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AT THE UNIVERSITY OF MICHIGAN



## SEVEN ASSURANCE ESSENTIALS TO MANAGE OFFSHORE BUSINESS PROCESS OUTSOURCING

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### **Overview**

Companies attempting to take advantage of business process outsourcing (BPO) opportunities face new challenges of managing myriad unfamiliar vendors, processes, and relationships. Mismanaging can turn an opportunity into a management nightmare or an outright failure. To Janeeva, “BPO Assurance” is the process of maximizing the investment made in offshore outsourcing by implementing processes for the ongoing management of these critical business relationships across the BPO value chain. “Seven Assurance Essentials to Manage Offshore Business Process Outsourcing” discusses considerations critical to successful offshore outsourcing program management.

*Offshore outsourcing* – just the words evoke images of challenges in the pursuit of higher profit margins and lower costs. A November 2004 Gallup survey found that just over half of the 150 companies surveyed outsourced some part of their business. Thirty-eight percent of those who had tried outsourcing said the exercise had been 'a complete failure' or had delivered fewer benefits than expected. Forrester Research predicts that more than 40 percent of outsourcing relationships will fail to deliver the business value originally envisioned, costing US companies \$30 to \$40 billion a year in lost time and resources.

Clearly, there are challenges to outsourcing, but the potential benefits often make the risk worth taking. The most obvious challenges to moving any operation offshore are locating a vendor and managing the transition from in-house to offshore. Much has been written on this process, and many consultancies formed to assist in this transition. However, much less information is available about maximizing the investment made in offshoring while minimizing risks by implementing processes for the ongoing management of outsourced relationships. The ongoing management of such relationships Janeeva terms “BPO Assurance”.

Fortune 500 companies have been and are continuing to gain cost and competitive advantage through use of offshore BPO opportunities. To remain competitive, it is essential for many companies to do the same. Companies must dedicate more focus and energy to core competencies and separate support services that can be purchased from third parties. The problem is that most firms in the U.S. lack the resources, infrastructure, expertise, and experience to effectively develop and manage a productive BPO arrangement. For example:

*“It has really been one of those situations in which somehow, somewhere, we lost control. We bought a bill of goods that was probably not what we thought we were buying. The promise of support we thought we were going to get is nonexistent. I do more work now on it than I did before, yet I’m paying somebody else to do it.”*

*Jerry Pena, HR Manager, DACCO  
On outsourcing their 401-K plan administration*

*“Ramping up your project too rapidly is often a problem for first-timers”, says Joydeep Datta Gupta, executive director of PricewaterhouseCoopers Private Ltd. in Calcutta, India, who has been following outsourcing in India for 14 years. He points to an unidentified financial services firm that shut down one of its call centers because of customer complaints about employees without sufficient product knowledge. The firm was so eager to get the call center running that it didn't take the time to recruit or train employees thoroughly. "They compromised on quality and reduced their standards.”*

BPO Assurance encompasses many disciplines, including program management, project management, process flows, performance monitoring, SLA management, compliance and capacity management. Each discipline is important for managing some portion of an offshore operation. Together, these disciplines will drive a complete BPO Assurance plan. Various companies offer products that address some portion of managing and ensuring one or more facets of offshore assurance. However, to truly ensure that offshore

operations are functioning effectively and with high quality, then it is important to address the following **Seven Assurance Essentials**:

### **1. Understand and communicate process models and experience**

Lower labor costs have been, and continue to be, the main driver for outsourcing parts of a business. But wage arbitrage is only one thing to consider when mulling over business process outsourcing. According to a recent McKinsey Global Institute (MGI) report, companies outsourcing simply for cost reductions realized by wage arbitrage are missing billions of dollars in additional savings.

While cost reduction will always be an important business objective, savings from labor costs alone can be consumed by a poorly managed process or an outsourcer that lacks in-depth knowledge of a firm's business and processes. After evaluating a vendor's understanding of process tasks and their ability to execute them, a standard should be set at a minimum equal to the customer's current in-house process.

A customer may understand their business processes intimately, which can sometimes be the problem. Explaining or documenting a process that is done routinely by the person assigned may seem easy, but often steps are left out, important details are not communicated, and expectations can differ. The vendor, understanding the process as presented will formulate a method for how they want to get it done. Between the customer and the vendor is an area ripe for miscommunication and problems. Successful outsourcing often requires a third party, a methodology, or a partner with process knowledge and expertise in getting parties to see 'eye-to-eye'. This will help guarantee that expectations on both sides are established and met, and that the process gets accomplished efficiently.

In a recent Dun & Bradstreet survey, 70% of respondents suggested that vendors "didn't understand what they were supposed to do." This reflects the lack of preparation in understanding processes to be outsourced, and documenting and communicating them carefully.

#### ***Document and maintain an updated business process model.***

### **2. Measure and monitor key indicators**

What a firm does not measure, it can not monitor, and what it can not monitor will decay. What to measure and how to measure it are problematic questions in a BPO relationship. Consider a division of information analysts whose job is to produce a series of reports. Should the measurement be the number of reports this division produces? That may be a problem, since the creation of a large number of reports may not be an indicator of the team's ability to produce a single report that pulls together relevant data into a single view. Should the measure of success be the timeliness of the reports? That approach could prove problematic because reports may be delivered on time but that isn't a guarantee that the reports are accurate or relevant. A report may be both accurate and timely, but it may fail to provide the information needed.

If a measure of success is based on the wrong indicator, quality, output, vendor relationships, and the outsourcing agreement may suffer. Successful measurement is tough to get right. Key indicators must be clearly thought out during the assessment of success factors, some of which are included in the SLA (Service Level Agreement) – a standard contract between the business and their offshore vendor/partner. However, the SLA does not address all the key operational indicators that should be reviewed on a regular and frequent basis. These key indicators are the terms you will rely on day to day. Without monitoring, you are effectively throwing your business over the wall and expecting that you'll get back what you need. It is better to get feedback in a form that allows a clear measurement of success (or failure) within defined, agreed upon guidelines.

Monitoring offshored work on an ongoing basis provides important benefits. First, your business process operation remains documented no matter where it is being accomplished. This allows you to effectively determine the value that you are receiving and gives you the ability to react appropriately. Second, monitoring will alert you to any decrease in quality and provide an explanation of developments. Some results are cause for concern, and others are natural. Either way, the best way to know what is being delivered is to carefully measure and monitor your offshored processes.

*Measure and monitor meaningful key indicators frequently and regularly either manually or with software applications.*

### **3. Keep a daily pulse**

Management by “walking around”, as is commonly done when an operation is internal, is difficult to do once an operation is outsourced, and nearly impossible when offshored. It is difficult to know what is really happening at your vendor location without being there or sending a trusted agent to check on how things are being done.

When offshore vendors lack expertise, clients must take extra time to explain the tasks involved, protocols to be followed, and preferred communication methods. Inefficiencies caused by the cultural gap, time zone differences, and communicative challenges hamper the process. This drives costs up and quality down.

In the end, nothing beats a friendly face. The question becomes: Whose face will it be? Do you have time to spend out of the country to check up on your vendor? What other projects fall through the cracks while you're accomplishing ‘face-time’? A local presence that knows your project, your process, and your vendor is a resource difficult to provide yourself, but essential to keep a pulse on your vendor. It is also important that this person gains the trust of the personnel in the offshore operation. This can be best accomplished by seeking a mature individual who understands the business and attendant management challenges. Such a person can then make informed, experience-based decisions on your behalf. This individual or vendor manager should have a focused and proven program management track record, have a thorough understanding of all the players across the project and keep communication open with each, and have experience in governance and complex environments.

***Establish a senior level, trusted local presence on or near the offshore location.***

#### **4. Communicate**

According to Marq R. Ozanne of Dunn & Bradstreet, 20 to 25 percent of outsourcing relationships fail within two years, and 50 percent fail within five. The odds of a successful outsourcing arrangement are lower than the odds of failure. A percentage of these failures are due to miscommunication.

The sustainable health of an outsourced process depends on the quality of communications between the main players. As is true virtually always, communication is dependant on being two-way. The cycle of information needs to flow easily between invested parties, as well as up to management. Due to distance, time zones, cultural gaps and language barriers, effective communication is difficult to achieve. Without it, outsourced processes will erode along with the promised savings and health of the partnership. In fact, many industry insiders believe communication is often what determines the long-term success or failure of an outsourcing project.

"This may sound obvious, but probably the biggest stumbling block to offshore outsourcing is that after all the contracts have been signed, companies abdicate responsibility for projects to the outsourcer," Deepak Khandelwal, a business process outsourcing analyst at business consulting and research firm McKinsey said during a forum in New York at the CeBIT America show in 2004. "Companies that outsource forget that they still have to manage the projects they outsource. Communication is key. You need to have your weekly meetings with the project managers and the quarterly meetings at the CEO or [executive vice president] level."

Before outsourcing, collect detailed contact information from your vendor and from your project manager. Be sure you can reach them at any time. Ask questions about their communication style, and how they prefer to communicate. Will instant messaging suffice? Is email better? Are you available for phone calls when convenient for them? Make your expectations clear at the outset and follow through to maintain a healthy relationship with your vendor.

Do not make the mistake of carefully setting parameters at the outset of the arrangement then pass all responsibility on to the vendor. Follow through on a carefully considered and agreed upon communication plan. View the vendor as a partner or as a separate division within your organization and keep them 'in the loop' to maintain their alignment with your business priorities

***Develop and maintain a formal vendor communication plan through email, phone, chat, conferencing and/or a trusted local presence.***

## **5. Analyze and report**

Analysis of the data coming back from your offshore vendor can be overwhelming unless it is organized in a way that quickly allows management to view what needs action. Getting complicated spreadsheets in your email inbox from multiple vendors in multiple formats presents a greater problem than the one that's been solved by outsourcing. Analysis of vendor reports can be cumbersome and time-consuming. Or worse, analysis may not be done because of the hurdle of getting the data in some actionable form.

Vineet Katial, co-founder of Janeeva and previously a director of operations of a call-center operation encompassing 14,000 seats in 11 different regions, said, "The amount of information from each center was overwhelming. Every center had its own method of reporting on calls made, sales per hour, and all the other metrics followed and reported on by any good call center. My email box was overloaded with information that I needed, but could not easily access. It took four staff members working full-time to organize that information into a format that I could make decisions on. If they were late then problems would be late in being identified and fixed so profitability and efficiency would suffer."

Good analysis shows an accurate picture of what is really happening, revealing trends and indicating problem areas before crisis arises.

Every business can suffer from information overload without clear understanding of what information is actionable and what is, well, just information. Clear reporting on relevant data sounds easy, but requires inside knowledge to know what data points really matter, and which are nice to know, but not in the critical path. An easy to understand, two-way reporting system is vital to the health of your outsourced relationship.

*Establish regular formal reporting that is clear and informative.*

## **6. Provide for timely resolution of conflicts**

Any outsourcing arrangement is naturally prone to conflict. Buyers seek to minimize the expenses from an outsourcing engagement while simultaneously maximizing the use of the service provider's expertise, facilities, and resources. The outsourcing provider, on the other hand, seeks to maximize profit from the engagement while minimizing the expenditure of time, labor, and resources.

During the contract negotiation stage, it is virtually impossible to imagine every situation that may arise, or how to control and manage each one. Further, change is constant in outsourcing engagements, as the buyer's wants and the vendor's capabilities will change.

Solving the problem through litigation is expensive and slow, and many times is not a workable solution for either party. In this circumstance an experienced partner with knowledge of the client's business processes as well as the vendor's practice and culture is invaluable to bring the relationship and process back – not only into SLA terms, but also into good terms with the people involved. A third-party can deal with disputes so that both the vendor and clients can continue to focus energy and resources to the business tasks at hand. This local presence can be an arbitrator in diffusing problems, or can alert you to their existence long before they affect the quality of work performed.

***Establish a formal problem management, resolution, and escalation plan that may empower the local presence to act on your behalf and consult with the company's and vendor's management team.***

## **7. Make decisions on changing capacity**

In today's "lean and mean" economy most companies do not have the luxury of in-house, unused, or underutilized capacity. Outsourcing provides a great deal of flexibility. It allows companies to utilize in-house capabilities to their fullest potential without disrupting their on-going schedule, as well as tap into outside sources for additional capacity.

Often, offshoring also represents a shift from a fixed cost to a variable cost structure, creating a need to measure and maximize capacity utilization. A legitimate outsourced system has greater capacity than the demands of any single client, so both spikes and long-term increases in capacity demand can be easily accommodated. However, outgrowing an offshore partner or requiring additional skill that may be in short supply does happen.

Measuring against benchmarks and using predictive modeling methodology allows a program manager to manage volume and/or quality fluctuations. If the offshore operation is reaching capacity problems, not meeting expectations, or not performing to the terms of the SLA, then this needs to be revealed before it becomes a major problem. To effectively manage these changes, it is important to maintain alternative sources or vendors for adding capacity which, in turn, will allow you to plan, react, and meet your goals quickly and effectively. Not only should you have a modeling tool and methodology, but also databases or alternative resources that you can use and trust.

***Establish a capacity management methodology with alternative sources to address changing capacity, quality, and/or performance.***

An offshore strategy is becoming a necessity for the thousands of mid-size companies and even startups. The road to successful outsourcing is not smooth, and many mistakes have been made. However, the benefits often outweigh the risks and, when successful, the benefits are long-lasting. Careful consideration of each step must be taken, and careful vendor selection and a BPO Assurance plan are essential at the outset. These *Seven Assurance Essentials*, summarized below, can be the key to any outsourcing vendor management program.

- 1. Document and maintain an updated business process model.***
- 2. Measure and monitor meaningful key indicators frequently and regularly either manually or with software applications.***
- 3. Establish a senior level, trusted local presence on or near the offshore location.***
- 4. Develop and maintain a formal communication plan through email, phone, chat, conferencing and/or a trusted local presence.***

5. *Establish regular formal reporting that is clear and informative.*
6. *Establish a formal problem management, resolution and escalation plan that may empower the local presence to act on your behalf and consult with the company's and vendor's management team.*
7. *Establish a capacity management methodology with alternative sources to address changing capacity, quality, and/or performance.*

*Within two to three years, Accel startups should have half of their workers based overseas. If a company is not actively investing in China or India, they need to provide a compelling case to board members as to why they are not. Economies and companies that don't pursue outsourcing will not succeed.*

James Breyer, Managing Partner, Accel Ventures

*As processes go, outsourcing has become an all-out test of corporate endurance. No wonder CEO's are looking to third party intermediaries for help...*

Douglas Fredrick, EDS and Robert Nason, AT Kearney

If you realize the necessity of managing the vendor's operations in your overall outsourcing planning, the opportunity for meeting your business goals is significantly greater. Remember these Seven Assurance Essentials as a solid foundation and guideline to not only managing your outsourcing vendor but in assuring the overall success of your business.

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James S. Diggs is the Vice President of Strategy & Business Development for Janeeva, Inc., a leading Business Process Outsourcing (BPO) assurance firm located in Ann Arbor, Michigan. Prior to joining Janeeva, James Diggs has served as CEO at Mindport and Adapted Wave Technologies, Vice President at IBM, ADP, Neodata and BlueGill Technologies. Jim has also worked extensively with many start-up companies developing strategy, positioning and partnerships.

### **ABOUT JANEVA**

Janeeva provides products and services that enable midsize companies to achieve competitive advantage and cost savings by effectively taking advantage of opportunities in the global marketplace for Business Process Outsourcing.

BPO Assurance is an emerging area within the outsourcing chain that will receive increased attention as more companies outsource. Janeeva has established that BPO Assurance is a multi-discipline approach that includes functions such as performance monitoring, project and program management, SLA (Service Level Agreement) management, governance, achieving cost reduction and higher quality (as in in-house or better) goals.

Janeeva delivers BPO Assurance through a proprietary three-point model; 1) PASSPORT Portal software, 2) local PRESENCE in offshore centers, and 3) a database of PROVIDERS.

Midsized companies attempting to take advantage of BPO opportunities face new challenges of managing a myriad of unfamiliar vendors, processes, and relationships. Mismanaging this process can turn an opportunity into a management nightmare or outright failure. Janeeva's products and services mitigate this risk, ease the transition to offshore operations and assure management for long-term success. Janeeva is headquartered in Michigan with offices in Mumbai, and Delhi India.

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