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Mastering high-performance BPO

Keys to the Kingdom

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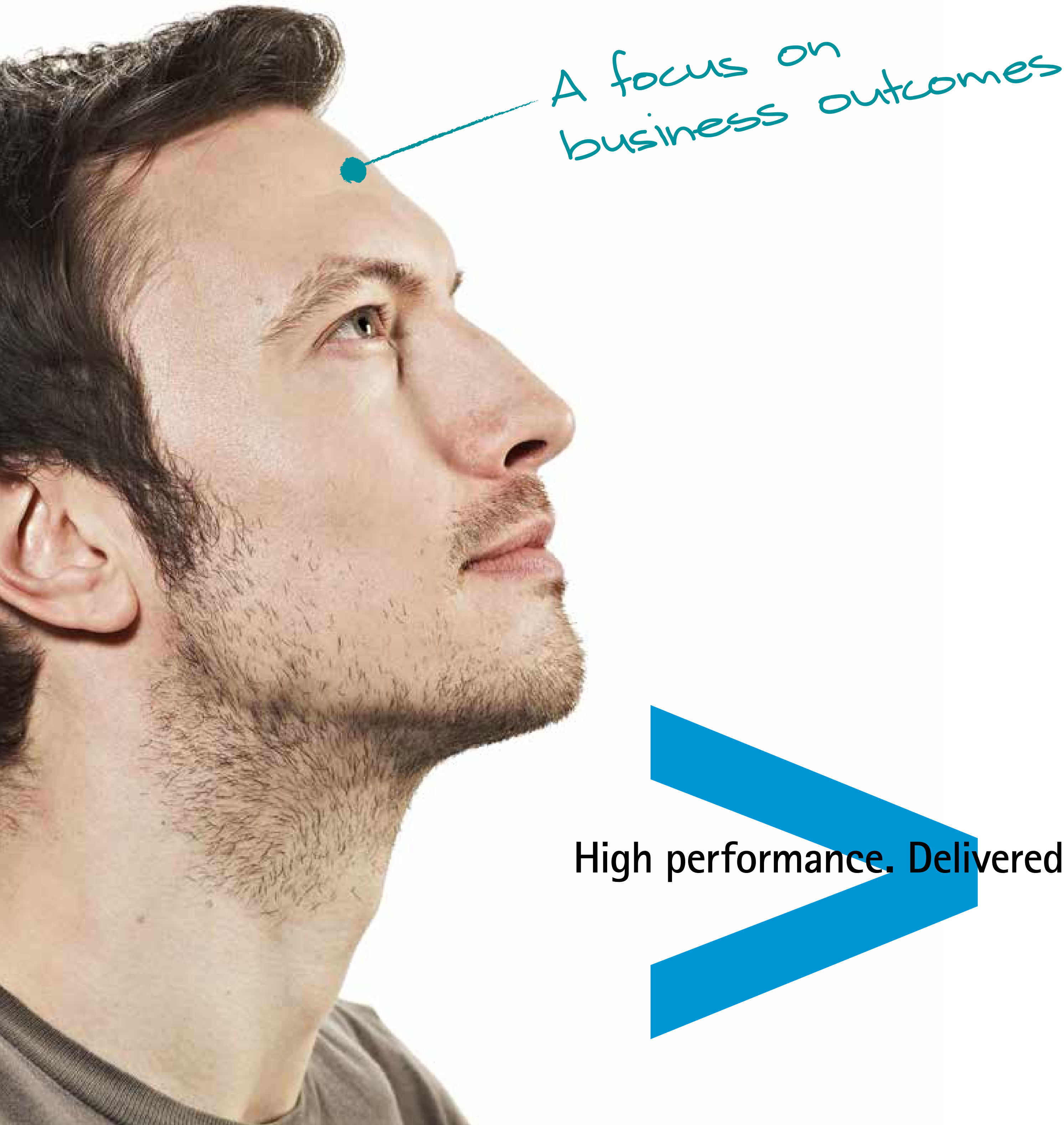


High performance. Delivered.

Introduction

As the business process outsourcing (BPO) market matures, clients are expecting BPO outcomes beyond cost savings and meeting service level agreements.

Next-generation BPO clients want their service partners to transform their back offices, improve business performance, support the client's shifting business directions, and deliver business outcomes that were not initially expected. We call relationships that are achieving these exceptional results high-performing BPO relationships.

What practices distinguish high-performing BPO relationships from "typical" BPO relationships? Our latest research from the London School of Economics and Accenture uncovers the "keys to the kingdom" practices that contribute to high performance. These practices emerge from analysis of four research streams: a comprehensive survey of 263 senior client BPO executives by The Everest Group[i], in-depth interviews with client-provider executive pairs in 20 organizations[ii], our prior BPO case study research[iii]—including a study of 26 organizations achieving innovation through outsourcing, and a review of 1,356 BPO and ITO findings from 254 academic research studies identified as robust[iv].

Our client interviews and survey found that targeting strategic business outcomes—not just more efficient transactions—is one of the most important of those practices. High-performance businesses aim for specific strategic outcomes from a BPO arrangement that can be measured and that can help achieve competitive advantage. Beyond that, they are also willing to forge deals where an outsourcing provider commits to achieving those outcomes—paying a penalty if they are not met or sharing in rewards if they are. In our survey, 67 percent of high-performers include business benefits beyond cost in their business cases, compared to only 26 percent of typical performers, and 62 percent of high-performance businesses consider business impact targets as an important component of the BPO service model, compared with 50 percent of typical performers.

High-performance businesses also see more potential from the relationship to achieve greater ends: 56 percent seek to achieve competitive advantage through BPO, while only 28 percent of typical performers aim for that goal. They also adopt collaborative innovation practices—those that involve a different business and strategic-focused mindset delivered through distinctive leadership, contractual and organizing practices. These practices generate behaviors that break the deadlock in innovation that is typical of traditional outsourcing arrangements. Instead, in high-performance BPO engagements, we see close partnering behaviors developed over and for the long term, which are distinguished by trust, flexibility, reciprocity, risk sharing and investment of time and resources that are essential for achieving business and strategic outcomes.[v] Table 1 summarizes the action points and impacts for targeting strategic business outcomes.

Table 1: Targeting strategic business outcomes

Focus	Typical actions	Impacts
The process advantage	• Process excellence a priority, but with competitive advantage in mind • Consolidation and standardization are prioritized to support business direction	• Process performance delivers on business goals • Process integration aligns with strategic priorities
Inside the strategic tent	• Priority creating competitive advantage prioritized • Work with providers in strategic discussions • Focus on the core capabilities of and strategic actions for the enterprise	• Provider capabilities support business competitive advantage • New performance metrics targeted • Provider pressed for innovation and new thinking
Underlying contractual structure	• Align key performance incentives, gain-sharing and metrics to strategic business goals	• Dynamic contracting supports business strategies • Incented collaborative provider(s)

The process advantage

Excellence in service delivery is a characteristic of high-performance BPO, but partners in these relationships also look beyond that to innovations and better business performance.

This translates into regularly re-examining service level agreements (SLA) so that they help achieve business goals that the outsourced processes support. An executive with one provider noted that the client-provider team is not content with merely meeting SLAs but continues to re-examine them in light of the business outcomes they are intended to produce: "We have a responsibility to deliver to our contractual obligations, and that includes meeting SLAs, which are targeted at being efficient. However, we also put emphasis on making sure we drive the right end-to-end results, making sure things are better for the client, meaning we target being effective." So, in this engagement the partners work to refine SLAs in light of those dual goals.

A key process advantage is the depth of the relationship with the provider. At a major hi-tech manufacturer, the client executive said: 'Ours is a fast operating company. The supplier always responds when we need new things and completion, and we trust them. For example, if they are managing credit calculation, they are absolutely free just to discuss with all our customers in our name, with all our sales people, with all our marketing people. So it gives them more empowerment and it gives us an added value'.

In practice, for high performers process excellence and integration are necessary building blocks for leveraging provider impact beyond a single functional area; e.g., finance and accounting, human resources, procurement – into wider business and strategic impacts. Our major case studies in FAO at BP and Microsoft show how this can be achieved on a global basis.[vi] How this can be delivered is revealed in another FAO deal at a major hi-tech manufacturer. In one example the provider focused on completely changing the structure of reporting. This was organized around countries or regions, each with its own complete team. Adding a region, for example northern Asia, or western Africa, meant building a completely new team. According to a senior provider executive:

"We've completely restructured to having global standard procedures and global teams doing inter-company and a global team doing reconciliations and then a global team doing journals and doing it in a standard manner. It's gone from being a major issue to almost a non-event when we need to bring on some of these countries. One of the barriers to strategic flexibility and business growth is the cost of entry. We've reduced that."

Here, the client senior executives realized that the fast-moving market required them to transform their processes faster and more efficiently. They needed an operating organization that would be nimble enough to support growth in a non-linear fashion and a structure that could efficiently adapt to the rapidly changing market conditions. With these larger strategic goals in mind, they secured a collaborative partner to be able to deliver process innovation and support strategic positioning globally.

At an engine manufacturer, the client wanted the provider to focus on choke points in the supply chain. In early 2011, only 70 percent of customer orders for spares could be fulfilled on time. The provider introduced their consulting methodologies and proprietary tools that could predict demand based on historical sales using mathematical algorithms. Using the analytical output generated, the client could make faster decisions on what to stock when, and how much at their various distribution centers. Within six months, material availability and fulfill rates in the distribution centers went up by 25 percentage points to 90 percent. The client said: "I would say you see it (the value) in terms of customer delight; though of course, it is harder to measure units of customer delight than number of aircraft engines going out of the door."

The intimate relationship between provider performance and business outcomes is also revealed by the same client manager: "A critical mass of people working on a varied scope and linking business processes together—kind of connecting the dots—is generating incremental value. One key example is on the supply management side… we have a team metric that is on-time delivery to the engine line so that we can build our engines in a timely fashion as per customer requests. All this makes sense. Our performance was in the low 70s, now we are in the high 80s. It has never been that high. It is now very good but it is not the end of it. We could be missing one bolt and not be able to ship an engine out on-time."

Leveraging the provider: Inside the strategic tent

One of the many myths of outsourcing is that outsourcing cannot achieve innovation, let alone strategic business outcomes. Our several studies have found plenty of examples to contradict this.

Thus, in an accompanying study, 21 outsourcing arrangements were delivering IT and business process innovations, and seven of these were also delivering strategic innovations, significantly enhancing the firm's product/service offerings for existing targets, or enabling entry into new markets. For instance, we found an Asia-Pacific leisure company using providers to introduce technology and processes (to automate and thus speed up) roulette to increase revenues from high rollers. Similarly, a car parts distribution company introduced remote computerized car monitoring to pre-empt mechanical breakdown and provide positive response in terms of spares and repair through its providers.[vii]

The distinctive pattern in all these cases is that clients get such results by:

- inviting the provider into the strategic tent
- adopting collaborative practices[viii]
- leveraging the provider's wider capabilities to achieving process innovations and strategic business outcomes.

Increasingly, client organizations are engaging BPO providers to help them with their strategic moves into new markets and new geographic areas, as well as to facilitate explosive growth through mergers and acquisitions. In short, high performers have a different mindset and ways of operating with their strategic providers.

On being allowed into the strategic tent, the provider account executive for a high-tech manufacturer recalled a discussion with the client's senior vice president who said, "I may yell at you for the quality of your service levels or cost, but the things I talk about with my boss are the things that really matter and that's our ability to support the company's growth in evolving markets." These were, in fact, the only priorities talked about even at the contracting stage.

Another provider executive at a software tools manufacturer gave an example of client collaborative practices and leveraging provider capabilities in a procurement deal. "We knew they were a bit of an acquirer of companies and they said they did not have the piece of mergers and acquisitions due diligence about understanding how procurement would be impacted—how prices would change, for instance. We (the supplier) became part of this kind of acquisition team and we evaluate contracts and we provided a preliminary report on the impact the acquisition would have on procurement. So, that was a recent innovation we implemented in the last 18 months," he said.

A further example is in a supply chain outsourcing relationship at a manufacturer. "What we are doing now is identifying three or four potential areas where they are having business challenges affecting their profitability and we're figuring out what kind of investments projects we need to drive improvements to their profitability and then gain-share on the value we bring," said the provider executive.

When one client strategically chose to relocate its headquarters to a new city, they looked for a provider who could recreate back offices in the new location. The client chose a provider with a global presence and a proven track record of recruiting professionals to enable the move. "So the move meant that a lot of people needed to be fired in our previous location and we needed to recruit people here in our new location. So it is a challenging move. We selected [the provider] to manage this kind of huge project—[the provider] has the brand image, trust, confidence, and experience to manage this kind of project," said the client.

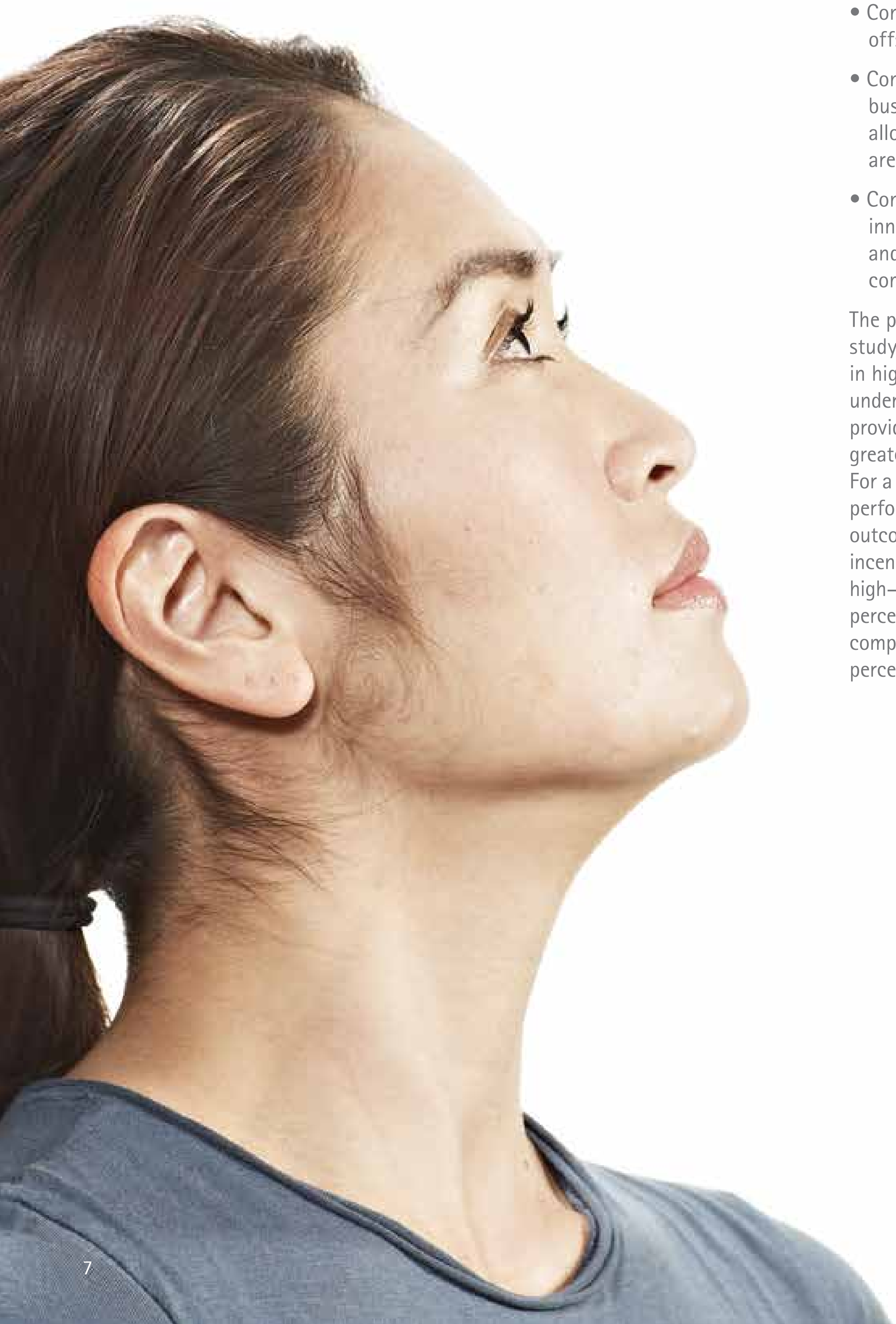
In an FAO arrangement at a leading computer hardware company on the acquisition trail, the provider was valuable for several reasons. "Having these order-to-cash, procure-to-pay and record-to-report processes within the shared service provides our client the ability to integrate those acquisitions more quickly." said the provider delivery manager.

The company was also growing in the US and non-US markets significantly. However, transaction volumes were growing faster than revenues due to a larger number of low-value transactions. "The provider is very willing and able to respond. Having the order entry function with them and having an ability to scale that organization very quickly has been very helpful," said the client senior executive.

In a logistics BPO with a major retail grocery chain, poor demand forecasting adversely impacted profits. The provider introduced proprietary forecasting tools, including a seasonal planning application tool (SPAT). "This tool has significantly reduced allocation errors." said the provider executive. The client liked the tool and wanted to leverage it for business units such as health and beauty—units that the provider did not manager as per contract. By a process of incented collaborative innovation, the client and provider were working together to leverage the provider's capabilities beyond the contract to positively impact key operational and customer-facing business challenges.

Underlying contractual structure

In our companion study, we identified three key contracting practices across the 26 cases that supported collaborative innovation:



- Contracts share risk and reward, and offset risks.
- Contracts focus on a combination of business imperatives (the "what"), and allow for adaptiveness in how these are achieved (the "how").
- Contracts are designed to incent innovation, flexibility, collaboration and high performance to achieve common goals.

The present high-performance BPO study reinforces these findings. Clients in high-performance BPO relationships understand that they need to incent providers if they expect to achieve greater impact or transformative results. For a significant number of high-performance businesses, the answer is outcome-based pricing with performance incentives built in. More than half of high–performance organizations (54 percent) have such incentives in place, compared with only about one-fourth (24 percent) of typical performers.

Gain-sharing arrangements— where a provider agrees to drive improved performance in a particular area of the client's company in exchange for a share of the additional business value created—are still not quite as mature, but beginning to come into their own. The gap between high-performance businesses and typical performance in this area is already significant, with 39 percent of high-performance businesses operating under a gain-sharing agreement, compared with just 16 percent of typical engagements.

While both parties can benefit from such arrangements, a significant challenge in the gain-sharing model is figuring out the actual benefits to share fairly as gains. In the Microsoft FAO deal, innovations are delivered via transformation projects and are funded by the client from the savings generated by outsourcing. Funding for innovation is driven by a program that is outside of the economics of the original contract. The partners avoid potential disagreements by agreeing to the gain-share specifics in advance.

However, we found high-performance deals can, and do, begin with a variety of pricing structures. A key attribute of high performers is not so much the specific type of pricing structure, but the responsiveness clients and providers display where change and the need for innovation render pricing mechanisms inflexible and partially outdated.

Such redundancy in pricing structures can happen very early in any BPO deal aspiring to becoming a high-performing relationship. High-performance organizations first work flexibly within the pricing structure, and then upgrade it. They also pay significant attention to performance metrics, constantly looking to focus on and upgrade the key metrics that signal business success in a dynamic environment.

In the learning contract at an Asia-Pacific telecom company, for example, the client centralized the learning and development budget, providing flexibility to play around the margins for funding innovation where the business units previously felt unable to. In the supply chain outsourcing deal at a national grocery chain, we found some innovations initiated by the client and others driven jointly, while some were fully funded by the provider and others by the client.

In the learning contract at a bank, the provider executive observed that "we are expected to be set to innovate… we have our basic operational plan for any given year. What sits on top of that is that is a value-in-innovation plan where we try to focus on at least four to six key value innovations in any given year. So the innovations are not explicitly paid for."

In one high-performance FAO deal at a high-tech manufacturer, the engagement operated on a volume-based fee structure linked to estimated transaction volumes. While this was a decent model to begin with, it started creaking around the edges after a certain a point. "We are shoring it up a little bit," said the client. "Our commercial arrangements are the ugly stepchild of what we do, but at this point we are finding ways to make them work, not fundamentally changing them."

High-performance organizations also continually monitor performance metrics. A major FAO deal at BP provides a good example[ix]: "We reassessed the metrics that lead to pain-gain. We agreed on a set of metrics and scorecard that are far more representative of the actual activities that the business recipients of the service care about and give us a factual basis on which to determine whether or not some of the anecdotal complaints about the supplier's service are founded properly or whether they really are our fault and which we need to address," said a client senior executive.

In high performing BPO deals, providers are also proactive on upgrading metrics. "One of the things they were struggling with was managing supplier performance on delivery," said a provider account executive on a supply chain deal at a manufacturer. "We started driving suppliers to provide promise dates on deliveries, based on production planning requirements. This helped us be more analytical and data driven in terms of tracking deliveries to promise dates and gave us tremendous insight into which suppliers were really performing well and which were not. These metrics did not exist in the past and now we're using those metrics to drive discussions with their suppliers. These performance parameters have been incorporated into their governance and are providing a lot of visibility into supplier behavior and performance."

In addition, other instances such as the logistics outsourcing deal at a national grocery chain and an aero-engine manufacturer, and the FAO deal at Microsoft (detailed in companion papers)[x] indicate that high-performance organizations move habitually from key metrics for monitoring, into business analytics—gathering information for anticipation, insight and forward planning.

Breakthrough Performance: Taking Action

In outsourcing, the collaborative capabilities and behaviors of all parties determine the type and extent of strategic outcomes possible. Large business process and strategic innovations are feasible only through deep collaboration. Focusing on innovations in IT operations can, and does, achieve larger, sustainable cost reductions.

The real impact on performance comes from business process and business product/service innovations over time. Business process innovations create sustainable business improvements in areas much bigger than IT operations alone—a bigger target or a more impactful innovation. Business product/service innovations can, and do, support companies' revenue and profit growth targets. While collaborative innovation finds ways of sharing and offsetting risks, it also galvanizes behavior towards lessening risk and achieving shared goals.

Leadership by the client shapes the context for targeting strategic business outcomes. The provider also needs transformational leadership and capabilities to take process excellence and integration into superior business returns for the client. The client needs to invite the provider inside the strategic tent, to leverage its capabilities for competitive advantage. Contractual structures need to incentivize innovation, and will require continuous adjusting if strategic goals are to be pursued. Organizational boundaries dissipate in the face of teaming behaviors to solve problems. These actions ensure that strategic business outcomes are targeted at the outset, and that the parties evolve their abilities to unceasingly deliver on the dynamic targets presented by contemporary strategic arenas.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with 257,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$27.9 billion for the fiscal year ended Aug. 31, 2012. Its home page is www.accenture.com.

For further information about this research, please visit www.accenture.com/highperformancebpo

Reference

i The survey was conducted by The Everest Group with support from Accenture in late 2011 and is reported in Accenture (2012) Achieving High Performance in BPO Accenture, London. The survey identified 20 percent of respondents as "best-in-class" scoring strongly on at least three must-have attributes, and in the top quartile on seven additional attributes. A further 20 percent were potential "best-in-class" performers meeting one or other of these two criteria; 60 percent were "normal" BPO performers meeting neither criteria. Note that "normal" here covers a wide spectrum of performance from normal to poor. The research found that levels of performance were independent of industry, geography, size of deal, tenure of BPO relationship and business function outsourced. "Best-in-class" performance was twice as frequent when two functions were outsourced as a bundle (as opposed to one function or three or more functions). Three further sources of research, described below, are used in this series of papers to enrich and extend these survey findings.

ii The interviews were carried out in the October 2011-September 2012 period. They were typically 45-60 minutes in length and used a pre-designed questionnaire aimed at eliciting performance outcomes and effective and unsuccessful practices. The sample was drawn from across sectors and countries, with outsourcing deals ranging in size from small to very large. Nearly 50 percent could be identified as high performers on the criteria detailed above.

iii We have been conducting BPO case studies since 2000. Some of our first BPO case studies are published in Willcocks, L., and Lacity, M. (2006), *Global Sourcing of Business and IT Services*, Palgrave, United Kingdom. Our most recent BPO work is found in: Lacity, M., and Willcocks, L. (2012), *Advanced Outsourcing Practice: Rethinking ITO, BPO, and Cloud Services*, Palgrave, London, (forthcoming). Papers which specifically address client retained capabilities include: Feeny, D. and Willcocks, L. (1998), "Core IS Capabilities for exploiting Information Technology, *Sloan Management Review*, Vol. 39, 3, pp. 9-21. And Willcocks, L., and Feeny, D. (2006), "The Core Capabilities Framework for Achieving High Performing Back Offices," in *Global Sourcing of Business and IT Services*, Palgrave, London, 67-96.

iv Lacity, M., Solomon, S., Yan, A., and Willcocks, L. (2011), "Business Process Outsourcing Studies: A Critical Review and Research Directions," *Journal of Information Technology*, Vol. 26, 4, pp. 221-258.

v See Whitley, E. And Willcocks, L. (2011) Achieving Step-Change in Outsourcing Maturity: Towards Collaborative Innovation. *MISQ Executive*, 10, 3.

vi See the companion papers Willcocks, L. and Lacity, M. (2012) *Strategic F&A Partnering at BP*. Accenture/LSE London. Also Lacity, M. And Willcocks, L. (2012) *Transformational Leadership: Microsoft's One Finance Initiative*. LSE/Accenture London.

vii See Whitley, E. And Willcocks, L. (2011) Achieving Step-Change in Outsourcing Maturity: Towards Collaborative Innovation. *MISQ Executive*, 10, 3. We found strategic business innovations through outsourcing in seven cases – in the banking, distribution, leisure, global mail, and telecommunications industries.

viii See our earlier papers Lacity, M. And Willcocks, L. (2012) *Mastering High performance BPO –Keys To The Kingdom: Collaborative BPO Governance*. LSE/Accenture, London; also Willcocks, L. and Lacity, M. (2012) *Mastering High performance BPO –Keys to the kingdom: Value Beyond Cost*. LSE/Accenture, London.

ix For a detailed study, see Willcocks, L. and Lacity, M. (2012) *Strategic F&A Partnering at BP*. Accenture/LSE London

x See Lacity, M. And Willcocks, L. (2012) *Mastering High Performance BPO – Keys To The Kingdom: Domain Expertise and Analytics*. Accenture/LSE, London.

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