Achieving High Performance in BPO

Research Report

End-to-end approach
Collaborative BPO governance
Making change management a priority
Value beyond cost
A focus on business outcomes
Domain expertise and analytics
Transformation of the retained organization
Technology as a business enabler

High performance. Delivered.
About Accenture (p. 56)

Research and author team (p. 54)
Executive summary

Now beginning its third decade of existence, business process outsourcing has become an accepted management practice across most companies and industries.

At the same time, it is becoming a more complex endeavor, going deeper into the value chains of companies. That means the bar is being raised in terms of what companies are expecting from their BPO providers.

Until recently, companies were looking for something relatively straightforward from a BPO relationship: greater efficiency, streamlined operations and lower costs. Today, companies expect more: business insight, innovation, industry expertise, solutions adapted to more individualized needs, a commitment to continuous improvement and more. That is, the BPO industry today is moving to a "cost-plus" value proposition focused on delivering strategic business impact, not just operating cost reductions.

But what exactly is the "plus" in that proposition? What separates the best-performing BPO relationships from the rest? Evidence has generally been primarily anecdotal. Now, Accenture, in conjunction with the Everest Group and the Outsourcing Unit at The London School of Economics, has undertaken a comprehensive research initiative into the characteristics of "high-performance BPO"—BPO that produces business value for a company that exceeds that of its industry peers in a way that can be sustained over time.

High-performing BPO relationships were determined by satisfying a dual criteria test:

• Meets minimum requirements: relationship must meet financial objectives, meet service level objectives, and deliver consistent and predictable service

• Captures value beyond cost savings: attain top-quartile results in self-reported attainment of value beyond cost. The seven potential sources of additional value include: provide flexibility for changing volumes, prepare for changing business conditions, improve the entire process, improve performance in other parts of the organization, create additional sources of value in the future, deliver business outcomes not originally expected, and increase top-line performance.
A relatively small number of BPO clients—20 percent of those participating in the research study—have succeeded in extracting greater business value from their BPO relationships than the majority. These are practitioners of high-performance BPO. These organizations demonstrate best-in-class behaviors and practices in eight areas:

1. **End-to-end approach:**
   **A holistic approach to managing the scope of the BPO relationship**

   High-performance businesses consider the entire, end-to-end business process to be in scope, including elements managed within the client's enterprise, those run by third parties as well as related processes that may impact overall performance. Service level agreements (SLAs) are important, but both client and provider work together to focus on overall process excellence and the business outcomes to which the SLAs are simply an indicator. Our research found, for example, that 89 percent of high-performance businesses consider process excellence to be an important priority in a BPO relationship compared to only 63 percent of typical performers. A related point here is that, in high-performance BPO, client and provider work together on process consolidation, rationalization and standardization across business units and geographies, and this often includes centralization of services.

2. **Collaborative BPO governance:**
   **Adopting a partnership attitude**

   The disparity between high-performance businesses and their peers was particularly evident in this practice. Nearly 85 percent of high-performance businesses consider their BPO provider to be a strategic partner; by contrast, only 41 percent of typical performers operate according to that mindset. In the high-performance BPO relationships that we studied, collaborative BPO governance is much more than a set of committees or a schedule of meetings; it also comprises the attitudes toward the relationship and the behaviors that strengthen it and drive both parties toward higher levels of performance. Other distinctive collaborative behaviors include:

   - Senior leadership from both parties work together to understand each other’s objectives.
   - Senior leadership from both parties resolve conflicts fairly.
   - Companies continuously adapt their BPO arrangements based on changing business or marketplace conditions and new delivery capabilities.
3. Change management: Managing the effects of change during transition and beyond

The gap between high-performance businesses and typical performers is large, not just in terms of attitudes toward change management, add especially when it comes to executing a robust change management program. Eighty-eight percent of companies working within a high-performance BPO relationship regard change management as important and execute carefully planned change programs, compared with 62 percent of typical performers. Change management needs to be considered in terms of two different perspectives: first, the immediate issues as an organization is transitioning from its previous mode of operations to the new outsourcing environment; and then, second, in terms of being able to adapt continuously to change in the long run.

Across a broad range of practices, attitudes and behaviors, the disparity between high performers and typical performers in BPO was often great.

Successfully implement more standardized processes

<table>
<thead>
<tr>
<th></th>
<th>Typical BPO</th>
<th>High-performance BPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Successfully implement more standardized processes</td>
<td>36%</td>
<td>64%</td>
</tr>
</tbody>
</table>

Able to productively resolve conflicts

<table>
<thead>
<tr>
<th></th>
<th>Typical BPO</th>
<th>High-performance BPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Able to productively resolve conflicts</td>
<td>44%</td>
<td>90%</td>
</tr>
</tbody>
</table>

Successfully execute change management plans

<table>
<thead>
<tr>
<th></th>
<th>Typical BPO</th>
<th>High-performance BPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Successfully execute change management plans</td>
<td>34%</td>
<td>77%</td>
</tr>
</tbody>
</table>

Proactively refine objectives as the relationship matures

<table>
<thead>
<tr>
<th></th>
<th>Typical BPO</th>
<th>High-performance BPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proactively refine objectives as the relationship matures</td>
<td>41%</td>
<td>82%</td>
</tr>
</tbody>
</table>

4. Value beyond cost: Focusing on benefits beyond cost reduction

In high-performance BPO, both client and provider acknowledge the importance of cost reduction, but do not see that as the prime motivation. This mindset manifests itself in several ways. First, in how the business case for the BPO program is constructed. Two-thirds of high-performance businesses focus on the potential value of business benefits beyond cost alone when creating the business case, compared with only 26 percent of typical performers. High-performance businesses are also more willing to consider greater functionality from the outsourced service even if it costs more. Fifty-eight percent of high-performance businesses will consider service options with greater value, even at higher costs, compared with 31 percent of typical performers.
5. Business outcomes: Targeting strategic outcomes, not just more efficient transactions

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 such that an outsourcing provider commits to the achievement of those outcomes—paying a penalty if they are not met or sharing in rewards if they are. In our survey, 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 see more potential from the relationship to achieve greater ends: 56 percent are looking to achieve competitive advantage through BPO, while only 28 percent of typical performers aim for that goal.

6. Domain expertise and analytics: Contextualizing data to create business value

As BPO evolves and matures—and, as just discussed, as it enables richer and more complex suites of business outcomes—providers are being called on to deliver higher levels of value. Part of that value is in the ability to use deep domain and industry knowledge—and the ability to analyze data about the functions and processes being outsourced—to more predictably drive business outcomes. Almost half (48 percent) of high-performance businesses consider their provider's industry experience to be important, compared with only 31 percent of typical performers. Forty-eight percent of high-performance businesses acknowledge the importance of using data and information to capture additional benefits, compared with only one-fourth of typical performers.

7. Transformation of the retained organization: Enabling the retained organization to perform effectively in the new environment

Our research found that high-performance businesses place as much importance on internal transformation as they place on transforming the outsourced processes. Companies need more than just world-class outsourced processes; they also need to align the retained organization around the outsourced delivery model in terms of roles, responsibilities and requisite skills. Our survey found that half of high-performance businesses have engaged in modifications of their retained organization to optimize the BPO operating model, compared with only 29 percent of typical performers.
8. Technology as a business enabler: Driving operational improvements and business innovation

In high-performance BPO relationships, technology is a source of innovation and advantage, not just the infrastructure of delivery. For example, 40 percent of high-performance businesses consider technology provided by the service provider to be an important component of the BPO relationship, compared to only 27 percent of typical performers. Even greater numbers of high-performance businesses, 56 percent, believe it is important to gain access to technology in a BPO relationship, while only 34 percent of typical performers agree. Effective technologies and architectures contribute to cost reductions and more efficient operations by streamlining the systems environment and reducing the number of systems involved, often standardizing the technology environment on a unified, centralized platform. However, high-performance businesses also use technology in their BPO relationships to provide effective monitoring of performance, greater transparency and innovations to fuel new generations of products and services.

One of the more promising findings of our research is that high-performance BPO is attainable for all organizations of any size. The research makes plain the fact that high-performance BPO is not dependent on organization size, industry, geography, tenure or business function involved. It results rather from taking a more strategic and thoughtful approach to the establishment and management of BPO engagements.

By adopting the behaviors and practices associated with high-performance BPO, clients can capture significantly greater business value and build new competitive strengths together with their differentiated BPO provider.
About the research

The Accenture high-performance BPO research is based on multiple work streams:

A quantitative survey of 263 buyer executives, in-depth interviews with client-provider executive pairs in more than 20 organizations, research into 26 organizations identified as high-performance businesses in collaborative innovation, and a review of 1,356 BPO and ITO findings from 254 academic research studies. The research was carried out on behalf of Accenture by Everest Group and The Outsourcing Unit at The London School of Economics.

Survey respondents were all at senior or C-levels, and their companies included a wide range of organizations, with 40 percent being from companies with revenues exceeding $10 billion annually. A broad distribution of types of BPO was included in the survey. (See charts.)
### Organization size

- >US $10 billion: 40%
- US $5-10 billion: 20%
- US $1-5 billion: 27%
- US $0.5-1 billion: 13%

### Business functions included in BPO relationship

- Finance & Accounting: 40%
- Contact center: 21%
- Human resources: 16%
- Document management: 15%
- Supply Chain: 14%
- Procurement: 13%
- Analytics: 12%
- Facilities management: 12%
- Sales: 11%
- Industry-specific: 10%
- Engineering/R&D: 8%

### Respondent's role in organization

- General Manager or Director or Department Head: 37%
- Vice President or Assistant Vice President: 22%
- Executive or Senior Vice President: 15%
- C-level Executive or President: 6%
- Senior Manager or Manager: 15%
Introduction

The moment may have passed without fanfare, but last year marked the 20th anniversary of a contract that helped usher in a revolutionary new era of business management and design: a business process outsourcing agreement by global resources giant BP.

In 1991 the CEO of the BP Exploration business unit took an important first step in what would be a thorough transformation of the company by outsourcing all of the division’s accounting operations for Europe. The agreement consolidated all of BP’s accounting centers in the region in a single accounting system at one site.

In 1996, BP outsourced the accounting functions for its upstream, downstream and chemicals businesses in the United States. And in 1999, following its merger with Amoco, BP outsourced its upstream business to one outsourcing provider, its downstream businesses to another.
BP’s success became a model for other companies looking to improve the efficiency and effectiveness of their business processes. Telecommunications giant BT became one of the first enterprises to outsource its HR function; US high-tech company Avaya pioneered end-to-end outsourcing for the enterprise learning function; and Deutsche Bank found that it could improve its procurement capabilities and reduce costs through an outsourcing relationship.

Twenty years later, what do we know about BPO?

First, it’s big business—several hundred billion dollars in direct and indirect revenues each year according to some sources.

Second, BPO is now an accepted management practice across most companies and industries. Companies’ comfort levels about what functions can be outsourced has increased based on initial successes. Indeed, the entire issue of core competencies that once dominated discussions about the outsourcing industry—what’s core, what’s non-core, what should be retained and what should be outsourced—has been turned almost on its head. The key question being asked today is less, “How much should we keep?” and more, “How much can we assign to a provider that can perform processes for us better now, and even improve them in the future?”

Third, BPO is becoming a more complex endeavor, going deeper into the value chains of companies, and that means the bar is being raised in terms of what companies are expecting from their BPO provider. Until fairly recently, a company was looking for something pretty straightforward from a BPO relationship: greater efficiency, streamlined operations and lower costs. Today, companies expect more: business insight, innovation, industry expertise, solutions adapted to more individualized needs, a commitment to continuous improvement, and more. (See sidebar, page 17, “Generations of BPO.”)

The fourth and final point follows naturally from the previous one: Because the performance bar of BPO is being raised, some companies and providers are clearing that bar and some aren’t. Some companies and providers are creating BPO arrangements that are driving better business value—extracting more value from deeper relationships, producing more extensive analytics-based insights, and leveraging the scale and experience a provider gains within and across multiple industries. In short, some companies are driving toward high-performance BPO, leaving their peers—at least for now—in the rearview mirror.

This report synthesizes the BPO lessons and experiences of hundreds of executives and companies, leading to the industry’s first comprehensive survey into what makes some BPO relationships more successful than others. Analysis of survey data, insights from executive interviews and findings from considerable secondary research has enabled Accenture to identify eight keys to achieving high-performance BPO. The results were confirmed against a robust statistical standard—not just slight differences in answers, but statistically validated results which document how relationships delivering more value differ from their less successful peers.
To be classified as high performance, the BPO relationship had to satisfy two criteria:

**Meet minimum requirements**
The BPO relationship had to meet its basic financial objectives, perform at contracted service levels and deliver consistent and predictable service.

**Capture value beyond cost savings**
The BPO arrangement also had to attain top-quartile results in self-reported attainment of value beyond cost. We measured potential additional value according to seven areas: providing flexibility for changing volumes; preparing for changing business conditions; improving the entire process; improving performance in other parts of the organization; creating additional sources of value in the future; delivering business outcomes not originally expected; and increasing top-line performance.

It’s important to note that when we refer to BPO arrangements and relationships that help companies achieve high performance, we don’t simply mean it’s a “good” arrangement, or “effective,” or one that produces high levels of client “satisfaction.” We mean something quite specific: we mean producing business value for a company that exceeds that of its industry peers in a way that can be sustained over time—across leadership regimes or economic cycles.

High-performance BPO, as with high performance in general, is the result of achieving excellence in a broad range of areas across an enterprise. It requires effective strategies, but also the right technologies and processes, effective organization and change management skills, industry and domain knowledge, strong leadership and savvy governance and operational capabilities. It’s the result of not just one or a few things, but several—and all coordinated and managed to multiply the benefits delivered through a kind of symbiosis. Excellence in one area can produce excellence in another; or, from a negative perspective, failures or under-performance in one area—strategy, governance, culture or whatever—can set off a chain reaction in the BPO relationship, undermining the future value of the arrangement.

Do you have to be big or to have long-term relationships in place to be good at BPO? Do certain industries or certain regions lend themselves inherently to better performance than others? Our research provided a clear answer to those questions: No. High-performance BPO was not dependent upon organization size, industry or geography. It did not depend on length of relationship; high-performance businesses were about as likely to emerge from three-to-five-year relationships as from those greater than five years. Nor was it dependent on the type of service or scope of service offered. In other words, no particular type of function or process being outsourced lends itself to high performance more than any other. It’s the manner in which the outsourcing arrangement is planned, established, managed and monitored that matters. (See Figure 1.)

Figure 1: Sixty-five percent of the typical performers had a BPO relationship of three years or more, indicating that relationship tenure does not influence BPO performance. Similarly, high-performance BPO is not restricted to very large organizations. Half of the high-performance businesses were from companies with less than $5 billion in annual revenues.
BPO offering value framework

Generations of BPO

The full offering value available from BPO today is only being realized on a limited scale, mostly due to poor execution. The high-performance BPO research demonstrates that just 20 percent of all current BPO engagements are fully capturing the value available from fourth- or fifth-generation BPO (see chart). The great majority—about 60 percent—are trapped in a second- or third-generation BPO management mindset that views BPO principally as a tactical cost-reduction tool. By adopting the behaviors and practices associated with high-performance BPO, clients can capture significantly greater business value and build new competitive strengths together with their differentiated BPO provider.

<table>
<thead>
<tr>
<th>1st Gen</th>
<th>2nd Gen</th>
<th>3rd Gen</th>
<th>4th Gen</th>
<th>5th Gen</th>
<th>6th Gen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Late 1990s &quot;Pioneers&quot;</td>
<td>Early 2000s &quot;Offshore&quot;</td>
<td>Mid-2000s &quot;Opex&quot;</td>
<td>Today &quot;Insight&quot;</td>
<td>Near Future &quot;On-Demand&quot;</td>
<td>Future &quot;Community&quot;</td>
</tr>
<tr>
<td>FS Industry, F&amp;A and HR</td>
<td>More back office and industry processes</td>
<td>Moving into the &quot;middle office&quot;</td>
<td>All &quot;offices&quot; with more industry focus</td>
<td>Offerings with standard platforms &amp; process</td>
<td>Offerings that have scale in clients in delivery</td>
</tr>
<tr>
<td>Deals</td>
<td>Pioneering mega deals with lift &amp; shift focus</td>
<td>FTE-based focused on labor arbitrage</td>
<td>FTE-based with some gain sharing for innovation</td>
<td>Based on business outcomes to clients</td>
<td>Business outcome based with technology components</td>
</tr>
<tr>
<td>Platforms</td>
<td>Intend to use client platforms for 1:many</td>
<td>Client’s own platforms</td>
<td>Mostly client’s own platforms</td>
<td>Providers adding analytics tools</td>
<td>Building standard platforms</td>
</tr>
<tr>
<td>Client Objectives</td>
<td>Cost savings, transfer people and technology to providers</td>
<td>Cost savings, global capability and &quot;noiseless&quot; delivery</td>
<td>Cost savings, global capability and &quot;noiseless&quot; delivery</td>
<td>Cost, global, &quot;noiseless,&quot; industry depth, analytical insight and innovation</td>
<td>Cost, global, &quot;noiseless,&quot; industry depth, analytical insight, innovation and flexibility</td>
</tr>
</tbody>
</table>

Eight high-performance BPO practices

From an initial list of hypotheses about what high-performance BPO might mean, eight practices in particular emerged as being critical to achieving high performance.

In fact, “emerged” may not be a strong enough word. In these areas, the differences between high performers and typical performers were so telling and so obvious that they fairly leapt off the page.

It is also significant that the gaps were particularly large in areas focusing on mindsets and attitudes, or on execution of “soft” programs. These include organizations alignment, for example, or change management—things that cannot so readily be copied. Take, for example, a success factor like the ability to productively resolve conflicts. For this practice, the gap between typical and high performers was 46 percentage points. In the area of the successful execution of change management plans the gap was 36 percentage points. In adopting the mindset that one’s service provider is more like a strategic partner, the gap was 44 percentage points.

“The future is already here,” technology visionary and author William Gibson once said. “It’s just unevenly distributed.” Our research indicates this is certainly true in business process outsourcing. A relative handful of companies and their outsourcing providers are already creating a compelling picture of the future of BPO—one that is producing greater business value in measurable ways.

The following sections provide insights, research findings and examples for the eight high-performance BPO practices. Readers should note that these practices are discussed in more detail in a series of papers and high-performance BPO case studies produced as part of this research program by the academics and researchers who served as the report’s primary contributors. These papers can be found at www.accenture.com/highperformanceBPO.
End-to-end approach

Collaborative BPO governance

Making change management a priority

Value beyond cost

A focus on business outcomes

Domain expertise and analytics

Transformation of the retained organization

Technology as a business enabler
Practice 1
End-to-end approach
What’s in scope when it comes to framing the BPO arrangement? In high-performance BPO, it’s the entire, end-to-end business process, including those elements managed within the client’s enterprise, those run by third parties and even other related processes that might have an impact in some way on performance.

The client and provider work together to focus on overall process excellence, not simply looking at an SLA scorecard. One executive interviewed as part of our research put this matter well: “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.”

The client and provider work together to focus on overall process excellence, not simply looking at an SLA scorecard. One executive interviewed as part of our research put this matter well: “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.”

In short, high-performance businesses take a more expansive view of the services, processes and functions being outsourced. 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 particular sub-processes. For example, 89 percent of high-performance businesses consider process excellence to be an important priority in a BPO relationship compared to only 63 percent of typical performers. (See Figure 2.)

What’s in scope when it comes to framing the BPO arrangement? In high-performance BPO, it’s the entire, end-to-end business process, including those elements managed within the client’s enterprise, those run by third parties and even other related processes that might have an impact in some way on performance.

The client and provider work together to focus on overall process excellence, not simply looking at an SLA scorecard. One executive interviewed as part of our research put this matter well: “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.”

In short, high-performance businesses take a more expansive view of the services, processes and functions being outsourced. 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 particular sub-processes. For example, 89 percent of high-performance businesses consider process excellence to be an important priority in a BPO relationship compared to only 63 percent of typical performers. (See Figure 2.)

Figure 2: High-performance businesses are more likely to drive toward process excellence in BPO.

What does it mean, exactly, to take an end-to-end view of a business process? Consider a finance & accounting (F&A) BPO arrangement in which a provider is asked, among other performance SLAs, to post all invoices within three days. A typical BPO performer would focus on hitting that metric. A high performer would look at the matter in a more expansive way. The more important business outcome to be achieved here is to pay that invoice on time and take a discount. But making that happen requires looking at the process end-to-end. When did the invoice get posted and then what happened to it? A provider has to have some sort of impact on the whole cycle time to deliver on the true business outcome indicator that a CFO would care about. As one provider executive summarized it, “That’s what develops the partnership because now you’re in the meetings and you’re really talking more than just about a BPO relationship. You’re talking about how we can improve their business and help them. And then you get an engaged client.”

Having better metrics in place to measure process performance is a critical piece of the overall puzzle. The director of shared services for a resources company spoke in this context about the need for more rigor and a broader picture in measuring success. Such rigor, he noted, “goes all the way to end-to-end processes, design and documentation that includes not just what we do but also what our provider does with better end-to-end metrics that have been developed—not just service metrics but why are we paying invoices late and those types of questions. It’s us knowing what the relationship needed to be and us having some rigor around how you measure end-to-end processes better and then how to include the provider in those end-to-end processes.”
High-performance businesses also take the time to look beneath “average” SLA scores to get to the business outcomes those SLAs are driving toward. The resources company shared services executive spoke to us about the implicit danger of being satisfied with average, 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. “But,” said the executive, “when you actually broke it down and looked deeper you found a number of refineries 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 10 of the businesses doing well and two of them doing not so well.” The point, the executive noted, isn’t necessarily to set a different metric; it’s about going beyond the metric and looking more broadly at the process and then at how different areas or units are performing within that overall average metric.

Many of the positive business outcomes delivered from high-performance BPO can be traced in part to this ability to “connect the dots” around the company as overall process excellence is pursued. As noted by the executive for one communications and high-tech company that has a learning BPO arrangement in place, “Outsourcing has certainly driven a much more structured, rigorous and thoughtful planning process. I think traditionally our business was really ad hoc in understanding its needs and planning out how to fulfill those. The outsourcing deal has given us much more structure and, therefore, much more effectiveness. We are 100 percent better than we were in terms of connecting the learning and development needs of the business.”

A related point here is that, in high-performance BPO, client and provider work together on process consolidation, rationalization and standardization across business units and geographies, and this often includes centralization of services. According to the survey data, 62 percent of high-performance businesses affirm the importance of process consolidation and standardization in the BPO relationship compared with only 45 percent of typical performers. (See Figure 3.) And 64 percent of high-performance businesses have successfully implemented more standardized processes compared to just 36 percent of typical performers.
Why is this important?

A provider executive working for a large global client explained: “We operate our organization out of a global hub. The client used to be in three regional shared service centers. The synergies that you get from being able to deliver out of a single location is that you’re able to drive consistency globally and also simplify and standardize the processes. This allows for better quality and more efficient ways of operating those procedures.”

High-performance BPO also means looking at more than processes in the end-to-end view. It means also looking at people and technology. Half of the high-performance businesses see technology as within the scope of the BPO relationship, while only one-fourth of typical performers agree. And it’s perhaps the people dimension that is most striking. Almost two-thirds (65 percent) of high-performance businesses see the impact on people—people from the client and people from the provider—as within the scope of the BPO relationship, compared with only 39 percent of typical performers.

Consider the matter of motivation and engagement of employees. Global BPO deals are often serviced by a provider’s remote delivery teams located in places like India, China, the Philippines and Eastern Europe. Our research has found that providers need clients to acknowledge and reward the provider’s staff so they feel connected to their clients. Provider employees appreciate even simple things like a thank-you email or a small token to display in their cubicle. High-performance businesses consider the provider employees an extension of their own teams, including them in events and communications and acknowledging them accordingly.

One of our Accenture executives working with Microsoft as part of its “OneFinance” BPO program described how Microsoft acknowledges staff: “The client recognizes that I fundamentally need to be successful in terms of creating an environment where my people can drive performance of my team. We collaborate to foster a positive working environment—that is, where Microsoft and Accenture focus on affirming and rewarding desired behaviors. A very simple example: whenever my client writes one email to one of my operators in Chennai to say he’s done a fantastic job and sends it to the whole operation, it makes the employee feel better—makes him feel proud of himself. The people motivation dimension is important but other companies seem to forget about it just because it’s an outsourced environment. But to me, we are still a people business and motivating people is still key. Microsoft actively supports us in our people recognition.”
Practice 2
Collaborative BPO governance
Adopt a partnership attitude and approach to governance

Walk into your office and turn on a switch. The light that results is certainly a service provided to your business from the utilities company, but do you consider that utility a member of your core strategy team? Probably not. In somewhat similar fashion, we found that BPO relationships are starting to separate out according to how well client and provider are moving beyond that “commodity service” mentality. Is their relationship focused primarily on delivering or consuming a service at a commodity price? Or are they operating together as a cohesive, collaborative team—as strategic partners pursuing not only efficiency but also business outcomes, market opportunities, continuous improvement and higher levels of business value?

This commitment to partnering attitudes as a characteristic of high-performance BPO is one of the more striking findings from our research. Nearly 85 percent of high-performance businesses consider their BPO provider to be a strategic partner; by contrast, only 41 percent of typical performers operate according to that mindset. (See Figure 4.)

Figure 4: In high-performance BPO, a client sees the provider as a strategic partner.

Provider is a strategic partner

One of the sticking points in moving to more collaborative or partnering relationships may, in fact, be one of the very best practices outsourcers are taught to develop and nurture: governance structures including boards, operating committees, management meetings, escalation ladders and executive decision trees. Certainly these are essential to effective management of working processes and contractual agreements. But by themselves they do not produce high performance and, if seen as the only component affecting the business relationship, may even inhibit the kinds of interactions that can drive better business outcomes.
In the high-performance BPO relationships that we studied, collaborative BPO governance is much more than a set of committees or a schedule of meetings; it also comprises the attitudes toward the relationship and the behaviors that strengthen it and drive both parties toward higher levels of performance. (See Figure 5.)

Collaborative attitudes

Our research found compelling evidence that collaborative attitudes or what we could call a “partnership view” were a contributor to high performance. Interviews with clients and providers revealed how the partnership view works in practice.

First, client executives in high-performance BPO relationships deeply hold the partnership view and they actively promote that view among their teams. Consider how client executives from three different finance outsourcing relationships spoke about their service providers. The client commercial director for a resources company told us: “I’m not interested in being a recipient of service. I want us to be strategic partners. It is a word that is tossed around in a clichéd way. But for me, strategic partner means: let’s talk about my five most important objectives and how that overlaps with the things that the provider does.”

A second client executive, a vice president of global shared services, described how collaboration and the partnership view contributes to success: “I think being collaborative—very much accepting the provider as part of our infrastructure and not treating them as a vendor but more of a partner—has been very successful for us.” And a third client executive—a senior director for a technology company—stated: “We have a very strong concept that we talk about in outsourcing and that is what we call ‘TOGETHER.’ We are in it together. There is nothing that the ‘provider’ has to do or ‘we’ have to do—we have to work issues together.”

Figure 5: A commitment to partnership and collaboration creates a self-stoking cycle of attitudes, behaviors and improved business performance.
Collaborative behaviors

The partnership view is then reinforced through behaviors of individuals but also of the client company as a whole. That is, in high-performance BPO relationships, partnership is not simply a slogan on a poster or inserted into a corporate values report. It's reinforced—insisted upon—by executives with the power to shape the culture of their companies. When client employees lapse into complaining or blaming the provider, the client executives from high-performance relationships will immediately and invariably reaffirm the desired attitudes of the partnership view.

Client executives committed to the partnership view may even replace their own employees when they cannot or do not embrace that partnership attitude. This can be a sensitive issue since client executives are often not aware of the dissidents within their organizations, and because service providers do not want to complain about obstructionist clients. In one case we studied, the provider was able to take the high road with a gentle question: “Can you tell me how to more effectively deal with so-and-so?” That was enough for the client executive, one deeply committed to the partnership view, to reassign the employee.

We also found a number of other distinctive collaborative behaviors that occurred more frequently in high-performance BPO relationships. These include:

Senior leadership from both parties collaborate to understand each other’s objectives.
In our survey, 73 percent of high-performance businesses stated that senior leaders from both client and provider spend time to understand each other’s objectives and strategies. This was true only for 35 percent of typical performers.

Senior leadership from both parties proactively refine objectives as the BPO relationship matures.
We found that, among 60 percent of high-performance businesses, business users receiving services have a high degree of influence in setting the direction of the BPO relationship; only 30 percent of typical performers noted this capability. The role of the corporate strategy team in refining objectives is also important. Among high-performance businesses, 61 percent agree that their corporate strategy team has a high degree of influence in setting the direction of the BPO relationship, compared with only 37 percent of typical performers.

Senior leadership from both parties resolve conflicts fairly.
One of the largest disparities in BPO performance came from the area of conflict resolution. Fully 90 percent of high-performance businesses felt that client and provider were able to productively resolve conflicts. This was true only with 44 percent of typical performers. This is not only a matter of resolving tensions, as important as that certainly is. It’s also a matter of seeing conflicts, issues or under-performance as a sign that something is not right in the terms of the agreement or in the relationship itself—and that solving that issue is in the interest of both parties.

Consider just one example of productive conflict resolution discussed by our interviewees. One global finance outsourcing deal was initially based on unit prices. The service provider calculated the unit price by determining the FTEs (full-time equivalents) needed to service the expected volumes. After the deal was in place, the client’s transaction volumes declined severely after a number of divestitures. As a consequence, the provider could no longer cover its costs based upon the agreed transaction prices. Rather than just make the provider suffer the loss, the client executive agreed to renegotiate the pricing mechanism based on FTEs. The executive also worked with the provider to alter the contract to incent the provider more favorably to meet the client’s key business milestones. The provider’s account executive summarized the situation by saying, “The client recognized that this was something important for us and that was what drove us to a decision to renegotiate. Both of us were pretty happy with that.”
Companies adapt to changing business and market conditions.

High-performance businesses also work to adapt their BPO arrangement based on changing business or marketplace conditions such as the challenges companies have faced since the 2008 global economic downturn. In high-performance BPO relationships, the provider account executives invariably responded to client requests to help remedy a client’s deteriorating commercial position. On one high-performance supply chain engagement, the client’s business was losing money and asked the provider to consider different pricing and funding mechanisms. The provider account executive explained: “So what we are doing right now with them is identifying three or four potential areas where they are having business challenges affecting their profit and loss in a negative way and we’re figuring out what kinds of investments upfront we need to drive those improvements and then gain-share on the improvement that we bring.”

Perhaps not surprisingly, contrasting attitudes toward the partnership are out there in the BPO world, too. In typical or low-performing BPO relationships it is not atypical to find that one party will refuse to renegotiate a deal that has turned out to be damaging to the other side. Such executives may say, “It’s not our fault they are losing money, they signed the contract.” Typical quotes from the low-performing BPO arrangements we have studied revealed an antagonistic approach to the relationship: “They always wait for us [the client] to react to something... they play dead until we kick them” .... “The supplier is only in it to make money.”

The partnership view is different, both in attitudes and behavior. As the client executive for one high performer put it, “We want them to be successful. No one wants a failing supplier.”
Redefining business objectives in a long-term BPO relationship: BP and Accenture

The value of revisiting the business objectives of a BPO relationship over time can be seen in work that BP and Accenture have engaged in together over the course of a 20-year relationship in F&A outsourcing. This relationship began as a pioneering one as the world’s first F&AO deal, then shifted to an industry shared services model for BP and other oil majors, then extended into other BP regions and consolidation of BP mergers and acquisitions, while focusing on continuous cost reduction and increasingly on improvements in F&A outcomes. Examples of these improvements include faster closing globally, more efficient procure-to-pay, reducing costs by millions of dollars while gaining better business outcomes, better cash use, and tighter debt/credit control. Over the course of 20 years there have been periods of stabilization of goals, and other periods that have seen an acceleration towards new business outcomes consequent on dynamic changes in the BP business environment. Since 2009 the strategic relationship has been re-galvanized as BP has re-imagined its F&A operations within a larger global business services model. For its part, Accenture has stepped up to the new challenges, with both parties leveraging processes and mechanisms in the strategic relationship that had been in place but not fully optimized in the previous five years. Throughout this history, both parties recognized and engaged with the fact that redefining business objectives required a further maturing of the outsourcing relationship.
Practice 3
Making change management a priority
Manage the effects of change during transition and beyond

BPO changes the way organizations operate—that is just a fact of the outsourcing environment. Yet, perhaps not surprisingly, the companies we studied differ significantly in their ability to manage that change, both to prevent negative repercussions and to create positive results.

The gap between high performers and typical performers is large in terms of attitudes toward change management, but especially when it comes to executing a robust change management program. Eighty-eight percent of companies working within a high-performance BPO relationship regard change management as important, compared with 62 percent of typical performers. And more than three-fourths (77 percent) of high-performance businesses characterize themselves as successful at executing change management plans—33 percentage points higher than typical performers. (See Figure 6.)

Figure 6: BPO high performers view change management as more important, and are better at executing change programs.

Change management is regarded as important

<table>
<thead>
<tr>
<th></th>
<th>Typical BPO</th>
<th>High-performance BPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of companies</td>
<td>62%</td>
<td>88%</td>
</tr>
</tbody>
</table>

Successful in executing change management plans

<table>
<thead>
<tr>
<th></th>
<th>Typical BPO</th>
<th>High-performance BPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of companies</td>
<td>34%</td>
<td>77%</td>
</tr>
</tbody>
</table>

Change management needs to be considered in terms of two different perspectives: first, the immediate issues as an organization is transitioning from its previous mode of operations to the new outsourcing environment; and then, second, in terms of being able to adapt to change in the long run.

In the area of transition, our research and interviews found that the ability of a provider to come to the table with experience backed by proven transition methodologies is critically important to effective execution of change management programs.

The global procurement process manager for a fragrance and flavors company spoke of the importance of this transition expertise to the success of his outsourcing initiative: “During implementation, the first element we have really benefited from is our service provider’s methodology for doing the transfer. We have people from our provider participating here who had experience with this type of project before. They came with a solid methodology for managing the project and the planning, all these elements that we would not necessarily have done as well without them.”
The manager also emphasized importance of having the provider develop a deep knowledge of the client's processes before the transition—"the exercise of preparation, and the in-depth description of each process." This work meant that it was clear to both parties "how the operations are running from the requisitions to the purchase to the purchase order and even after that on a step-by-step basis."

Beyond the transition period, change management is also important to driving the outsourcing relationship toward greater levels of value. This was seen in several ways in the research data. For example, nearly 85 percent of high-performance businesses proactively refine their objectives as the relationship matures compared to just 40 percent of typical performers.

But this isn’t just change for the sake of change. The reason it becomes an imperative for high-performance BPO is that it’s a living relationship, evolving to meet a client’s ongoing business needs and opportunities in an ever-changing market environment. That can be seen in the interesting statistic that, among 61 percent of high-performance businesses, the corporate strategy team has a high degree of influence in setting the direction of the BPO relationship. That happens with only 37 percent of typical performers. With the BPO relationship continuously attuned to what the business is doing, what companies are actually doing is creating an organization that is “change capable.” That is, companies can no longer afford to think about organizational change as something separate from everything else they do. Change management must be an internal and ever-present capability, which enables the client to achieve more organizational and strategic agility.

Some of the keys to building this internal change capability include:

**Seek out and then nurture transformational leaders.**

Managing change requires specific kinds of leadership attitudes and behaviors. Based in part on knowledge of the specific competencies needed to manage change, companies must have dedicated programs in place to develop the right leadership behaviors, and then provide the appropriate incentives.

Transformational leadership is especially important in keeping a BPO relationship energized to create higher levels of value. This has been a distinctive feature of the finance & accounting BPO relationship between BP and Accenture, a program that has won numerous industry awards.

In 2009, BP was looking to create a new capability—an Americas Business Service Center (BSC). To lead the BSC, BP recruited from outside the company and hired a proven transformational leader who had previously created a world-class, global financial services organization for another company. BP took the initiative on providing transformational leadership, but it was also looking for new leadership from its service provider. The new head of the Americas BSC immediately relocated the Accenture lead position from Texas to BP headquarters in Chicago and a new Accenture person was brought in to fill the role. The head of Americas BSC described the new service provider lead in this way: "She's fantastic. She's very action-oriented. She pushes back and can challenge us in the right way. That's the difference I think in terms of making it a more strategic approach rather than sitting back and accepting business as usual."

**Stay on target.**

Companies need to align with business goals in an ongoing manner, which requires effective project management as well as good governance, including status reporting and issue escalation to business stakeholders.

**Measure your progress.**

Metrics are a critical part of any change management program. There are tools, for example, that can help companies assess the effectiveness of teams and workgroups: the pace of change they are experiencing, whether or not they are developing needed skills in sufficient numbers, the effectiveness of work processes and so forth.
Driving effective change within a finance & accounting outsourcing program: Microsoft and Accenture

Microsoft’s “OneFinance” outsourcing arrangement with Accenture was energized by a dedicated change management program—a program that helped ensure that the initiative’s 230 go-live events were successful. A combined team from Microsoft and Accenture created global, functional and subsidiary-specific communication plans to engage with the various audiences affected by the change. Each transition event had five major milestones, starting with a country-level launch event and ending with a formal hand-off to operations.

Communication was critical. Microsoft held two-day, face-to-face meetings with subsidiary controllers to educate key stakeholders. According to the Accenture executive for the program, “At the two-day Controller Connection session, we introduced the Microsoft financial controllers to the new operating model for finance. We collectively made sure people bought into the change. That made a big difference.”

Local leaders were assigned the responsibility of client readiness, signaling to the subsidiary that change was “close to home.” Assigning subsidiary leaders to the transition team gave subsidiaries confidence that “one of their own” from the region was providing input and direction to the solution, rather than someone from corporate. Noted the Accenture executive, “Microsoft committed their best people to make the outsourcing program a success. They put in as many hours as we did to get this right.”
Practice 4

Value beyond cost
Focus on benefits beyond cost reduction

An executive from a grocery retailer summarized this high-performance BPO practice extremely well in characterizing the goals of his BPO initiative. While cost was an important consideration in provider selection, he said, the ability to improve performance was the company’s main objective. “Outsourcing was more about service to our customers than about cost reduction. The outsourcing model is obviously woven potentially to save us money, but it wasn’t our prime motivation.”

This mindset manifests itself in several ways. First, in how the business case for the BPO program is constructed. Two-thirds of high-performance businesses focus on the potential value of business benefits beyond cost alone when creating the business case, compared with only 26 percent of typical performers. That is, high performers consider cost benefits to be just table stakes. (See Figure 7.)

Figure 7: High-performance BPO is driven by a focus on business benefits beyond cost reduction alone.

Inclusion of business benefits beyond cost in the business case

A related finding: considerably more typical performers focus on low cost of service. Sixty-two percent of typical performers consider low cost of service to be among their top three sources of value compared to 46 percent of high-performance businesses, who seek other benefits as well.

High-performance businesses are also more willing to consider greater functionality from the outsourced service even if it costs more. Fifty-eight percent of high-performance businesses will consider service options with greater value, even at higher costs, compared with 31 percent of typical performers. The insight here is that cost reduction is great but, by itself, is not a sustainable benefit. As articulated by the shared services manager for a manufacturing company, “You need to know what you are trying to accomplish with outsourcing. You have to be thinking way beyond cost because that is only a one-time gain. Arbitrage is a one-time gain. You want to be thinking about what you will do in your own company and what you will not be doing. Strategy emerges from that.”

High-performance businesses appear to be more driven by the fact that outsourcing can create an organization capable of greater things. As the director of financial shared services for a large consumer company explained, “Going back to the objectives that we set out at the start, I think we have used cost reduction as a stepping stone to being a more global organization. Today we have 80 percent of our outsourced capabilities operating from a global hub in the Philippines. That has helped us to become more global as an organization and helped us to drive more standard processes as an organization.”
Practice 5
A focus on business outcomes
Target strategic business outcomes, not just more efficient transactions

The fifth high-performance BPO practice follows closely from the previous one, but with a twist. That is, as just discussed, effective BPO relationships go beyond a focus only on cost issues to pursue higher levels of business value.

But beyond that, they aim for specific strategic outcomes that can be measured and that can help achieve competitive advantage. And then, beyond even that (and here is the twist), they forge deals such that an outsourcing provider commits to the achievement of those outcomes—paying a penalty if they are not met or sharing in rewards if they are.

In our survey, 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 performers see more potential from the relationship to achieve greater ends: 56 percent are looking to achieve competitive advantage through BPO, while only 28 percent of typical performers aim for that goal. (See Figure 8.)
Part of the answer here is to look beyond SLA performance. Certainly, 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. In some cases this means re-examining SLAs so they support the attainment of timely business goals. An executive with one provider notes that the client-provider team is not content with merely meeting SLAs but instead continues to re-examine the SLAs in light of the business outcomes they are intended to produce. The ultimate purpose is to resolve service requests and issues rather than simply meeting an SLA to answer phones or respond to emails in a given time period. Said this provider executive, “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, the partners work to refine SLAs in light of those dual goals.

Innovation is often mentioned rhetorically when establishing a BPO relationship, but how, exactly, do client and provider put in place the structures and measures to make innovation happen? And, equally important, who pays? Providers may be reluctant to spend time and expert resources on an ancillary part of the contract, especially when clients themselves do not take the positive actions required to work with the provider to drive innovation.

The other sticking point when it comes to driving more strategic outcomes has to do with motivation. Clients in high-performance BPO relationships understand that they need to incent providers if they expect to achieve higher-impact or even transformative results. For a significant number of high-performance businesses, the answer is outcome-based pricing.

One form of such arrangement which is higher up the maturity curve is a contract in which performance incentives are built into it. More than half of high performers (54 percent) have such incentives in place, compared with only about one-fourth (24 percent) of typical performers.

Not quite as mature, but beginning to come into its own, is a gain-sharing arrangement, in which 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. 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. Such an arrangement can be advantageous for both parties.

A significant challenge in gain-sharing, however, is figuring out the actual benefits to share fairly as gains. In real business contexts, many external factors can influence performance outcomes. How can the partners isolate the effects of a single innovation project? Microsoft and Accenture approach this issue by agreeing to the gain-share specifics in advance.

Microsoft and Accenture created a transformation program with an associated governance structure to embed innovations and transformation projects into the relationship from the start. The partners effectively answered the question, “Who will pay the upfront investments for innovations?” 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. This implies that Microsoft compensates Accenture for any impact the innovation would have on their original contract economics. They align incentives through gain-sharing, but avoid potential disagreements by agreeing to the gain-share specifics in advance.
Practice 6
Domain expertise and analytics
Contextualize data through domain expertise and analytics

As BPO evolves and matures—and, as just discussed, as it enables richer and more complex business outcomes—the field of providers is beginning to separate out in terms of their ability to provide new levels of value. In earlier generations of BPO, the focus was primarily on greater efficiency: standardizing and streamlining operations, running a business function better and faster, and driving out cost wherever possible. But companies can pull the same levers of labor savings and process improvements for only so long before the benefits begin to sound less impressive. Now, the legitimate question clients are asking of their outsourcing providers is, “Is there something else you can give me?”

That “something else” turns out to be the ability to use deep domain and industry knowledge—and the ability to analyze data about the functions and processes being outsourced—to more predictably drive business outcomes, as just discussed.

Both industry and process expertise are important to today’s outsourcing clients. From our survey, almost half (48 percent) of high-performance businesses consider their provider’s industry experience to be important, compared with only 31 percent of typical performers. And process expertise is important to two-thirds (67 percent) of high-performance businesses, but only 48 percent of the others.

Even more important, however, is what providers do with that industry knowledge on behalf of their clients. Outsourcing providers are uniquely positioned with sight lines across entire industries as well as across their clients’ operations, including customers, global supply chains, business units and decision-making structures. Providers accumulate a wealth of data and information as they run business process or IT services for a client over the course of a multiyear contract. If providers have a mature analytics capability, they can deploy that capability to measure the right key process indicators, tools and techniques to measure and report on KPIs and deployed algorithms, models and sophisticated statistics to identify weaknesses and opportunities, and then redesign processes to deliver measurable business outcomes.

In high-performance BPO, clients know how important their provider’s analytics capability is to achieving greater business value. Forty-two percent of high performers consider analytics provided by their service provider as an important priority in the BPO relationship, compared with 28 percent of typical performers. (See Figure 9.)
Almost half of the high performers surveyed (48 percent) acknowledge the importance of using data and information to capture additional benefits, compared with only one-fourth of typical performers. (See Figure 10.)

Figure 10: High performers are more likely to use analytics to drive additional business outcomes.

Ability to use data and information from the services to capture additional benefits

The Grocery Retailer outsourced the replenishment for over $1 billion worth of general merchandise to a provider with proven supply chain expertise and a willingness to expand that expertise to learn about the peculiarities of the client’s business model. The client commented, “Not every retailer is exactly the same. We’re not all cut from the same bolt of cloth. Each one has a specific operating model, we have different strategies, each one is unique for each retailer.”

The provider applied their domain expertise and analytics capabilities to deliver high-performance. The client and provider first selected the right KPIs that mattered most to the client: stock fill rate and inventory levels. The stock fill rate—defined as the percentage of requested stock filled at the retail store required focus. The inventory level—the amount of inventory in warehouses and distribution centers—was deemed as too high and tying up precious capital. The provider realized that the client’s legacy forecasting tools required improvement as well, being over a year away from a leading practice tool implementation. The provider also built a custom forecasting tool that used logic to forecast better year-round and seasonal products. The provider also built analytic tools for improved product management. The client and provider used the data to re-design business processes. The vice president of replenishment summarizes the analytics process:

“On the planning side, we work collectively and implemented a new tool that enables planning and allocation of products to stores. They’ve also extended that into allowing them to do category management and financial planning as well, in terms of forecasting. They have also, in the last 18 months, they have a number of resources on the ground spending time re-engineering and designing new or the right processes to drive the business functions all the way from the initial category strategy to getting the product moving through the supply chain which includes the vendor community through our network and eventually getting to those stores to support the sales plan.”

The provider helped the client increase the distribution center stock fill rate significantly (beyond industry norms) and improved inventory currency. Processes were also improved which led less rework, improved efficiency and adherence to timelines. Client leads outside of general merchandise replenishment are impressed with the provider’s analytic tools and capabilities, and frequently seek the provider’s advice on their replenishment issues. The client also plans to use the provider’s analytic tools in other parts of their business. According the account executive, “The business clients recognize that we’re pretty good at logistics and supply chain in general and because of that trusting relationship, my client has other leads that come to me and need help. They ask ‘How are you getting data? How are you dealing with this type of issue? I’m stuck.’ Of course, we help them whenever we can.”

Two additional points are important to make. First, companies should develop a mindset that is attuned to the multiple cause-and-effect loops of their organization, so they know what to do with data about the performance of a function. To take one basic example, a spike in customer inquiries to a call center needs to trigger a response different than simply improving capacity or increasing efficiency in the call center. It means something is wrong elsewhere in the product supply chain—perhaps manufacturing or delivery. Effective “organizational diagnosticians” are essential when it comes to analytics. Just as medical doctors know that a pain in one part of the body might signal trouble somewhere else, so it is with organizational performance.

The case of a grocery retailer

A large, national Grocery Retailer was concerned about replenishment in its retail stores. It wanted to engage a service provider who would focus on continuously improving their supply chain performance. While cost was an important consideration in provider selection, the ability to improve performance was the client’s main criterion. The client’s vice president of replenishment, explained, “Outsourcing was more about service to our customers than about cost reduction. The outsourcing model is obviously woven potentially to save us money, but it wasn’t our prime motivation.”
Second, and finally, what’s perhaps most important in this high-performance BPO practice is the manner in which domain expertise and analytics become an iterative cycle that makes both the client and provider stronger. Domain expertise enables the companies to identify contexts and scenarios in which data analytics might produce insight; those insights in turn cycle back to increase understanding of the company and its industry. This cycle creates a kind of relentless drive toward improvement and innovation that is difficult to replicate in companies not availing themselves of advanced analytics capabilities. (See Figure 11.)

But this cycle cannot be sustained unless a level of trust is attained such that the client allows the provider very close contact with company strategy and data. As one provider account executive said, the biggest key to success in delivering advantage from analytics is “understanding the client’s business—using their business outcomes to create the right delivery model for them. It is absolutely critical to know what their objectives are. [So the issue is getting access to their] executive-level people and using those objectives to create the right delivery model and set performance levels for our team supporting them.”

Figure 11: Domain expertise and analytics create an iterative cycle that makes both the client and provider better able to deliver business value.
Practice 7
Transformation of the retained organization
Enable the retained organization to perform effectively in the new environment

Transitioning to a BPO relationship can be tough on workers in the retained organization if steps are not taken to help them succeed in the new environment. Their roles will often shift and they will find themselves charged with managing and coordinating the outsourcing service relationship rather than simply managing others executing tasks. There may also be cultural differences between the retained and outsourced workforce which need to be dealt with carefully. Aligning the organization’s corporate culture with new ways of working and integrating the culture of the outsourced workforce is important. Ultimately, what a company seeks is a “one team” mentality across all workforces and the alignment of all workforces into an integrated and unified organizational structure.

So it is perhaps not surprising, then, that our research found that high-performance businesses place as much importance on internal transformation as they place on transforming the outsourced processes. More than world-class outsourced processes is needed; companies also need to transform the retained organization that is responsible for managing the service and clarify roles, responsibilities and requisite skills. Our survey found that half of high-performance businesses have engaged in modifications of their retained organization to optimize the BPO operating model, compared with only 29 percent of typical performers. (See Figure 12.)

Figure 12: In high-performance BPO, the structure and performance of the retained organization is a focus of transformational change programs.

An essential part of the retained organization transformation takes us back to some of the change management methods and principles discussed earlier. As the global procurement process manager for a fragrance and flavors company put it, “All the change management is absolutely critical. You never do enough communication and meetings with each side and with each stakeholder, explaining why we are doing it, what we are going to change, why we are changing, what the escalation procedures are, and so forth. They can’t stop talking with the counterpart in the BPO before they escalate to the president of purchasing. This kind of element of work is very important in the day-to-day operations of the BPO arrangement.”
In addition to the change management program put in place, three additional streams of work need to happen to enable the transformation of the retained organization:

- Aligning organizational structures and operating models—organization architecture and design; job realignment and performance management.
- Enhancing skills and capabilities of the retained workforce—training, knowledge transfer and performance support.
- Maximizing coordination and interaction between the retained and outsourced workforces—organizational culture, cross-culture awareness and workforce collaboration.

One German company, an outsourcing client of Accenture, completed a complex transition from existing providers to Accenture in an aggressive, 10-month timeline. This included a six-stage knowledge transfer program with Accenture individuals initially working alongside existing vendors.

Success was due, in large measure, to the impressive collaboration between the client and Accenture’s onshore and offshore teams. The teams have gained deep insights into the client’s business processes and systems. Client and provider have also worked hard to improve communication and intercultural awareness, leveraging video conferencing and other virtual collaboration tools.

Another element of success was requiring the teams to build deeper knowledge of each other’s business, processes and supporting systems, rather than just focusing on technical aspects. Accenture teams visited client offices so they could work alongside and learn from them. To further build trust, visits of client management teams to Accenture’s Delivery Center were arranged. This helped the client to gain a detailed understanding of the operating model and build trust in the people and capabilities. The client was closely involved in activities and management even organized joint team events such as an “Oktoberfest” in India to introduce Bavarian culture to the offshore team. These events created enormous good will and understanding between the outsourced and retained organizations.

The management visits also helped the provider to gain input from the client and identify areas where they needed to make changes, such as changes to the governance structure. This is another distinctive characteristic of high-performance BPO according to our research. A successful internal transformation empowers the business users to help align the direction of the BPO relationship with organizational goals. Sixty percent of high-performance businesses involve the business users receiving services to help evolve the direction of the BPO relationship, compared with just 30 percent of typical performers.

This approach is clearly helping many of the clients with whom we spoke. A procurement process manager in a fragrance and flavors company told us, “We really involved the current, in-house purchasing organization into the process as much as possible so they felt they had ownership of the transformation.”

This manager also highlighted an additional key to success: baseline the performance of the “old” way of working so that fair comparisons can be made to performance under a BPO relationship. “Otherwise,” said the manager, “when the BPO starts working people only notice what’s going worse than before, not necessarily when it is getting better. Also, they tend to have a very rosy vision of how their life was in the past. So having a few baseline surveys or a similar kind of data point is quite useful when it comes to showing if we are making progress or not making progress with facts rather than perceptions.”
Practice 8
Technology as a business enabler
Use technology to drive operational improvements and business innovation

In high-performance BPO relationships, technology is more than just the “plumbing” of the BPO solution; it’s a source of innovation and advantage. Savvy clients look for differentiated technology capabilities from their providers.

For example, 40 percent of high-performance businesses consider technology provided by the service provider to be an important component of the BPO relationship, compared to only 27 percent of typical performers.

Even greater numbers of high performers, 56 percent, believe it is important to gain access to technology in a BPO relationship, while only 34 percent of typical performers agree. (See Figure 13.)

Figure 13: High-performance BPO clients see the importance of gaining access to their provider’s innovative technologies and solutions.

Importance of access to technology in a BPO relationship

![Bar chart showing comparison between high-performance BPO and typical BPO in terms of access to technology.]

- Typical BPO: 34%
- High-performance BPO: 56%
One of the value-adds of technology has already been noted: the analytics capabilities integrated into the services of a BPO provider. For example, one application of technology Accenture has developed to improve BPO performance through analytics and benchmarking is called the Accenture BPO Navigator. It is a central portal that provides real-time visibility into a client’s business performance, including operational and contractual metrics and analytics. The tool incorporates performance benchmarking data from multiple BPO relationships, enabling a rich source of information with which to “navigate” toward higher levels of value.

A provider executive describes how the Accenture BPO Navigator operates for his consumer goods client: “For example, on the dashboard is data related to retention. So we can look by business group, by demographics, by geography and look at where there are retention challenges or how one area of the business differs from another. What does that enable us to do? It enables us to look collectively at company policies that might impact that. It allows us to detect trends that could be coming up that we can address them. But more importantly, it allows us to collectively refine the forecast coming into the recruiting process.”

Technology can also support a BPO relationship through better forecasting. As the executive for a manufacturing company explained, “The provider has worked with its own proprietary tools to forecast the demand in different regions of the world and recommended some relocation of material in different regions so we meet the demands more properly, then validated that the supply chain was delivered accordingly. We ended up with enough parts supplied to support them. As a result, we’ve yielded, for the first time, service levels with a first fill rate above 90 percent.”

Effective technologies and architectures contribute to cost reductions and more efficient operations by streamlining the systems environment and reducing the number of systems involved, often standardizing the technology environment on a unified, centralized platform. At Microsoft, for example, the company and Accenture have, through the BPO relationship, reduced the number of systems used in financial, accounting and procurement operations from 140 to 40 worldwide. (Vitasek, K., Manrodt, K., and Krishna, S. (2010), Vested For Success Case Study: How Microsoft and Accenture Transformed Global Finance Operations, The University of Tennessee Center for Executive Education.)

As another client explained, technology innovation is another advantage of a high-performance BPO arrangement. “The provider has brought in a group of small but effective proprietary tools that they have but we would never develop, which is the advantage of outsourcing. For example, they have a piece of software which is now resident on our system which checks for duplications. They also offered us a service in going back before implementation and checking for duplications of vendor invoices—have we paid the same invoice twice? They have another one which sets up a vendor portal which allows the supplier to see a picture of his account with us. So instead of ringing us and saying, where’s my invoice, he can see what the progress is. None of these are fantastically huge systems but there’s a whole set of little programmatic tools that they bring to bear which has been very useful for us in our aim of going back to the beginning and improving the process.”

The ability of technology-based tools to provide effective monitoring of performance can be seen in a tool developed by the Microsoft-Accenture team in their One Finance program, called the Controller Workspace. It is a global, centralized tool that provides Microsoft’s financial controllers oversight and management of such things as the daily close processes and the ability to delegate transactional activities to Accenture’s assistant financial controllers. The tool is a central repository for all data about close and compliance processes that may be accessed from employees around the globe to get accurate, timely and reliable data. (See “Innovations in Outsourcing: The Microsoft Experience,” © 2011 IAOP®.)

Technology-based tools can also create the kind of transparency of information that can foster trust between client and providers. Such a tool is the “Governance Workspace” portal, also created by Accenture and Microsoft. The tool automates the monitoring of processes and makes sure relevant stakeholders have access to the information they need. The tool contributes to a culture of data-driven, continuous improvement in the Microsoft-Accenture partnership.

The workspace contains different “views” to meet the needs of the various stakeholders. In addition, the Governance Workspace portal shares frequent updates across the team and with stakeholders about transformation projects. The Governance Workspace portal also incorporates a planning and control tool which helps eliminate unnecessary and unwanted surprises by showing, in real time, the status of service and by providing an efficient reporting tool for SLAs, measurements, transactions and deadlines. (See “Innovations in Outsourcing: The Microsoft Experience,” © 2011 IAOP®.)
Finally, high-performance BPO relationships commit to exploring how current technology trends can be applied to improving operational performance. A distinct advantage of technology in a BPO relationship is that it can drive a one-to-many model of standardized processes and technologies so that clients achieve greater efficiencies from their providers. Beyond that, other emerging technologies such as cloud computing will help drive innovations in future generations of BPO. Providers should be considering, where appropriate, moving aspects of technology infrastructure onto a hosted, on-demand platform. There are trade-offs with such a strategy. However, particularly when a provider has the sophistication to create a hybrid model involving on-premises and hosted solutions, cloud can provide cost and flexibility benefits that are hard to beat. Updates can be made to the software and new configurations and capabilities can be implemented through the cloud configuration.
Conclusion

BPO today is changing more than just how companies operate. It’s changing the very way they are designed. The nature of what an enterprise means, what its boundaries are and how it works are being dramatically transformed. Achieving high performance in BPO is rapidly becoming essential to achieving high performance in general.

The companies identified in our research as high performers are true pioneers. They can also serve as inspiration and motivation to become a fast follower. Achieving success in BPO in the near term can create a performance advantage that might be difficult for laggards to catch up to. In other words, there is great promise identified in our high-performance BPO study—and great urgency, as well.
Research and author team

Leslie Willcocks, Ph.D.
Professor and director of the outsourcing unit, London School of Economics
Leslie Willcocks is a professor of technology, work and globalization at the Department of Management at The London School of Economics and Political Science. He also heads the LSE’s Outsourcing Unit research centre, and is an accomplished author and editor of multiple outsourcing publications.

Mary Lacity, Ph.D.
Professor of information systems at the University of Missouri-St. Louis
Mary Lacity is a Professor professor of Information information Systems systems and an International Business Fellow at the University of Missouri-, St. Louis. She is also Coco-Chair chair of the IAOP Midwest Chapter, Industry industry Advisor advisor for the Outsourcing Angels and the Everest Group, Research research Fellow fellow at The Outsourcing Unit, The London School of Economics, and edits several outsourcing publications.

Eric Simonson
Managing partner of research at Everest Group
Eric Simonson is the managing partner of research at Everest Group and has more than 10 years of sourcing strategy and global services industry analysis expertise. His overarching goal is to ensure enterprises, service providers, and investors have the combination of fact- and experience-based insight they require to make informed, actionable, impactful, and value-generating global services decisions.

Charles Sutherland
Growth & strategy lead, BPO
Charles Sutherland is the growth and strategy lead for Accenture’s Business Process Outsourcing growth platform. He has been a strategy consultant for Accenture across multiple industry groups around the world.

John Hindle, Ph.D.
Senior manager, Accenture
John Hindle is senior manager, Outsourcing marketing at Accenture. He has served vice-chairman of the HR Outsourcing Association (HROA), co-Chairman of HROA Europe, and holds appointment as adjunct professor of human and organizational development at Vanderbilt University.

Craig Mindrum, Ph.D.
President, Mindrum Strategy
Craig Mindrum is a management consultant and author, and a visiting research fellow at Accenture. He is widely published in areas including technology and workforce performance, learning, organizational change, business ethics and leadership. He has taught at DePaul University and Indiana University.
Special thanks to:

Sarah Thomas, Ph.D.
Senior director, marketing & communications lead
Sarah is the global marketing lead for Accenture's Business Process Outsourcing growth platform.
About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 244,000 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