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By the time this article hits the press a plethora of new data on the COVID-19 crisis will have emerged to change our understanding of this unprecedented phenomenon. For sure, at least half a dozen surveys of GBS and SSC leaders will have been conducted, while Big consultancies and opinion makers will undoubtedly have held an extensive series of webinars on how companies should react to the current situation.

But let's take a step back from the info-demic. What could the COVID-19 crisis really mean for Central Europe's Business Services Sector? **Is this the beginning of the end, or a pivot for how the sector operates?** Let's reflect on the future of Business Services, as we all might wake-up in a world very different from the one we were accustomed to through November 2019.

A PERFECT STORM COMING?

Firstly, let's accept that the COVID-19 crisis – as fierce and dreadful as it is – can be seen as but another disruptor impacting business. Or as some would have it: another trigger for change. Industry 4.0, climate change and sustainability, attritional trade wars and calls for diversity have been on many executive's mind for at least the last three years. That aside, business models have been challenged for more than a decade now. And with them Business Services delivery and operating models. To whip up the winds of change a little more, companies have increasingly in-sourced previously outsourced processes.

Countless Business Services Centers (BSCs) revealed themselves as engines for innovation while facing these challenges. Walking the tightrope between corporate demands for increased cost efficiencies and improving service excellence spurred creative solutions and successes. But not all BSCs had this option. Some corporations have rigidly framed their shared services operations, very much running them by the principles one would apply to outsourcing transactional services.

COVID-19 has hit both the agile and the rigid in similar fashion, combining with pre-existing disruptors to create a perfect storm. Or did it?

WHAT IS THIS CRISIS REALLY ABOUT?

Pandemonium. Probably the right word to describe the state of the world in the first few months of 2020. This is understandable as information on the virus and its spread has been opaque at best and has sowed discord across the world. Where some central governments quickly locked down a city with more than 10 million inhabitants, others cast the virus as nothing more than a "little flu".

But a number of things became clear by mid-April:

- A handful of science-fiction disciples and visionaries aside (think Bill Gates in his now legendary 2015 TED talk and the 2004 report by the US National Intelligence Council), no one imagined that a hazard of this magnitude would ever strike.
- From Goldman Sachs to the IMF, from the European Central Bank to the Bank of Japan, many leading authorities forecast that the world is heading (some say: has already entered) for an economic downturn that will make the 2007–12 economic recession pale in comparison.
- The lockdowns, though admittedly the better countermeasure to keep the virus from raging on its deadly journey, are having major economic impacts.
- Not all industries and sectors are equally impacted.
- Where some politicians see this as a reason for more isolationism, corporations view this as a trigger to accelerate automation and to re-assess their global supply lines – be it for products or for services.

But the essence of how COVID-19 has directly affected Business Services can be distilled down to the fact that people are unable to come to work. And this on an unprecedented and global scale.

BCP AT WORK – A VIEW FROM THE TRENCHES

On April 6th, Deloitte's Shailesh Narwaiye shared all-revealing insight on the experience of Indian BSCs during the first 30 days under COVID-19. Focusing on WFH, he notes that **many myths were broken**, including:

- Work from home is not possible for many BSCs.
- Even BSCs with secure networks, good cyber security and strong data privacy, will not allow people from work from home.
- Video conferences are far less effective as compared to face-to-face meetings.
- VR and remote tools are only used on a need basis as they might not be very effective.
- Individuals need active and permanent supervision in order to maintain delivery quality.
- Larger office spaces are needed to continue to attract and retain employees.
- Outcome can't be defined properly for remote working.
- Generally working hours and efficiency are less during the WFH situation.
- Innovation is significantly less in the work-from-home situation.

BCPs AND THOSE THAT WERE NOT

As a reaction to the crisis, BCP measures have been activated, full force. Yet few if any BCPs were designed to deal with the magnitude of the current crisis. Most plans center on the most critical of processes, seeking to preserve business continuity for a few days – or weeks, at best – through remote work or by shifting work to other centers in the corporate footprint. The global scale and duration of the crisis has stress-tested these plans beyond breaking point.

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But does remote work really work? Business Services associations from Central Europe to India report that many of their members have switched to having staff work from home (WFH). But not all centers have found it easy to make a quick transition. Reality suggests that it takes a significant amount of resources (and budget). Larger companies and their BSCs seem best placed to accommodate the new demands. Others face **multiple challenges**, including, as a mid-March SSON survey noted:

- Connectivity and security environment not sufficiently equipped to accommodate remote work.
- Clients not permitting off-premises work.
- Adjusting SLAs.
- Gaps in service delivery/processing capability.
- Postponement of planned migrations to BSCs Panic and general hysteria affecting productivity and causing staff to take unnecessary measures.

Then there is the **people-shepherding factor**. Managing staff remotely requires clearer communication and more intensive follow-up with teams and individuals. It also calls for more empathy. As one global shared service leader stated: *I call on my people more often than ever before. Not just on the team leads, but on all of them. We need to show compassion and really help each other. The latter could even mean getting the groceries for a colleague's grandmother if she lives closer to you than to her grandchild*. Certainly, greater emphasis on customer centricity has led BSCs to promote development of people skills over the last 2–3 years. Still, many center managers and leads will find the current crisis pushing the limits of their empathy skills.

Of course, BSCs are not immune to the wider ramifications of the COVID-19 outbreak, most notably those affecting the core businesses they serve, and third-party clients. But one can argue that the sole direct new challenge for BSCs to overcome is to adapt to and organize for more resources to work remotely.

INDIRECT IMPACTS

The maelstrom of lockdowns and their economic consequences indirectly impact Business Services in many ways. They cause restless nights for many center leads across the globe.

Front-line operations, facing their own staff shortages, are seeking to push more work to their Business Services partners on an ad-hoc basis. With most BSC resources already stretched to the max, BSC leaders once again find themselves in a tight spot.

Then there are centers that report supply chain challenges to fitting out temporary offices and to securing laptops.

Global recruitment freezes and company-wide cost cuttings also impact BSCs. John Deere in Poznan, for one, enacted a company-wide hiring freeze while corporate management reviewed business expenses during the pandemic. The BSC gained highest level corporate support to apply an "intelligent recruitment freeze". This means that it can still recruit for critical positions. Others continue their hiring and onboarding. ABSL Czech Republic, for instance, reported that by the end of March only 8% of ABSL members stopped recruiting and onboarding activities as a result of the crisis.

While recruitment has not stopped, it is proceeding at a slower pace than pre-crisis and certainly with more reliance on the use of video-interviewing. But that may not always be a viable solution. Malecki Executive Search reports that remote/virtual recruitment of senior positions continues to be more than complicated. Yet this is largely explained by the nature of high-end recruiting. As a rule, it is generally less severely impacted by direct freezes.

Expect more indirect impacts to come though. A PwC global survey revealed that 86% of finance directors expect to implement cost reduction measures. 70% report that their company is planning to defer cancel planned investments, with facilities and/or general capital spending most targeted for deferrals or cancellations. The reactions vary from one industry to another and will affect BSCs accordingly.

OUTLOOKS

Central Europe's Business Services sector overall proved resilient during the 2007-12 global recession. Looking forward, sector experts Phil Fersht and Roman Lubaczewski are cautious but share a positive view that it should not be significantly different under the current circumstances.

Still, through mid-April an internet search would alert any reader that the world and BSCs are in for a major paradigm change. But let's look at some facts.

Sector surveys through end-of March seem to challenge the notion that Business Services will undergo a sudden and radical shift as result of the COVID-19 pandemic. Arguably, for the sector as a whole, it is more about "accelerated evolution", if not business as usual.

Yet outlooks are fluid. Yogi Berra (former catcher for the New York Yankees) once said: *It's tough to make predictions, especially for the future.* Health experts maintain that additional COVID-19 waves could arise once the initial lockdowns are relaxed. It is critical for BSCs to prepare accordingly.

INDUSTRIES UNEVENLY HIT

UNCTAD identified that the world's top 5,000 multinationals (basically those that account for the bulk of global foreign direct investment) revised their end of March 2020 average earnings estimates by minus 30%. The early March average downward revision was just 6%.

Sector	Average earnings revision by March 23rd (%)
Healthcare	-2
Telecommunications services	-4
Technology	-7
Consumer non-cyclicals	-8
Utilities	-9
Basic materials	-20
Industrials	-20
Consumer cyclicals	-24
Hotels, restaurants & leisure	-41
Automobiles & autoparts	-47
Airlines	-116
Energy	-208

Source: UNCTAD, Investment Trends Monitor Nr. 35, March 2020.

OUTLOOKS FOR BUSINESS SERVICES – CROSS-SECTION OF RECENT SURVEYS

Mercer – focusing on Polish SSCs and BPOs

- 42% of Polish BSC leaders do not expect a negative impact on the business
- 52% of Polish BSC leaders do not expect their organization to modify its goals

SSON – Surveying on SSO and GBS leaders globally:

- 59% expects no long-term impact. They will deal with the current implications and then revert to business as usual
- 37% will accelerate automation initiatives to reduce dependency on physical locations/humans
- 52% expect GBS/SSO models to become increasingly digitized

Sources: Mercer - Arrangements and Resources in Poland, March 2020, SSON - COVID-19: Tip of the Iceberg for Tectonic Shifts in Shared Services Delivery Models, March 2020.

Peter Moller, leader of Deloitte's European Shared Services and Business Process Outsourcing Advisory Team, states: *Outsourcing service providers have quickly taken many lessons from the current crisis. They could well-be ahead of many other BSCs in deploying new solutions to BCP and service delivery. Given their vast technological infrastructures and command, I see a significant opportunity for them to confirm their role in this industry going forward*. His deep interactions with BSCs, indicate that notwithstanding that automation has been much spoken about for at least 5 years now, many BSCs are still far from "lights-out" operations. There is a continued reliance on humans for processing transactions. This leads to continued vulnerability. To a possible second wave of COVID-19, or other global pandemic.

NEARSHORING WAVE AHEAD?

Hopefuls across Central Europe and in adjacent Business Services destinations (for example countries like Egypt, Portugal, Spain and Ukraine) have concluded that companies will move far-shore operations closer to home. Some New York-based business leaders recently questioned – with all the working from home and accelerated adoption of AI/RPA – whether their companies will still need a delivery center in Krakow or India. "Couldn't it all be re-shored back to New York?" – the question went.

WORKPLACE AND REAL ESTATE OUTLOOKS

COVID-19 will impact the way BSCs use their real estate. Here are some views shared by from Colliers International's Sebastian Bedekier:

- There will be a scarcity of capital resulting in an aversion to invest in floorspace or to sign long term leases, at least for the first few months after the crisis.
- Flexible workspace operators like Regus or Business Link are poised to increase market share as they can offer terms as short as month to month.
- Increased WFH will lead companies to consider decreasing office space. However, this could easily reverse as the war-for-talent returns. Also, let's not forget people are social beings and that offices are places for social interaction.
- The last few years were about BSCs increasing open space and collaborative areas. Going forward they may start increasing square meters per desk, re-introducing partitions and having more closed offices .
- Location-wise, BSCs may increasingly set-up (part of) their operations in secondary or tertiary markets to diversify concentration risk.

LOCATION NO LONGER RELEVANT?

In a recent InvestLithuania podcast, Marius Ivanauskas – Head of Global Services at Telia Group – made the point that most companies were wrong to assume that certain functions, especially customer-facing ones, could not be delivered remotely while keeping customer satisfaction. He asserts that the current situation is proof that location matters less. And that remote work can work at large scale, if there is a correct company foundation and aptitude for that.


LIVE

MULTI-SITE STRATEGIES ALREADY IN VOGUE

Outsourcing service providers and IT companies definitely lead when it comes to having multiple-site/multiple-country delivery structures. But so do many captive BSCs. Though they more frequently opt for multiple sites within one country:

Company	Locations
AB Inbev	Kharkiv, Prague
ABB	Brno, Krakow, Prague
Amazon	Iasi, Bratislava, Prague
Atlas Copco	Brno, Prague
AXA Assistance	Ostrava, Prague
Barclays	Prague, Vilnius
BP	Budapest, Szeged
BT	Budapest, Debrecen
Canon	Ostrava, Prague
Citibank	Olsztyn, Warsaw
Coca-Cola	Warsaw, Sofia, Varna
Credit Suisse	Warsaw, Wroclaw
Deutsche Telekom	Bratislava, Brno
DHL Express	Ostrava, Prague
Fujitsu	Greater Katowice, Lodz, Prague
Google	Prague, Warsaw, Wroclaw
HSBC	Krakow, Prague
Ista	Bucharest, Gliwice, Katowice, Opole
Johnson Controls	Bratislava, Usti nad Labem
KBC	Brno, Varna
Lufthansa	Brno, Krakow, Sofia
McKinsey	Poznan, Prague, Wroclaw
Nordea Bank	Gdynia, Lodz, Warsaw
Roche	Budapest, Poznan, Warsaw
State Street Bank	Krakow, Tri-City

Illustrative listing, based on industry associations and investment promotion agency reports.

Again, time to take a step back. The bulk of far-shored operations relates to very transactional processes. Given far-shore wage costs and the nature of the work sent to the likes of India and the Philippines, how realistic is it to expect a one-to-one transfer-back? Experts state that nearshore wage costs and employee career aspirations would prohibit a massive one-to-one re-shoring of highly transactional jobs.

Their line of thinking also refutes the idea of massive reshoring from Central Europe to Western-Europe, or to North America for that matter. GBS and SSC leaders globally tend to agree: the SSON survey found that only 3% of executives expected to re-shore activities as a reaction to the current crisis.

By contrast, 58% see pushing the accelerator on AI and RPA as the more probable response. And that is most likely to happen in those BSCs or "Centers of Excellence" that have gained experience and developed these capabilities already. This means that the eventual change will be more about re-reshoring work and processes than about re-shoring jobs.

But it is right to question the speed at which BSCs at large could sustain a massive transition from manual to automated processes. Here again, some industries and centers are ready. But not all, nor might many of them be able to

The mid to long term winners will be those destinations that are able to foster strong links with the Business Services community — both in terms of their existing BSCs and companies looking for new BSC locations.

obtain the budgets and resources to do so at short notice as companies strive to first address the impact of the crisis to their core business. Such a transition will require the mobilization of significant IT resources, which are already scarce, and intense collaboration between transition experts and the people currently executing the work. A task that is, as Romek Lubaczewski notes: *A very collaborative effort. You cannot do that with people sitting at home.*

FUTURE BUSINESS MODELS

There is little doubt that the concept of supply chain de-risking will increasingly roll over from corporate production to middle-offices and BSCs. Leading companies have long implemented such tactics. A quick review of major corporations' BSCs across Central Europe shows that many of them have opted for a multi-site structure. The key drivers behind such tactics historically related to avoiding concentration risk, maximum center size, capitalizing on locally built-up expertise and war-for-talent considerations. Without doubt, the global "stand-still" caused by COVID-19 will encourage more companies to opt for a diversified BSC structure with operations spread geographically. Expect to see those that already have one to start reassessing their sourcing risks and to revisit past shoring decisions for their business services operations.

But risk and geographical diversification aside, there might be little new on the horizon. The modern best practice of adopting layered, multi-site and hybrid structures, is slated to remain the business model going forward. As eter Moller puts it: *For several years now shared services organizations have been trying to move to a more digital model. One where transaction processing is fully automated and the customer experience passes the "Amazon test" – i.e. services can be accessed and experienced any place, any time on any device. This current crisis has shown us that the closer organizations are to this model – the better they have been able to weather the lockdown environment. Going forward I expect organizations to redouble their efforts to implement digital shared services to create this resilience and agility.*

WHERE'S NEXT?

The interesting question is which locations could most benefit from what's ahead for the business services sector? Location strategists will rephrase that question into "What type of locations?". These consultants maintain that process characteristics determine the search area for any site selection process.

With that in mind, Central Europe seems to be facing an array of scenarios, with the outcome probably being a combination of them:

- Countries and cities with mature business services ecosystems will see their BSCs scaling value-adding activities at an accelerated pace, with some centers assuming more governance over remotely located and more transactional processes.
- Tier-3 and Tier-4 cities will see an increased inflow of predominantly more transactional, labor-intensive work insofar as those processes cannot be automated, and/or have specific language requirements.
- Large-size, single centers will be split, within cities, across cities within country, and possibly even across countries.
- Countries formerly perceived as higher risk (take Egypt and Ukraine) may now be viewed as falling into the same risk categories as Central European BSC destinations, paving the way for more competition between cities, regions and countries.
- Locations that provide access to a ready supply of STEM skills, and that offer an ecosystem where companies and education institutions easily cooperate to secure that supply, will come out strongest from the current crisis.

The mid to long term winners will be those destinations that are able to foster strong links with the Business Services community – both in terms of their existing BSCs and companies looking for new BSC locations. Across Central Europe today, more than 300 people working for economic development agencies and business services associations are already tasked to that.

Any other conclusion than that the region is well-placed to be resilient for business services seems unjustified. BSCs across the region, and the ecosystem that supports them, should just keep calm and carry on.◆

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