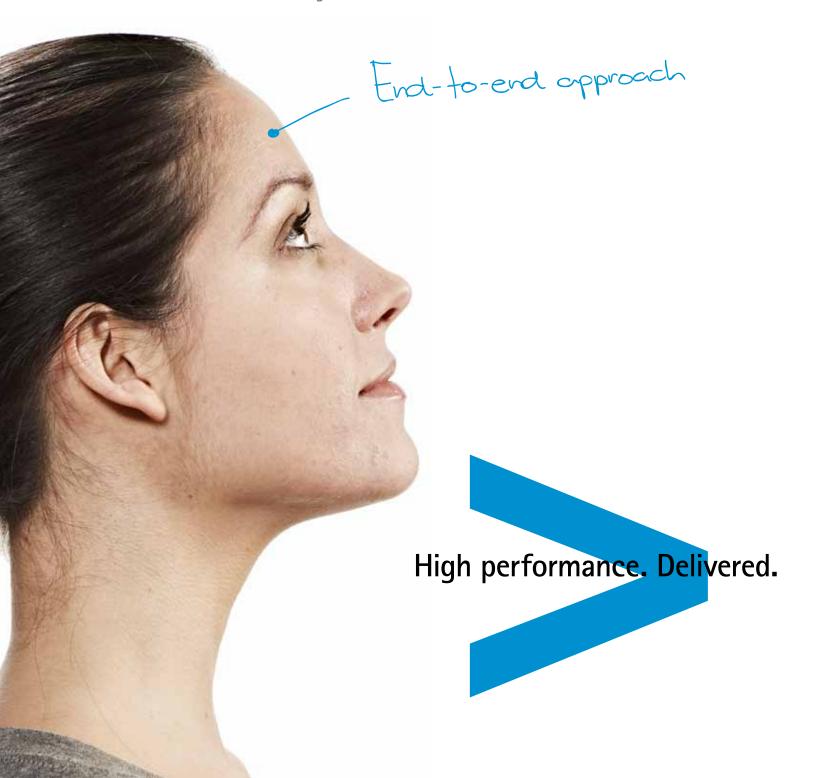Mastering high-performance BPO
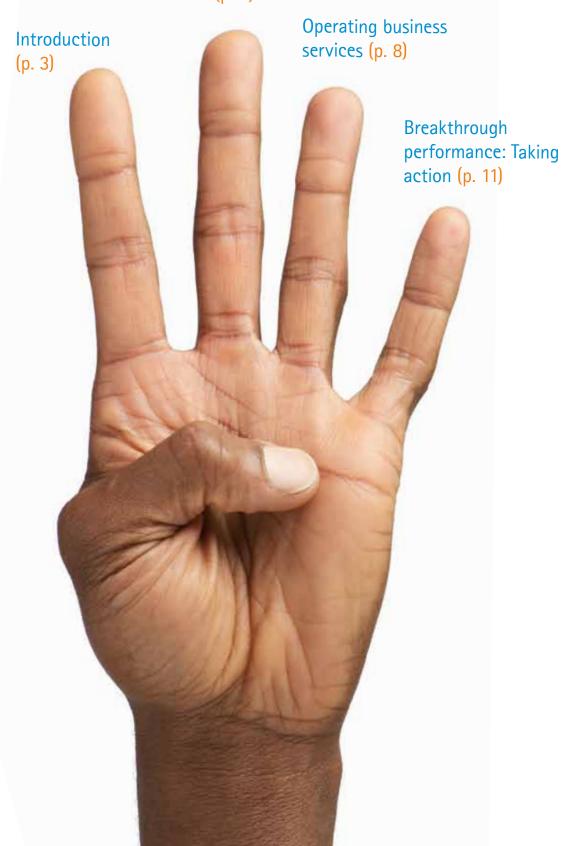
Keys to the Kingdom

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End-to-end approach

High performance. Delivered.

Contents

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, nimbly enable 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 Everest Group[i], in-depth interviews with client-provider executive pairs in 20 organizations[ii], our prior BPO case study research[iii] 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 taking a holistic, end-to-end approach to managing the scope of the BPO relationship is one of the most important of those practices.

To best understand this practice, we must first consider the business services organization within the client firm. Effective client leaders in charge of back-office business services such as financial and accounting services, human resource services, indirect procurement, and supply chain support demonstrate front-office mindsets by operating their functions as a business-within-a-business. Such client leaders build world-class services organizations characterized by service excellence, low costs, scalability, flexibility, compliance, and high customer satisfaction (see Figure 1). The journey to achieve world-class status, however, requires expensive, politically charged, and painful transformation levers such as centralization, standardization, optimization, automation, technology enablement, and labor relocation. Once the transformation levers establish the business services organization, world-class organizations continuously adapt and improve by managing end-to-end performance, swarming problems with root cause analysis and rapidly deploying service solutions. World-class service organizations also thrive on new challenges such as adding new services or new locations.

Figure 1: The journey to world-class business services

Establish	→	Operate	→	Deliver world-class business services

Transformation levers

- Centralize
- Standardize
- Optimize
- Automate
- Technology enable
- Relocate labor

Practices to sustain world-class services

- Manage end-to-end performance
- Solve service issues rapidly
- Improve continually
- Seek new opportunities

Characteristics of world-class services

- Low costs
- Service excellence
- Scalability
- Flexibility
- Compliant
- Satisfied customers

In the relationships we studied, the BPO service provider joined the client's journey towards world-class performance at different points. In some high-performing BPO relationships, the client leaders performed the transformation themselves, and then engaged a provider to help operate, expand, and improve the transformed services organization. In other high-performing BPO relationships, client leaders engaged a provider to deploy some or nearly all of the transformation levers in a model commonly called "lift-and-shift." These different approaches demonstrate the principle of equifinality because a given end-state (world class business services) can be reached by many potential means (client does everything themselves, the provider does everything via "lift-and-shift", or the many hybrid options between the two extremes). We dissect further how BPO providers help clients transform and operate world-class business services.
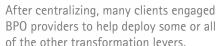
Establishing business services

According to the Everest Group survey, 62 percent of high-performance BPO relationships affirm the importance of process consolidation and standardization in the BPO relationship compared with only 45 percent of typical performers. Sixty-four percent of high-performing relationships have successfully implemented more standardized processes compared to just 36 percent of typical performers. In the client interviews, we also confirmed that consolidation (i.e., centralization) and standardization are among the six transformation levers that establish effective business services organizations.

Centralization

We found that centralization was most frequently performed by clients themselves. Client organizations centralized their business services by physically consolidating business service delivery centers into fewer facilities and/or by virtually consolidating the dispersed budget under central control. Physical consolidation reduces costs through economies of scale whereas virtual consolidation consolidates decision making authority, which quickens adaptation.

Stating how his client's budget consolidation helped service flexibility, a BPO service provider account manager for a telecommunications client said, "Previously, the client's budgets were held in individual business units. The client moved it all into a budget that they held centrally. That meant that as we went through the planning and prioritization process the money was used where most required by the company and aligned to the company's strategic goals. If throughout the year there was a new need that came up, then we could easily move money from one place to another because it was held centrally. There are a lot of benefits to having a centrally held budget."

After centralizing, many clients engaged BPO providers to help deploy some or all of the other transformation levers.

Standardization

Business process standardization is another powerful lever that reduces costs and facilitates scalability and compliance. A number of clients relied on their BPO providers to help standardize the client's services. For example, a pharmaceutical company engaged a BPO service provider to help create global shared services for financial and accounting services. Prior to outsourcing, the client had over 100 checklists in the record-to-report process. The BPO provider reduced the number of checklists to three. "You can imagine the savings from a headcount perspective that we were able to get when you are able to take steps like that in the operation," said the provider account manager.

Optimization

Optimization—the procedures used to make a service as effective and error-free as possible—reduces costs and improves service quality. In one case study, the provider found deficiencies in the client's forecasting tool and helped the client predict demand more accurately using new tools and techniques. In another case study, the provider discovered that the reason some invoices were not being paid was a high technical failure rate on faxed invoices. The problem was fixed through a technical upgrade.

Automation and technology enablement

Technology enablement was also one of the eight high-performance practices identified by the Everest Group survey. In the context of the holistic approach, the survey specifically found that 50 percent of high-performing BPO relationships considered underlying technologies as critically important when defining the scope of BPO services, compared to 25 percent of typical BPO relationships. Many clients we interviewed commended their BPO provider's deployment of tools and technologies to help create world-class business services. Some examples include:

- Reduced headcount and accelerated service delivery through self-service portals in human resources and procurement.
- Optimized services by capturing and reporting on errors and waste using analytical tools.
- Enhanced controls and compliance using workflow tools.
- Improved product delivery rates using forecast tools.
- Increased transparency between the client and provider organizations using governance tools.

Some clients, however, wished providers relied less on their proprietary tools and considered more "cloud-based," industrial solutions. In reality, cloud is just one delivery option for tools owned by the client, provider or a third party.

Labor relocation

In contrast to the investment and issues in establishing an offshore captive center, clients we interviewed relied substantially on BPO providers to relocate labor to lower cost venues, which can remove up to 50 percent of labor costs. Global BPO providers already have established delivery centers in low-cost areas like India, China, the Philippines, Eastern Europe, and South America.

As a transformation lever, relocation offered one-time cost reductions. As clients moved from establishing to operating shared services, they focused less on cost savings and more on the quality of remotely located teams. "They have very high quality folks. We get together with them, we talk regularly, and they feel a part of our business. There is a tremendous amount of longevity in some of these employees and dedication to our work and the account that is just different, they tell us, from other areas. There are rewards that are above and beyond the norm," said a director of global financial services of the BPO provider's staff in India.

Operating business services

In high-performing BPO relationships, the client and provider partner to deliver business services to the client organization. The partners manage end-to-end performance, resolve service issues first, then worry about the commercial implications; they also improve services continually, and seek new opportunities to add services and locations.

End-to-end performance management

Everest Group's BPO survey and the client interviews revealed that best-in-class BPO relationships encompass the end-to-end business process—the client includes the provider and business end-users in "the whole picture" of the end-to-end business process, even when the provider is only directly accountable for discrete sub-processes.

On one FAO account, the partners increasingly focus on the end-to-end service metrics rather than just spotlighting that the provider's Service Level Agreements (SLAs) within the end-to-end process are "green" or not. For example, the partners aim to hit an end-to-end metric of 95% of the journal entries on the client's balance sheet being less than three months old. They now report the end-to-end metric to the Financial Controllers, not just the embedded SLA. The client explains: "You could go to a Financial Controller in a country and show them a sea of green in SLAs while the process was actually pretty poorly performing. Now combining those SLAs and end-to-end metrics we can show that the end-to-end is working fine or not working fine, and the provider piece inside of that is performing well or not performing well. We put the spotlight on us also to make sure we drive the best outcomes for the company."

Managing a process from end-to-end requires full transparency. Describing the value of transparency in the end-to-end process, a provider account delivery manager said, "The clients praise our ability to map the processes and report on all the exceptions. They praise the visibility they have within that process that shows how many exceptions and how many workarounds are slowing down the process. We are gradually moving them to recognizing that this is something

that really creates a hindrance on the productivity and something we will need to jointly focus on so that the delivery center is as value-added as possible rather than focusing on the activities that add headcount that don't add any value."

Speedy service issue resolution

By combining the end-to-end approach, great technology enablement, and superior business process management, providers have great transparency into the client's service processes. These allow providers to spot problems quickly, conduct root cause analysis, and work with the client to resolve issues rapidly. As a provider account delivery manager explained: "When something goes wrong, we don't let it stagnate for too long. We swarm it, we invest in it and throw more resources at it until we fix it. I think the client would say that this is the biggest benefit to having a provider like us."
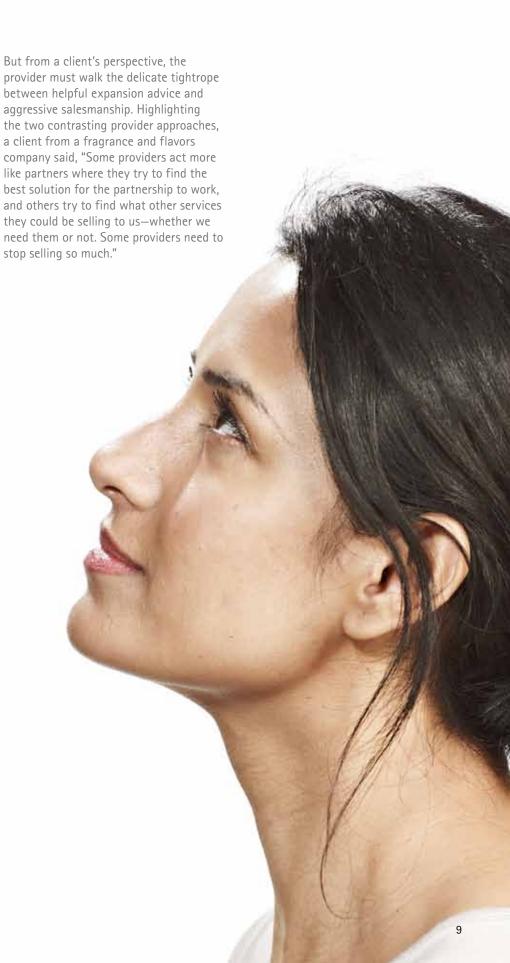
A distinguishing behavior of high-performing BPO relationships is that the parties focus on fixing the problem first, then they worry about the commercial implications "Throughout the process, we don't look at who performed the step that failed, but what can we improve in the end-to-end processes so we can avoid that kind of problem in the future?," said a provider account manager for a pharmaceutical client demonstrating a high-performing approach to service issues. In contrast, poor-performing relationships are characterized by blaming and abdicating responsibility if the problem was caused by the other party.

Continual improvement

In our case study research, we found that excellence in service level delivery is a characteristic of high-performing BPO relationships. Partners in relationships that sustain high performance over the long term do not stop there; they seek to continually improve services even when all the indicators on service level performance reports are "green." One client leader spoke about the implicit danger of being satisfied with "green" performance indicators because significant underperformance can be hidden in such numbers. "In terms of the metric of invoices being paid on time, the company saw an overall green on its performance dashboard. However, when you actually broke it down and looked deeper you found a number of locations had major numbers of trapped invoices—they weren't doing their part of the process properly. So it averaged to a green metric, but it was actually made up of ten of the businesses doing well and two of them doing not so well," he said. The client and provider in this relationship went beyond the metric to improve continually performance in the trenches.

Seeking new opportunities

Client leaders who operate their functions as a business-within-a-business actively seek to grow their "businesses" by adding new services or onboarding new client locations. Growth keeps the business services organization vibrant as partners tackle new challenges. Growing client accounts also helps the BPO provider compete successfully within the global provider firm for more resources and top talent.

But from a client's perspective, the provider must walk the delicate tightrope between helpful expansion advice and aggressive salesmanship. Highlighting the two contrasting provider approaches, a client from a fragrance and flavors company said, "Some providers act more like partners where they try to find the best solution for the partnership to work, and others try to find what other services they could be selling to us—whether we need them or not. Some providers need to stop selling so much."

Breakthrough performance: Taking action

Taking a holistic approach is really about client leaders with a clear vision for delivering world–class business services to their organizations and including their BPO provider as a key enabler of that vision.

The client's initial creation of a centralized business services and the selection of a BPO partner to help further transform and deliver world-class business services is a common pattern of high-performers. The client and provider work together to focus on areas like process excellence, standardization across business units and geographies, technology enablement, and relocation to low-cost locations. The client includes the provider and business end-users in "the whole picture" of the end-to-end business process, even when the provider is only directly accountable for discrete sub-processes.

A key consequence of treating business services as a business-within-a-business is that the client's internal users are transformed into educated customers. Whereas users consume resources with little thought to costs, educated customers make informed choices about service levels, functionality and costs they incur. The identification and negotiation of service levels and reporting on end-to-end service performance are important practices to aid the transformation from users to customers.

Once complete, the shift from users to customers considerably empowers the client executives to more meaningfully contribute to business objectives. Rather than responding to a user's request with, "I am sorry, it is not in my budget," the client executive works with the customer to consider the business value versus costs of customer requests.

The theme of the educated client customer is further explored in a further high-performance practice paper, "*Transformation of the retained organization*".

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 246,000 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$25.5 billion for the fiscal year ended Aug. 31, 2011. 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 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 high performers meeting one or other of these two criteria; 60 percent were typical BPO performers meeting neither criteria. Note that typical 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. High 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 between October 2011—February 2012. 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).

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.