

Can Business Process Outsourcing Be The Key To Innovation and Improvement?

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Why do organisations outsource and what are they seeking to achieve? Both analyst research and practical experience lead to clear conclusions – organisations outsource primarily to cut costs, then to improve service. Cost saving can be relatively easily delivered in today’s market (through using offshoring as the main lever), and can be clearly tracked, but service improvement is more problematic. Why – because service improvement is more challenging to deliver, more dependent on inter-relationships with the client, and more difficult to track (who knows what the service was really like before the outsourcing?).

However if cost saving becomes a given, then the main reason to outsource rather than to remain in-house should surely be to access the innovation and the consequent service improvements which should be available from the major outsourcers. BPO suppliers are at the heart of an industry which talks innovation. They generally bring consulting and system integration skills to bear, and are delivering similar services to multiple-clients on a global basis, learning lessons and pushing the boundaries of innovation as they go...surely they can deliver innovative solutions which improve service as well as cutting costs?

The answer is that they can, but accessing innovation cannot be taken for granted by clients and is not straightforward to contract for. The reason for this is that BPO suppliers have no “secret sauce”. They use the same levers for change as are available to any organisation – process improvement and standardisation, offshoring, automation, management focus and sheer hard work and attention to detail. All of these require time and investment to have an impact – this has to be paid for. So when a client’s focus is primarily on cost savings, then the appetite for investment can be weak. And clients often confuse savings and improvement when they contract for services. Commitments to “continuous improvement” sound as if they are focussing on the service, and are becoming more common in outsourcing contracts, but if they mean anything they tend in fact to mean “continuous price reduction” rather than “service improvement” because they are defined as year on year price cuts. The assumption (right or wrong) is that this will be delivered by underlying process improvements made by the supplier – even if this is the case, these are not the kind of changes which deliver improved services for the client.

For clients to get the most out of outsourcing relationships, and to really exploit the potential of a partnership with a major BPO player, they need to demonstrate three main behavioural characteristics which will underpin the deal.

Firstly, they need to recognise that outsourcing is a catalyst for change, not a solution in itself. As we have seen above, outsourcers don’t bring anything not available elsewhere, except one thing – they are not you. This means they change the cultural balance, and can help to unleash potential for change. This starts with the contract – suddenly there are real

commitments on both sides, signed by top management and costing real money – this begins the process of bringing the customer/supplier relationship into sharp focus, which in turn provides the environment within which change and improvement is possible. It continues with the management of the relationship – top management on steering committees focussing on back office issues as they have rarely done before, interacting with BPO suppliers who, in the best capitalist tradition, have a range of ideas and services to sell. This creates a platform for innovative thinking, comparing best practice, and moving forward with what can work best.

Secondly, clients need to recognise that it takes two to make anything significant happen. Clients sometimes feel that once they have signed the contract they have done their bit – now it’s over to the supplier to deliver. But there is a real limit to the innovation and improvement that suppliers can deliver on their own – pretty much only process efficiencies which might, if they are lucky, fund the “continuous improvement” price commitments they have made. Real improvement means addressing the end-to-end process which is managed by both the client and the supplier – this means working together. It also means that is in practice difficult to offload responsibility for delivery contractually – results tend to be dependent on both parties.

One example from HRO should illustrate this. One of the key benefits of HRO cited by suppliers is the ability to access “business transformation value” far in excess of any direct cost savings available. This is achieved through the ability to manage resources more efficiently, for example by reducing overtime or absenteeism. But clearly the actual delivery of such benefits will depend on both sides working together. The outsourcer may deliver the systems and information which identifies the problems, but it is client line managers who actually need to use the information to deal with the problem. Which is why of course it is so difficult to get outsourcers to guarantee the benefits, which although attributed to outsourcing are in fact delivered by the client using the information made available through outsourcing.

Examples from other functional areas demonstrate the interconnectivity of the relationship and delivery of benefits. In finance for example, a supplier may process invoices with a Purchase Order far more efficiently than one without – it will however be up to the client to make sure that the business has the discipline to use Purchase Orders and therefore access the benefits.

Lastly, clients must be prepared to pay for improvement and innovation. There is sometimes a belief that outsourcing means the supplier suddenly has the ability to deliver services for free – not, of course, the case. Most innovation and improvement comes from investment in new ideas and systems, and that investment has to be funded. Outsourcing can provide the “wrapper”, so that investments are amortised and cash benefits realised more quickly. However, outsourcing can’t change the economic reality, which is that change costs money. Even in the minority of business processes where outsourcers can provide relatively standard solutions to the market (eg payroll, utilities billing) the costs

of transition, on-boarding, and configuration have to be absorbed and ultimately paid for by the client.

It is a comment observation made by visitors to offshore outsourced centres that they expected the processes to be more advanced. And the response from the suppliers? They would have loved to have improved the processes but the client wouldn't pay – they just wanted what they had already for less cost. As in other areas of life and business, no investment, no improvement.

Ultimately clients have to pro-actively manage the experience and capability of outsourcers to get what they want from them. If what they want is innovation and improvement, then they have to invest in that improvement and co-deliver the results. As outsourcing matures this may be becoming clearer to all involved: second generation contracts, where the cost reduction objective has already been achieved, tend to focus on innovation and improvement on renewal. This is the challenge for the suppliers - without that re-focus, the service might as well come back in-house.

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