

Secret of Organizational Success – Business Process Outsourcing



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Introduction

With globally ever changing economy landscape, Business Process Outsourcing (BPO) is the buzz in the corporate world offering strong economical benefits for the businesses to survive and be resilient. This provides new opportunities for outsourcing service providers.

Conceptually BPO allows an enterprise to focus on its core competency by outsourcing non-core areas that generally consume a substantial amount of an organizational time and energy. Companies are increasingly outsourcing the management of their non-core services for reasons that include concern for cost, quality, performance, access to world-class skills.

The landscape for BPO is still unsettled as large integrators jockey for position in competition with the speciality suppliers. The value proposition of outsourcing has only become more compelling in our current resource constrained economy, as business leaders seek to leverage their proven outsourcing partnerships to accomplish even more with less.

Drivers for Outsourcing

Albeit there is a good mix of factors contributing to the need for outsourcing, these factors vary widely from one organization to another. The key drivers for outsourcing are:

Core competency augmentation with emphasis on staying lean

Rapidly changing technologies, a high degree of uncertainty, fluctuations in the economy, changing customer life styles and demands have forced organizations to stay lean (reduce head count) and competitive in order to ensure their survival, stability and steady growth. In order to respond to these changes, organizations have to focus on transformational processes to fix the disparity between the functioning of the organization and the requirements of its competitive environment. Hence an organization has to focus more on its core competencies for enrichment and enlargement of their offerings by outsourcing its non core functions. It is these value enriched offerings that help ensure the survival and strategic growth of an organization in today's competitive world.

Cost & Quality Objectives

Management concerns about cost and quality drive the outsourcing initiative. Similar issues such as getting services for a reduced price, reduced staff levels at an acceptable and affordable quality levels featured often in the planning process.

Financial Objectives

There are several other financial issues that can make outsourcing appealing. One is the opportunity to liquidate the firm's intangible IT assets, thus strengthening the balance sheet and avoiding a stream of sporadic capital investments in the future. Also, outsourcing can turn a largely fixed-cost business into one with variable costs. This is particularly important for firms whose activities vary widely in volume from one year to another or which face significant downsizing.

Combating Environmental Uncertainty

Outsourcing can facilitate organizations to reduce the impact of change in the environment by outsourcing certain functions to 'specialist' companies who have expertise on these specific functions. The management can then focus on Change Management. Outsourcing could be considered as a strategy to manage change in the external environment.

Globalization

Globalization is another aspect that synergizes the increasing need for outsourcing. Currently, many companies are turning their attention to foreign markets but these companies do not have in-house expertise to confer or operate their business in the international arena. Therefore as an example, they need to outsource their organizational functions to the service providers who have international expertise in those functions.

What Should Be Outsourced

More and more companies are deciding that outsourcing business processes makes sense from many points of view. Gartner Dataquest reports that globally BPO will grow from \$106.7 billion in 1999 to \$301 billion in 2004.

How do we decide what functions are non-core for an organization, and can thus be outsourced? Determining the company's core competencies may not be as straightforward as might be thought.

When making this decision, ask three questions:

1. What drives our business?
2. What makes our product unique?
3. What do our customers think of when they think of our company?

Then outsource things that are important but that do not require the organization's "patented formula" or "classical heritage" to be world class.

Key Benefits from Outsourcing

Outsourcing has numerous identified potential benefits. Financial benefits from outsourcing include rapid funding of new systems development and economies of scale and scope. Consolidating infrastructure through IT outsourcing, a firm can experience cost reductions in hardware and software licensing, facilities, and support headcount.

Outsourcing can also capitalize on a vendor's extensive domain expertise and best of breed change management and problem solving skills. A vendor should have the ability to get more out of the technologies and make investments in the latest technologies that a company could not afford internally. A vendor's main competency is in managing the outsourced systems efficiently through their skills and economies of scale thereby providing a level of efficiency that could not be achieved by the outsourcer. Underlying the outsourcing effort is a fundamental strategy to offload legacy systems and operations so a business may focus on developing new strategic frontiers.

Extending and redefining the true value proposition

The drift towards outsourcing not only in IT, but also in back-office business processes clearly demonstrates that today corporate leaders want to extend and redefine their value proposition by outsourcing.

It is widely accepted that in today's business environment, the key question is how to derive the greatest value from an outsourcing investment. So how do buyers of outsourcing services drive greater value for their companies? In the past, businesses felt that getting the best new technology would do it. But in today's environment, technology by itself cannot mobilize an organization from its current state to the next level of performance. Again, in the past, if a provider had a particular process expertise, that would mean value. But today, many organizations are conducting their businesses based on the sophisticated process-based domain expertise. The true value proposition for today is the value-based service relationship that an outsourcer had to have with the service provider. Service excellence has become the basic instinct and real value differentiator that drives client satisfaction.

Service Excellence Driven

As business leaders move to outsource a greater depth and breadth of services across their enterprises and on a global scale, providers are increasingly touching the corporate world's most valuable asset, human capital and contributing strategically to help corporations efficiently manage critical information and intellectual property.

Outsourcing is extending to more people-centered activities that invade an organization at a more intimate level, where cultural match and service delivery become key to delivering the true value proposition. Just as cultural disparity is one of the major reasons for the failure of mergers, it's also the major factor influencing the success of Outsourcing relationships

Operational excellence, product/service leadership and highly effective client relationship management are keys to assuring superior service delivery. Service provider's corporate culture needs to be geared to producing high quality, consistent and measurable results. Priorities should be regularly gauged and used to define the service standards. The provider should have enterprise-wide goals that are enforced via internal service level agreements that enable service professionals to work together as a team to achieve goals and to deliver on expectations.

In all sourcing relationships, strategic sourcing can only achieve bottom-line impact if a company chooses a trusted partner that has clear methodologies and processes in place ones that ensure reliable and consistent service results throughout the tenure of the business partnership.

Value and Results Driven

Stringent performance measures should be applied for driving and broadening the value of an outsourcing relationship. The service provider must have a clearly defined service vision in line with outsourcer priorities and hone in on creating measurable value. Outsourcers need to ensure that their provider has a service methodology, the needed infrastructure, people, skills, technology, and metrics capabilities in place both to deliver and measure short and long-term ROI from value-added services.

A reliable service provider is one that can enhance & enrich the in-house expertise, streamline processes, improve lead times, and continuously invest in technology that supports superior service delivery. Clearly defined service standards and performance measures that provide baselines should be employed to measure performance, determine base pricing, and report service results. Service-level standards should

be aligned with these priorities in order to ensure delivery in key areas and set response times and service availability.

Client's Expectation Management:

It is very difficult at times to achieve the desired results and consequently it is critical for an outsourcer to ensure that providers' service and system capabilities continue to match the business requirements over the course of a dynamically evolving service relationship. A world-class service provider shall try to provide/maintain the following at a minimum level:

- a) Documented expectations and commitments.
- b) Mutually agreed Service level agreements.
- c) Timely review of business objectives.
- d) Clear transition and transformation management support and procedures. Experienced client relationship management should always include consulting at the executive level to review and revise service agreements so as to meet evolving corporate goals and initiatives.

Metrics Driven

The measure of any good service provider is the feedback elicited from their client. Client's feedback should be solicited on a regular basis to assure that the organization is aligned around client priorities and delivering on expectations. Measurement of client satisfaction with the provider on the 'soft side' of the metrics equation should be structured in a way that determines not only the client's satisfaction level, but also the intensity behind that satisfaction, with examples of specific encounters or events. Further, in addition to maintaining internally established service level standards and performance metrics, regular surveys and outside evaluations can help in validating service delivery. Additionally, service providers should have the flexibility to empower a team to move quickly through an organization at any time in order to make necessary changes.

Reasons to Believe in the Concept of BPO

Percentage citing each reason as a "very important" rationale for their BPO efforts:

- Focus on core competencies: 67.3%
- Save money: 61.1%
- Tap vendor domain expertise: 55.5%
- Focus on strategic growth: 37.4%
- Maintain/reduce head count: 34.6%
- Redirect capital budget: 22.7%
- Reduce assets on books: 7.6%
- Other: 2.8%

Sources: CFO magazine and AMR Research