

■ High-performance business | Enable through outsourcing

A matter of control

By Jane C. Linder

Why do so many executives feel their stomachs knot at the thought of turning over a vital business function to an outsider? Because they fear losing control. But a solid, collaborative business process outsourcing relationship can actually give you more control—and boost performance in the bargain.

■ When a telecommunications company—which we’ll call WireCorp—thought about outsourcing its customer service operations, the business case was compelling. WireCorp’s subscriber list was swelling so rapidly that the company was struggling to provide customers with quality service. What’s more, the cost to serve them was growing faster than revenues, and the company would soon have to invest more in its IT systems. Most worrisome, WireCorp’s customer service shortcomings threatened to impede its future growth.

The solution seemed obvious: To perform at its highest level, WireCorp had to hand customer service over to an experienced outside partner that could do the job better and cheaper than the company could do it itself. Yet company executives resisted. Recalls one of them: “The very suggestion of outsourcing customer service was heresy. People were afraid to let go.”

WireCorp’s case is hardly unusual. Many companies—perhaps most—worry about surrendering day-to-day control of an important function to an outsider. This is why, when considering such a move, it is very important to recognize a critical distinction: Some forms of outsourcing are now universally accepted. For example, companies routinely outsource payroll processing, building maintenance and even such sophisticated activities as advertising and legal work. What companies hesitate to outsource are functions that affect the entire business.

In other words, it’s relatively easy and comfortable to hire an outsider to maintain the software systems used by the finance and accounting departments. It’s much harder to venture the next step, into the arena of

business process outsourcing—to, say, spin off almost the entire accounting and finance departments and their staffs to an outside provider.

And yet our interviews with executives at companies that have done just that reveal something remarkable: Two-thirds of those whose companies have turned over vital business processes to outside partners assert that they actually have more control over those processes than they had before.

How can you move something out of your immediate jurisdiction and yet have more control over it? For those leading companies that have made such a move successfully, the key is a subtle combination of strict guidelines and demands on the one hand balanced by a spirit of collaboration and mutual respect on the other.

All companies that enter into business process outsourcing arrangements—industry leaders and nonleaders alike—apply constraints: They set deadlines, enforce service levels, approve important personnel changes and so forth. But leading companies take an additional step: They employ what Accenture calls enabling controls, which go beyond traditional constraints to cultivate trust between these companies and the providers and expand the scope of their relationships.

Creative tension

Some of these enabling controls are direct, such as training personnel to do the job the way the company wants it done and offering bonuses for achievement. Other enabling controls are indirect, such as creating a bond between company managers and provider managers, making it clear that a good performance will lead to future business and publicly praising the provider for excellent work.

Let's be clear. The leaders do not abandon the constraints. They add enablers to the constraints. The result is a creative tension between the two forces. The company, in effect, is saying to its outsourcing partner: First, you must perform up to these standards or there will be consequences. Second, we will do our best to help you exceed these standards, and then reward you accordingly. It is that tension that results in greater control—and that, over time, will lead to an improved bottom line as well.

When companies first experimented with outsourcing, many adopted an adversarial approach to negotiating a deal and managing their provider. This stance turned out to be counterproductive in cases in which the work was complex and business conditions were likely to change. Accenture research strongly suggests that leading companies have shifted toward developing solid, collaborative working relationships with their outsourcing providers, and that this is a critical component of high performance.

For companies that want to emulate leaders with successful business process outsourcing relationships, there are six specific types of broad controls to keep in mind: strategic attention; senior team affiliation; financial upside; performance visibility; management of interfaces; and employee allegiance. These controls, moreover, should be put into action at the beginning of the partnership. They are not likely to be effective as afterthoughts.

Pay strategic attention

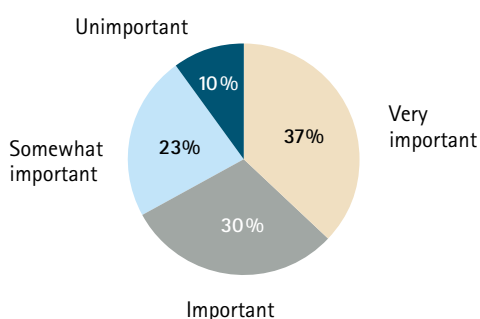
Although many companies pay lip service to the goal of aligning their business process outsourcing objectives with larger strategic initiatives—expanding markets globally, for example, or revamping operations throughout the company—most fall short of doing so. The leaders, by contrast, forge tight, visible connections between business process outsourcing and strategic priorities. The outsourced activities themselves might not be strategic, but handing them to a part-

Fear factor

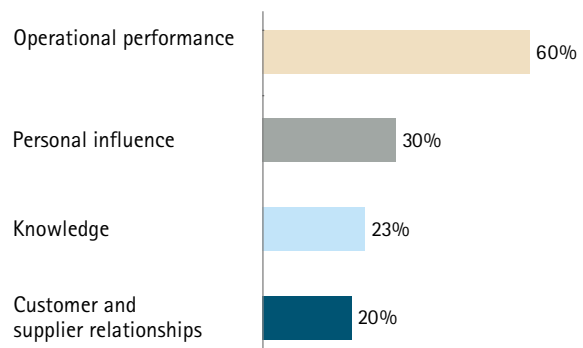
We asked top executives from 30 companies how important maintaining control in an outsourcing relationship was to them. Strikingly, those from 20 of the companies thought it was either important or very important. When we asked this group what they specifically feared losing control of, the top answer, at 60 percent, was operational performance—which was twice as important as the next most-named answer, personal influence.

How important was the issue of losing control when considering whether to outsource a business process?

100%=30 companies



What did executives fear losing control of? (multiple responses accepted)



SOURCE: ACCENTURE ANALYSIS

Expand your control by inculcating in your business process outsourcing partners a self-guiding instinct for acting on your behalf.

ner makes a critical contribution to meeting strategic objectives.

Consider, for example, the objectives of a Europe-based hospitality company that operates on three continents. After the 9/11 terrorist attacks in the United States, the company's revenues and earnings plummeted. Its first strategic goal was to return to profitability by cutting costs. So it asked an outsourcing provider to consolidate operations in IT, finance and accounting, and call centers. The provider centralized operations that had been scattered across the organization, streamlined processes and reduced costs.

The second strategic thrust was to resume growth, and that required reinvigorating the sales and marketing departments. The provider that managed the operational consolidation had become a trusted partner, so the company asked the provider to run sales training too. The goal was to bring new hires up to the experience level of salespeople who had been on the job for 20 years and therefore had considerable experience handling customers, as well as having seen some of the world beyond their hometowns.

The provider developed a simulation program that not only quickly taught trainees the basics of customer service but also promoted the company's facilities in faraway places. And because the company was also opening model sales offices in various regions at the time, it was able to roll out the provider's new training program first in these model offices. The outsourcing and the company strategy were knit tightly together.

Promote senior team affiliation

What executives look for in a business process outsourcing relation-

ship is the sense that their provider partners feel, see, understand, live and breathe the executives' corporate values. That doesn't happen by accident. Leaders make sure they begin to get the providers on the same page even before the contract is signed. They want to bond with the partner, not simply go through formal performance review sessions.

These leading companies expand their control by inculcating in their business process outsourcing partners a self-guiding instinct for acting on the client's behalf, as well as a sense of personal accountability for high performance. At UK-based Safeway, explains finance director Jonathan Davies, it works like this: "The head of our outsourced operation attends my weekly meetings via videoconference and shares information, just like any other member of my senior team."

The finance manager of a French chemicals company says that he chose his business process outsourcing provider based on the likely compatibility of the provider's senior team with his own. "In our function, we're not producing a finished product that you can see and touch," he notes. "The results are intangible. That takes more trust. So we didn't choose a company to work with; we chose a team."

Offer a financial upside

The business process outsourcing provider often faces financial penalties if it doesn't live up to the terms of the contract. That's fine. But what executives really want is for the provider to exceed the objectives spelled out in the contract, not merely meet them. To accomplish that, leading companies make it clear from the start of the relationship that the provider will share in the rewards of superior performance.

Some leaders make a point of keeping in mind the entire financial relationship with the provider in an effort to keep the provider continually interested in doing a superior job. One CFO knew that he needed a provider's A Team on a critical project but was at the same time sensitive to the fact that the provider had lost money in an earlier undertaking. "We set out to help the provider make up for what it had lost in the previous engagement," says the CFO. "When they came in with an expensive proposal, we didn't negotiate the price." The CFO didn't want the provider preoccupied with worries about losing money when it should be concentrating on a flawless transition. Once the transition was complete, the company resumed its tough bargaining posture.

Another incentive that leading companies use, especially when there is brisk competition among providers, is the opportunity for future business if a provider performs above expectations on the current project. As a senior executive of a high-tech company headquartered in Switzerland puts it: "When you have multiple suppliers, instead of dickering over penalties, you can easily move future business away from an underperforming partner and give it to one that is excelling."

Praise excellence

Superior providers understandably appreciate recognition for top-quality work, so wise executives are careful to share credit for a well-run enterprise. They make sure

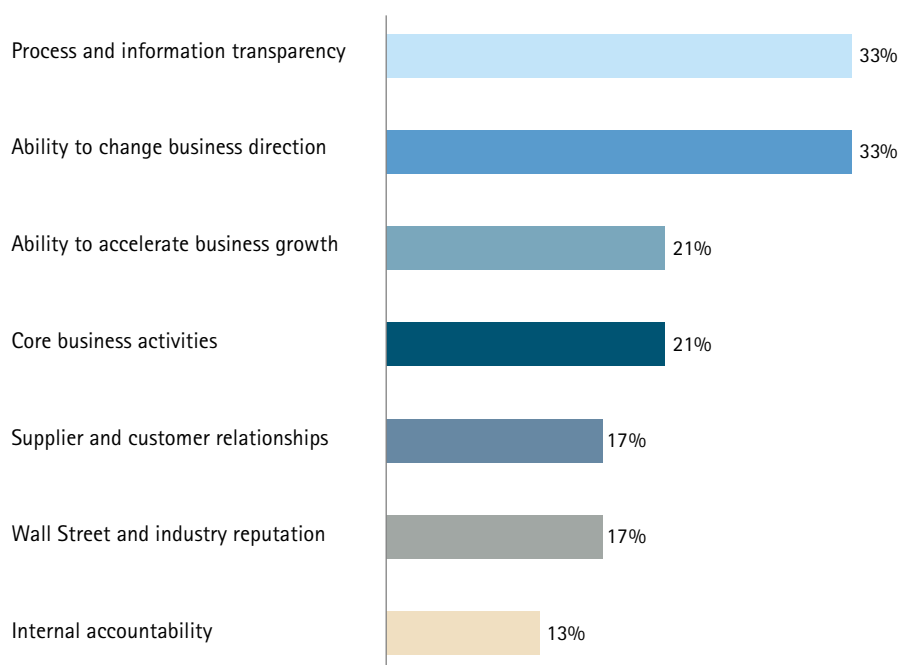
that the efforts of such providers are visible to the press, to the rest of the industry and to other stakeholders. Leading companies, therefore, seek out business process outsourcing providers willing to create showcase operations. For some leaders that means serving as the model client in a new industry, a new region or a new service line. The provider understands that its reputation is on the line and performs to the best of its ability.

The flip side of public praise is public disgrace. That approach should be used judiciously, however, because the brush that tars the provider can dirty the company as well. One public-sector executive in the United Kingdom notes that "we have a high profile and we have a public plat-

Controlling outcomes

Executives at companies that have outsourced vital business processes listed seven major areas in which their companies have actually gained greater control.

What have you gained more control of as a result of business process outsourcing? (multiple responses accepted)



SOURCE: ACCENTURE ANALYSIS

form, which our provider knows we'll use. If their service is poor, I will say so in public." The executive is quick to add, however, that he also works diligently to correct articles in the press that unfairly impugn the provider's reputation.

Giving a business process outsourcing undertaking high visibility within the corporation is valuable as well. If processes are laid out in the open and documented, work can be compared with and measured against the way similar activities are conducted inside the company. When the provider's methods are superior, they can be standardized and used in other departments. "After outsourcing, we have more accurate [reporting of] transactions," says the CFO of a large division of a

US-based real estate company. "That reverberates through the corporation. Our sister divisions realize they can no longer use weak reporting as an excuse."

Clear away obstacles to the interface

When leading companies enter a business process outsourcing initiative, they carefully monitor and remove bottlenecks from all the interfaces that connect the in-house and outsourced organizations—the policies, people and processes. For example, a public-sector financial services organization in the United Kingdom designs new products for retail customers and then turns the development and servicing of those products over to a business process

Controls for all seasons

The relative importance of the types of controls varies depending on what phase of the outsourcing process a company is in.

	Transition phase	Stabilization phase
Strategic attention	●	●
Senior team affiliation	●	●
Financial upside	●	●
Performance visibility	●	●
Interface management	●	●
Employee allegiance	●	●

● Use control mechanism extensively
 ● Use control mechanism selectively
 ● Use control mechanism sparingly

SOURCE: ACCENTURE ANALYSIS

outsourcing provider. Because the provider is held responsible for keeping costs down and quality of service up, it needs to work closely with the financial services company in the conceptual and design stages, to eliminate potential snags before they occur. For instance, it wants to make sure that the new investment account doesn't offer more features than it will be possible to service well at reasonable cost.

Executives can reinforce this approach by instituting reverse service-level agreements. For example, the company guarantees that if it fails to live up to its obligations by neglecting to make senior executives available in a timely manner to resolve important issues, then the provider will not be held to its promise to meet its targets.

If the pathway between executive and provider becomes littered with stumbling blocks, the goal is not to lay blame but to figure out jointly how to move forward. The partnering discipline required to do this can lead to results even better than the ones originally hoped for. Processes that once were full of workarounds and overlapping accountability become crisp, clean and open.

A European utility used to insist on three-way matching—purchase order, receiving ticket and invoice—before it would pay a supplier's bill. The business process outsourcing provider it hired to pay the bills suggested streamlining the system. The triple documentation would be required only of the relatively few suppliers that accounted for 80 percent of the utility's costs. The many smaller transactions would no longer be held to the same standard. Everybody was happy. Suppliers received payment quickly, risk was

tightly managed and the utility's accounting costs dropped.

Turn the partner's employees into "dual citizens"

When employees move from the company's payroll to the provider's, the company loses direct influence over their productivity and effectiveness. Leading companies, however, hold onto control by using mechanisms that instill a sense of loyalty to the former employer—without compromising the employees' dedication to the new employer.

Leaders strive to make those former employees feel like dual citizens. (Keep in mind that being moved from the company's labor force to the provider's is not necessarily a step backward. At the company, for example, a customer service rep might have been a support staffer, with limited opportunity for advancement; that same rep could be at the core of the provider's business, with good prospects for promotion.)

One mechanism for creating loyalty in a partner's employees is forging direct links to the company culture. TiVo, a producer of personal video devices for recording TV programs, is determined that when its partner's customer service reps are on the phone, they exhibit "TiVo 'tude," a cheerful, helpful, enthusiastic disposition. So it gives all reps free TiVo recorders with TiVo service to use at home, and decorates their workplaces with colorful office supplies. "We've helped our partner create a fun, effective work environment, reduce turnover and increase the quality of services," says Jay Kershner, TiVo's director of customer service.

Accenture believes that these six enabling controls will help satisfy an

unfulfilled expectation that many companies experience with business process outsourcing partnerships, even when the partner lives up to the letter of the contract. What executives want—and seldom get—is something above and beyond the terms of the contract. That "something" is impossible to put into the words of a contract and even difficult to define.

Executives seek an innovative and vibrant dimension to the relationship. The reasons are plain enough. For one, the world is almost certain to turn in an unpredictable direction during the course of the agreement: New products could change the industry, or the entire economy might go south (or north). If the relationship between company and provider is based strictly on constraining controls, the relationship may have to be renegotiated, or even abandoned. But if it is based on a combination of constraining and enabling controls and the creative tension of that balance, the partnership of company and provider can be just as dynamic as the world around it. ■

About the author

Jane C. Linder, a director of research at the Accenture Institute for High Performance Business, writes, speaks and advises executives on business innovation. Her latest book, *Outsourcing for Radical Change* (American Management Association: New York), will be available this spring. Previously, Dr. Linder was a professor at Harvard Business School. She also spent more than 10 years implementing business processes and their associated information systems at a number of global manufacturing companies. Dr. Linder is based in Cambridge, Massachusetts.

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