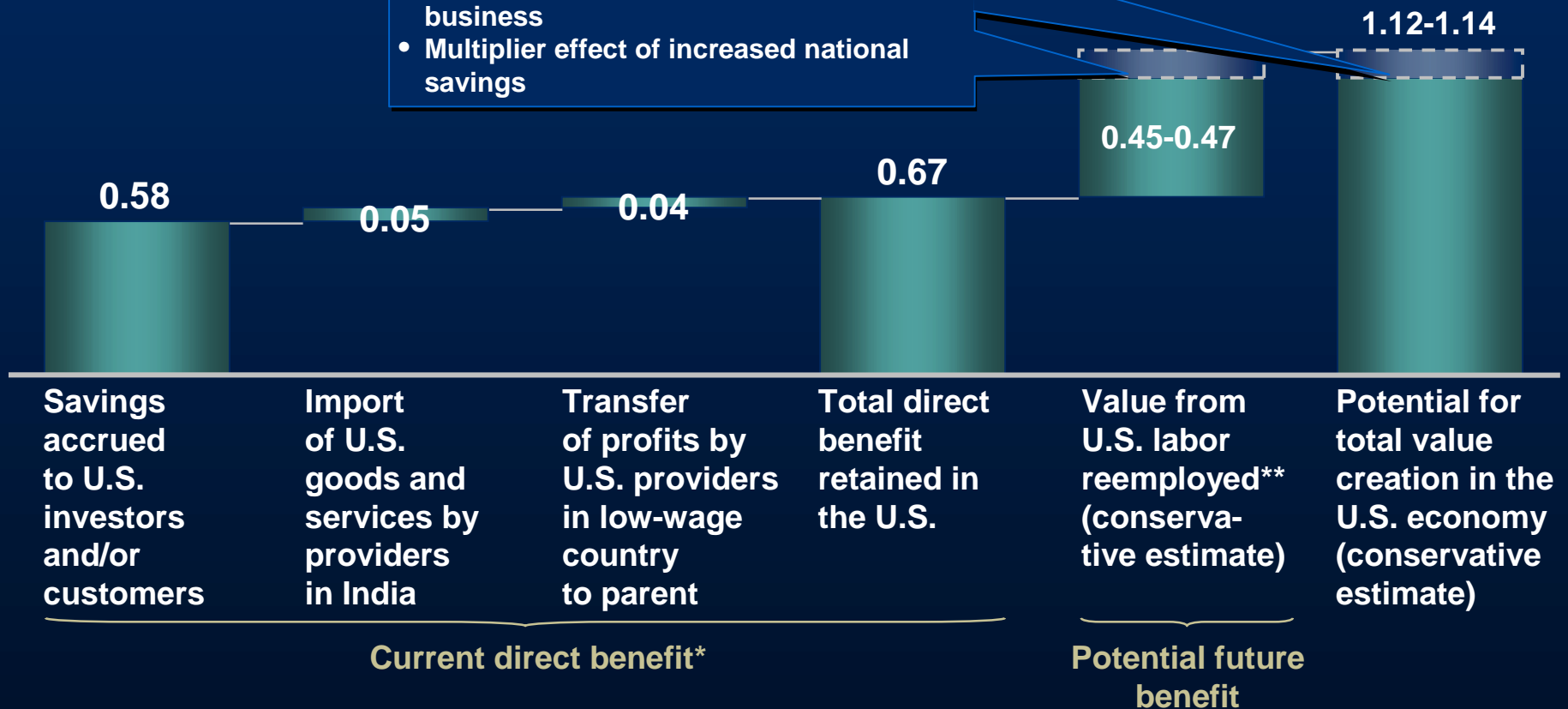
Source: McKinsey Global Institute

# U.S. ECONOMY GENERATES NET ADDITIONAL VALUE FROM EVERY DOLLAR OF SPEND OFFSHORED

## Value potential to the U.S. from \$1 of spend offshored to India Dollars; 2002

Further value creation potential through

- Increased global competitiveness of U.S. business
- Multiplier effect of increased national savings

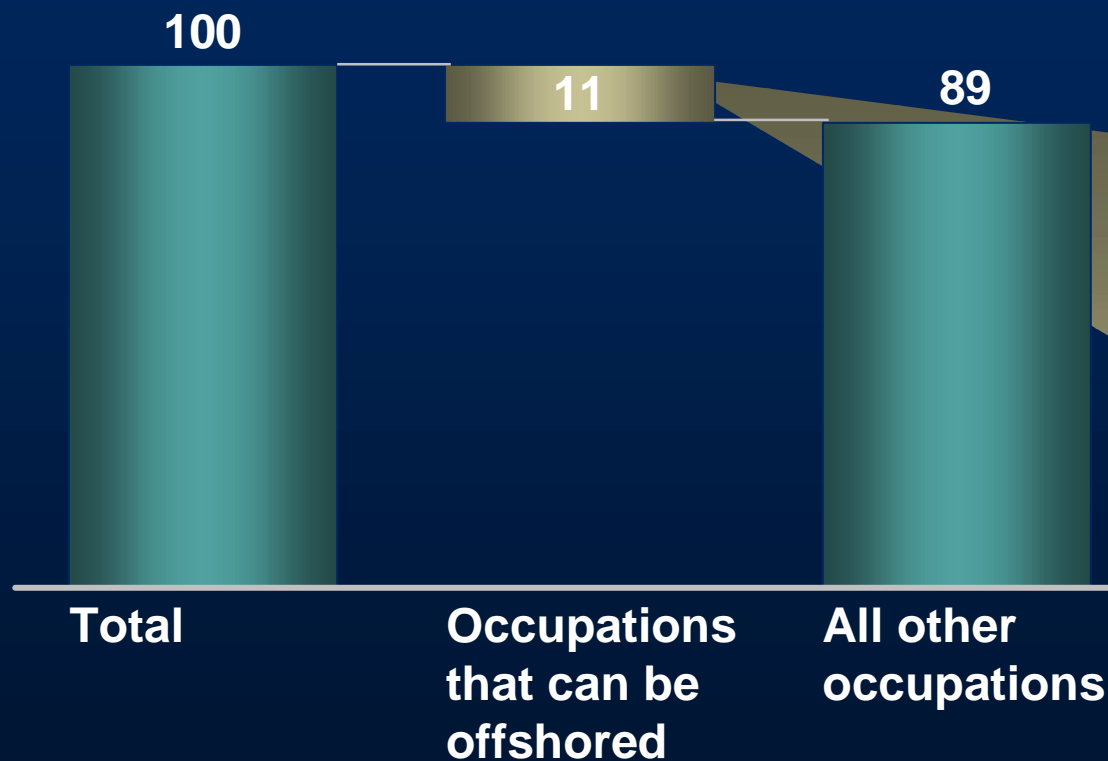


\* Estimated based on historical reemployment trends from job loss through trade in the U.S. economy

Source: McKinsey Global Institute

# MAJORITY OF JOBS IN THE ECONOMY CANNOT BE OFFSHORED

**Employment  
Percent**



**Includes  
employment in**

- Office support
  - Computer operators
  - Data entry keyers
- Business and financial support
- Computer and math professionals
- Paralegals and legal assistants
- Diagnostic support services
- Medical transcriptionists

**Employment  
2001  
Millions**

Total	127.9	Occupations that can be offshored	14.1	All other occupations	113.8
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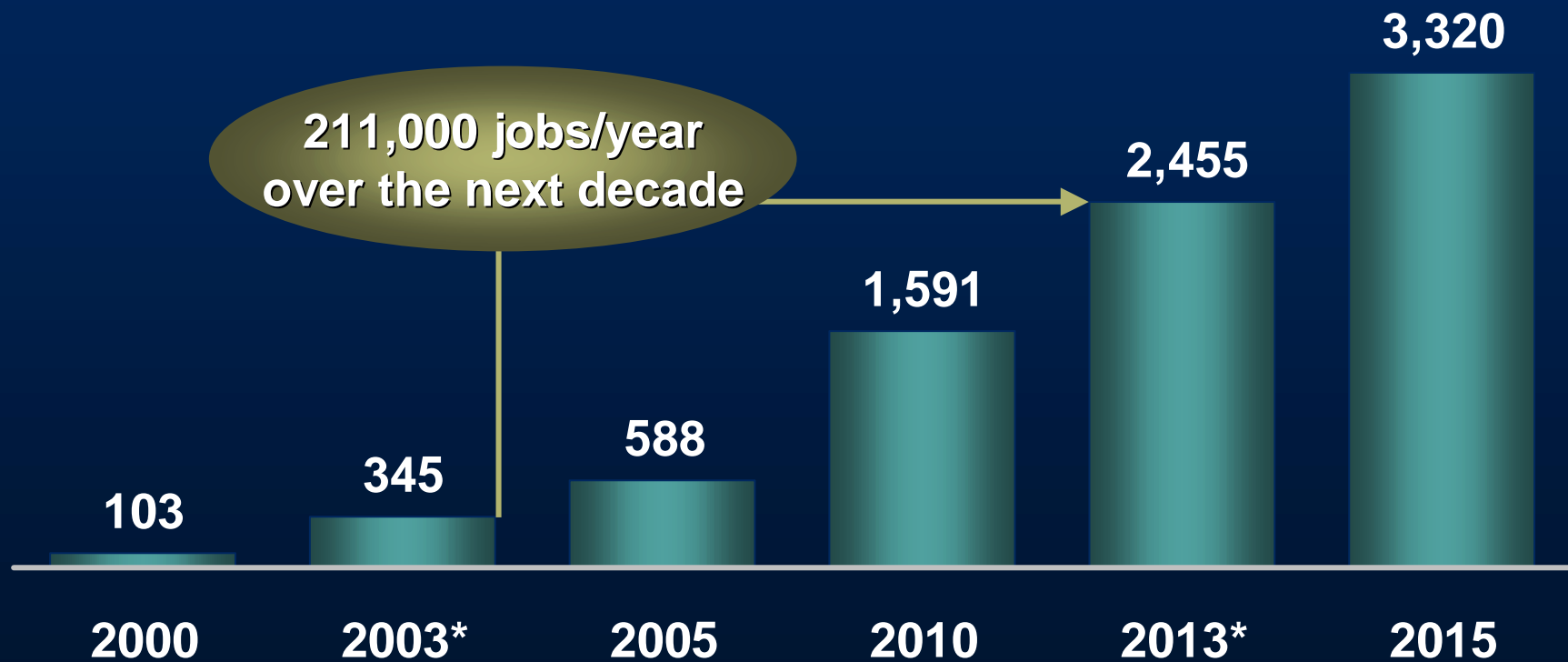
Source: Bardhan and Kroll, "The New Wave of Outsourcing", Fall 2003, University of California at Berkeley



# 3.3 MILLION JOBS WILL GO OFFSHORE BY 2015

## Number of U.S. jobs moving offshore by 2015

Thousands

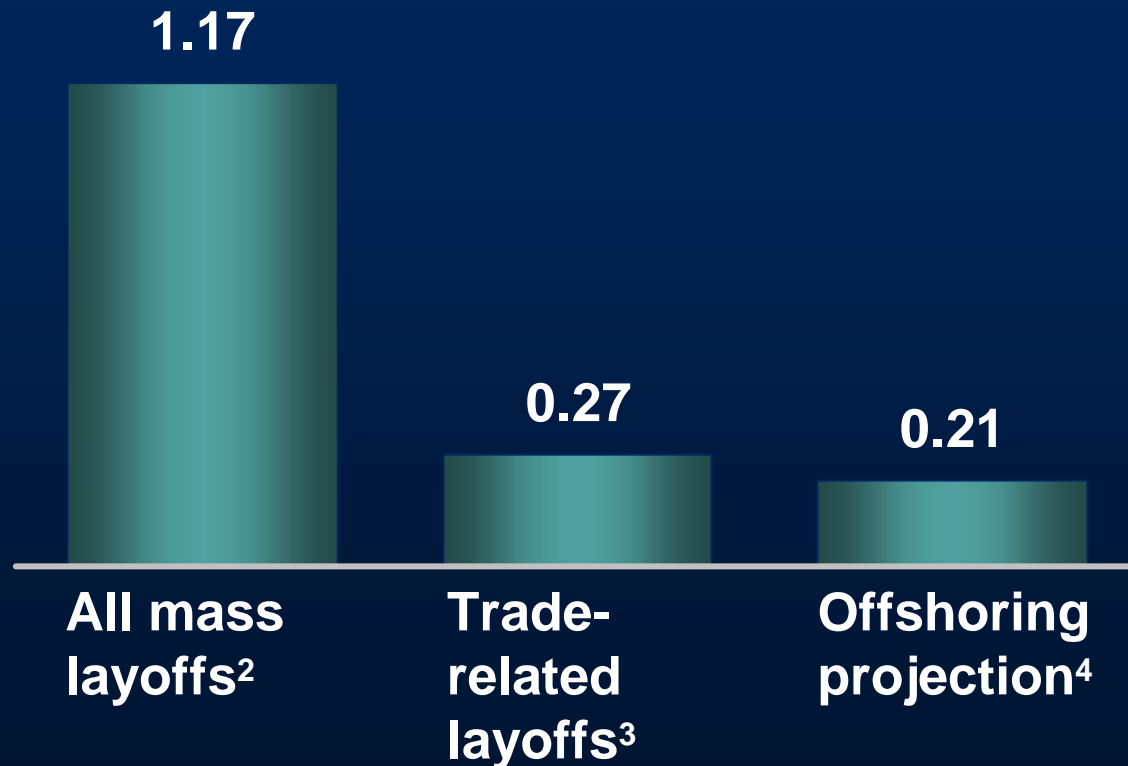


\* Linear interpolation based on projections for 2000, 2005, 2010, and 2015

Source: Forrester Research, "3.3 million U.S. services jobs to go offshore", November 2002; Bureau of Labor Statistics

# JOBS OFFSHORED ARE A FRACTION OF ALL MASS LAYOFFS

Average annual mass layoffs<sup>1</sup>  
Millions



1 Bureau of labor statistics defines mass layoffs as job loss actions leading to the displacement of 50 or more workers by a given establishment during a 5-week period

2 Average 1996-99

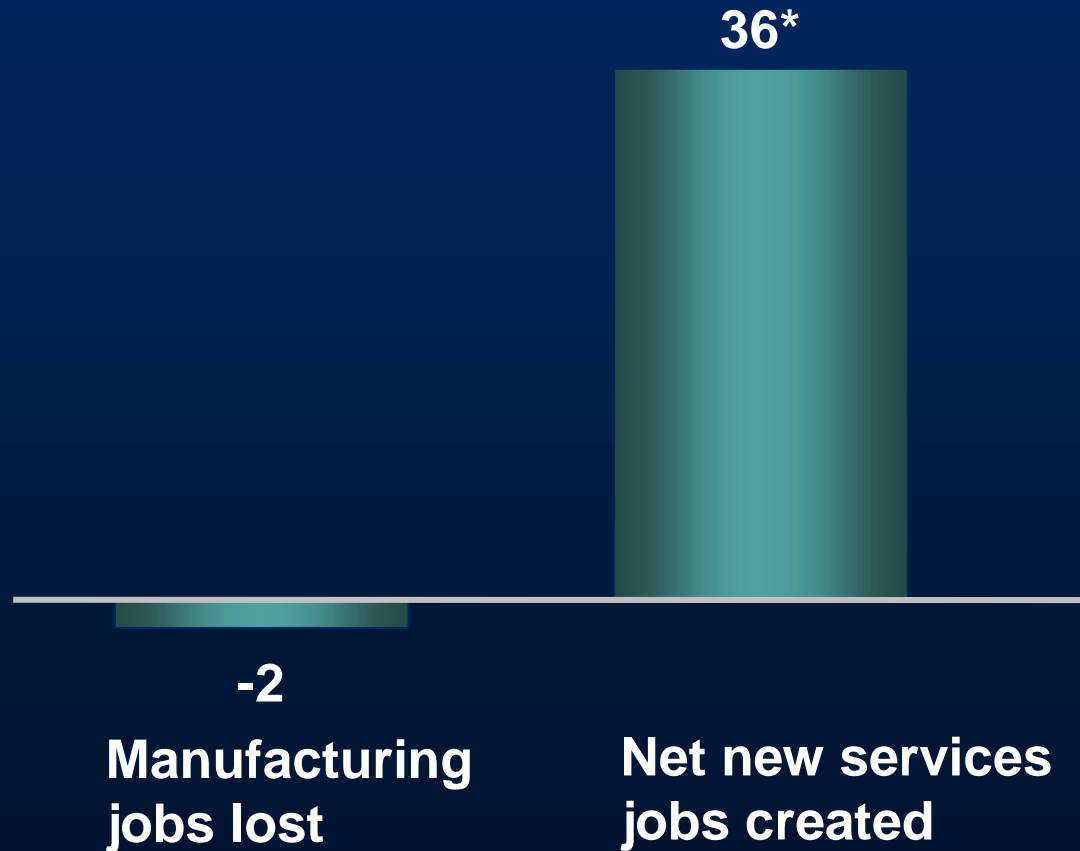
3 Average 1989-2000

4 Average 2003-13

Source: NBER; BLS; Kletzer; McKinsey Global Institute

# OFFSHORING IN MANUFACTURING HAS BEEN ACCOMPANIED BY GROWTH IN SERVICES

**Employment, 1983-2003**  
**Millions**

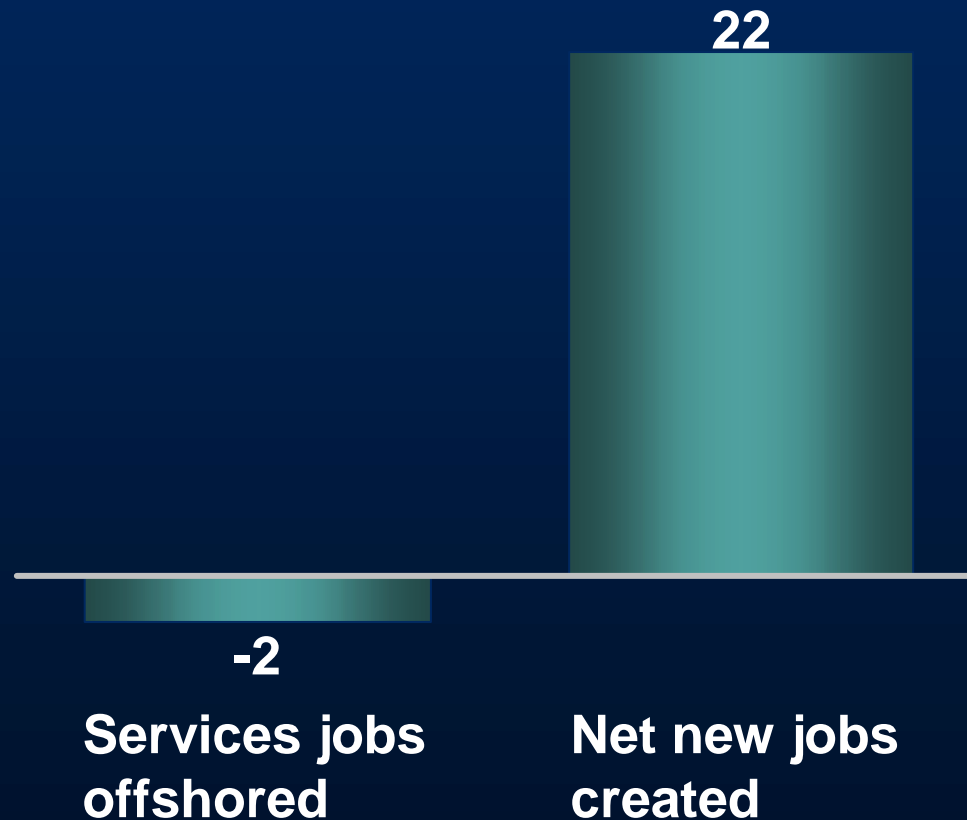


\* Adjusted for growth in population; actual figure is 43 million. Gross new employment during this period averaged 3.4 million jobs per year

Source: Bureau of Labor Statistics

# JOB CREATION WILL OUTPACE OFFSHORING BY A WIDE MARGIN

Employment, 2000-2010  
Millions



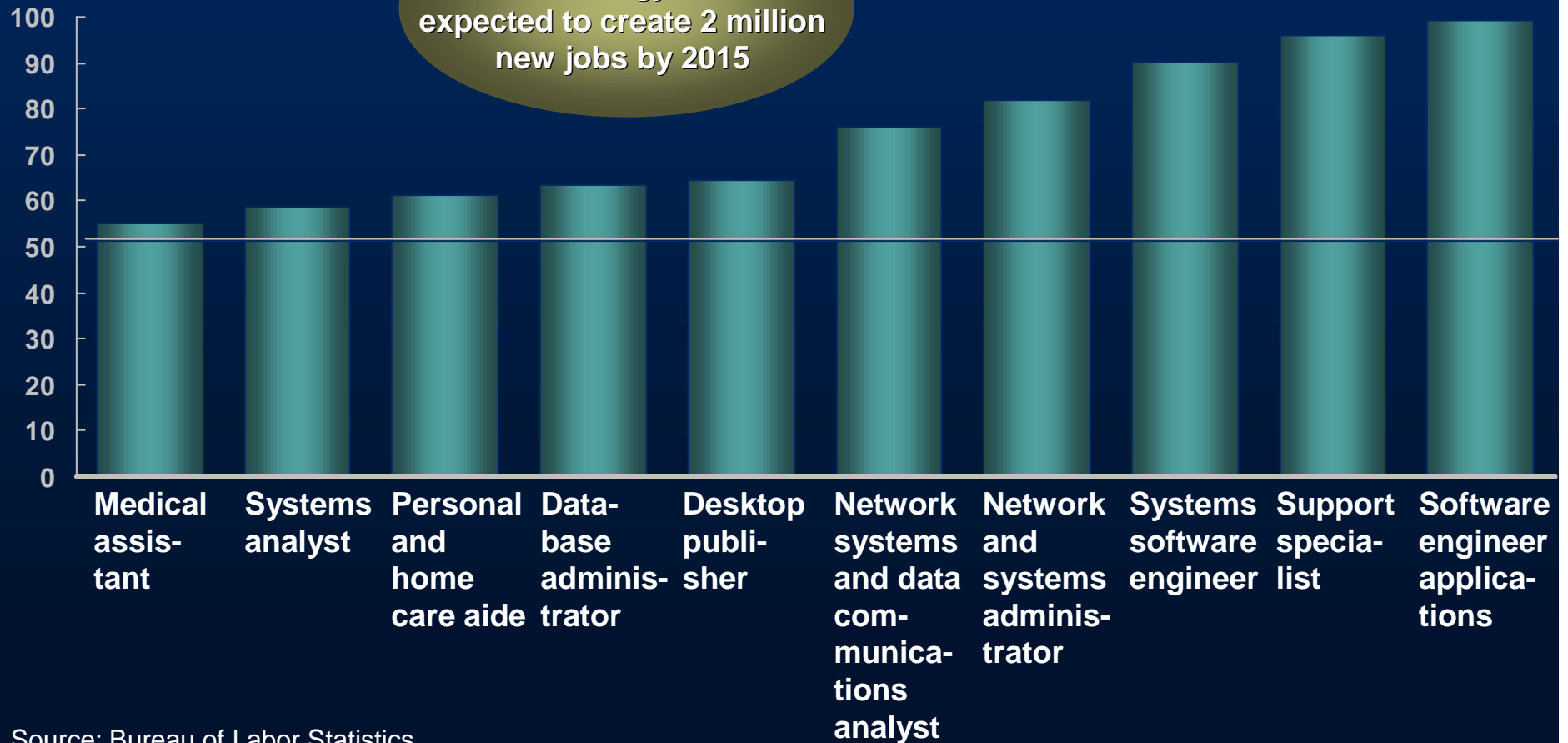
Source: Bureau of Labor Statistics; Forrester

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# TECHNOLOGY AND MEDICINE WILL WITNESS MOST VIGOROUS GROWTH IN JOBS

## Growth in fastest growing occupations Percent 2000-2010


New occupations like nanotechnology alone are expected to create 2 million new jobs by 2015

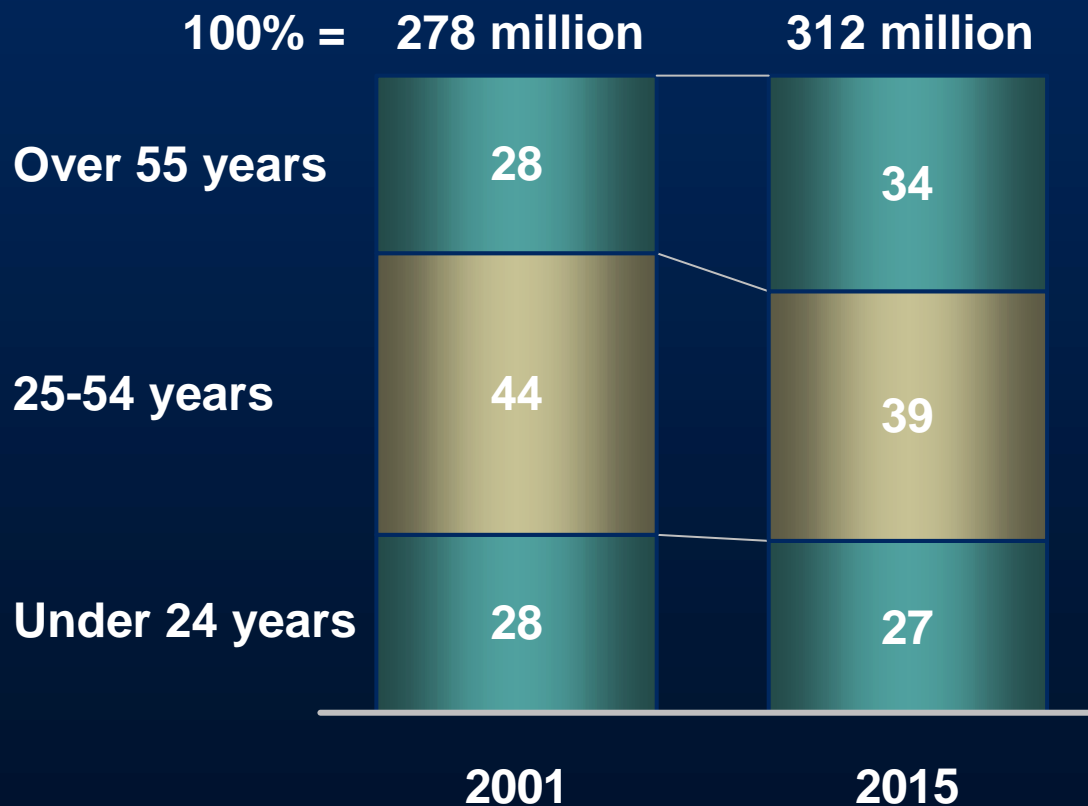


Source: Bureau of Labor Statistics

# U.S. ECONOMY IS EXPECTED TO SEE A SIGNIFICANT DECLINE IN THE SHARE OF WORKING POPULATION

## Composition of U.S. population Percent

 Working segment of population



- As the U.S. population retires, 5% (15.6 million) additional workers needed by 2015 to maintain similar share of working population as in 2001
- Shortfall must be addressed through a combination of
  - Increased innovation/ productivity
  - Increased labor inputs, e.g., immigration

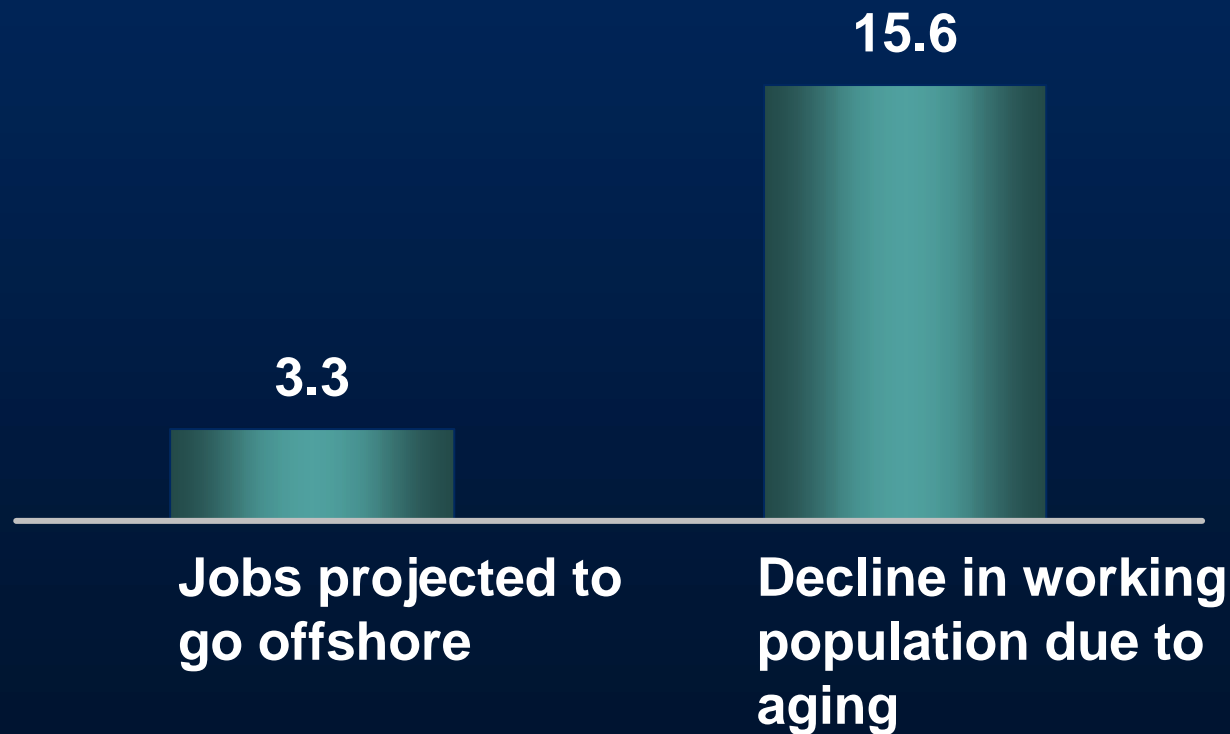
Source: U.S. Census; McKinsey Global Institute

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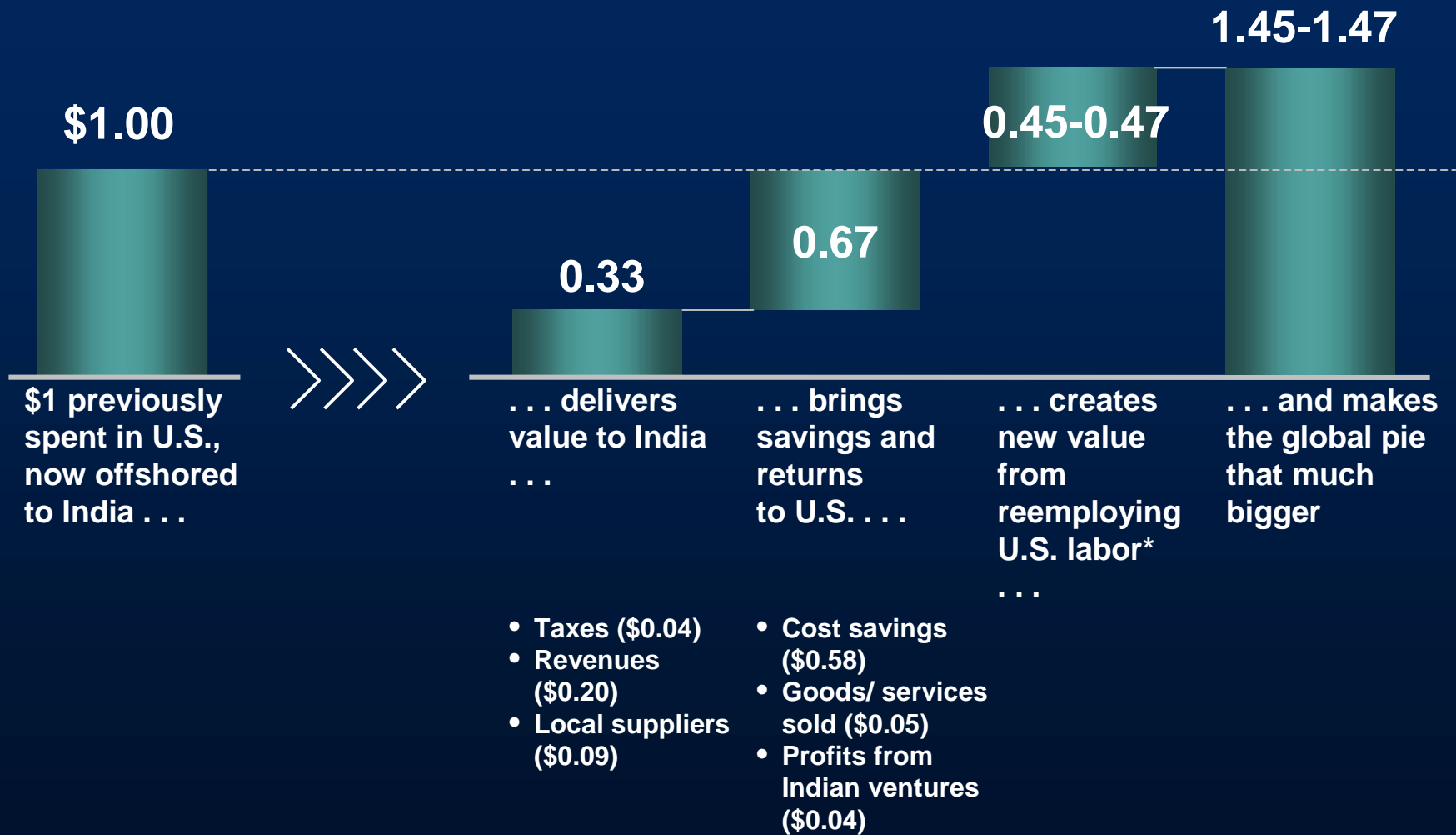
# **JOBS OFFSHORED WILL BE A SMALL FRACTION OF THE SHORTAGE IN ELIGIBLE WORKERS**

**Number of workers**  
**Millions, 2000-2015**



Source: U.S. Census; McKinsey Global Institute

# THE REAL ECONOMICS OF OFFSHORING

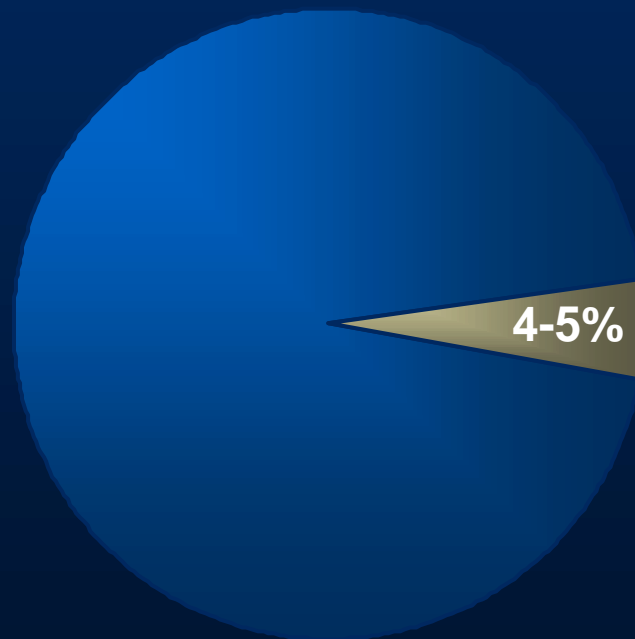


\* Estimate based on historical U.S. reemployment trends

Source: McKinsey Global Institute

# A FRACTION OF THE SAVINGS FROM OFFSHORING CAN INSURE WAGES DISPLACED

**100% = \$0.58 savings on every \$1.00 of onshore spend diverted offshore**



**Share of savings required to compensate displaced workers for job loss**

Note: Insurance offered for only 2 years following initial date of job loss and begins only when workers find a new job; subsidies for health insurance provided. Average payment is 70% of net wage loss with no cap on amount. Only workers who are full-time before displacement and after reemployment are covered

Source: Kletzer and Litan, "A Prescription to Relieve Worker Anxiety", IIE, February 2001; McKinsey Global Institute