

MAKE OFFSHORE OUTSOURCING WORK FOR YOU

LESSONS & APPROACHES

Business process outsourcing (BPO) has been a popular strategy for many organizations in recent years. As more companies commit to BPO programs of different kinds, however, it has become apparent that it is not a panacea, and in fact presents significant challenges that can undermine its anticipated business value if they are not successfully overcome. The decision to move selected business processes out of the home organization is only the first step on a long road.

CRITICAL CONSIDERATIONS

An outsourcing initiative requires careful planning and organizational commitment if it is to have any chance of long-term success. Key elements include:

- **Process effectiveness:** Is the process to be outsourced one that is working optimally, or one that currently poses operational issues for the organization? Tempting though it may be to push a problem process out the door quickly, doing so guarantees even worse problems going forward, as people who are unfamiliar with the work and the organization try to grapple with a model that didn't work right in the first place. If your process is broken, fix it before you hand it off to someone else.
- **Internal marketing:** Any new outsourcing program creates change for an organization, which needs to be proactively managed in order to gain the support of all the stakeholders who are affected. It's important to convince people that this strategy is truly necessary, even though it may mean they will lose control of what were previously *their* processes and activities and see their staffs reduced as a result. Moreover, you often need them to actively help with the transition, for instance by providing documentation and training support, and by handling questions and escalated issues. Consistent messaging and quality two-way communication should not be after-thoughts, but a central part of your transition plan, and one that should begin sooner rather than later.
- **Organization and governance structures:** An outsourced process is still part of the organization's workflow. Which group in the organization is the "champion" of the outsourced process going forward? Who does it report to? Who owns the inputs and outputs? Who owns the technology it uses, and the data it uses and creates? When issues arise, small or large, how do they escalate, and who in the organization is responsible for resolving them? Any lack of clarity around these issues will certainly lead to trouble.
 - For example, when data from the outsourced process returns to the home organization, will you have access to all the process data or just to rolled-up totals and summaries? Resolving questions around a general ledger entry or a denial of claim becomes problematic if your people can't see the component transactions or activity details.
 - If the "champion" department is part of the CFO's organization, the outsourcing initiative may be perceived as a cost-cutting measure, therefore potentially threatening even to those whose jobs and responsibilities are not directly impacted. In contrast, an initiative housed within an Operations group may be seen as part of a program to streamline and improve operations rather than focus on cost reductions, which may not be as alarming.
- **Transition plan & execution:** Timing can be a critical factor in a transition plan. If process volume is strongly seasonal, it is probably advisable to transition it during a low-volume period, to minimize the immediate impact on performance results and allow the new group to become

comfortable with the process before the next peak period. Make sure that the technology infrastructure is all in place before it is needed, and that it has been tested to ensure data flows correctly for both processing and reporting purposes – the plan needs to allow sufficient time for thorough testing and training. The plan also needs to provide for the management support and oversight that will be needed to ensure a smooth transition and effective process execution. If there are time zone differences, don't forget to take that into account in setting up support and escalation protocols.

- **Customer communication:** For processes that have no customer-facing impact, this is not a consideration. If you are simply moving a back-office data-entry function from one place to another, your customers will not be interested unless problems in the execution affect them. For processes that have customer-facing components, however, it is important to keep your existing customers informed of the changes they may encounter: different contacts and addresses, different reports, changes in process timing, etc. Some customers may need extra attention to ensure their experience through the transition is smooth and their issues are promptly dealt with.
- **Other key components** that need to be incorporated into planning for an outsourcing initiative include:
 - Establishment of detailed and realistic **service level agreements** to define the expected delivery of services by the provider
 - A **project management organization** dedicated to the transition, that can track performance of all the component activities, ensure the appropriate involvement of the necessary parties on both sides, and manage communications
 - Development of appropriate **metrics** to capture both operational performance outcomes and financial returns of the outsourced process
 - Creation of **knowledge management and transfer** practices to ensure that the service provider has all the operational

information they require to perform as needed, and that they send back all the information the home organization needs to assess their performance and manage it within their own workflow, including all relevant audit, compliance, and reporting needs

- Provision for **continuous improvement** of outsourcing program features as both parties gain more experience with it and identify elements that warrant improvement or change

BUY OR BUILD?

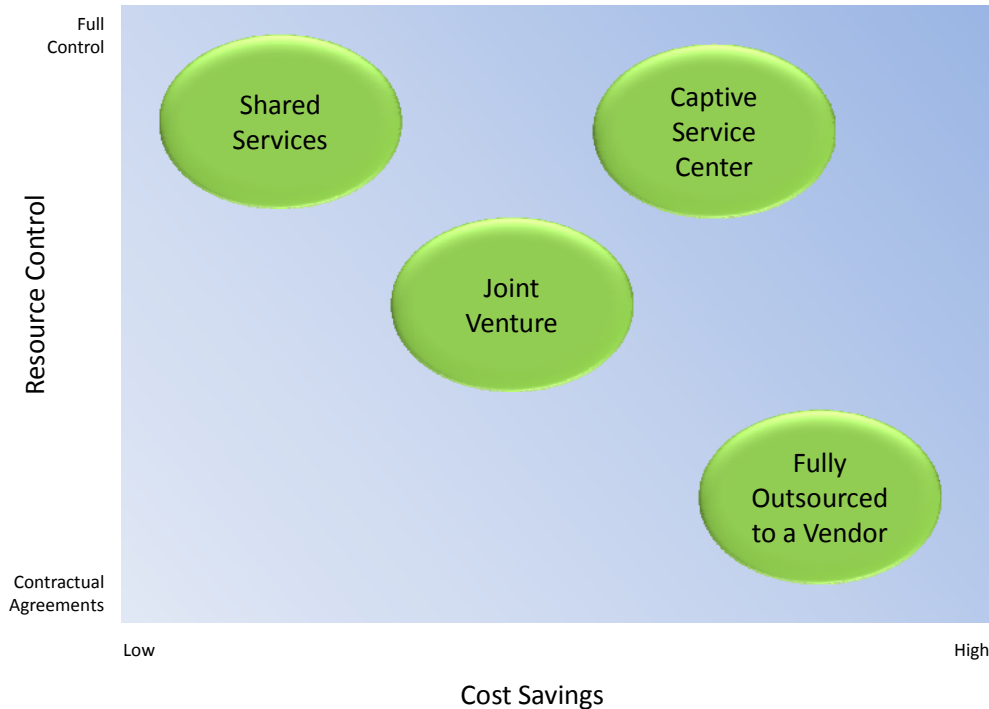
One of the key decisions to make is whether to use a third-party service provider to perform the selected business processes, or to establish an offshore facility of your own to do the work. The value of a captive service center in a lower cost location is obvious – it enables the organization to reap the benefit of lower labor costs for skilled employees and meet short-term budgetary goals while retaining management control of the processes and integrating them directly into the overall workflow of the organization, without having to deal with the costs and complexities of working with outside vendors.

But outsourcing business processes to offshore vendors has other benefits. They can allow more flexibility in terms of capacity, for one thing, which is difficult for captive centers in places where labor laws and competition for talent make it difficult to grow or shrink staff size rapidly in response to changing demand. For many organizations, as well, the difficulty of managing captive offshore centers has proven to be costly and distracting, and the administrative burden of dealing with facilities, personnel, and compliance issues greater than the benefits from lower transactional costs. As the capabilities of outsourcing providers in places like India have improved, the advantages of dealing with specialist firms that can offer economies of scale and highly skilled workers without tying up the organization's capital and management time have become increasingly attractive.

There is no universal right decision – every organization needs to perform its own

cost/benefit analysis in the context of its business strategy and organizational needs.

Outsourcing Models



PRUNE AND ADAPT OUTSOURCED PROCESSES

The initial selection of processes to outsource or offshore, and how to do it, can be very complex decisions. Moreover, evaluation and refinement of the outsourced processes and their contribution to business operations should be ongoing, not just a one-time concern. All decisions are subject to revision based on experience and changing needs. Some of the key considerations in the continuous improvement model include:

- **Bundling of Applications & related services to outsource:** The technology that processes depend on can be an integral component of the process, particularly where complex business rules have been embedded in the code; and the more customized the technology, the more specialized the skills and experience it may require for maintenance. It is important when outsourcing a process that all the tools needed to support its performance be

available to it. That may involve transitioning responsibility for legacy technologies to the service provider along with the operational process, or insuring the process can be performed correctly on systems the provider already possesses. In all cases, the new technology configuration, including data feeds and customized rules, needs to be thoroughly tested prior to completing the transition, and all changes going forward that can impact the technology and related services be communicated and acted upon in a timely way. In addition, all costs associated with the technology aspects of the process need to be accounted for both in planning and ongoing reporting.

- **Unbundling business processes to focus outsourcing more:** In the ordinary course of business it is common for multiple activities to be performed by the same individuals or

groups that are perceived as being part of the same process—but from the perspective of effective outsourcing, it may be desirable to disentangle the interwoven threads of activity and segregate functions more cleanly. For example, standard procedure may have been for incoming data to be received, scrubbed, entered and processed by a single person, but outsourcing to specialist firms may be more successful if the data intake is performed by one group and the processing by a different. It is also desirable for processes that may involve loop-backs and repeated hand-offs to be straightened out into a straight-line flow. Printing and fulfillment, for instance, are more effectively outsourced if all in-house quality checks are performed before the data goes out to the service provider.

- **Core competencies:** While bundling, unbundling, and farming out your processes and subprocesses, it's important to keep in mind what the core competencies of your business really are – those are probably things you should try to keep in-house, while your operations may benefit from sending out to another provider things that are fringe for you, but core for them. This is not to say that activities critical to business success should not be outsourced; there are many that are very important to do right, which don't necessarily have to be done by you. The less central a skill is to your business identity, the more suitable it is for outsourcing.
 - For instance, an organization that sells insurance in the corporate market might consider product development and maintaining good relationships with its corporate customers among its core competencies, while document management and IT development, might be handled more effectively by specialist firms.
 - Also, it might be appropriate to unbundle processes along divisions of complexity, so for our insurance company, handling and adjudicating routine new claims might take advantage of a vendor's economies of

scale, automation, and low-cost labor pool, while the organization routes sensitive and escalated cases to its own staff.

- **Hard dollars vs. soft:** In assessing both the potential benefits of outsourcing a process and measuring the actual effectiveness and returns of an outsourcing initiative, you should consider both the quantitative and qualitative effects. In addition to the pure financial savings that may be anticipated, there are soft costs and benefits to note as well. The time and effort involved in training the service provider, resolving issues that arise, and managing the relationship may be substantial, potentially even a deal-breaker. Conversely, when you shift low-end tasks to a lower-cost workforce, your home staff has more capacity for handling high-end work, which makes them more valuable, more productive and happier.
 - Once your outsourcing program is fully in place, re-evaluate the metrics you initially designed to gauge its effectiveness to see if they are giving you a complete and accurate picture of what's actually going on. You will probably want to revise some and add others to improve your understanding of what's working and what needs to change.
- **Customer impact:** An outsourcing program should never have a negative impact on customers. Quality, cycle times, and performance outcomes should be at least at the same level they used to be. A best-case outsource scenario sees significant gains in the customer's experience. Work performed by a specialist organization may be turned around faster, or incorporate features that were not within the home organization's capabilities. Outsourcing low-end functions may permit the home organization to provide more high-level customer support. It will be important to capture the customer perspective, if possible with formal metrics as well as impressionistic feedback, and use that input to help evaluate where changes need to be made.