Nine Practices for Best-in-Class BPO Performance

Mary C. Lacity, University of Missouri-St. Louis (U.S.)
Leslie P. Willcocks, London School of Economics and Political Science (U.K.)

Executive Summary

Based on the results of a survey of 263 BPO clients and on 57 interviews with executives leading 28 BPO relationships, we identified nine practices that contribute to best-in-class business process outsourcing (BPO) performance. The nine practices span a three-stage journey to best-in-class performance, which we call “Launch the Mission,” “Stay on Target” and “Explore New Frontiers.” The power of these nine practices is illustrated in the full article through the experiences of three BPO relationships, two of which are financial and accounting outsourcing deals and one a customer care/call center deal. These are examples of the most frequently outsourced business processes and also represent the range of BPO services from supporting back office processes to customer-facing sales.

Three Practices for the Launch the Mission Stage of the Journey

Practice 1: Assign a Great Pair of Leaders. An effective leadership pair—one from the client organization and a counterpart from the provider organization—is crucial for achieving best-in-class BPO performance. These leaders work collaboratively to implement the practices associated with best-in-class performance. They focus on where the outsourcing relationship should go, not where the relationship was in the past or is in the present. Each leader is open and honest about all operational issues with his/her counterpart and each acts swiftly to remove or work around obstructions stemming from people, processes or contracts. Each leader has high levels of credibility, clout and power within his/her own organization.

Practice 2: Focus on Business and Strategic Benefits Beyond Cost Efficiencies. We found that best-in-class BPO relationships consider cost benefits to be table-stakes and the leaders focus the relationships 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.

Practice 3: Acquire Strong Transition and Change Management Capabilities. Many BPO clients fail to invest in enough resources during the transition because they do not want to erode the financial business case. Yet, service excellence cannot happen without investing both in resources like onsite managers and in knowledge transfer (e.g., shadowing, mentoring and training). Strong transition and change management capabilities are needed to stabilize the relationship and set it on a path to best-in-class performance.

Three Practices for the Stay on Target Stage of the Journey

Practice 4: Adopt a Partnering Approach to Governance. 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. We call the needed attitude the “Partnership View,” where the client regards the provider as a strategic partner rather than as an opportunistic vendor. The Partnership View manifests itself in partnership behaviors. We found that the top BPO performers include the provider in “the

---

1 The full article is published in the September 2014 issue of MIS Quarterly Executive, available online at www.misqe.org.
whole picture" of the end-to-end business process, even when the provider is only directly accountable for discrete sub-processes defined by SLAs.

**Practice 5: Align the Retained Organization with Outsourced Processes and the Provider's Staff.** In best-in-class BPO performance, the back offices in the retained organization are characterized by service excellence, low costs, scalability, flexibility, high compliance and superior customer satisfaction. The retained organization is also aligned with the outsourcing provider and meaningfully integrates the provider into the client organization. Providers need clients to integrate, empower and reward the provider's staff so they feel connected to the clients.

**Practice 6: Resolve Issues and Conflicts Together and Fairly.** 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. We found that partners in best-in-class BPO relationships seek to resolve issues together.

Three Practices for the Explore New Frontiers Stage of the Journey

**Practice 7: Use Technology as an Enabler and Accelerator of Performance.** We found that best-in-class BPO relationships leverage technology for business outcomes. The full article describes how technology innovations in one of the cases have enabled best-in-class performance.

**Practice 8: Deploy Domain Expertise and Business Analytics.** Best-in-class BPO relationships leverage the combined processes and industry expertise of the service provider. 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 key performance indicators, and deploy algorithms, models and sophisticated statistics to identify weaknesses and opportunities. Then, the partners redesign processes to deliver measurable business outcomes.

**Practice 9: Prioritize and Incentivize Innovation.** Clients in best-in-class BPO relationships understand that they need to incentivize providers to seek innovation. But at the beginning of most BPO deals the usual sticking point is: Who will pay for innovation? Innovations are rarely realized in traditional cost-focused contracts because the provider’s attention is focused on urgent operational issues. Risk-sharing, gain-sharing, strong partnering behaviors and a provider seat at the client’s strategy table are critical components in any outsourcing arrangement that is going to deliver meaningful innovations.

In summary, the nine practices 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. However, 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.

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.

Although the nine practices helped to improve BPO performance in the cases described in the full article, the opposite is also possible. BPO performance can erode over time. In other 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.