Nine Practices for Best-in-Class BPO Performance

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Based on a survey of 263 business process outsourcing (BPO) clients and 57 inter-views, we have identified nine practices for achieving best-in-class BPO performance. These practices are illustrated through three BPO relationships at Microsoft, BP and TalkTalk. The strongest lesson from these cases is that it's never too late to improve BPO performance. The single best performance improver is to assign a great pair of leaders, one from the client and one from the provider.[1,2]

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Identifying the Practices that Distinguish Best-in-Class BPO Performance

Organizations source many of their business processes through external service providers, a practice known as business process outsourcing (BPO). BPO growth shows no sign of slowing down, with the global market having grown from $150 billion in 2000 to $304 billion by 2013.[3] But despite its long history and market growth, BPO performance has been mixed. One study found that BPO clients reported positive outcomes from outsourcing business processes 56% of the time, negative outcomes 11% of the time and no changes in performance 33% of the time.[4]

Our research focuses on understanding the causes of such wide disparities in BPO performance. Specifically for this article, we sought to identify the practices that distinguish best-in-class BPO performance. We wanted to understand how some BPO relationships achieve more than just minor cost savings and meeting service level agreements (SLAs). Best-in-class BPO performance delivers much greater business value to clients. The best-in-class BPO relationships we studied helped clients implement shared services on a global scale, enabled rapid growth, delivered products to customers faster, and increased the bottom line by capturing more discounts and by reducing errors.

Based on the results of a survey of 263 BPO clients and on 57 interviews with executives leading 28 BPO relationships (see Appendix for details about the research method), we

Table 1: The Nine Practices for Best-in-Class BPO Performance

Launch the Mission	1. Assign a great pair of leaders
	2. Focus on business and strategic benefits beyond cost efficiencies
	3. Acquire strong transition and change management capabilities
Stay on Target	4. Adopt a partnering approach to governance
	5. Align the retained organization with outsourced processes and the provider's staff
	6. Resolve issues and conflicts together and fairly
Explore New Frontiers	7. Use technology as an enabler and accelerator of performance
	8. Deploy domain expertise and business analytics
	9. Prioritize and incentivize innovation

identified nine practices that contribute to best-in-class BPO performance. We organized the nine practices along a three-stage journey to best-in-class performance, which we call "Launch the Mission," "Stay on Target" and "Explore New Frontiers." As shown in Table 1, there are three practices for each stage of the journey.

We believe practitioners would obtain the greatest benefit by adopting the practices in the order listed in Table 1. Reality, of course, is messier. In our research, no best-in-class performers enacted the nine practices in precisely this sequence. Some BPO clients initially assigned ineffective leaders, contracted too rigidly for cost efficiencies at the sacrifice of business benefits, and failed to align their retained organizations with outsourced processes and provider staff. The consequences were poor to marginally acceptable performance. To rescue these BPO relationships, the partners in our study who enacted even some of the nine practices dramatically improved performance. And the very top BPO performers—those in the upper 20% of performance—adopted seven or more of these practices. Our most powerful message is that *it is never too late to improve BPO performance.*

We demonstrate the power of these nine practices through the experiences of three BPO relationships (see Table 2). Two relationships (Microsoft and BP) are financial and accounting outsourcing deals and one relationship (TalkTalk) is a customer care/call center deal. Financial and accounting, and call center outsourcing provide good examples because they are among the most frequently outsourced business processes. They also represent the range of BPO services from supporting back office processes to customer-facing sales.

The Microsoft-Accenture relationship for financial, accounting and procurement services is one of the strongest of the BPO relationships we have studied. There is clear evidence that the BPO partners in this relationship use all nine of the best-in-class performance practices. They also adopted the practices in approximately the sequence depicted in Table 1. Most notably, the exceptional pair of leaders (one from the client, one from the provider) has been in place since the BPO deal was first launched in 2007.

BP and Accenture's relationship is the longest standing of the three cases described in this article, dating back to 1991. The focus of this case is on the financial and accounting services provided for BP's North American refining and marketing operations. This BPO relationship is fascinating because performance went from best-in-class to humming along at good/okay performance and back to best-in-class performance after 2009. BP reclaimed top performance by adopting seven of the nine practices.

The third BPO relationship concerns the outsourcing of customer care. The U.K. telecoms company TalkTalk and its call center provider, CCI, grew up together because both companies were founded at about the same time. TalkTalk

Table 2: Overview of the Cases

	Microsoft	BP	TalkTalk
Industry	Software and Services	Energy	Telecoms
Revenue	$78 billion	$388 billion	£1.7 billion
Employees	100,932	86,000	Not available
BPO Type	Financial and Accounting/ Procurement	Financial and Accounting	Customer Care
Initial Contract Date	2007	1991	2005
Outsourcing Driver	Used outsourcing relationship to help create global shared services	Initial focus on core competency strategy; now uses outsourcing relationship to help deliver shared services	Used outsourcing to help enable rapid growth
Provider	Accenture	Accenture	CCI Call Centers
Number of Provider FTEs on the BPO Account	450	330	1,000
Outsourcing Outcomes	Significant cost savings, better use of in-house staff, yearly productivity improvements and delivery of new innovations	Over the long history of the relationship, it went from best-in-class performance to good performance and then back to best-in-class performance	Critically enabled rapid growth; partnership is strategically aligned

needed CCI to help enable its rapid growth. When TalkTalk finally made CCI its exclusive offshore partner, it achieved best-in-class performance by enacting seven of the nine practices.

We now describe these three BPO cases and then draw on their experiences to demonstrate the nine practices in action.

Microsoft: Finding a BPO Provider to Help Create OneFinance

"What makes this relationship work so well? We're in this together. We've been able to build that trust together. We enjoy doing things together." Senior Director, Microsoft

Company Description

Co-founded by Bill Gates and Paul Allen in 1975, Microsoft is a U.S.-based multinational corporation that develops, manufactures, licenses, supports and sells computer software, consumer electronics and personal computers, and services. With 2013 revenues of nearly $78 billion and with over 100,000 employees, it is the world's largest software company.

Outsourcing Objective

In 2006, Microsoft was achieving extraordinary growth by allowing its subsidiaries a high degree of autonomy. But autonomy also resulted in high fragmentation of the company's finance, accounting and procurement functions. Microsoft sought to standardize these processes globally with the aims of reducing costs,

improving service and compliance, and focusing internal roles on more strategic activities. Microsoft launched its global shared services initiative called *OneFinance.* It looked for a global BPO provider that was large enough to help create and run OneFinance.

Outsourcing Relationship

Microsoft partnered with Accenture in 2007. The initial seven-year agreement spanned 90 countries and 450 individual roles. Within 18 months, the partnership designed and implemented a global set of standardized processes across 92 countries, improved internal controls and compliance, improved scalability and reduced costs by 35%. In 2009, the partnership was extended to include more accounts payable and buy center processes. The contract was worth $330 million in 2012 and was extended until 2018. Five years into the BPO relationship, the partners continue to innovate Microsoft's financial, accounting and procurement processes. In 2010-2011, for example, the 25 international subsidiaries were moved from manual invoicing to electronic invoicing. The partners implemented new tools that increased transparency by allowing Microsoft's business users to see every dollar spent and timely measures on performance. New transformation projects are planned and delivered each year. During all this time, the leadership pair responsible for managing the Microsoft-Accenture relationship has remained constant, which has been crucial for sustaining high performance BPO.

Outsourcing Outcomes

The Microsoft-Accenture relationship is clearly providing best-in-class BPO performance. The Microsoft executives in charge of the Accenture relationship rated Accenture's performance as 9 on a 10-point scale, with 1 indicating "pitiful performance," 5 indicating "meets expectations" and 10 indicating "exceeds expectations." In addition to the initial cost savings of 35%, many other business benefits have been achieved, including better use of in-house staff, yearly productivity improvements and delivery of new innovations. Prior to the partnership, 75% of the financial controllers' time and resources were spent on transactional activities and compliance, which dropped to 23% after outsourcing. The partnership has delivered an additional 20% in cost savings by streamlining, simplifying and/or automating key procurement and accounts payable processes.[5]

BP: Reinvigorating a Long-standing BPO Relationship

"My team had to awaken and say we need to push ourselves to improve our processes and drive value. We had a cultural shift from 'Accenture does some stuff' to a culture that we all own the end-to-end processes, and Accenture delivery is an integral part of those processes." Head of Shared Services, BP

Company Description

BP, formerly known as British Petroleum, is a global energy company with business activities in more than 100 countries, in five major areas: Exploration and Production, Integrated Supply and Training, Refining and Marketing, Alternative Energy, and Shipping and Operations. In 2012, it had 86,000 employees worldwide and annual revenues of $388 billion.

Outsourcing Objective

BP has been a pioneer in the outsourcing of business services. As early as 1991, it consolidated all of its accounting centers throughout the U.K. into a single accounting system at a single site managed by Accenture. In 1993, BP Exploration outsourced IT operations to three providers: SAIC, Sema and Syncordia. Three years later, it outsourced the accounting functions and IT support for its U.S. upstream, downstream and chemicals businesses. And in 1999, following its merger with Amoco, BP outsourced its U.S. upstream business to PricewaterhouseCoopers and its U.S. downstream businesses and upstream European business to Accenture. The case described in this article concerns BP's financial

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5   Industry awards provide additional evidence of best-in-class performance. In 2008, the Microsoft-Accenture OneFinance relationship won the Outsourcing Excellence Award for Most Strategic Relationship sponsored by the Everest Group and Forbes. In 2010, the relationship won the Best Mature Outsourced Service Delivery Operation awarded by the Shared Services Outsourcing Network. In 2011, the relationship won the Global Excellence in Outsourcing Award (GEO) for Innovation sponsored by the International Association of Outsourcing Professionals. In 2011, its Asia-Pacific operations were given the Best Customer Service award by the Shared Services Outsourcing Network.

and accounting services that support its North American refining and marketing operations.

Outsourcing Relationship

In 2009, BP's North American refining and marketing operations wanted to create shared services for financial and accounting services. At that time, Accenture had long been providing several BPO services within BP:

- Procure-to-pay processes (e.g., entering invoices, updating accounts payable, matching invoices with receipts and helping with payments)

- Record-to-report processes (e.g., fixed asset accounting, close processes and reconciliations)

- Order-to-cash processes (e.g., maintaining master data for franchisees and BP gas stations).

Although these parts of the long-standing relationship with Accenture were still performing well, a new BP executive in charge of creating shared services thought that the relationship could be significantly revived. He relocated the Accenture lead personnel from Texas to Illinois to be closer to BP's North American financial operations. He requested that a new Accenture lead be assigned to further infuse the relationship with new ideas and enthusiasm. The new BP and Accenture leaders reopened the books and *"kicked away the cobwebs to look at what we actually had."* They discovered some inefficiencies in the existing contract, such as BP not taking advantage of free consulting days. For the next two years, the two leaders reinvigorated or implemented for the first time seven of the nine practices for best-in-class BPO performance.

Outsourcing Outcomes

In 2002, BP's CFO described the contract with Accenture as the *"single most successful deal that BP had ever done;"* finance and accounting costs were reduced by half. By the mid-2000s, good performance was routine but no longer "on fire," but after 2009, the BPO relationship was reinvigorated to reclaim best-in-class performance. As of 2011, the BP executives in charge of the Accenture relationship rated Accenture's performance between 8 and 9 on the 10-point scale we used to measure performance. One BP executive went on to say, *"They are almost*

a 9, but that's a significant leap forward from where I thought we were two years ago."

TalkTalk: Outsourcing Customer Care in Times of Rapid Growth

"CCI's performance is just phenomenal. In terms of delivery for us, they've increased and improved dramatically. And on many levels, they're starting to give my onshore teams a run for their money." Marketing, Acquisition and Retention Director, TalkTalk

Company Description

TalkTalk provides pay TV, telecoms, internet access and mobile network services to businesses and consumers in the U.K. In 2012, the company's revenues were £1.7 billion ($2.8 billion), and its net profit was £138 million ($227 million). By 2013, TalkTalk had over four million customers, representing 20% of U.K. market share.[6]

Outsourcing Objectives

The backdrop for the TalkTalk-CCI case begins with the founding of TalkTalk in 2002 as a subsidiary of Carphone Warehouse. TalkTalk's first big step (while still a subsidiary of Carphone Warehouse) was in 2004 when it offered free calls between TalkTalk customers. The volume of new customer orders generated from this event was so great that TalkTalk needed to engage the help of call center service providers. The primary objective was strategic, to enable growth by signing up new customers quickly. Initially, TalkTalk used U.K. contact centers for telesales, together with offshore centers in South Africa and India to reduce its cost-per-acquisition expenses. One of those offshore providers became the start-up firm, CCI.

Outsourcing Relationship

TalkTalk initially signed a contract with CCI in 2005. The scope included a 50-seat call center for outbound sales. From then onwards, CCI has been a crucial enabler of TalkTalk's rapid growth. When TalkTalk announced in 2006 that it would offer customers free broadband, the massive

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6   Sources: http://www.talktalkgroup.com/about-us/our-history. aspx; Wikipedia, http://en.wikipedia.org/wiki/TalkTalk_Group.

Table 3: Launch the Mission Practices Used by BPO Partners

	Microsoft	BP	TalkTalk
1. Assign a great pair of leaders	√	√	√
2. Focus on business and strategic benefits beyond cost efficiencies	√	√	√
3. Acquire strong transition and change management capabilities	√	√	√

surge in customer calls left TalkTalk scrambling to find enough call center seats to meet the demand. CCI did its share by expanding the relationship to 200 seats. By 2008, CCI had about 400 seats dedicated to TalkTalk and about 700 seats by 2010. CCI's scope of services also expanded to include inbound and outbound new sales, upsells, cross sells, web chat, email correspondence and back office data processing services.

TalkTalk's rapid growth and acquisitions resulted in it having 18 call centers in the U.K., Ireland, India, the Philippines and South Africa, some of which were quite small. As a consequence, in 2011, executives from TalkTalk's customer service division decided to rationalize its portfolio of call center service providers. TalkTalk selected CCI as its primary and exclusive commercial offshore partner. In the words of a TalkTalk executive, *"The decision was a no brainer because the CCI site was the cheapest but delivering the best performance."* After CCI became TalkTalk's exclusive partner, the leaders transformed their relationship from a "run of the mill" BPO relationship to a high-performing BPO relationship by implementing seven of the best-in-class BPO practices.

Outsourcing Outcomes

As the quote at the introduction to this case attests, *"CCI's performance is just phenomenal."* This mature BPO relationship has an exemplary strategic alignment that drives operational excellence. The transformation has been so dramatic that TalkTalk adopted the new partnership model for its onshore call centers as well.

Having described the three cases, we next examine the nine practices in action throughout the three stages of the journey to best-in-class BPO Performance.

Three Practices for the Launch the Mission Stage of the Journey

Three practices help launch a great BPO relationship: (1) Assign a great pair of leaders; (2) Focus on benefits and strategic benefits beyond cost efficiencies; (3) Acquire strong transition and change management capabilities. Microsoft has used these three practices throughout its entire BPO relationship (see Table 3). BP and TalkTalk adopted these practices later in their journeys to best-in-class performance. We describe each practice in more detail and illustrate the practice with a story from one of the cases.

Practice 1. Assign a Great Pair of Leaders

"We have very good individuals on this account. We have good people who are interested in doing these things together." Senior Director, Microsoft

We found that an effective leadership pair is crucial for achieving best-in-class BPO performance. An effective pair of leaders—one from the client organization and a counterpart from the provider organization—must work collaboratively to implement the practices associated with best-in-class performance.

During our interviews, we found that effective leadership pairs focused on where the outsourcing relationship should go, not where the relationship was in the past or is in the present. Each leader was transparent by being open and honest about all operational issues with his/her counterpart. The leadership pair acted swiftly to remove or work around obstructions stemming from people, processes or contracts. The leaders never "bad mouthed" the other party. They admitted that they frequently disagreed, but

they resolved these issues behind closed doors and presented a united front to their respective organizations. Each leader had high levels of credibility, clout and power within his/her own organization. And, it was clear that each leader enjoyed working with his/her counterpart. The leaders of the BP-Accenture relationship displayed all of these behaviors.[7]

BP Assigns New Leaders to Regain Best-in-Class Performance. The BP-Accenture relationship was unproblematic, productive (as indicated by green SLAs) and routine. What prompted a change in this BPO relationship was BP's desire to create the Americas shared services center in 2009. To lead the effort, 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. BP's new Head of Shared Services immediately relocated the Accenture lead position from Texas to BP's North American headquarters in Chicago. A new Accenture person was brought in to fill the lead role. The Head of Shared Services 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."

A Commercial Director for BP described the effects of the change in leadership:

> "We have changed things fairly dramatically in the last two years. We came into a relationship that was good and fairly stable but left a lot on the table in terms of overall value. With some concentrated effort and some key adjustments with the personnel and in terms of what we asked Accenture to do, they have risen to the occasion and are doing quite a good job now."

Practice 2. Focus on Business and Strategic Benefits Beyond Cost Efficiencies

> "You need to know what you are trying to accomplish with outsourcing. You have to be thinking way beyond cost. [Cost] 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."
> Manager of Global Workshare, BPO client

The Everest Group's BPO survey (described in more detail in the Appendix) found that best-in-class BPO relationships consider cost benefits to be table-stakes. Instead, these relationships focus on achieving more strategic benefits like getting products on store shelves faster, speeding product testing, increasing customer satisfaction or resolving customer issues better and faster. Clients include these business and strategic benefits in the business case for BPO, setting the tone for attracting the right provider. Certainly Microsoft outsourced for reasons other than just cost savings; it presently relies on Accenture to help enable its global shared services organization.

At Microsoft, the Main Objective of the Outsourcing Decision was to Create a World-Class Financial Organization. While cost savings were expected and included in the business case, the main objective was a best-in-class, global financial organization. Given this business objective, Microsoft knew that it needed to find an outsourcing partner to help transform financial, accounting and procurement services. In contrast to buying a commodity service based solely on price, Microsoft looked for a partner that could transform processes on a global scale. Microsoft selected Accenture because it had the best domain expertise, the most secure transition method and the global scale to service 90 or more countries. Microsoft crafted the contract to achieve these objectives. Rather than structure the contract solely as a cost-plus or fixed-price managed service, Microsoft focused on the desired outcomes. Accenture is compensated, in part, for achieving transformational results.[8]

7   For more on the ten attributes of leadership pairs, see Lacity, M., Willcocks, L. and Yan, A. "Leadership Pairs Behind High Outsourcing Performance," *Pulse Magazine* (9), 2014, pp. 52-57.

8   For a more detailed understanding of the Microsoft-Accenture contract, see Vitasek, K., Manrodt, K. and Krishna, S. "Changing the Game of Outsourcing: The Microsoft OneFinance Case," *Journal of Information Technology Teaching Cases* (2), 2012, pp. 46-56.

Practice 3. Acquire Strong Transition and Change Management Capabilities

"Communication is absolutely key. Tell the organization what's going to happen. Be realistic and tell the organization, particularly the senior management of the organization, that things will get worse before they get better. But give them a date. Tell them how long that pain is going to last. And of course, having told them, deliver to that timescale." Finance Corporate Development Director, BPO client

Many clients fail to invest in enough resources during the transition to BPO because they do not want to erode the financial business case.[9] Yet, service excellence cannot happen without investing both in resources like onsite managers and in knowledge transfer (e.g., shadowing, mentoring and training). Moreover, from the Everest BPO survey and other research we know that the client's change management capability is crucial for continuing outsourcing success.[10] In most of the BPO relationships we've studied, performance actually gets worse during the initial handover. Strong transition and change management capabilities are needed to stabilize the relationship and set it on a path to best-in-class performance. BPO partners need to be proactive rather than reactive.

TalkTalk Learns to Develop Transition and Change Management Capabilities. In the early years of the BPO relationship, TalkTalk's senior executives made quick decisions and informed CCI mostly after the fact. This led CCI to be in a nearly constant reactive state. This happened not so much by design, but by frenetic necessity. With its explosive growth, TalkTalk's culture was described by participants in our study as *"fast-moving, dynamic, with really aggressive targets for growth"* and as *"a very dynamic*

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9   Carmel, E. and Tjia, P. *Offshoring Information Technology: Sourcing and Outsourcing to a Global Workforce,* 2005, Cambridge: Cambridge University Press. Dibbern, J., Winkler, J. and Heinzl, A. "Explaining Variations in Client Extra Costs between Software Projects Offshored to India," *MIS Quarterly* (32:2), 2008, pp. 333-366.
10   Ranganathan, C. and Balaji, S. "Critical Capabilities for Offshore Outsourcing of Information Systems," *MIS Quarterly Executive* (6:3), 2007, pp. 147-164. Lacity, M., Khan, S., Yan, A. and Willcocks, L. "A Review of the IT Outsourcing Empirical Literature and Future Research Directions," *Journal of Information Technology* (25:4), 2010, pp. 395-433.

entrepreneurial business which is very hungry for growth." Participants estimated that, in the past, CCI's management team had been 90% reactive and 10% planned. That caused service problems because CCI was constantly dealing with last-minute changes, such as adapting to a change in one of TalkTalk's products or services. After TalkTalk had built up its transition and change management capabilities, participants estimated that the ratio improved to 70% planned activities and 30% ad hoc activities. This is a commendable shift and was accomplished primarily by putting front-line employees at the forefront of planning and forecasting.

TalkTalk and CCI realized that CCI's front-line employees could provide valuable insight into TalkTalk's marketing campaigns. The front-line employees speak with TalkTalk's customers every day, placing them in a prime position to assess how customers might react to new campaigns. A CCI agent is now assigned to any new marketing campaigns being developed at TalkTalk headquarters. Agents participate in planning meetings via telepresence and provide front-line input and feedback. In addition to their valuable input, these agents become aware of the new campaigns well in advance, enabling them to prepare their peers.

Three Practices for the Stay on Target Stage of the Journey

Adopting a partnering approach to governance, aligning the retained organization with outsourced processes and the provider's staff, and resolving issues and conflicts together and fairly keep BPO relationships on target for delivering best-in-class BPO performance. Essentially, these practices help BPO partners adapt to the inevitable, pervasive and sometimes wicked world of change. Microsoft, BP and TalkTalk are all excellent examples of the value of adopting these practices (see Table 4).

Practice 4. Adopt a Partnering Approach to Governance

"I don't think you should manage offshore providers with the stick approach and say, 'We'll let you figure out how you want to manage your business, and we'll just beat you every time you miss your numbers.'

Table 4: Stay on Target Practices

	Microsoft	BP	TalkTalk
4. Adopt a partnering approach to governance	√	√	√
5. Align the retained organization with outsourced processes and the provider's staff	√	√	√
6. Resolve issues and conflicts together and fairly	√	√	√

I don't believe in that." Marketing, Acquisition and Retention Director, TalkTalk

When most people think of a partnering or collaborative approach to BPO governance, they think of governance structures, such as joint operating, management and executive committees. Although our research confirms that these governance structures are important, they are present in all substantially sized BPO relationships. Governance structures are thus a "hygiene" factor, because the absence of such structures may result in poor performance, but their presence does not in itself necessarily lead to best-in-class performance.

In best-in-class BPO relationships, a partnering approach to governance is much more than a set of committees: it also comprises embedded partnership *attitudes* and *behaviors.* A partnering approach to BPO governance begins with an attitude we call the "Partnership View," in which a client regards the provider as a strategic partner rather than as an opportunistic vendor. Clients from all three BPO cases clearly view their providers as partners.

The Partnership View manifests itself in partnership behaviors. The Everest Group's BPO survey and our interviews found that the top BPO performers include the provider in "the whole picture" of the end-to-end business process, even when the provider is only directly accountable for discrete sub-processes defined by SLAs. While SLAs are an important part of the contractual governance for any outsourcing relationship, one big drawback of SLAs is that they focus management attention on past performance instead of future performance. Another issue with SLAs is that when clients hold providers accountable only to their SLAs, they are missing opportunities for extracting
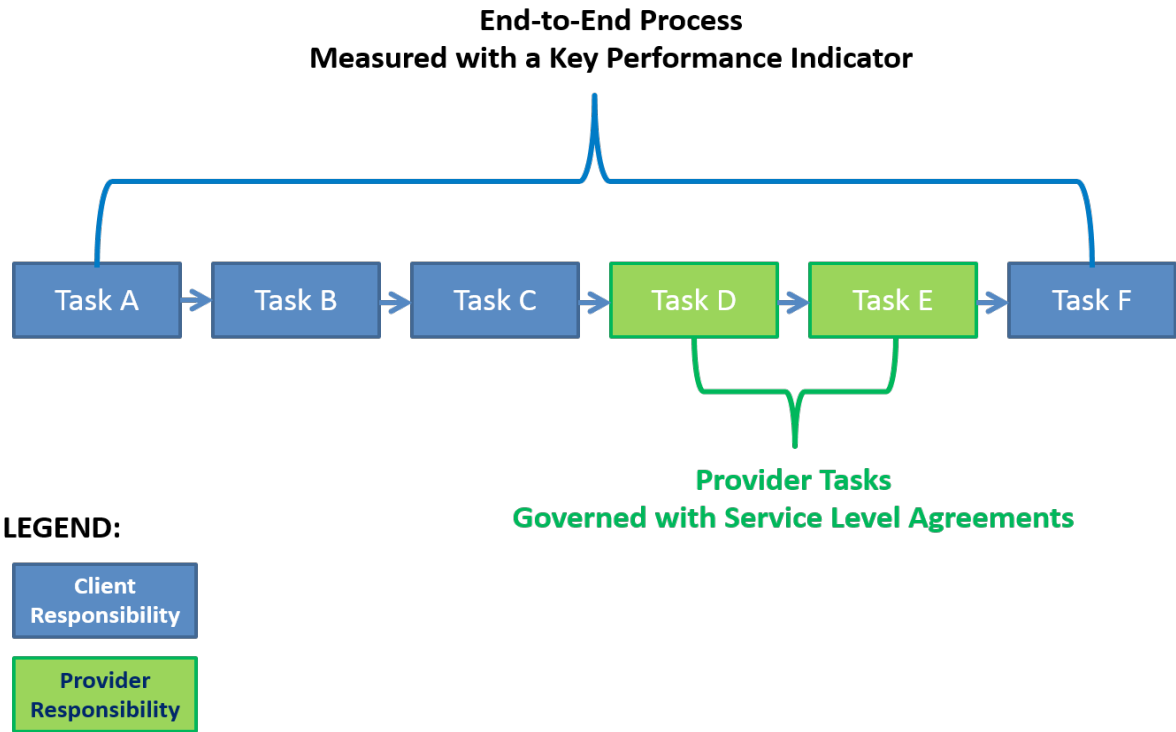
significant additional value from the outsourcing relationship. In best-in-class BPO relationships, clients focused providers on the clients' key performance indicators (KPIs), not just on the SLAs (see Figure 1). TalkTalk certainly improved BPO performance after it included CCI more closely in its end-to-end processes.

TalkTalk: From SLA to End-to-End Management. Initially, TalkTalk held CCI accountable only to its SLAs. But one participant in our study said that this is a naïve approach to outsourcing because the client should not absolve itself of all the front-line delivery accountability. *"A mature client realizes that it is accountable for the end result just as much as the provider."* Conversely, the provider can also be more accountable for helping the client achieve its KPIs. As noted above, CCI speaks with TalkTalk's customers when they first sign up for service, when they want to add services and when they want to cancel services. CCI's Account Director said that, in 2011, TalkTalk and CCI began to realize they were leaving value on the table by not exploiting CCI's 360-degree customer view. He said:

> *"We know why customers are taking products and why they're not taking products and what happened at the point of sale that resulted in this complaint or upsell. So there are really clever things that you can leverage from having all that activity in one site."*

CCI's 360-degree customer view can provide deep insights into helping TalkTalk achieve its KPIs, such as conversion rates from marketing campaigns, retention rates, up-sells, cross-sells and, of course, customer satisfaction. The agent satisfaction metric is so important to TalkTalk that it is broadcast on monitors at TalkTalk's

Figure 1: SLA vs. End-to-End Process Management

End-to-End Process
Measured with a Key Performance Indicator

| Task A | → | Task B | → | Task C | → | Task D | → | Task E | → | Task F |

Provider Tasks
Governed with Service Level Agreements

LEGEND:

| Client Responsibility |

| Provider Responsibility |

headquarters. CCI adopted this as one of its major KPIs and even awards agents' bonuses based on their individual scores.

Practice 5. Align the Retained Organization with Outsourced Processes and the Provider's Staff

"I challenge my own leadership team members by saying 'You don't just have just 20 people here; you actually have 120 because 100 of your people are over in Bangalore with the provider.' You can't run a process without including your team over in Bangalore as part of your operation."
Head of Shared Services, BP

Effective client leaders in charge of back offices build best-in-class retained organizations characterized by service excellence, low costs, scalability, flexibility, high compliance and superior customer satisfaction. The journey to achieve a best-in-class retained organization, however, requires the use of expensive, politically charged and painful transformation levers such as centralization of budgets, standardization and optimization of processes, automation and technology-enablement, and often labor relocation. In some best-in-class BPO relationships such as BP-Accenture, the client leaders transform the retained organization themselves and then engage a provider to help operate, expand and improve the transformed services organization. In other best-in-class relationships such as Microsoft-Accenture, client leaders engage the provider to deploy some or nearly all of the transformation levers in a model commonly called "lift-and-shift." These different approaches demonstrate the principle of equifinality,[11] which means a given end-state (best-in-class business services) can be reached by many potential means (client does everything themselves, the provider does everything via "lift-and-shift" or the many hybrid options between the two extremes).

Regardless of which approach is taken to transform the retained organization, in best-in-class BPO performance, the retained

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11   The equifinality term and concept is due to Hans Driesch, the developmental biologist, later applied by Ludwig von Bertalanffy, the founder of General Systems Theory.

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organization is aligned with the outsourcing provider and meaningfully integrates the provider into the client organization. This includes engaging the provider's offshore delivery teams located in places like India, the Philippines and Eastern Europe. Providers need clients to integrate, empower and reward the provider's staff so they feel connected to the clients. This practice is illustrated by BP, which first transformed the retained organization and now engages Accenture deeply and meaningfully.

BP: Implementing Stabilization, Standardization, Optimization and Sourcing (SSOS). When BP's shared services organization takes on a new location or a new service, it follows a method it calls SSOS. First, BP stabilizes the service by documenting it, developing process maps and creating SLAs between the shared services organization and the business unit it is now supporting. Next, it standardizes the service to match the existing operating standards and then optimizes the service to reduce errors and costs. Only then does BP's Head of Shared Services ask *"Do we continue to do things here, do it in one of our other service centers or do we do it offshore with one of our partners?"*

When BP opts to engage Accenture to perform the service, it involves Accenture at all levels, including the 330 Accenture employees in the Bangalore delivery center who are dedicated to the financial and accounting outsourcing account. BP representatives visit the remotely located provider employees and have monthly meetings to hear their ideas about innovation. BP also financially rewards continuous improvement and innovation from the offshore staff. BP's client leader said these practices have *"generated lots of good ideas that we've been able to put into practice."* Another amazing outcome is that turnover among the provider's Bangalore-based employees is only 8%—one of the lowest rates for an Indian delivery center in our study.

Practice 6. Resolve Issues and Conflicts Together and Fairly

"A problem is not a Microsoft problem or an Accenture problem; it's our problem, so we have to work TOGETHER—TOGETHER is capitalized to enforce the theme or

the basic principle that we have to work TOGETHER." Senior Director, Microsoft

All services—whether insourced or outsourced—will have occasional problems such as service issues that disrupt performance or relationship traumas caused by individuals. In poor performing relationships, the partners blame each other and demand that the other side fix the problem.[12] In all three of our BPO cases, the partners seek to resolve issues together. TalkTalk and CCI illustrate this lesson particularly well.

TalkTalk and CCI Moved from Fault Finding to Shared Accountability and Joint Problem-Solving. Both TalkTalk and CCI study participants used the phrase *"we no longer chase shadows,"* meaning the partners first determine whether a perceived problem is an actual problem. If it is an actual problem, then they look for the root cause, which might be a client-induced problem, a provider-induced problem or a combination of both. It could even be caused by changing market forces. For example, if a competitor (BT, for example) launches a big campaign, CCI's customer-retention rate could be reduced. Instead of blaming CCI for the lapse, the partners now discuss the reason and plan a response. TalkTalk's Marketing, Acquisition and Retention Director explained:

> *"We had never spent adequate time problem-solving with team managers and campaign managers regarding competitor and customer dynamics they were facing—conversations usually focused entirely on performance issues."*

As part of the cycle of continuous improvement, TalkTalk's marketing leaders conduct two-hour problem-solving sessions, called sprints, with CCI's front-line agents whenever they visit CCI in South Africa. Sprints are conducted before the morning shift begins so that the conversations can focus on problem-solving. TalkTalk's Marketing, Acquisition and Retention Director said:

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12   From Lacity, M. and Willcocks, L. "Mastering High-Performance: Resolving Conflicts in Business Process Outsourcing Relationships," 2013, available at http://www.umsl.edu/~lacitym/LacityWillcocksResolvingConflicts2013.pdf.

Table 5: Explore New Frontiers Practices Used by BPO Partners

	Microsoft	BP	TalkTalk
7. Use technology as an enabler and accelerator of performance	√		
8. Deploy domain expertise and business analytics	√		√
9. Prioritize and incentivize innovation	√	√	

"I think that's quite an important aspect of how we operate … making sure you have the time for problem-solving in an uninterrupted environment."

CCI's Account Director described the before and after approach to problem-solving:

"Before, a grenade would come over the fence with the pin out: 'You haven't done this, You need to do X, Y and Z,' and we'd have to man the panic stations. That's the old school of working. The new way of working is we collectively discuss: 'Is it a problem? Why do we think it's happened?' We now have the confidence to be able to be honest about our own failings, and we also have the confidence to be honest about their failings, in a diplomatic manner, of course."

As this last quote attests, joint problem-solving can only happen in environments of high trust and transparency.

Three Practices for the Explore New Frontiers Stage of the Journey

Best-in-class BPO performers not only stay true to the core mission, they systemically seek out new opportunities to improve the client's performance. Top performers use technology as an enabler and accelerator of performance, deploy domain expertise and business analytics, and prioritize and incentivize innovation. We found strong evidence that Microsoft used all of these practices. BP adopted Practice 9 and TalkTalk adopted Practice 8 after the leadership pair was changed (see Table 5).

Practice 7. Use Technology as an Enabler and Accelerator of Performance

"BPO buyers are much more likely to see value when the engagement was designed around a technology-enabled transformation." Phil Fersht, Founder and CEO, HfS Research[13]

The Everest Group's 2011 BPO survey found that best-in-class BPO relationships leverage technology for business outcomes. A 2014 survey by HfS research placed an even greater importance on technology for achieving business value from BPO. Technology is clearly an important factor enabling the success of the Microsoft-Accenture relationship as evidenced by our interviews and by its 2011 Global Excellence in Outsourcing Award for Innovation.

Technology Used at Microsoft. The award specifically mentions two technology innovations: the Controller Workspace and the Governance Workspace:

- Microsoft developed the Controller Workspace, a global centralized tool, to provide its financial controllers with 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 by employees located around the globe to get accurate, timely and reliable data.

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13   Fersht, P. and Sutherland, C. "BPO on the Brink of a New Generation: Technology Transformation," 2014, HfS Research white paper, available at https://www.hfsresearch.com/bpo-on-the-brink-of-a-new-generation.

- The Governance Workspace is a tool designed for transparency and fact-based management of the BPO relationship. The Governance Workspace supports the collaborative BPO governance structure.

These two technology innovations, together with the two technology practices described below, have enabled best-in-class performance of the Microsoft-Accenture BPO relationship:

- Microsoft has a single-instance global ERP system, which facilitates process standardization, rollouts and onboarding for new subsidiaries. It has been identified as a key enabler of shared services, yet few global firms have implemented a standard ERP system.[14]

- Microsoft and Accenture reduced the number of systems used in financial, accounting and procurement operations from 140 to 40 worldwide. Reducing the number of systems eliminates costs and facilitates the standardization of processes.

Practice 8. Deploy Domain Expertise and Business Analytics

"Whomever you select as a provider, within one year, the SLAs are going to be green. That's just going to happen. The business case, that's mostly labour arbitrage. So one year in, everything's green, you're going to ask, so where do I get my additional value? The only way you drive that out is through the analytics that look at processes end-to-end." Account Lead, BPO provider

The Everest Group's BPO survey found that best-in-class BPO relationships leverage the combined processes and industry expertise of the service provider. In best-in-class relationships, the provider applies its domain expertise to launch rigorous analytics processes that measure the right key process indicators, deploy tools and techniques to measure and report on KPIs and deploy algorithms, models and sophisticated statistics to identify weaknesses and opportunities. Then,

the partners redesign processes to deliver measurable business outcomes. At Microsoft, there is a great appetite for the provider's business analytics capabilities.

Unleashing Analytics at Microsoft. Nearly all of the transformation projects at Microsoft are enabled by Accenture's domain expertise and strong analytics. One example is the project to increase the proportion of invoices paid within terms. Prior to the transformation project, 70% of invoices were paid within terms. Applying analytics, the data showed that decentralized Microsoft employees were not approving invoices until late in the cycle because they simply were not aware that discounts were at risk. After the transformation project, 88% were paid within terms and the target is to reach 92% in the coming year. In addition to the discounts from paying within terms, the service improved.

Another example is better cash forecasting. Global companies like Microsoft must allocate enough cash to each country to pay its employees and vendors. Because overfunding has less dire consequences than underfunding, companies tend to overfund, resulting in lost interest. By applying better analytics to forecast cash needs, the partners were able to decrease the overfunding rate from 10% to 2%.

Practice 9. Prioritize and Incentivize Innovation

"If I run a project together with Accenture that takes a person away, then Accenture loses the revenue. That would be stupid of Accenture to do. So what we then did was look at those projects to make sure we have a split of the gain-share to make it attractive for both of us." Senior Director, Microsoft

Clients in best-in-class BPO relationships understand that they need to incentivize providers to seek innovation.[15] Most of the outsourcing deals we have studied are not designed for innovation, even though the parties may devote a lot of rhetoric to innovation. At the beginning of most deals, the usual sticking point is: *Who will pay for innovation?* Sometimes

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14 Lacity, M. and Willcocks, L. *Advanced Outsourcing: Rethinking ITO, BPO and Cloud Services,* 2012, Palgrave.

15 Lacity, M. and Willcocks, L. "Outsourcing Business Processes For Innovation," *Sloan Management Review* (54:3), 2013, pp. 63-69.

clients volunteer an innovation fund against which approved client/provider proposals can draw.[16] However, with a traditional cost-focused contract, innovations are rarely realized because the provider's attention is focused on urgent operational issues. Risk-sharing, gain-sharing, strong partnering behaviors and a provider seat at the strategy table are critical components in any outsourcing arrangement that is going to deliver meaningful innovations.[17] BP serves as an example.

BP Reinvigorates Innovation. In its BPO outsourcing contract, BP is entitled to 150 free consulting days from Accenture's top consultants. This entitlement is termed "Invest Days" and is designed with innovation in mind. The contract stipulates that the content of Invest Days has to be mutually agreed. The idea is that the client gets complimentary access to top consulting expertise and the provider gets an opportunity to sell additional services. When the Head of Shared Services came on board in 2009, BP was not using any Invest Days. As part of reclaiming best-in-class performance, by 2011, BP was using 100% of the Invest Days. The outcomes from Invest Days have been beneficial to both BP and Accenture. Most recently, the parties identified two clear candidates for offshoring that had not been offshored previously. Customer master data is one example:

> *"Accenture came to us and said, '[Customer master data] is an area that we do for other companies, and we do it very effectively.' It was almost a gimme. And we went, 'Oh! ...Don't just take our requests, you need to come and challenge us around our processes and bring in that external view.'"*
> Head of Shared Services, BP

Accenture also gained from this innovation initiative, not least in working more closely and strategically with BP to identify future opportunities.

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16   For more on innovation, see Weeks, M. R. and Feeny, D. "Outsourcing: from cost management to innovation and business value," *California Management Review* (50:4), 2008, pp. 127-146.
17   Willcocks, L., Cullen, S. and Craig, A. *The Outsourcing Enterprise: From Cost to Collaborative Innovation,* 2011, Palgrave.

Concluding Comments

The nine practices described in this article significantly contribute to best-in-class BPO performance. BPO relationships are best launched by assigning a strong pair of leaders (one from the client, one from the provider), focusing on business benefits, and driving strong transformation and change management. Best-in-class BPO performers stay on target by deploying practices that adapt to change and by systematically exploring new opportunities, often with the assistance of new technology, business analytics and other innovations. The sequencing of the nine practices is deliberate—it is our best advice based on the evidence from Microsoft, BP, TalkTalk and our many other cases.

Clients that find themselves engaged in BPO relationships whose performance is not yet best-in-class need not despair. The strongest message from our cases is that *it is never too late to improve BPO performance.* BP and TalkTalk enacted some of the practices well after the initial contracts were signed to reclaim (in the case of BP) or to establish (in the case of TalkTalk) best-in-class performance. Furthermore, BPO relationships can be improved or reinvigorated by adopting just some of these practices, as we found in other case studies besides Microsoft, BP and TalkTalk.

When challenged to identify one practice as the most impactful, we found that a strong pair of leaders is the single best performance improver. This is because—despite the promise of the latest technology, analytics and innovation practices—most BPO relationships are heavily people dependent. Consider the size of the three BPO relationships discussed in this article, which range from 330 to over 1,000 provider employees devoted to the clients' accounts. A strong leadership pair is needed to guide the teams toward best-in-class performance.

Finally, a word of warning: although BPO performance improved in our examples, the opposite is also possible. BPO performance can erode over time. In our previous BPO case study research, we found examples where best-in-class performance slipped to good performance, and good performance slipped to poor performance. Much like long-term, happy marriages, both

partners have to stay engaged and enthusiastic to deliver continually excellent results.

Appendix: Research Base and Method

Throughout 2011-2013, we participated in survey research and conducted 57 interviews to identify the practices associated with best-in-class BPO performance.

The BPO Survey. We contributed to the Everest Group's BPO survey conducted in late 2011 (the findings are reported in Mindrum et al.).[18] Our role was to comment on survey design, and we had access to the survey findings. In all, 263 qualified BPO clients responded.

The criteria for best-in-class performance were two-fold. The first was strong performance (6 or 7 on a 7-point scale) for three "must-have" elements:

1. The BPO relationship meets financial objectives

2. The BPO relationship meets service level objectives

3. The BPO provider's service delivery is consistent and predictable with low variability in performance levels.

The second was being in the top quartile across seven value indicators:

1. Provided greater flexibility to manage temporary volume fluctuations

2. Increased speed to prepare for changing business conditions

3. Optimized and enabled the entire process or business function

4. Improved business performance of other parts of the client organization

5. Created additional sources of value

6. Delivered business outcomes that were not originally expected

7. Enabled the organization to increase the top-line.

Using these criteria, the survey identified 20% of respondents as having best-in-class BPO performance The survey found that levels of performance were independent of industry, geography, size of deal, length of BPO relationship and business function outsourced. The analysis of the survey responses identified eight practices that strongly correlated with best-in-class performance.

Key Informant Interviews. Throughout 2011-2013 we conducted key informant interviews to enrich the survey findings. Our research question: "How do BPO partners achieve best-in-class performance?" sought to elicit rich evidence that could contest, corroborate and/or extend the survey findings. We were looking for high performers, using the survey's definition of best-in-class performance. We wanted to better understand the practices that lead to and sustain BPO performance from both client and provider perspectives.

We conducted in-depth interviews with key informants from 28 BPO arrangements between October 2011 and October 2013 (see Table on next page). The interviews typically lasted between 45 and 75 minutes. Participants were interviewed by phone because they were globally dispersed: Australia, Canada, India, Ireland, the Philippines, Spain, South Africa, Switzerland, Czech Republic, the U.K. and the U.S. All interviews were recorded by the authors and transcribed by a third party.

Data Analysis to Define the Nine Practices. The transcribed interviews are over 600 pages long. First, we extracted and wrote papers on the eight best practices identified by the Everest Group survey. Some of these practices proved "meatier" than others. As we were writing these initial papers, we became aware of three more strong themes emerging from the interviews—on incentivizing innovation, the role of leadership pairs and engaging the provider's staff. Based on all the evidence, we identified the nine best practices described in this article by combining some of the "thinner" practices from the survey and adding the emerging practices we had identified from the interviews.

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18 Mindrum, C., Hindle, J., Lacity, M., Simonson, E., Sutherland, C. and Willcocks, L. *Achieving High Performance in BPO,* Accenture Research Report, 2012, available at http://www.accenture.com/Microsites/highperfbpo/Pages/home.aspx.

Qualitative Data Collected on BPO Relationships

Outsourcing Context	Number of Relationships Studied	Number of Key Informant Interviews	Sample Cases
Financial and Accounting Services	8	18	BP, Microsoft
Human Resources (learning, recruiting, etc.)	3	6	Telstra, Kimberly Clark
Legal Processes	6	11	RadiantLaw, BT
Procurement/Supply Chain	5	10	Givaudan, Synopsis
Call Center, Customer Care	6	12	TalkTalk, British Gas, iiNet
Total	28	57	

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