

By Christian Marchetti & Alex Wilson

# Outsourcing:

## Letting Go to Gain Control

Outsourcing, seen by some as a relinquishment of control over corporate activity, can provide distinct advantages to a company in that it can enable strategic flexibility, information transparency, and improved performance. The article examines the role of outsourcing and how an outsourcing relationship can be effectively managed.

**M**ention the word governance and most senior executives think Sarbanes-Oxley or Basel II, and wince at the management time and cost involved. Mention outsourcing in the same breath and brows really start to 'knit'. After all, Sarbanes-Oxley, which requires company executives to vouch for the completeness and accuracy of the data they publish, also prohibits them from delegating these responsibilities to an outsourcer. So, while governance and business process outsourcing (BPO) are among the top senior management and board issues today, they would appear to be at odds. Experience shows,

however, that outsourcing can materially increase management control, and thereby strengthen compliance.

Research conducted for Accenture by the Economist Intelligence Unit (*Outsourcing the Finance Function: Achieving High Performance in Governance and Control*- 2005) found that 73% of senior executives who had outsourced finance functions felt outsourcing had increased the rigour of business processes, and over half said outsourcing made it easier to stay on top of changing tax codes and accounting rules. Forty three % of those who currently outsource a finance function said outsourcing had actually raised the

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quality of governance and compliance at their organisation. Respondents were clear why this was the case; compared to processes that have been retained in-house and that have simply evolved over time, outsourced processes are usually better defined and documented, leading to greater clarity and control. Further, outsourcing specialists can be better equipped to monitor and interpret changing compliance requirements.

### Areas of Greater Context

Research shows that executives at companies that have outsourced vital business processes list seven major areas in which they have gained greater control:

- Ability to change business direction
- Process and information transparency
- Ability to accelerate business growth
- Core business activities
- Supplier and customer relationships
- 'Market' and industry reputation
- Internal accountability

The key to gaining better control in outsourcing relationships lies in the development and practice of good governance on a number of levels.

As a compliance tool, governance is about establishing frameworks and rules for the exercise of power, and measures to ensure those rules are enforced. As a framework for managing commercial relationships, however, governance assumes a much broader, strategic purpose; it is about how power is distributed and used among stakeholders, how decisions are taken, how conflicts are settled, and how decision-makers are held accountable. At the intersection of these two goals, good governance enables stakeholders to hold each other accountable, and, in turn, to

demonstrate that accountability to third parties.

How does that happen in practice? How can executives ensure both objectives are met? Experience in over 500 outsourcing engagements across 42 countries highlights some basic principles of good governance that help create strong business relationships and thereby ensure robust compliance.

### 1. Create a Sound Governance Structure

At the beginning of an outsourcing arrangement, senior executives need to ensure there is a clear governance structure in place, with proper representation from both client and provider. While there is no 'one-size-fits-all' model, the design of the governance structure will depend on two key criteria:

#### ○ The extent to which the outsourcing arrangement is transformational

What impact will process changes have on the overall direction and strategy of the business? The greater the change that will be effected within the 'retained' business, the greater the need for senior representation, and the more controlled the governance structure needs to be in order to plan, direct, and resolve matters arising from the business transformation.

#### ○ The stage of the business transformation lifecycle

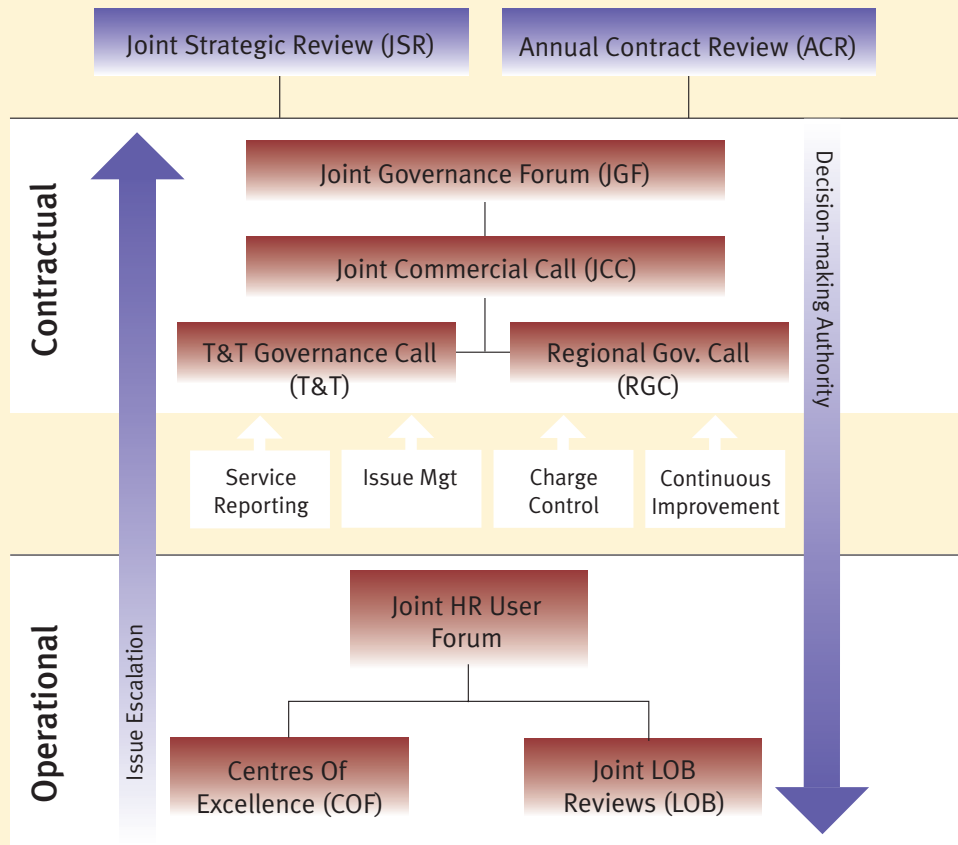
At the beginning of the arrangement, issues are likely to be more critical. The transition of processes and staff along with the restructuring of the 'retained' organisation must be addressed with care and foresight. Over time, as the service settles into operational routine, dominant issues will involve service level metrics, business changes and continuous improvement.

The organisational structures and events associated with governance are crucial in managing transformational risks. However, they are not intended to substitute or replace functional and operational management structures on either side of the relationship. Rather, the governance structures are there to manage the interface between the service provider and the client.



## Governance Model

This model defines the structure for decision making, escalation and review of performance:



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There are three levels to consider in the governance structure:

1. Strategic - to decide *what* to change
2. Tactical - to *make change* happen
3. Operational - to *deliver* service

### 2. Ensure Senior Commitment

The art of good governance is involving the right people, at the right level of seniority, at the right time. The governance structure should facilitate participation from people with the appropriate levels of strategic and operational responsibility, and focus them on contributing in specific, defined ways. For example, a CEO might be required to sit on a strategic council once or twice a year, to ensure that the strategic direction of the BPO remains aligned to core business needs. Involving functional executives and managers ensures that

the operating needs of the business are central to service delivery.

While the CEO, CFO and other senior executives are generally critical participants at the beginning of the arrangement, and will need to be regularly involved, over the longer term, C-level (i.e., senior executive level) involvement may become less frequent. However, without senior commitment from the outset, managers and employees working with the outsource provider or using the service will not give the relationship the respect and effort required to make it work.

### 3. Share Cultures and Values

The governance team can improve results by identifying and building on the shared strengths of each party. Additionally, both client and provider need to understand each other's business drivers. In

general, clients want to improve service delivery and reduce costs, while service providers want to increase their margins by operating more efficiently. These objectives are not mutually exclusive; in fact, they are fundamental to any commercial engagement. In the case of BPO, however, they require a deep understanding of each other's business, a recognition that each party has different needs, and an appreciation that both parties must prosper if the relationship is to succeed.

Equally, agreeing at the outset which values are the most important to the client and the provider will help set the tone for the relationship. Key values for good governance are accountability, transparency and participation. Mechanisms should be established to ensure joint accountability between provider and client. For example, if a supplier agrees to provide a 98% response rate to all HR helpdesk calls within three days, then the client's HR managers must also be prepared to respond to information requests from the supplier within three days. Setting value expectations and corresponding measurement metrics will prevent discord later on in the relationship.

#### 4. Use Experts

If there are gaps in knowledge within the company about how to manage an outsourcing relationship and run a governance team, then organisations should acquire that knowledge; the client must either have or acquire the skills to manage the vendor. Executives charged with managing an outsourcing relationship need an informed understanding of outsourcing strategies, a sophisticated understanding of technology and the business skills to manage relationships. They need to be good at change management, to steer the organisation through the transition phase. They also need to understand the principles and aims of governance, and how to implement and run a governance team. Against this requirement set, the HR or Finance Director, for example, may not be the right person for this role. So, organisations should either hire a third-party 'coach' or consider hiring a manager with outsourcing experience to manage the relationship.

#### 5. Understand and Communicate with all Stakeholders

The governance team's purpose is to ensure the smooth running of the relationship and to resolve

issues. To do its job properly, the team must understand the motives and business needs of each stakeholder group, from senior executives and managers through to professional staff, service delivery teams and users. By encouraging regular dialogue, both formal and informal (regular meetings as well as customer satisfaction surveys), the governance team can better understand differing stakeholder requirements.

Balancing the needs of one group against another is also an important role of the governance team. For example, if the senior management wants to reduce costs further, this may need to be weighed against changes to service levels for employees/clients.

#### 6. Keep to Commitments

This may seem a basic requirement, but failure to keep promises and fulfil commitments can cause extensive damage to a relationship. Meeting commitments is the responsibility of individuals and teams on both sides, but the governance team can 'police' commitments by ensuring adequate documentation of meetings and actions, reviewing them regularly, and holding people accountable. Delivering on commitments builds credibility and fosters a more collaborative environment where the focus is on achieving high performance.

#### 7. Be Outspoken

Governance team members need to speak out when they perceive a problem. Keeping lines of communication open across all levels and functions is critical to successful outsourcing, as is the ability to address issues in an open and honest manner. If the client is unhappy about a small change or a price increase, they should discuss this immediately with the supplier. Like a pebble in a shoe, a small issue can over time create underlying tensions that disrupt team performance. Suppliers too must be prepared to stand up to the customer and explain why something they are proposing would not add value in the long term.

#### 8. Measure, Evaluate, Report

Service level agreements (SLAs) and 'reverse SLAs' (which obligate the client to the provider), along with key performance indicators (KPIs), should be agreed upon at the start of the deal, built into the contract, and measured at regular intervals. The governance team has a responsibility to measure and then



## BT's Outsourcing Experience

Since BT outsourced much of its HR administration, it has realised many tangible benefits, including:

- o Better employee service: 'Peopleline', the HR telephone helpline resolved 89% of calls at first point of contact in FY04 and is achieving 90% performance to date in FY05.
- o Improved absence management: By outsourcing its absence management, and working jointly on absence management initiatives BT has seen a 23 percent overall reduction in absence rates between FY03 and FY05 with the annual cost of sick absence now GB£24m lower than 3 years ago.
- o Stronger health and safety focus: Through a refreshed health and safety strategy with an innovative health and safety management training programme - EnHAnSE - BT has seen its reportable accident rate reduce by 58% over the last 3 years.

The success of BT's HR outsourcing relationship is down to several factors, including a good strategic fit of our companies and strong, visible senior management commitment on both sides. A layered governance structure and clearly defined contract establish role and goal clarity, along with clearly defined financial reporting and service performance metrics.

Senior management commitment from BT has increased the buy-in and cooperation of the workforce at all levels. Our senior managers invested considerable time making sure the contract was detailed and robust, but flexible enough to cope with

the evolving demands of changing HR services and business conditions. Clearly defined SLAs and 'reverse' SLAs are built into the contract, providing the basis for evaluating Accenture HR Services' performance as well as our own, and enable us to demonstrate return on our outsourcing investment.

Crucially, we have a strong governance structure in place to make key decisions about outsourcing at BT, and to raise and resolve issues. Within the structure, a senior strategic review team meets twice a year to set direction and share plans. The governance teams all understand their roles and their authority to make decisions.

- o A monthly governance forum meets to review global service and programme performance, address policy changes and discuss new service requirements and their impact on the contract.
- o A monthly joint commercial forum reviews business issues affecting the contract and resolves commercial issues escalated from other forums.
- o Individual governance forums are responsible for each of BT's lines of business and geographic units, and specialist teams cover areas such as pensions and resourcing.

The forums are all designed to ensure regular dialogue and knowledge sharing between both parties, and to address issues as close as possible to their source. Taken together, these governance forums have fostered a positive and open relationship between BT and its outsourcing partner that has benefited both parties.

evaluate the findings and report back to both parties, and to refine, improve and adapt its metrics to meet the changing needs of the relationship and the service, or the introduction of new technology. As SLAs and KPIs are often not enough to gauge the success of the outsourcing relationship, however, the governance team's ultimate focus should be on delivering customer satisfaction. Customer satisfaction surveys often uncover problems and concerns among users that SLAs or KPIs would not highlight.

### 9. Innovate and Improve Continuously

Providing value for money is the foundation of any outsourcing agreement. However, leading-edge clients who seek to transform their HR function

should expect their service providers continuously to add value. Providers can do this through process transformation, for example, updating and improving technology platforms, redesigning processes, and suggesting innovative ways of tackling problems. The governance team in such cases must make sure the contract is flexible enough to meet changes to processes and service requirements, and that there are incentives to innovate.

For example, as part of the emphasis on continuous improvement, BT and Accenture HR Services have embedded in their new contract an innovative risk-and-reward mechanism, overseen by the governance team. Under the terms of the contract, if Accenture HR Services exceeds its

expected performance band, then it receives bonus payments from BT, but if it under performs then Accenture HR Services has to compensate BT.

The governance team will also be convening annual Innovation Boards, where Accenture HR Services showcases the latest thinking and best practice in HR outsourcing to BT, or suggests responses to new compliance requirements. Both parties then consider and discuss the implications of this on BT's own strategy and future plans.

**10. Nurture and Engage your People**

Finally, good governance is about people and about creating strong human relationships that foster trust among all parties. Regular communication that is honest and open builds personal trust and confidence, and creates a joint commitment to organisational success. In turn, organisations that work hard to develop their relationships with all stakeholders, from managers to employees, will have a positive outsourcing relationship that is truly transformational.


**Conclusion**

Governance is about managing resources and people, but it is also about understanding the relationships between different stakeholders, how these relationships impact one another, and how they can be channelled to productive outcomes. Robust governance both creates and relies on a

positive relationship between client and outsourcer, ultimately resulting in greater control of externalised functions.

As outsourcing is a journey, not an event, governance plays a special role. With new communications and information technologies, we

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are moving from an industrial-age model towards a new kind of multilateral organisational model of cooperating specialists, each focused on creating new value in its core competency. We predict that in ten years' time, most organisations will not build large in-house administrative functions in areas like finance and accounting, HR, and procurement. Instead they will buy these services in the competitive marketplace. In this context, the outsourcing governance frameworks being put in place today are defining new business boundaries and establishing commercial frameworks, and in the process creating an entirely new class of specialist business service providers. 



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**Christian** joined Accenture HR Services as Managing Director in September 2005, with extensive expertise in outsourcing and client relationships. He is responsible for Accenture's industry-leading global HR outsourcing business, which began its history in 2000 from a founding partnership with BT. Christian played a leading role in establishing and building Accenture's outsourcing practice in Gallia and in shaping the landmark Finance & Accounting BPO relationship between Accenture and Rhodia, one of the world's leading manufacturers of specialty chemicals.



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