Dynamic Innovation in High-Performing Outsourcing Relationships

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High BPO Performance

New *in-depth interviews* with client-provider executive pairs in 20 organizations and still collecting data

Achieving High Performance in BPO
Research Report

- Nominees came from service providers

- includes FAO, HRO, SCM, Procurement, Admin.

- Range in size from 30 FTEs to 550 FTEs

- Clients based in North America & Europe
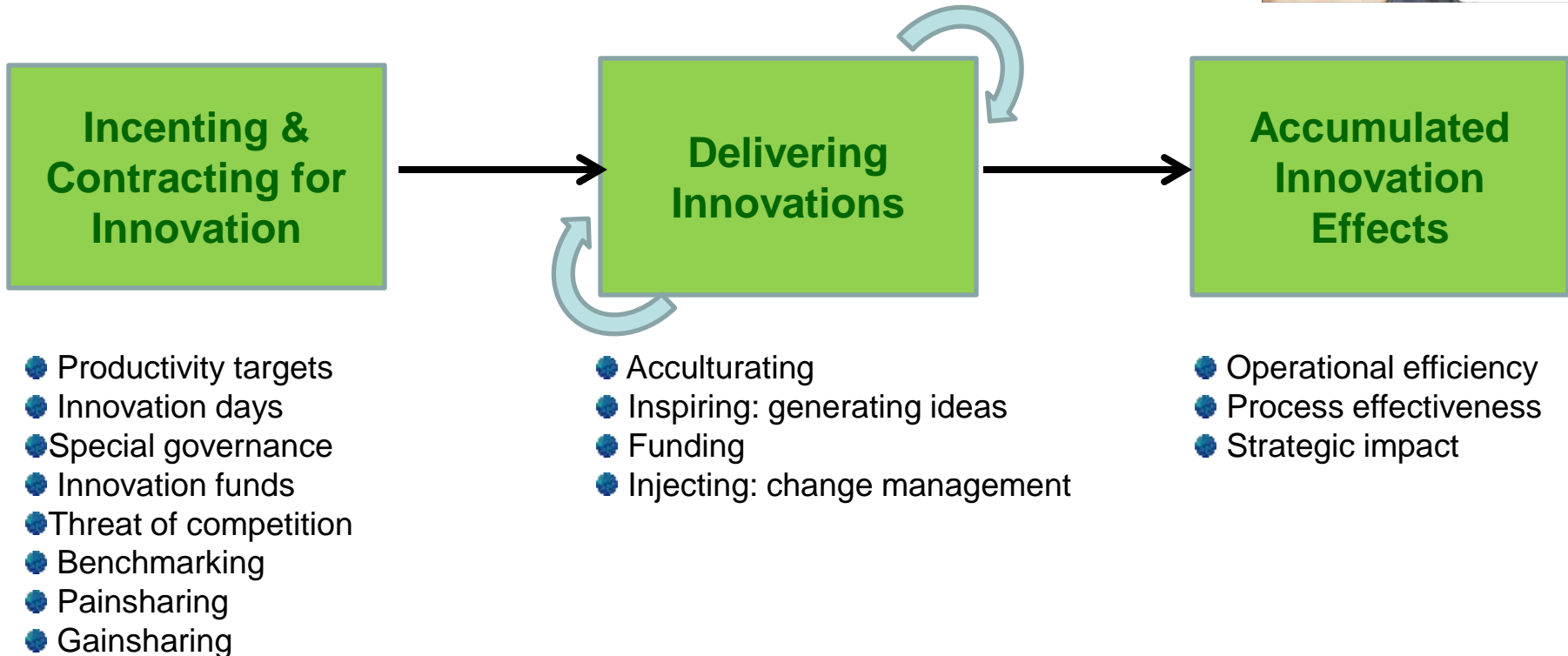
- ~10% doing okay,
  ~40% good,
  ~50% high

High BPO Performance

Dynamic Innovation *is characterized by continuous, energetic, and sustained efforts that improve the client's operational efficiency, process effectiveness and/or strategic performance*.

| Incenting & Contracting for Innovation | → | Delivering Innovations | → | Accumulated Innovation Effects |

High-Performance BPO Research

Dynamic innovation must be motivated with incentives and nurtured by a culture that inspires, funds, and injects cycles of new tools, methods, processes, and structures in the client organization.

Incenting & Contracting for Innovation	→	Delivering Innovations	→	Accumulated Innovation Effects

Incenting & Contracting for Innovation
- Productivity targets
- Innovation days
- Special governance
- Innovation funds
- Threat of competition
- Benchmarking
- Painsharing
- Gainsharing

Delivering Innovations
- Acculturating
- Inspiring: generating ideas
- Funding
- Injecting: change management

Accumulated Innovation Effects
- Operational efficiency
- Process effectiveness
- Strategic impact

High-Performance BPO Research

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Gainshare targets set too low:

"The standards were a bit one-sided and not difficult to meet. It ensured that each year there was a good bit of gain, and the gain went to the provider. We lose the notion of pain/gain. You should be truly delivering something fairly extraordinary to benefit from gainsharing. That wasn't necessarily the case." --CLIENT

Parties could not agree on baseline:

"In one of our contracts, we actually agreed to put incentive based mechanism in place, and we contracted for that. However, once we got into the contract we found that the baseline was not really measurable so that was never implemented. It was quite disappointing for everybody." -- PROVIDER

Gainsharing Challenges

Incenting & Contracting for Innovation

- Productivity targets
- Innovation days
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- Painsharing
- Gainsharing

Gainshare too complex:

"The initial deal had gainsharing in it but the client was not comfortable with it. The complexities of the gainshare mechanisms was a little overwhelming at times." -- PROVIDER

Gainshare ambiguity:

On a procurement deal, the provider gets a percentage of any discount above the vendor's list price *for any new products* the client bought.

The provider calculated a multi-million dollar gainshare, claiming the contract was for new products as evidenced by new material codes.

The client claimed the previous contact already had a 50% discount and the client was purchasing the same material, it was just that the vendor's newer models used different codes.

Gainsharing Done Well

Incenting & Contracting for Innovation

- Productivity targets
- Innovation days
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- **Occurs after the relationship has stabilized**
- **For FTE based pricing, client needs to incent the provider to implement innovations that would reduce FTE count**
- **Client agrees to increase profit margin**
- **Parties agree to gainshare in advance per project**

"If I run a project together with Accenture that takes that person away, then Accenture loses the revenue of 100 and a profit of 10. That would be stupid of Accenture to do. So what we then did was looked at those projects to make sure we have a split of the gainshare to make it attractive for both of us to do this." Microsoft Client

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Delivering Innovations

- Acculturating
- Inspiring: generating ideas
- Funding
- Injecting: change management

"I expect you all to be independent, innovative, critical thinkers who will do exactly as I say!"

Delivering Innovations

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Transformational Leadership
the missing link

Requires a Pair of Transformational Leaders

Focus on the future —the leaders focus on where they want to be, not where they are

Spirit of togetherness —the leaders present a united front ; provider deeply and meaningfully embedded

Transparency —the leaders are open and honest

Problem solving —the leaders diagnosis and fix problems rather than assign blame

Outcomes first —the leaders do what is best for the client organization and then settle a commercially equitable agreement

Action-oriented —leaders act swiftly to remove or workaround obstructions stemming from people, processes, or contracts

Trust—the leaders feel secure and confident in the other partner's good will and intentions

Political stature and clout
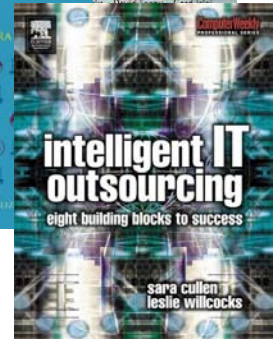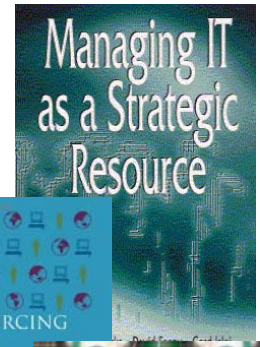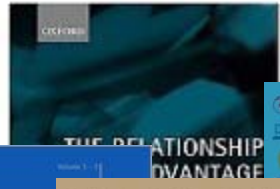
Delivering Innovation

Delivering Innovations

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After stabilization, business analytics is increasingly the impetus for innovation ideas:

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"Whoever 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? And the only way you drive that out is through from the analytics that look at processes end-to-end. And you drive that out through good governance, having process owners in place and moving towards a kind of leading practice."

What We Do

- Over 20 years of research in ITO, BPO, offshore, cloud
- 1,600 interviews, also multiple surveys
- Private & public sectors
- Client and provider organizations
- Stakeholders perspectives from CXOs to delivery team
- From small deals to global deals
- Research in Europe, Americas, Asia Pacific
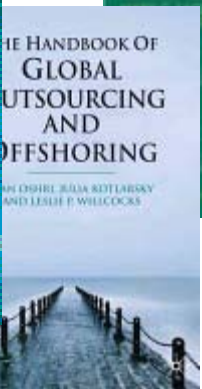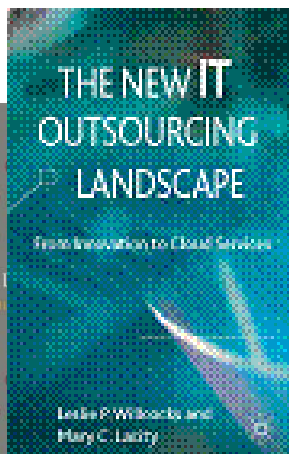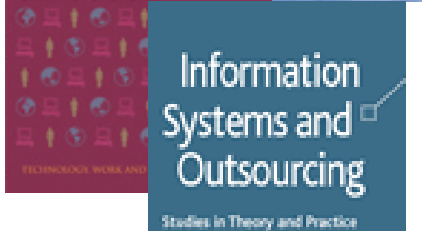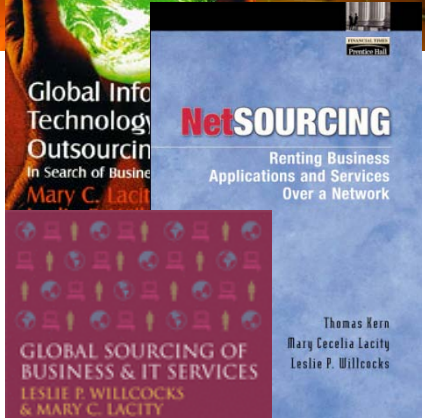
Sample Innovations

Better third-party vendor management improved the customer order fill rates for new parts from 60 percent to 85 percent and the turnaround time for delivering parts to grounded aircraft from 21 hours to 17 hours.

Better Forecasting tool helped one client improve retail stock fill rate from 80% to 95%, reduce the inventory level by 27%, and reduced error rates by 50%.

Rework prediction tool—model rework vs. correct claims and now intercept over 50% of claims that would have been reworked, saving $25 to $50 in administrative costs per overpaid claim and $6 to $12 per underpaid claim.
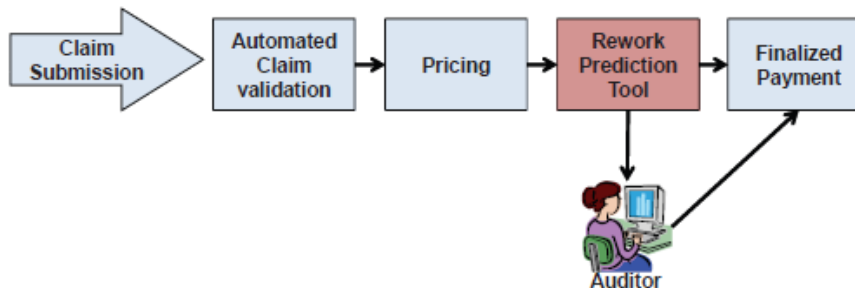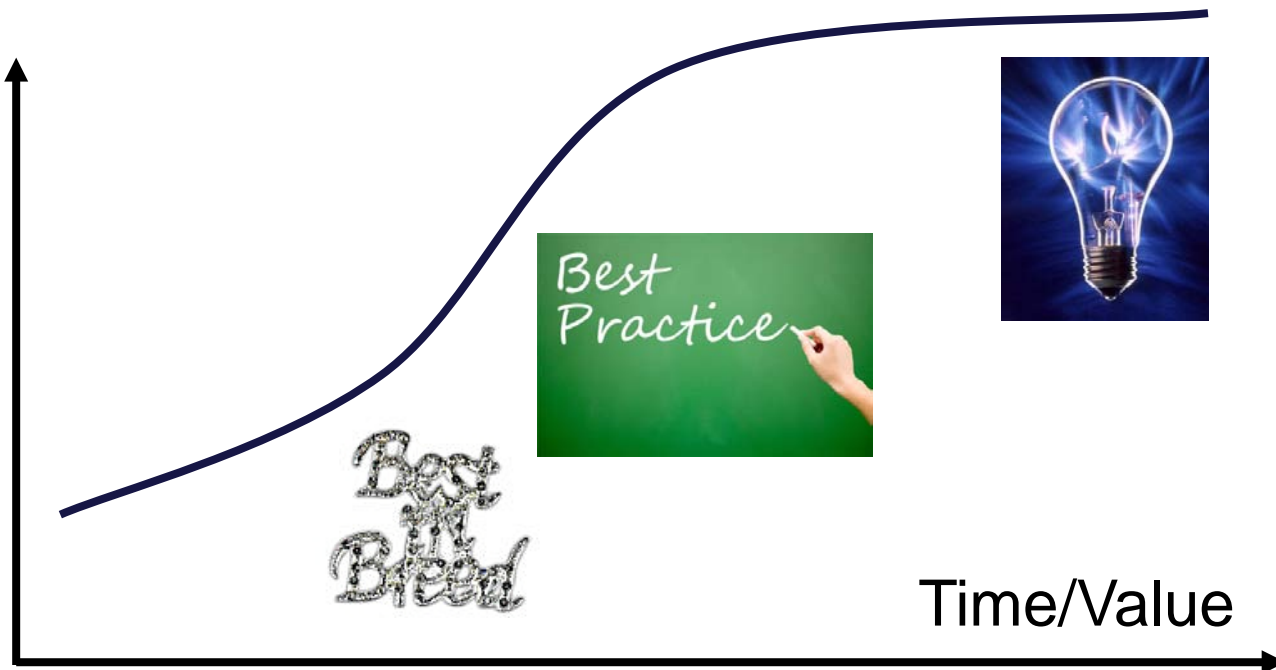

Figure 1: Claim Processing Pipeline

🌿 **It is never too late to innovate--**several top performers—including Microsoft—introducing gainsharing mechanisms after the relationships stabilized.

🌿 **Innovations progress along a novelty curve**

Time/Value

Access to Research

High-Performance BPO Research:

http://www.accenture.com/Microsites/highperfbpo/Pages/home.aspx
http://www.outsourcingunit.org/

MASTER REPORT:
•Mindrum, C., Hindle, J., Lacity, M., Simonson, E., Sutherland, C., and Willcocks, L. (2012), "Achieving High Performance in BPO: Research Report"

PRACTICE PAPERS:
•Lacity, M., and Willcocks, L. (2012), "Mastering High-Performance: Domain Expertise and Analytics"
•Lacity, M., and Willcocks, L. (2012), "Mastering High-Performance: Collaborative BPO Governance"
•Lacity, M., and Willcocks, L. (2012), "Mastering High-Performance: Transformation of the Client's Retained Organization"
•Lacity, M., and Willcocks, L. (2012), "Mastering High-Performance: Technology as Enabler" forthcoming
•Lacity, M., and Willcocks, L. (2012), "Mastering High-Performance: A holistic, end-to-end approach" forthcoming
•Willcocks, L. and Lacity, M. (2012), "Mastering High Performance: Change Management" forthcoming
•Willcocks, L. and Lacity, M. (2012), "Mastering High Performance: Target Strategic Business Outcomes" forthcoming
•Willcocks, L. and Lacity, M. (2012), "Mastering High Performance: Value Beyond Cost" forthcoming

CASE STUDY PAPERS:
•Lacity, M., and Willcocks, L. (2012), "Mastering High-Performance: The Case of Microsoft's OneFinance"
•Willcocks, L. and Lacity, M. (2012), "Mastering High-Performance: Strategic F&A Partnering at BP"

THEMES PAPERS:
•Lacity, M., and Willcocks, L. (2012), "Mastering High-Performance: Dynamic Innovation" (forthcoming)
•Lacity, M., and Willcocks, L. (2012), "Mastering High-Performance: Transformational Leadership (forthcoming)
•Lacity, M., and Willcocks, L. (2012), "Mastering High-Performance: Resolving Conflicts in Business Process Outsourcing Relationships (forthcoming)

IAOP survey of 202 outsourcing clients, providers, and advisors

20 client-provider interview pairs of high-performance BPO

IAOP Survey

- IAOP survey of 202 outsourcing clients, providers, and advisors

- 85 customers, 90 providers, and 27 advisors

- 89% of respondents could point to a specific innovation delivered in their deals.

- *The three communities agree that innovation is best defined as anything that improves the customer's performance, regardless of its novelty.*
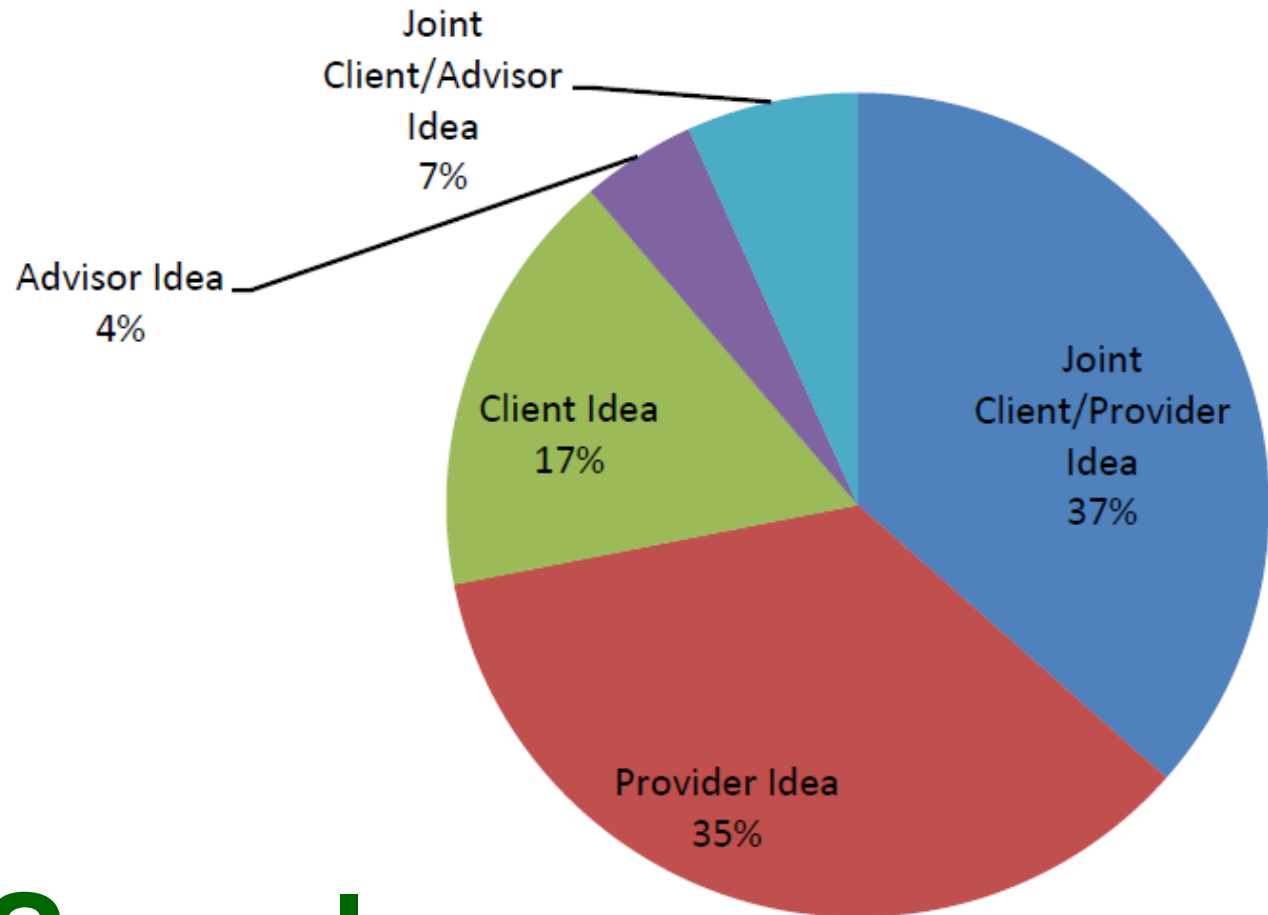
Innovation Examples
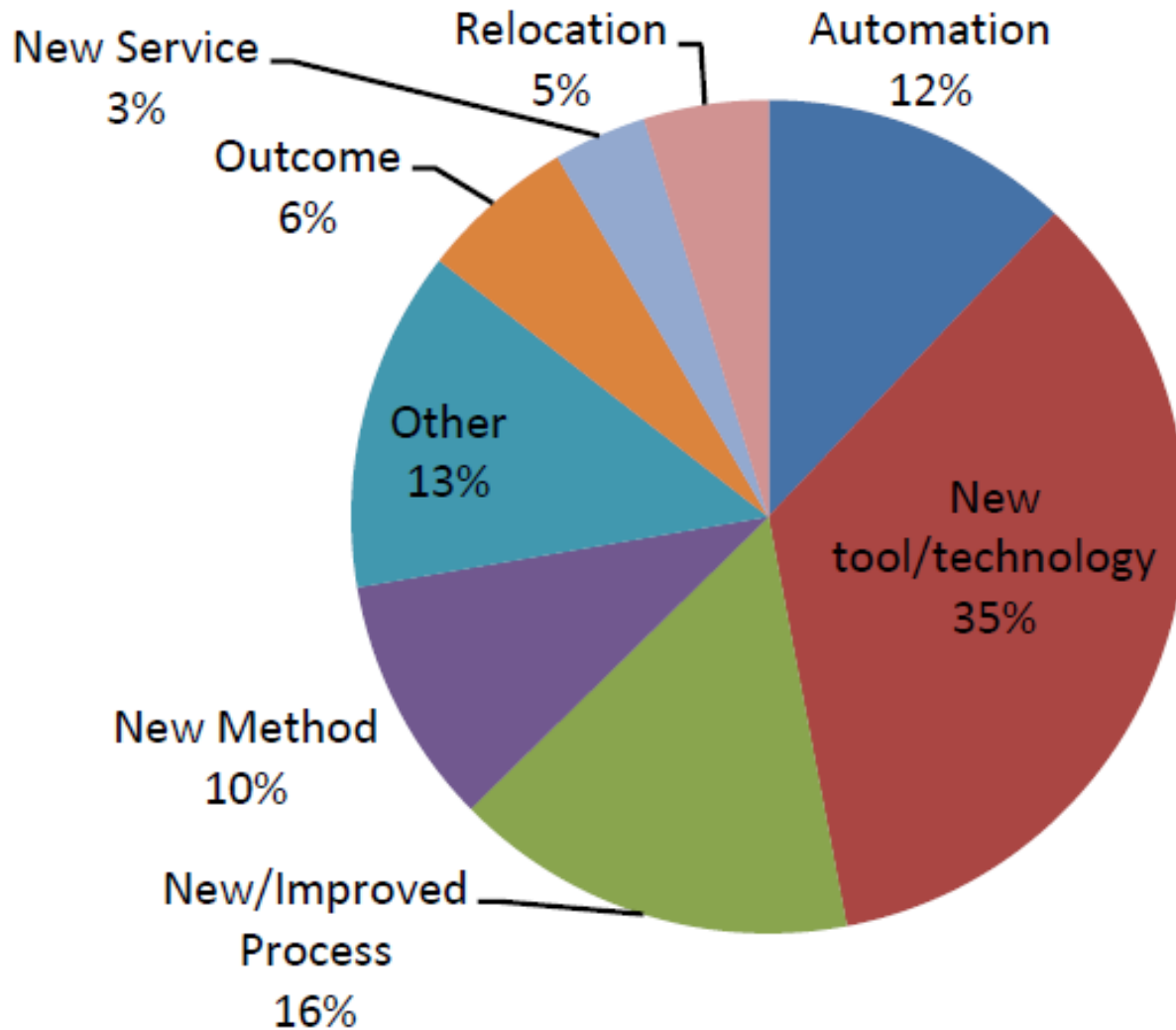
Contracting for Innovation

 Respondents could tick multiple options from a choice of innovation funds, invest days, special governance for innovation, or gain-sharing on innovation benefits.

 By far, across all three communities, gain-sharing was identified as the best way to design innovation into the deal.

 Specifically, 79% of customers, 77% of providers, and 78% of advisors indicated that gain-sharing on innovation benefits was the best way to contract for innovation.

 Despite this being the top ranked response, only 40% of innovations delivered used gain-sharing according to customers.
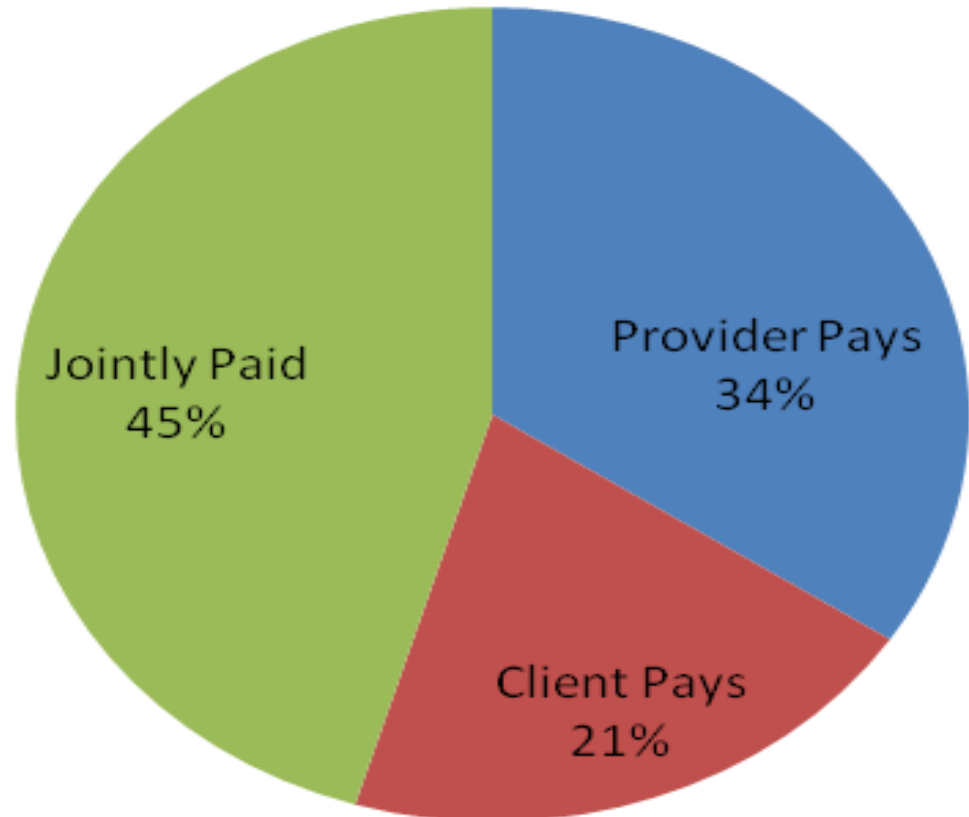
 Thus, we identified a gain-sharing gap.

Whose idea?

Joint Client/Advisor Idea 7%

Advisor Idea 4%

Joint Client/Provider Idea 37%

Client Idea 17%

Provider Idea 35%

Entire Sample

Who Funds Innovation?

Who pays for innovation?

- Provider Pays 34%
- Client Pays 21%
- Jointly Paid 45%

Entire Sample

Leslie Willcocks

Performance

High

* Cost savings delivered
* Beyond SLAs to end-to-end process management
* High client satisfaction
* Innovation delivered
* Business benefits delivered

Good

* Cost savings delivered
* Meeting SLAs
* Good client satisfaction

Doing Okay

* Marginal cost savings delivered
* Acceptable service performance
* Marginal client satisfaction

Poor

* No cost savings; costs increased
* Poor service performance
* Low client satisfaction

Which practices distinguish relationships with high performance from BPO relationships with "poor", "doing okay", or "good" performance?