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Resolving conflicts in business process outsourcing relationships

Mastering high-performance BPO

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Content

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, to improve business performance, to nimbly enable the client's shifting business directions, and to 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 uncovered the "keys to the kingdom" practices that contribute to high-performance. These practices emerged from analysis of four principal research streams: a comprehensive survey of 263 senior client BPO executives[i], in-depth interviews with client-provider executive pairs in 20 organizations[ii], research into 26 organizations identified as high performers in collaborative innovation[iii], a review of 1,356 BPO and information technology outsourcing (ITO) findings from 254 academic research studies identified as robust and our prior BPO case study research[v].

Collaborative BPO governance is one of the most important practices that distinguish BPO performance. One important characteristic of collaborative BPO governance is a collaborative approach to conflict resolutions. In this paper, we define a conflict as any circumstance that severely and adversely affects the commercial interests of one of the parties. While significant conflicts may never happen or may happen at most once or twice in a long-term relationship, many clients lack the experience to deal effectively with a conflict if one was to arise. Furthermore, the subject of conflict in BPO relationships is often viewed as highly sensitive, indecorous, and secretive, so clients may not have access to deep insights. Since conflict resolution may be vital to the ultimate success of a BPO relationship, we seek to provide deeper understanding on the topic in this theme paper.

BPO relationships are firstly commercial arrangements. During contract negotiations, both parties aim to ensure that all sides benefit commercially from the relationship. Parties include adaptive contractual clauses to reduce risks and to accommodate uncertainties. Clauses for volume fluctuations for when additional or reduced resource charges apply, force majeure clauses, change of character clauses, and external benchmarking to reset prices or service levels are a standard in contracts. Parties also include early termination options, recognizing that there may be some unforeseeable circumstance in which one or both parties wish to terminate the contract. Like human partners signing prenuptial agreements, clients and providers hope to never enact early termination clauses. Preparing to collaboratively resolve a potential conflict is a prudent safeguard.

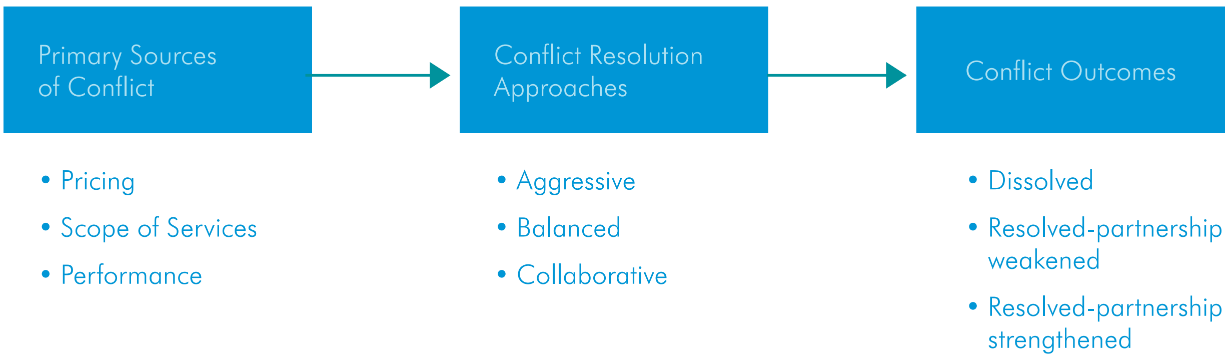
Conflict resolution approaches

Conflicts arise from single events that cause a significant commercial loss to one of the parties or from a precedent on a minor event that would accumulate to a significantly negative consequence over the life of the relationship. Conflicts are different from issues both in magnitude and frequency.

An issue is a circumstance which interrupts performance, and can include service lapses, project delays, or difficult people. Issues are common and occur in any service, regardless of sourcing option. Although issues are not the primary subject of this theme paper, we found that in high-performing BPO relationships, the partners' approach to resolving issues foretold how the partners would later handle a major conflict.

A conflict may be understood by examining its source, the partners' approach to conflict resolution, and the outcome (see Figure 1).

Figure 1: Conflict resolution approaches



Primary sources of conflict

Pricing and scope of services are the most common sources of conflict. In past ITO research, severe performance failure was also a source of conflict, but in high-performing BPO arrangements, we found no examples of conflicts that arose from performance. (Performance issues occurred, but these did not escalate into major conflicts.)

For clients, pricing—such as sticker shock over a large invoice—was a more common source of conflict. Clients have reported being invoiced for services they considered in-scope or for gainshare calculations they considered inflated. For providers, pricing based on unfounded assumptions about expected service volumes can result in puny margins, prompting a conflict. Some providers also felt pressured by clients to provide out-of-scope services for free, under the umbrella argument of "this should be part of the provider's added value."

We've seen several conflicts emerge from external benchmarking results. Clients may lay claims to inflated prices based on the benchmark. The provider may dispute the benchmark, claiming the comparison is unfair. For example, one provider said the cost per function point (a measure of a unit of software) was high on this client's account because they were maintaining the client's old information systems; newer technology—the provider argued—would have a lower price per function point. The provider could not meet the best-in-breed price without seriously eroding their margin. Another provider responded to a pricing conflict prompted by a benchmark by pointing out that a provider's margin is averaged over an entire basket of services. Thus, the basket is fairly priced, but within the basket some services will be over-priced and some will be under-priced. (Clients never complain about under-priced services.) According to one legal advisor we interviewed, "Objective benchmarks don't help when one or both parties are hurting. The parties need a mediator to help negotiate what changes might be needed. Sometimes the answer is to re-scope, not to re-price." The advisor's point is well-taken.

Our previous research, as opposed to our high-performance research, found many examples of significant performance conflicts. One example at the extreme end of performance failure was the circumstance in which one major provider over-promised on delivering a £50 million customer relationship management system. The contract was terminated. The client built the system itself and subsequently brought a court case that, several years later, cost the provider in excess of £200 million in damages.[vii]

If a conflict arises, how the parties approach conflict resolution is crucial. We found three common approaches to resolving significant conflicts: aggressive, balanced, and collaborative.

Aggressive conflict resolution approaches are characterized by a party's aggressive defense of their own commercial interests, without consideration of the effect on the other party's commercial interests. The other party normally reacts with a similar aggressive foothold. At best, this approach results with resolutions that weaken the relationship and at worst, with partnership dissolutions. In one company, for example, the client and provider escalated the fight over gainshare allocations to a formal dispute. The context was a procurement deal in which the provider would get a percentage of any discount above the vendor's list price for any new products the client bought. A vendor contract was renewed at a 55 percent discount off the hardware vendor's list price. The provider calculated a multi-million dollar gainshare, claiming the contract was for new products as evidenced by new material codes. The client refused to pay. The client claimed the previous contact already had a 50 percent discount and the client was purchasing the same material, it was just that the vendor's newer models used different codes. The conflict escalated to a formal dispute. This aggressive approach resolved the conflict, but the partnership was weakened according to the client: "It went all the way to dispute process and it left an incredibly bitter taste with our executive team," said the client. Eventually the client switched providers and negotiated a better gainsharing mechanism with the new provider, with whom he is most pleased: "The [new provider] is incredibly customer-focused first, provider-focused second. It's an incredible reversal compared to the previous provider," said the client.

Balanced conflict resolution approaches are characterized by partners who seek to balance out wins and losses over the life of the BPO relationship. Clients and providers are tough but fair negotiators. The most common outcome is that conflicts are resolved with the partnership strengthened. In one healthy BPO relationship, cycles of give-and-take are the norm. For example, the provider did not charge a client for five extra resources they added to meet an unanticipated surge in service volume. A few weeks later, the client did not demand service credits when the provider missed an SLA. Both parties feel that the overall commercial relationship is fair and mutually beneficial.

Collaborative conflict resolution approaches are characterized by close partnerships through which parties listen to the commercial and political implications of each side, seek the win-win on each issue, and then present a united front to sell the resolution to their perspective organizations. The most common outcome is that conflicts are resolved with the partnership strengthened. While the collaborative approach is the most desirable approach, it requires deep commitments from both parties. In fact, on some high-performing BPO relationships, they do not even call circumstances that potentially adversely affect one of the parties' commercial interests a conflict—they consider them problems to be solved.

On one FAO account, the client claimed that there has never been a significant conflict. He said: "I'm not sure that we've had a significant conflict," said the client. "We've always kind of sat down and found a common ground or common financial outcome. Obviously, there are times when I've said 'enough is enough, this is as far as I go.' I explained why I think it is fair why I won't go any further. I never had the provider coming back and saying 'no way' on that. So, I don't think we've had a major conflict."

Do the partners argue? Of course, particularly when a change has significant commercial implications. When record processes were added to the scope of the FAO deal, the original transaction-based pricing did not fit the record context well. After back-and-forth debates, the partners agreed that they had to find a common sense solution rather than rely on the letter of the contract. The parties split a settlement. What they learned going forward was that a contract model does not produce a "fact" but instead produces a starting point for a conversation. They agreed that the top two leaders from each side would meet quarterly for two days away from the office. The idea is to vet issues before they escalate to the formal twenty-person governance meetings. "So every quarter, the three, four of us go spend two days together, work through all these things and ensure that nothing ever comes to the boil," said one of those executives.

Collaborative conflict resolution approaches: Rules of engagement

In high-performing BPO relationships, the partners seek to resolve conflicts collaboratively. They demonstrate four rules of engagement.

The partners hold a "partnership view"

Attitudes affect intentions and intentions affect behavior.[viii] Collaborative BPO governance therefore begins with an attitude we call the "partnership view" in which a client regards the provider as a strategic partner rather than as an opportunistic vendor. The partnership view manifests itself in partnership behaviors—such as resolving conflicts fairly and protecting both parties' commercial interests—that result in high BPO performance from both client and provider perspectives. Here's how one provider described the BPO relationship: "It truly is a partnership. The client understands what our cost drivers are and they realize it's a zero sum game. And they know if they want more value someplace else, it isn't just going to magically appear. And so we have to work together and collaborate on what are the priorities going forward. And how do we best spend the dollars both of us are spending here to achieve that goal." The partnership view was an important factor in later resolving a conflict over how savings were calculated. "We basically said: okay, we understand you better. They said: we understand you need to claim value, let's maybe define that a little bit better. So we refined the process, based on a better definition and a better understanding," said the provider.

All problems are "our" problems

As noted above, conflicts are rare but issues are common. The foundation for collaborative conflict resolution is built by the way partners resolve service issues. In high-performing BPO relationships, the partners always aim to solve issues collaboratively and view any issue as a shared problem. The partners first perform a root cause analysis, then identify the best solution, and lastly worry about the commercial implications.

One provider elaborated: "The client is very open when they are not getting an outcome that they want. That allows us to go at this not as something in scope or out of scope. Instead, we jointly approach how do we get the outcome they are looking for and then what does that mean for the relationship? The first focus is 'this is the outcome that we need to be going for and how do we jointly go about it?' They work very collaboratively with us in doing that."

We have many examples of collaborative issue resolution. In one global FAO deal, the transition went well for all service areas except the internal help desk. The volume of calls, percentage of escalated calls, and time to close calls increased. Rather than immediately blame the provider, the client offered to take back the help desk to give the provider the latitude to investigate. "They stepped in and they didn't have to do. They could have just said: 'Tough luck, you just missed your SLA.' But they said: 'Let us help you out, we'll take the calls back, you focus on analysis,'" said the provider account manager of the client.

The client explained his collaborative approach: "Other clients might have said [to the provider]: 'This is your problem, don't bother me. It's your issue.' What I try and do is say: 'We are in this together.' I find that the [provider's] folks come to the table, they are open and honest on 'Here is what we are doing.'" They put in the time, they are responsive, they develop unique reporting that help to get insights on what is happening. I have noticed them rise to the occasion." The provider diagnosed the problem and the partners developed an interim plan and a long-term plan to improve service.

The partners are transparent

Collaborative approaches to resolving issues or conflicts require a high level of trust, honesty, and transparency. Transparency was frequently one of the top three things interviewees cited when asked about the secrets to great collaboration: "Well, I would say that the first one is transparency. Our client is quite transparent with their objectives. We know exactly what they are looking for. They share with us what are the KPIs that they are measured against," said a delivery manager of a provider for a global technology conglomerate.

"First and foremost, is our transparency. We're absolutely totally upfront with the client about everything. We've been very, very transparent about what it takes to run this business.," said the delivery manager of a provider to a technology firm.

"I'm committed to transparency with my counterpart. We try to be very open about what the interests are on each side so that when we're negotiating, we can negotiate commercial relationships that are good for the interests of both parties," said a delivery manager of a provider to a global products company.

The partners care about and protect each other's commercial interests

In high-performing BPO relationships, each partner cares about the other party's commercial interests. This is not altruism; it is actually in the client's best interest to care about and protect the provider's commercial interests and vice-versa because service performance is tied to financial performance.

In our prior ITO research, for example, we investigated what happened to outsourcing performance when providers failed to meet their margins. In 15 cases of missed provider margins, 12 clients (80 percent) reported poor outsourcing performance. In 70 cases when the provider met their target margins, only 19 clients (27 percent) reported poor outsourcing performance.[ix]

In high-performing BPO relationships, partners were willing to renegotiate when one party was financially disadvantaged. The aim is to create a new commercial deal that benefits both parties. On one account, the initial contract was priced using different rate cards for different types of work. After the transition, the client came to the provider and explained that the client's business case was not being met because the client under-estimated the complexity of the pricing mechanism and the amount of skills needed. The client asked to renegotiate the pricing mechanism. The provider agreed to a flat rate card in exchange for a longer contract and an increased scope of work. Both parties negotiated a better deal and the relationship is a high-performance one. Said the client:

"Our BPO partner has performed very well. Put simply – they execute. A critical success factor for us has been the provider's ability to accelerate value attainment because they can recruit talented resources in hot markets quickly. The resulting team aims to please and are customer-service oriented. We have found that if we set the bar high, they do all that they can to jump over it. In addition to providing transactional services that exceed SLA's, they help us to think strategically about running our business. By presenting opportunities like this one (to participate in research) and/or facilitating discussions with peers in our industry that are mutually beneficial – our partner is helping us to be a higher performing organization."

A healthy view of conflict

We have noted that true conflicts—circumstances when the commercial interests of one of the parties are severely and adversely affected—are not common. Most BPO relationships in our case study research have never experienced a significant conflict. The most common response to questions about significant conflicts resulted in mirrored responses such as these:

"We don't really have significant conflicts. In last five years, we haven't had to escalate any dispute to the executive committee. We do a good job of sorting things out at the operational level," said one delivery manager. His client concurred: "I can find lots of examples of relatively small issues but nothing that I would say is significant. We have a good process for dealing with issues that arise operationally. There haven't been any real major issues that have required any more formality. It's just worked," said the client.

However, BPO is still an emerging science. As the BPO market evolves into more sophisticated pricing models and to broader scopes of services, some miscalculations and unfounded assumptions are to occasionally be expected. Preparing for a potential conflict by learning more about it is like buying earthquake insurance—one hopes one never needs it, but it is comforting to know one is covered.

When one party's commercial interests are significantly and adversely affected, the healthiest response is to acknowledge it and to assume a collaborative approach towards conflict resolution. As one provider notes: "When we are negotiating a contract change, a change order, we are really, really collaborative on how we work on solutions and commercial frameworks that are going to meet the needs of both parties. It's not a win-lose; it's very much a win-win." A collaborative approach will most likely result in a resolution that strengthens the partnership.

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

Reference

i The survey was conducted by Everest Group Research Institute 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).

ii The interviews were carried out between October 2011 and September 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 also use the data from a 26 organizations study of outsourcing and collaborative innovation. See Whitley, E. and Willcocks, L. (2011) Achieving Step-Change in Outsourcing Maturity: Towards Collaborative Innovation. *MISQ* Executive, 10, 3, 95-107.

iv Lacity, M., and Willcocks, L. (2012), *Advanced Outsourcing Practice: Rethinking ITO, BPO, and Cloud Services*, Palgrave, London, chapter 1 (forthcoming). Also 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 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). We also use the data from a 26 organizations study of outsourcing and collaborative innovation. See Whitley, E. and Willcocks, L. (2011) Achieving Step-Change in Outsourcing Maturity: Towards Collaborative Innovation. *MISQ* Executive, 10, 3, 95-107.

vi See Lacity, M., and Willcocks, L. (2012), "Mastering High-Performance: Collaborative BPO Governance" available at http://www.accenture.com/Microsites/highperfbpo/Pages/home.aspx

vii The case is EDS vs BSkyB. See Willcocks, L. et al. (2011), *The Outsourcing Enterprise: From Cost Management to Collaborative Innovation*, Palgrave, London.

viii Ajzen, I. and Fishbein, M., *Understanding Attitudes and Predicting Social Behavior*, Englewood Cliffs, NJ: Prentice-Hall, Inc, 1980.

ix Kern, T., Willcocks, L., and Van Heck, E. (2002b), "The Winners Curse in IT Outsourcing: Strategies for Avoiding Relational Trauma," *California Management Review*, Vol. 44, 2, pp. 47-69.

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