

BPM and Outsourcing: Not a 'foreign' mix

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Outsourcing is not a 'foreign' word any longer. Most organisations engage in one form of outsourcing or the other. Some outsource their support functions such as IT while others outsource their core business such as manufacturing. Big names in this space include Dell who have moved computer production and assembly to external service providers. Gartner predict growth of outsourcing to continue at a rate of 20-30% annually.

Unfortunately, a third of all outsourcing initiatives fail to deliver desired value. Many reasons could cause this. To improve this, we emphasise on the importance of enhancing relationships between the parties. This can be achieved if all actors involved are managing the outsourcing arrangement from a Business Process Management (BPM) viewpoint. If you are thinking of outsourcing or in the middle of an outsourcing journey, this article offers a process-centric approach to outsourcing.

Why Outsource?

Outsourcing is done for a plethora of reasons. Reducing costs, access to talent pool, enhance capacity management, scalability and the list continues. Often, organisational motivation to outsource is triggered by process pain points. It would be short-sighted to think that by outsourcing these pain points 'disappear' or become someone else's problem. For example, regulatory bodies such as APRA (Australian Prudential Regulation Authority) and legislation such as Sarbanes Oxley explicitly state that the organisation is accountable for process compliance regardless of the outsourcing arrangement. In essence, both organisation and service provider have an interest in shared management of the outsourcing arrangement.

What are the benefits?

In 2008, CIO magazine claimed that "...anywhere from 17 percent to 53 percent of customers have not realized business value/return on investment from ... outsourcing." (Kaushik, 2008). Inevitably, outsource service providers claim to have best of breed systems and employ best practices. However, are they really improving your current processes? Are they right fit for your organisation? How do you know that? Is the service provider giving you value? Or are you utilising services to produce value for your stakeholders? Do you have a sustainable partnership model?

Difficult questions command difficult answers. Deriving true value from an outsourcing arrangement is challenging. We see benefit in employing Business Process Management (BPM) as a solution. This article does not attempt to answer those questions as answers would be unique to each organisation. Inherent in the BPM inspired outsourcing approach, you will be able to find opportunities to derive your own answers.

¹ Cognizant reports that only 20% of CIOs and CFOs were able to report on the benefit of outsourcing to the bottom-line (Source accessed on 22 April 2010: <http://bit.ly/cF1ShC>)

Why BPM?

There are several advantages to applying BPM to outsourcing. In addition to being a structured approach to process improvement, we find that taking ambiguity out of process implementation. This is especially pertinent when engaging in core business process outsourcing. Harmon (2008) rightfully argues that simply modelling processes is not the answer to value driven outsourcing. A 'big picture' view is required to aid understanding and improving processes to deliver– which ultimately should be the objective of outsourcing.

Understanding, improving and managing processes is what BPM does best. While it may be argued to work at a philosophical level, there is a need to guide businesses with a sound methodology. Traditional process improvement methodologies such as Six Sigma (DMIAC), Lean, TQM etc. are all applicable. However, they fall short in focusing on relationship building with the service provider.

The partnerships between an organisation and service providers are strategic alliance where both parties seek to improve the status quo. Accordingly, a strong process collaboration environment is beneficial all involved.

How is it done?

Currently, many outsourcing methodologies exist and there is no shortfall of online resources. Despite this, there is little understood about the role of BPM in these methodologies. Taking key steps from BPM related methodologies and outsourcing methodologies, we have developed the follow set of activities to gain value from any outsourcing arrangement.

Activities involved in Outsourcing from a process perspective:

- Strategic analysis – the overall strategic direction
 - Provides basis for the need of solutions
- Process investigation & Analysis (As-Is)
 - In-depth understanding of current processes (especially if they are core processes)
 - Understand gaps
 - Set benchmarks and key success factors
- Solution derivation (from an Enterprise perspective)
 - This is where you decide if outsourcing is the solution
 - Understand outsourcing motivations
 - Prepare a business case for outsourcing
- Tendering process (carefully select suitable service provider)
 - The objects is to select service provider who provides the best solution and is willing to work in a true collaboration
 - The cheapest solution indicates lower profit margins for service provider. Will this be a sustainable arrangement?
- Process optimisation (done with service provider)
 - Decide on best mix of responsibilities, accountabilities and capabilities for best value
 - Strengthen relationships between the organisation and service provider(s)
- Perform value analysis & risk analysis
 - Usually done internally but can be done with an professional risk analyst
 - Done hand in hand to ensure obtaining value does not compromise organisational obligations e.g. compliance requirements etc.

- Design To-Be processes
 - Representation of responsibilities, accountabilities and capabilities
 - Optimal solutions with input from all parties
 - Strengthen relationships by highlighting value of partnership
- Perform contractual negotiations (including Process governance)
 - Strengthen relationships
 - Draw up a contract
- Implementation (Project Management function)
 - Follow the improved process as a guide to plan implementation project
 - Take implementation ambiguity out by defined processes and resources
- Monitor & control processes (e.g. reports, KPIs)
 - Continue to share vision and improve relationships
 - Encourage learning organisation
 - Measure benefits (consider both quantitative and qualitative aspects)

We have briefly described an approach to process centric outsourcing. The main focus was on deriving maximum value by harnessing collaborative relationships within the parties involved. Using principles and methodologies outlined in BPM, outsourcing value realisation becomes methodical.

About the author:

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