HFS

Designing for data is the way forward for digital operations in the Nordics

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The Bottom Line: Nordic enterprises striving to move up the digital maturity curve must design for data

HFS Research recently conducted research supported by Capgemini to document the regional nuances of digital operations in the Nordic region (including Denmark, Finland, Iceland, Norway and Sweden). As a part of the study, we conducted qualitative interviews with 19 global business services (GBS), finance, and IT leaders at enterprises across the Nordic region to understand their digital programs, including their current digital maturity, challenges they face while running their digital programs, their strategic focus aligning to digital programs, and their perspectives on internal and external sourcing strategies. HFS followed up with a digital roundtable bringing together a mix of operations leaders from the Nordic region to discuss our findings and further explore the vision for digital maturity in the region. This POV summarizes our findings, confirming our hypothesis that to advance digital operations, Nordic region enterprises must focus and invest in their foundational data capabilities. The key findings of our research are summarized below:

- Shared services dominates the Nordic region operating model narrative for business services, with hybrid delivery being the way forward for many, relying on both in-house and external sources of talent and capabilities.

- Data transformation, process harmonization, and native automation are the key "have-to-haves" for enterprise leaders in the Nordics. Data-driven operational workflows in the cloud are the future for Nordic enterprises, especially for enabling business functions such as finance and accounting, procurement, supply chain, HR, and customer service. A Head of Shared Services told us, "As shared services, one of our contributions is to be a data quality guardian."

- Most ambitious organizations want to progress their digital operations, but few have fully realized their visions for business transformation.

- GBS leaders in the Nordics understand the importance of internally aligned processes between front, middle and back-office operations and see it as a medium-term to long-term goal.

- Change management is the key challenge when running digital transformation programs. services executive with a blockchain interest.

Shared services dominates the Nordic operating model narrative, with a move toward hybrid delivery in the future

The shared services and outsourcing industry has evolved worldwide, with a continued move toward end-to-end process consolidation, standardization, and a continued quest for cost efficiencies. Many Global 2000 enterprises have evolved GBS centers to manage the sourcing and delivery strategy for major business functions, including finance and accounting, HR, supply chain, procurement, customer service, IT, and helpdesk services. While each company has its own strategy on this front, we see some trends in how they source capabilities. Delivery models include the setup of shared service centers and captive units in nearshore and offshore locations, engaging with third-party IT and BPO (business process outsourcing) service providers, or a hybrid version of these approaches.
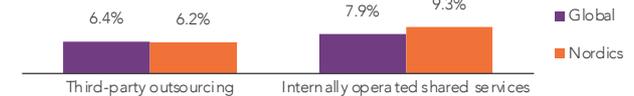
When it comes to the Nordics, our recent market data and qualitative interview-led research both show that enterprises are open to global talent sourcing, with a greater proclivity toward operating their own shared services centers in global locations. HFS Pulse research data in Exhibit 2, surveying 801 global enterprises, shows that the shared services-led delivery model will continue to be the most preferred means for Nordic enterprises to run their business services, and it will be an investment area in the next few years. Many Nordic region businesses are trying to gain more business stakeholder buy-in to grow their shared services footprint and further consolidate business functions. Comparatively, enterprises in high-pace markets such as the United States are engaging more with external service partners, particularly in the areas of data modernization, cloud adoption, and process redesign. For example, HFS Pulse research data shows the global appetite for digital and business consulting is growing at 7% annually.
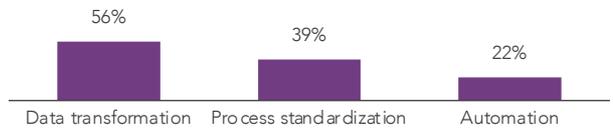
Exhibit 1: Enterprises in the Nordic region strive to move up the digital maturity curve with a focus on improving data quality, data management, reporting, and process standardization

1. **Shared services continues to dominate the Nordics operating model narrative.** Norway emerges as the most attractive country in terms of expected third-party spending growth.

2. **Data transformation is on top of the CXO agenda for 50%+ enterprises in the Nordic region.** Process standardization and automation complete the top three CXO level priorities.

3. **Enterprises are "on the fence" in digital maturity (average 2.6 on a 5-point scale).** Around 70% of companies are in the middle of their efforts to scale digital transformation across their functions.

4. **OneOffice is the North Star** but remains a medium-term to long-term goal for more than 60% of enterprises that we interviewed.

5. **Change management, a lack of digital skills, and working with fragmented business units** are the key challenges that enterprises face when driving digital transformation.

Source: HFS Research, 2021

Expected percentage of increase in spending over the next 12 months?

	Global	Nordics
Third-party outsourcing	6.4%	6.2%
Internally operated shared services	7.9%	9.3%

Data transformation is on top of the CXO agenda

Data transformation	Process standardization	Automation
56%	39%	22%

Nordics enterprises remain "on the fence" in terms of digital maturity

Level 1 — Starting gate
Level 2 — Piecemeal
Level 3 — On the fence
Level 4 — Optimized
Level 5 — Transformational

Change management, digitally fluent talent, and fragmented business units emerge as the top 3 challenges

Change management	Lack of digital and data skills	Fragmented business units
50%	39%	28%
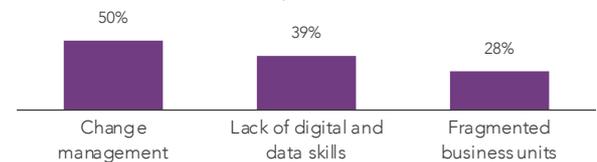
As the Head of Business Finance at an engineering services firm shared, *"Our biggest challenge is actually to get understanding and buy-in from the business, as they are very attached to local resources…when they moved the initial work to India, it was not popular at all as it meant we didn't have any local work left. When we did the same in our function, it was not as drastic as that but step by step, and not with the goal of moving everything. Before, we had presence in every office; instead, now we have hubs for efficiency. It is very difficult for the business to understand why this is necessary. Getting them on board is challenging."*

Working with third-party service providers is a growing trend for Nordic firms, and many are approaching a hybrid strategy of retaining their shared service centers and selectively bringing on external partners. During our conversations with enterprise GBS leaders, we learned that most businesses want to standardize their internal processes or modernize enterprise resource planning (ERP) before considering outsourcing. Additionally, a few companies need niche skills, for which they are willing to work with external partners; examples of these skills include sustainability-related solutions in procurement, programmers for front-end business intelligence reporting, and robotic process automation (RPA). Regarding the outsourcing of work, enterprises in Norway have a slightly higher propensity to work with third-party service providers compared to other Nordic region countries.

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Times are changing. With automation becoming more cost competitive, companies might look for more hybrids, with both back-office and their own teams, but [it] depends on the company. For us, it will be this (captive + current back-office partner).

– Head of GBS Finance, pharmaceutical company

"

We have a flexible approach. We are open [to a] hybrid model. More organizations are moving into in-house and hybrid models. Sometimes, for certain projects, we seek [the] help of external consultants.

– Head of Finance and Digital Transformation, dairy and farming machinery company

Our research shows strong IT demand in the areas of IT modernization, digital experience (transformation), and cloud adoption. There is also a growing demand for driving revenue growth, operational efficiency, and compliance when working with third parties to access innovation and take captive performance to the next level (skills, talent, and capability gaps).

Exhibit 2: Shared services are expected to grow much faster than third-party services in the Nordic region

To what extent will you increase or decrease spending on internally operated shared services (including captives) or external third-party services in the next 12 months?
% expected growth (weighted average across respondents)
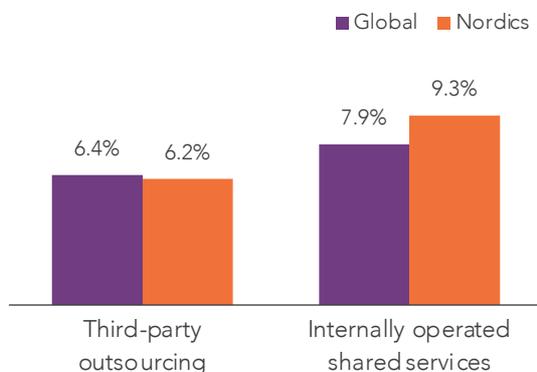
To what extent will you increase or decrease spending on external third-party services in the next 12 months?
% expected growth (weighted average across respondents)
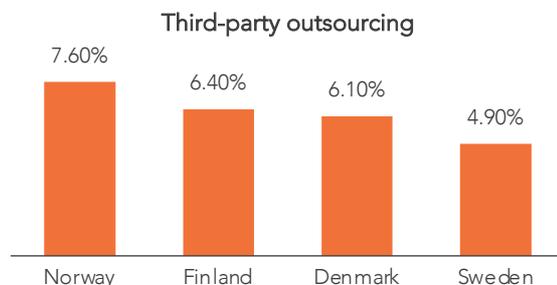
Sample: 801 respondents from Global 2000 enterprises including 133 respondents from the Nordic region
Source: HFS Research Pulse, April 2021

Data transformation is at the top of the CXO agenda; process standardization and automation complete the top three CXO level priorities

More than 50% of enterprise leaders in the Nordic region indicated that data transformation is their most important strategic priority. In Exhibit 3, you can see that process standardization and automation are Nordic enterprises' other key strategic imperatives.

- **In the pandemic economy, data strategy is the key "have-to-have" for Nordic enterprises.** While data, analytics, and artificial intelligence (AI) have retained their importance as transformation levers, they have moved up in priority as Nordic companies re-think their strategy to survive and thrive in the pandemic economy. Poor data quality, a lack of standard mechanisms to fetch the required data on all relevant participants in their ecosystems, and a lack of skills to perform the right level of analysis and reporting for their leaders are the key ailing factors regarding the

data strategy. In addition, many Nordic enterprises do not have a data management strategy and process in place within their GBS and finance functions. The combination of these aspects points to the need for multi-faceted data transformation in these enterprises. For some, this means implementing process intelligence products to get machine-generated data about operational performance to then refine and monitor them over time, building data-driven business processes. For others, it is about investing in robust data governance and master data management practices that can help build greater confidence in enterprise data, while a few Nordic firms further along the journey are looking to invest in advanced analytics and AI capabilities to embed intelligence into their processes to drive better decisions across the business.

Exhibit 3: Data transformation is the key strategic imperative for enterprises in the Nordic region

What are the top three CXO level priorities aligning to your business function?
Companies strive to identify and work with high quality data, and establish master data management practices

Data transformation	56%
Process standardization	39%
Automation	22%
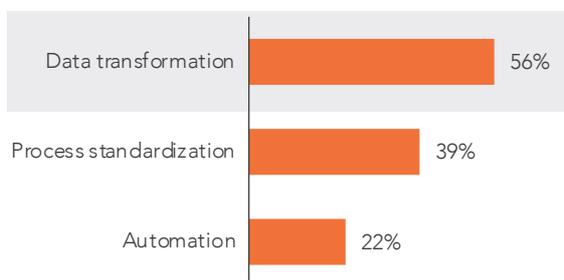
What are the key have-to-haves?
Companies feel the importance of a robust data strategy and bridging gaps in older systems

Data strategy	78%
Bridging gaps in older systems	78%
Redesigned processes	56%
Augmented AI	39%
Scaled automation	39%
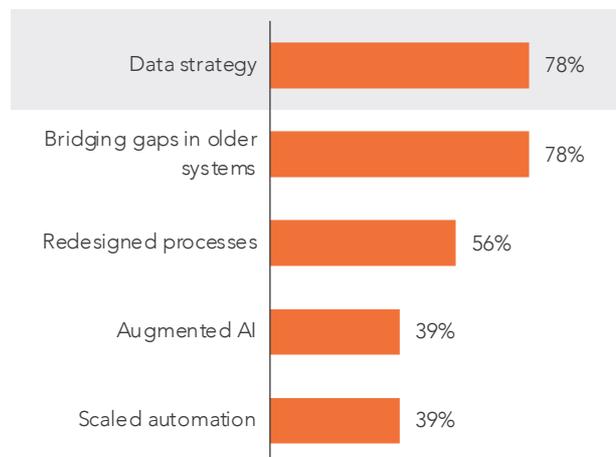
Top three "have-to-haves" manifest themselves for some companies in next-generation ERP systems.

Sample: 19 Enterprise leaders in Nordics region
Source: HFS Research, 2021

- **Process standardization is the second strategic imperative for Nordic enterprises.** The business units in these enterprises operate with fragmented processes. The fact that most of these units came through acquisitions at different times is one of the key reasons for the non-uniformity in their processes. To succeed in their digital initiatives and ensure growth, Nordic region enterprises need to acknowledge and address their process debt, which means moving beyond broken processes with better underlying data, standardized processes, and more transparency.

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> Standardizing processes and driving automation are among the top priorities. Within finance, we need to look at what part of business finance, corporate finance, and GBS finance need attention. Implementing something means we need to align seven business units. This means we need to get all seven business unit stakeholders into a workshop to get to this. It is not only in finance, HR, etc.; it is everywhere here.
>
> — Head of GBS and Transformation, food manufacturing company

> ❝
>
> How to change finance to combine finance strategy and digitization. First is to harmonize processes. We have not standardized a lot.
>
> — GBS Head, bearing and seal manufacturing company

- **Scaling and investing in automation is high on the priority list for achieving greater process efficiencies.** Native automation underpinning the robust data management strategy, harmonized processes, and right technology stack will help Nordic enterprises achieve their digitalization goals. As many of the companies in our analysis are working toward modernizing or replacing their legacy systems, their underlying processes and data are bound to change, making process automation a downstream opportunity rather than a near-term investment. However, even these companies see their ERP investments as partly meeting their automation goals, as the manual work to reconcile data across multiple legacy systems will essentially go away after the upgrade.

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> Building strong fundamentals in finance operations. Interpreting that as automation, RPA, using blackline and those industry tools. Having that in mind, it is definitely on the agenda for next year. As we move onto a standard ERP, it will standardize our inputs and will be a key enabler for ML, etc. Step 1 of getting to automation is standardization, and HANA will be part of that.
>
> — Head of GBS Finance, pharmaceutical company

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> Advancing automation agenda through RPA across the functions in all geographies is important for us.
>
> — Head of Finance and Digital Transformation, dairy and farming machinery company

Nordic businesses have ambitious visions for maturing their state of digital operations but need to address significant capability gaps

Through our discussions with the leaders in enterprises across the Nordic region, we discovered that most of them know where they want to go with digital operations but are left grappling with gaps in capabilities and skills required to succeed in their digital transformation journeys. Approximately 70% of companies are in the middle of their efforts to scale digital transformation across their functions. Overall, enterprises in the Nordic region are "on the fence" in digital maturity (average 2.6 on a 5-point scale). Enterprises in Exhibit 4 need to improve across all facets of their digitalization journey.

- **Data is the foundation of digital operations maturity in the Nordics:** As we noted before, data needs more attention because it is so immature, yet it is emerging as the foundation of digital operations maturity. As companies aspire to build robust data models and data management processes to improve performance reporting and forecasting, they are not able to identify the right resources to work on digital technologies and

data analytics. Working with digital and data skills is also about fostering an environment where upskilling and reskilling become part of the culture. Many businesses have invested in digital initiatives, but the effort now is to go from a project focus to an enterprise-wide uptake of digital and data technologies, particularly in enabling business functions that are ripe for disruption. To this end, some Nordic companies are engaging with third-party service providers that can bring in a range of capabilities and position themselves as a transformation partner or provide the niche digital or data capabilities in specific domains and emerging areas of interest.
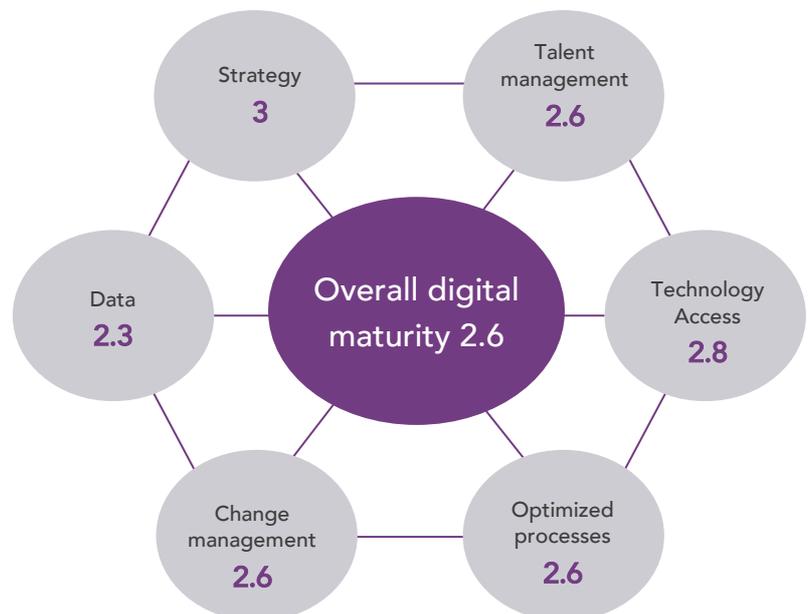
> We want resources in AI and ML who are interested in working in procurement.
>
> – Head of Finance and Digital Transformation, dairy and farming machinery company

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Exhibit 4: Everyone is putting their strategy together, but they work with fragmented processes and low-quality data today

How would you rate your organization's maturity of digital operations on a scale of 1 to 5?

Level 1: Starting gate—Nascent

Level 2: Piecemeal—Silos within functions and business units

Level 3: On the fence

Level 4: Optimized

Level 5: Transformative

Strategy 3
Talent management 2.6
Technology Access 2.8
Optimized processes 2.6
Change management 2.6
Data 2.3

Overall digital maturity 2.6

Sample: 19 enterprise leaders in the Nordic region
Source: HFS Research study, 2021

- **Change management underpins all progress:** Change management is another area manifesting as a major challenge for embracing digital technologies. Nordic region operations leaders acutely feel the change management capability gap, as it inhibits the success of the entire digital operations agenda. Embracing a culture of change needs attention from both top-down and bottom-up perspectives. Leaders struggle to get buy-in from internal stakeholders across various units for digital initiatives. A critical element of workforce management is that simultaneously employees must be educated about the benefits of digital technologies and reassured their jobs are secure.

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> We want to move to man–machine corporation. Lots of managers are thinking digital transformation is a black box and are not outspoken about the challenges. They are not ambassadors for change.
>
> – Group CFO, retail company

- **Optimized processes are a key goal for consolidating markets:** As we saw earlier, fragmented operations of units that have come through acquisitions and lack of process harmonization across the functions add to the above-mentioned aspects, thus impeding the scaling of digital initiatives will essentially go away after the upgrade.

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> We have grown exponentially in the last 20 years through M&A. Several of our markets were through acquisitions. Data infrastructure has not grown from a strategic perspective but was built as we went along. This translated into a collection of many small businesses rather than a conglomerate with a unified strategy, which is challenging when thinking of alignment with a CXO strategy.
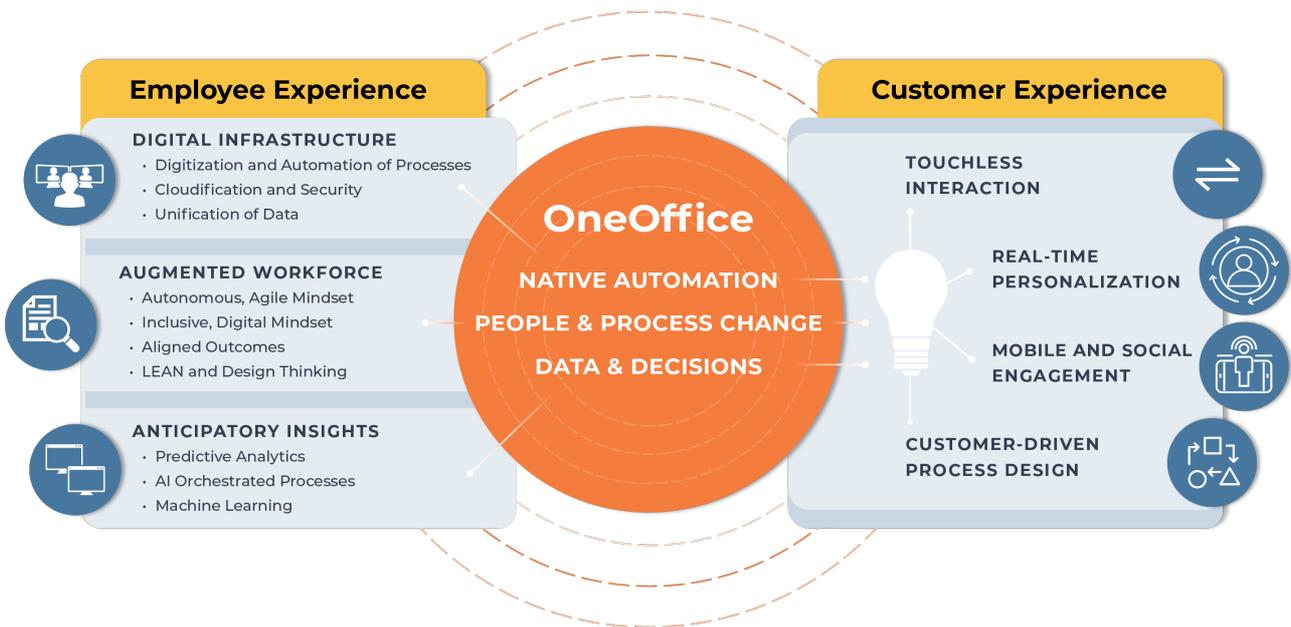>
> – GBS Head, Engineering, architecture and consultancy company

OneOffice is the North Star but remains a medium-term to long-term goal

As global businesses move toward operating in a hyperconnected ecosystem, they face the need to break the silos in front-, middle- and back-office functions to ensure seamless operations and improved experience for customers and employees. At HFS, we refer to this need for internal alignment as the OneOffice™—our version of digital transformation in action (see Exhibit 5). The OneOffice journey is all about creating touchless, frictionless, digital experiences and connecting the front and back offices to facilitate them in a remote, virtual setting. The OneOffice focuses on human experiences to unleash talent and drive business results. At its core, OneOffice is about making customer, employee, and partner experiences the heart of the strategy. Human connections generate satisfaction and loyalty, and by aligning goals and experiences across stakeholders, you will collectively contribute to the organization's purpose and create positive impacts for business growth and success.

Exhibit 5: Connect the front, middle, and back offices to deliver the OneOffice™ Organization

Employee Experience

DIGITAL INFRASTRUCTURE
- Digitization and Automation of Processes
- Cloudification and Security
- Unification of Data

AUGMENTED WORKFORCE
- Autonomous, Agile Mindset
- Inclusive, Digital Mindset
- Aligned Outcomes
- LEAN and Design Thinking

ANTICIPATORY INSIGHTS
- Predictive Analytics
- AI Orchestrated Processes
- Machine Learning

OneOffice

NATIVE AUTOMATION

PEOPLE & PROCESS CHANGE

DATA & DECISIONS

Customer Experience

TOUCHLESS INTERACTION

REAL-TIME PERSONALIZATION

MOBILE AND SOCIAL ENGAGEMENT

CUSTOMER-DRIVEN PROCESS DESIGN

Source: HFS Research, 2021

Capgemini has developed and launched the Frictionless Enterprise, a concept it brought to life within its client portfolio, quite aligned to the OneOffice (see Exhibit 6). Capgemini believes enterprises must look first look to unlock future business outcomes by breaking the silos from traditional operating models within and external to the organization and establishing data, cloud, and AI in an augmented workforce set up to drive new streams of revenue, customer intimacy, and intelligence to elevate competitive advantage. Building out the five fundamentals of a Frictionless Enterprise forms the foundation for organizations to flow information seamlessly between people and processes intelligently and as and when it is needed. Achieving the Frictionless Enterprise doesn't mean arbitrary application of technology, rules, or processes. It entails whole new digital ways of thinking and working combined with the capacity to constantly adapt itself to new contexts. Capgemini also leverages its Digital Global Enterprise Model (D-GEM) business transformation platform to address every point of friction in its clients' business operations. This approach helps its clients remain competitive in a rapidly changing business context and deliver the Frictionless Enterprise. Capgemini has applied the Frictionless Enterprise concept to its entire suite of products and services, leveraging its latest thinking, organizational design, and intelligent solutions to achieve our goal of effortless operations.

Nordic enterprise operations leaders understand the importance of OneOffice and the move toward frictionless experiences. As the head of Business Services at a Nordic enterprise shared during the HFS roundtable, "Functional setups are typically rigid; organizational setups are typically rigid. So how do we make their design more fluid? They become fluid when we have been successful in making our case at the CXO level that these functional 'silos' prevent us from reaching our business targets. Once we have been successful in making our case, we can design end-to-end roles; we can design end-to-end organizations, and we attract investments in end-to-end focused improvement programs." Others at the roundtable believed that as a function of being a large organization, silos will always exist, and thus what is needed are mechanisms not just to remove silos but bridge them, such as end-to-end processes.

While a move toward the OneOffice and frictionless operations resonates for Nordics enterprises, given their immediate priorities on process harmonization and establishing standard mechanisms to manage data and modernize systems, they see OneOffice as a medium-term to long-term aspiration. More than 60% of enterprises we interviewed consider OneOffice as a "have-to-have" capability in the medium to long term vs. a here-and-now investment priority.

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> OneOffice is very important for us. To serve customers better and drive sustainability in value chain, we need to drive more end to end, which is all about breaking silos more horizontally. Digital and data will unlock this.
>
> – Global food packaging specialist

> "
>
> This (OneOffice) should be seamless. It is important to us in [the] future.
>
> – SVP and Group Controller, pulp and paper manufacturing company

Exhibit 6: The frictionless enterprise enabled by technology

The five fundamentals of the frictionless enterprises

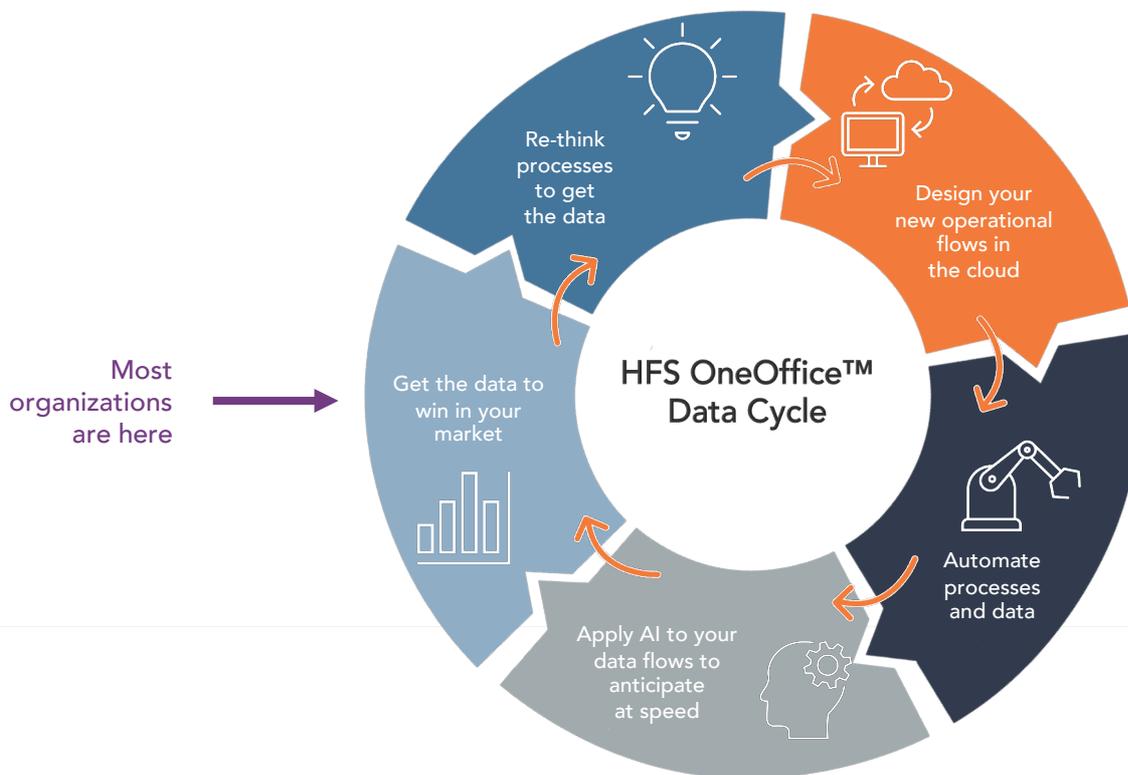| Hyperscale automation | Cloud Agility | Data Fluidity | Sustainable Planet | Secure Business |

Source: Capgemini, 2021

Takeaways

Business leaders in the Nordics must take the reins when it comes to data. They are best placed to understand the nuances of business processes that need modernizing, the upstream and downstream data that is needed, the outcomes that the business functions are driving toward, and, most importantly, the motivations and cultural drivers of the people executing the processes daily. Our in-depth interviews and follow-on roundtable indisputably concluded that there is a strong connection between data, people, and process. As Exhibit 7 shows, data plays a critical role in driving frictionless operations in enterprises.

Many Nordic GBS and finance executives shared that by letting the IT organization carry the mandate for digital alone, the current IT landscape might be cementing the silos rather than process taking the lead. This divide is quite hard to break but well worth the investment in change management to align IT and business along the lines of enterprise data.

A roundtable delegate summed this up best, stating, "We need to design for people and for data vs. technology." In an enterprise's process structure, a typical process excellence initiative will re-engineer the process steps around the technology and existing technical debt. Business operations leaders must now move toward human-centric process redesign vs. re-engineering, taking into account the process data needed to win in markets. This primacy of data as the catalyst for digital operations transformation will see Nordic enterprises through their transformation goals for the next few years. However, it will take a village—including shared services capabilities, IT, digital, data, automation practices, GBS organizations, and an ecosystem of technology vendors and specialist partners that can push OneOffice and frictionless alignment for the enterprises in the Nordic region.

Exhibit 7: Data is the strategy, automation the discipline, and AI the refinement

HFS OneOffice™ Data Cycle

- Re-think processes to get the data
- Design your new operational flows in the cloud
- Automate processes and data
- Apply AI to your data flows to anticipate at speed
- Get the data to win in your market

Most organizations are here →

Source: HFS Research, 2021

HFS Research authors

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Reetika Fleming leads coverage for smart analytics, insurance, and finance and accounting at HFS Research. She studies the broad use of data and analytics within enterprises, with a research focus on emerging strategies to institutionalize machine learning and other AI techniques. Her research extends into the impact of digital business models, IoT, smart analytics, and AI on business process services for insurance specifically, and finance and accounting broadly.

Phil Fersht
CEO and Chief Analyst

Phil Fersht is widely recognized as the world's leading independent analyst focused on the alignment of business operations and technology spanning over two decades. He has a global reputation for calling out the big trends, unafraid to share his honest views, driving a narrative on the technology and business services industries that shape many leadership decisions. His reputation drove him to establish HFS Research in 2010, which has today grown into one of the leading industry analyst firms and the undisputed leader in IT business services and process technologies.

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About HFS

Insight. Inspiration. Impact.

HFS is a unique analyst organization that combines deep visionary expertise with rapid demand side analysis of the Global 2000. Its outlook for the future is admired across the global technology and business operations industries. Its analysts are respected for their no-nonsense insights based on demand side data and engagements with industry practitioners.

HFS Research introduced the world to terms such as "RPA" (Robotic Process Automation) in 2012 and more recently, the HFS OneOffice™. The HFS mission is to provide visionary insight into the major innovations impacting business operations such as Automation, Artificial Intelligence, Blockchain, Internet of Things, Digital Business Models and Smart Analytics.

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