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The role of transformational leaders

Mastering high-performance BPO

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Introduction

As the business process outsourcing (BPO) market matures, clients are expecting BPO outcomes beyond cost savings and meeting service level agreements. Next-generation BPO clients want their service partners to transform their back offices, improve business performance, support the client's shifting business directions, and deliver business outcomes that were not initially expected. We call relationships that achieve these exceptional results high-performing BPO relationships.

What practices distinguish high-performing BPO relationships from "typical" BPO relationships? Our latest research from the London School of Economics and Accenture comprises four research streams: a comprehensive survey of 263 senior client BPO executives by Everest Group[i], in-depth interviews with client-provider executive pairs in 20 organizations[ii], our prior BPO case study research,[iii] and a review of 1,356 BPO and ITO findings from 254 academic research studies identified as robust[iv]. From the Everest Group survey and from our recent interviews, eight practices were associated with high-performance[v]:

(1) seeking value beyond cost

(2) targeting strategic outcomes

(3) transforming the client retained organization

(4) managing change during the transition to BPO and beyond

(5) adopting a partnership attitude

(6) assuming a holistic approach to managing the scope of the BPO relationship

(7) deploying technology as a business enabler

(8) using domain expertise and business analytics to create value

We have written detailed papers for each of these practices.

In this theme paper, we focus on the extraordinary people who enact the practices that lead to high-BPO performance. Transformational leaders—from both the client and provider organizations—work collaboratively to implement the eight best practices associated with high-performance BPO. We think that substantial BPO performance requires transformational leaders because BPO is a people business. Considering that most of the costs of BPO come from globally dispersed labor and that the services are delivered by people from two different companies with two different cultures, merely "managing" a BPO relationship would not produce the results we witnessed in high-performance BPO relationships. Even BPO relationships that were initially performing poorly have been transformed into high-performance relationships under the right leadership.

In our study, client transformational leaders saw the BPO provider's role as one of enabling their own vision for world-class services. These leaders focused on improving BPO performance by switching the conversation from "where we are" to "where we want to be". They forgave past sins by waiving penalties, switched the conflict resolution process from finger-pointing to problem-solving, and considered the provider's commercial interests in moving forward. They aligned incentives between client and provider organizations, motivated and empowered people in their chains of command, and integrated the provider deeply and meaningfully into their organization.

Provider transformational leaders are equally important in driving high BPO performance. Provider transformational leaders switched behavior from selling to advising, cued in early to client signals, built trust by making decisions in the best interest of client, went beyond just meeting SLAs, and advocated innovations that benefited both parties. Under such client and provider transformational leadership, the eight best practices to deliver high-performance can be enacted.

The BPO report card

BPO performance varies widely across companies and industries. Our most comprehensive data comes from the review of 1,356 findings from 254 academic research studies. Most of this research is based on large-sample surveys of outsourcing clients or in-depth case studies at client sites. Many academic studies specifically examined the extent to which outsourcing engagements resulted in positive outcomes from the client's perspective.

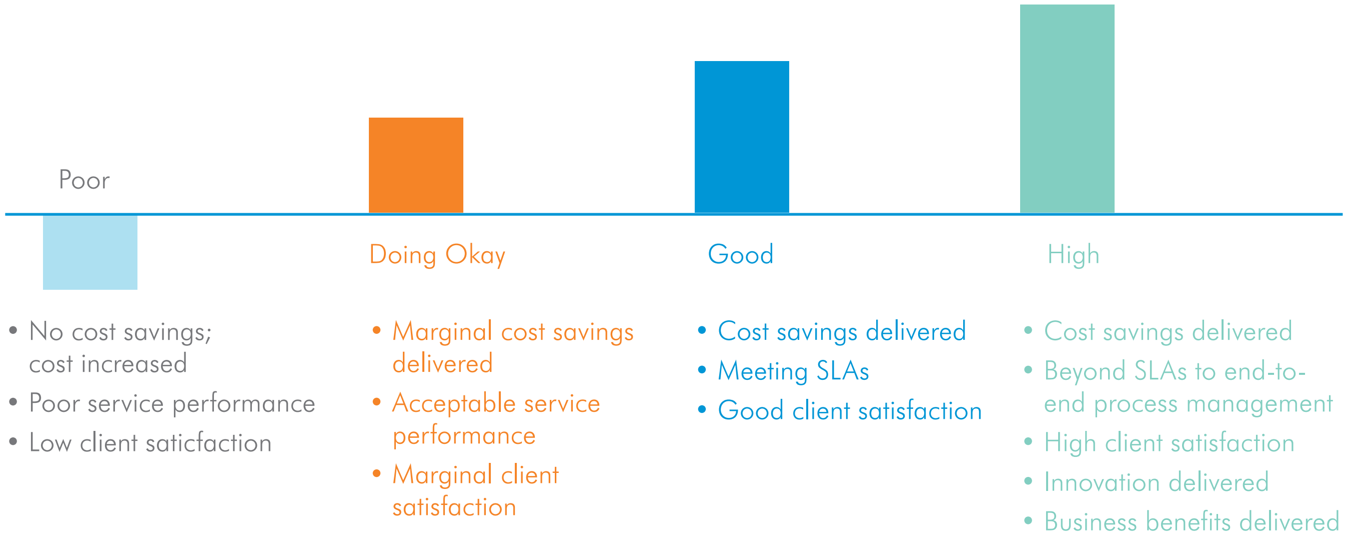
Aggregating results across all BPO empirical studies reveals that 56 percent of outsourcing engagements resulted in positive outcomes, 11 percent of engagements resulted in negative results, and 33 percent of the engagements did not result in any change in performance for the clients. (ITO clients, by comparison, reported positive outcomes from outsourcing 63% of the time.)

The BPO survey conducted by Everest Group with support from Accenture in 2011 identified 20 percent of respondents as high-performance organizations scoring strongly on at least three must-have attributes, and in the top quartile on seven additional attributes. A further 20 percent were potential high performers meeting one or other of these two criteria; 60 percent were typical BPO performers meeting neither criteria. As a broad category, typical here covers a wide spectrum of performance from normal to poor. The research found that levels of performance were independent of industry, geography, size of deal, tenure of BPO relationship and business function outsourced.

The academic review has only three levels of performance: positive, no change, and negative. The Everest survey assessed these three levels: best-in-class, potential best-in-class, and typical. Our in-depth case studies conducted over the last twelve years finds that BPO performance is best differentiated by four levels of performance: poor, doing okay, good, and high (see Figure 1).

Poor BPO performance is characterized, from the client's perspective, by lack of cost savings (or worse—cost escalation after outsourcing), poor service performance, and low client satisfaction. Poor BPO performance can result from many things, including a flawed business case, a tough-minded procurement process more suitable for the purchase of products rather than BPO services, lack of in-house client retained capabilities to integrate the provider successfully in the organization, poor knowledge transfer, or poor provider staffing. Sometimes poor performance is only temporary (as during a rocky transition) while sometimes poor performance lasts until the relationship terminates.

Figure 1: Levels of BPO performance



Doing okay performance is characterized, from the client's perspective, by some cost savings and acceptable service performance, and mixed client satisfaction. The relationship struggles with some service lapses while other services are performing well. Good performance is characterized by cost savings delivered, by service levels that are green and by good client satisfaction. These relationships are humming along, and partners are usually keen to ask "What's next?" What's next is, potentially, high performance.

High performance is characterized by a shift to strategic business outcomes after the upfront cost savings had been realized. The clients and providers act as true partners, seeking first to continually improve the client's service performance, then agreeing on an equitable commercial consequence for new courses of action. High-performing relationships are characterized not only by the eight practices, but by high levels of transparency and cooperation and by continual rounds of innovation, which we describe in the theme paper on dynamic innovation.[vi]

Across all data sources, we estimate that by 2012, approximately 15 percent of BPO relationships have poor performance, 40 percent are doing okay, 25 percent are good, and 20 percent are high-performing. During the life of a BPO relationship, one common pattern we found is that performance was often temporarily poor during the transition (1-3 months), and then proceeded to doing okay or good performance as the relationship stabilized. The quote from one client is representative of the trajectory of BPO performance and of the importance of communicating realistic expectations: "Communication is absolutely key. Tell the organization what's going to happen. Be realistic and tell the organization, particularly the senior management that things will get worse before they get better. But give them a date. Tell them how long that pain is going to last. And when it will get back to being as good as it is now and then it will be better after that. And of course, having told them, deliver to that timescale. It was very important to do that."

Although the four levels of performance—poor, doing okay, good, and high—are described from the client's perspective, data show that client performance is highly correlated with provider performance. In our prior ITO research, we investigated the relationship between client-reported performance and provider-reported performance in 85 client-provider matched pairs. There was a strong correlation between provider's failing to earn their target profit margin on a deal and the client's reporting of negative outcomes. In most poor-performing deals from a client's perspective, the deals were bad for the provider as well. Specifically, in 15 cases of missed provider margins, 12 clients (80 percent) reported poor outsourcing performance. In contrast, when the provider met their target margins in 70 deals, only 19 clients (27 percent) reported poor outsourcing performance.[vii] This data is actually quite powerful because it shows that it is in the best interest of both parties to ensure a mutually beneficial relationship. The win-win relationship is not a nice-to-have, but a must-have.

Case studies

How leaders transformed BPO performance

Our recent BPO interviews in 20 client-provider pairs were intentionally biased to focus on high-performers because we aimed to understand the secret sauce in high-performance relationships. We confirmed that about half of the relationships in our client-provider pairs are currently high-performing and the rest are currently good-performers, well on their way to achieving high performance.

Overall, the 20 client-provider pairs are not representative of the larger BPO population, but as good and high performers, they afford us the opportunity to learn how they achieved top BPO performance.

Some of the most dramatic changes in performance were prompted by complete leadership turnover in the top-level client and provider organizations. When client organizations recruited an external person to take charge and the provider assigned a new provider account manager, employees up and down the chains of command in both companies were signalled strongly that transformation was going to occur. We provide two case examples below—one from a consumer products company one and from an energy company. In the first case, performance improved from poor to good and in the second case, performance went from good to great.

1. Improving BPO performance at a consumer products company

This consumer products company signed a BPO deal in 2007 for Human Resource Outsourcing (HRO) services including recruitment, payroll, employee data, training, and development. By 2010, the relationship was bordering on poor performance/doing okay. The provider assigned a new delivery manager and a few months later, the consumer products company recruited a new transformational leader from an external company. The new client leader described the BPO performance when he first arrived: "When I got here, things were completely in the ditch. Our key service indicators were not being met." The new leaders worked together to improve performance dramatically. The client said: "Basically, we went on this very rigorous path to getting the wheels back on our service agreements. All the indicators went green for the first time."

What leadership behaviors led to such an improvement? The new leaders focused their efforts on fixing problems rather than assigning blame. To help with root cause analysis, the provider implemented a business analytics tool—at no additional cost—to better diagnose service issues. The partners first identified service solutions that were best for the client, then worried about the commercial implications. The provider account delivery manager explained: "What this client does extremely well is to raise an issue from their side and allow us to raise issues from our side so that we can deal with them openly and transparently, without doing fault-finding. What we do in those cases is a very rigorous root cause analysis and we look what needs to be better. We jointly approach how do we get the outcome the client is looking for and then ask: what does that mean for the relationship? The first focus is this is the outcome that we need to be going for and how do we jointly go about it? They work very collaboratively with us in doing that." For instance, the client did not like the interface of one of the provider's proprietary tools. The partners agreed to use another vendor's cloud-based solution and reached an equitable commercial agreement.

As service levels went green, the partners also worked on more value-added innovations. For example, the consumer products company wanted to recruit engineers with demographics that better match their consumers. The provider helped by changing the recruitment strategy from reacting to current job openings to proactively building a pipeline of potential engineering candidates. The provider also bolstered the employee referral plan and implemented better metrics such as "hiring manager satisfaction" with the pool of candidates sent by the provider.

The client now includes the provider in the end-to-end service, and invites the provider to serve on Six Sigma teams aimed at improving end-to-end service performance. All of the eight practices of high-performance BPO are now evident, prompted by the way the two new transformational leaders have treated the relationship. The client leader explains the difference in approach: "We did some personnel changes on this side; they did some personnel changes on their side. Our new provider account representative was assigned to our account just a few more months before I got here. So I think we had a better sort of partnership. We got much more analytically driven around what were the areas of under-performance versus an overall number with a particular role that we had trouble with. We began to problem solve them. We were able to go in and really target where the issues were, rather than having a broad discussion of what is not working. We now operate in the spirit of a partnership."

2. From good to great BPO performance at a resources company

This company and their provider signed a large contract in 2007 for finance and accounting services outsourcing (FAO), comprising several hundred full-time equivalents (FTEs). After the transition period, BPO performance was clearly good—the service levels were green and there were no major conflicts. In 2009, the company wanted to expand its global shared services organizations. They recruited an external leader who inherited the BPO relationship and realized that this relationship needed to be reinvigorated to help him with his global shared services initiative.

The service was running smoothly, and the SLAs were green, but complacency had set in – the new leader saw no evidence in either the client or the provider teams to challenge existing methods or consider new ways of doing things. For example, the previous client team had never used the free consulting days provided by the contract to drive the innovation agenda.

The provider's account delivery manager was remotely located and deemed slow to respond to the new leader's queries, such as why the provider still staffed people in an expensive US location when the relationship had been transitioned so long ago. The client leader moved the provider delivery manager position to his headquarters some 500 miles away and requested an energetic replacement. The client leader is thrilled with the new provider lead, "She's' taken us to a whole new level…She is fantastic. She's very action-oriented. She pushes back and can challenge things in the right way. That's the difference I think in terms of making it a more strategic approach or sitting back and accepting orders". She did respond to the client query about the 10 people still working from the US location. Even though 10 people represented about 3 percent of the full-time equivalent (FTE) count, she cued in early to the fact that the client was irritated. She did an analysis and made a decision that was clearly in the best interest of the client. She determined that there was only enough work to occupy five FTEs and this work could be done in India at a much lower cost.

Decisions like that showed the client that this provider leader was a trusted advisor. The partners started using all of the free consulting days to identify mutually beneficial projects to expand the relationship.

Case studies

Cases of leadership stability and high-performance

In the cases of the consumer goods and resources companies, changes in both client and provider leadership prompted a dramatic improvement in BPO performance. However, in other cases, we found that leadership stability was also a viable route for improving or maintaining high performance.

It is really a matter of experienced leaders embracing the right attitudes and behaviors that move a relationship to high performance and keep it there. If the leaders are involved from the contract negotiation stage, a real benefit of leadership stability is confidence that the contract negotiated can be delivered.

One high-performing provider account delivery manager explained: "I started with the project at the request for information (RFI) stage. We feel that we get a better end-product when we have people who are actually going to be running the engagement involved in the early phases. Firstly, it is good to meet the clients and they understand who will be their counterpart and who they will be working with. It is also important from a solutioning perspective that we build something that I know I can run."

On a procurement account, the client and provider leaders remained the same even after the provider firm was bought out by a larger competitor. What is fascinating about this leadership stability story is the fact that the performance went from poor to high after the acquisition. The root cause of poor performance was an aggressive interpretation of a gain-sharing clause by the first provider firm, resulting in outrageous, million-dollar invoices to the client. The parties escalated the conflict to a formal dispute. After the acquisition, the contract was favorably renegotiated. The acquiring firm re-oriented the incumbent provider lead. The client lead was pleasantly surprised by the metamorphosis and said: "Robert (a pseudonym) was on this account from day one. He was a VP of [the previous provider] and sort of disappeared from the account and only started showing up again during renewal. Robert was important to that because he was coming over and the other VP was not coming over. Now I see a completely different perspective of Robert since he's been at [the new provider] just a year. He's actually trying to solve my problems and not get money out of me.…It's been very eye-opening."

Another high-performing relationship—The Microsoft-Accenture[viii] deal for global financial and accounting services—has had the same leadership since 2006. The individual leaders at both Microsoft and Accenture are clearly transformational leaders who have been devoted to this partnership since the beginning. However, transformational leaders will get bored without new challenges, so long tenures are also associated with growth of the BPO relationship in terms of scope of services, expansion to new locations, and continual rounds of innovation.

Cautionary tales: BPO performance can also decline

Our recent BPO interviews were intentionally biased to focus on high-performance BPO relationships. Thus, most of the examples we have drawn on are from good or high-performance BPO relationships. We do note, however, that the reverse is also possible—BPO performance can erode over time. During our BPO case study research, we found examples where great-performance slipped to good-performance and good-performance slipped to doing-okay performance because of leadership turnover. Much like long-term, happy marriages, both partners have to stay engaged and enthusiastic to prevent performance decline.

Breakthrough performance: Finding the right leaders

James MacGregor Burns first coined the term "transformational leader" in 1978 to describe leaders who establish strategic direction, align incentives, motivate and inspire people, and deliver dramatic change.[ix] Transformational leaders are clearly different from "managers" who merely plan, budget, staff, and control.

In the context of BPO, transformational leaders held these attitudes and displayed these behaviors:

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

Spirit of togetherness: the leaders present a seamless service to the broader client user community

Transparency: the leaders are open and honest about all operational issues

Problem solving: the leaders diagnose and fix problems rather than assign blame

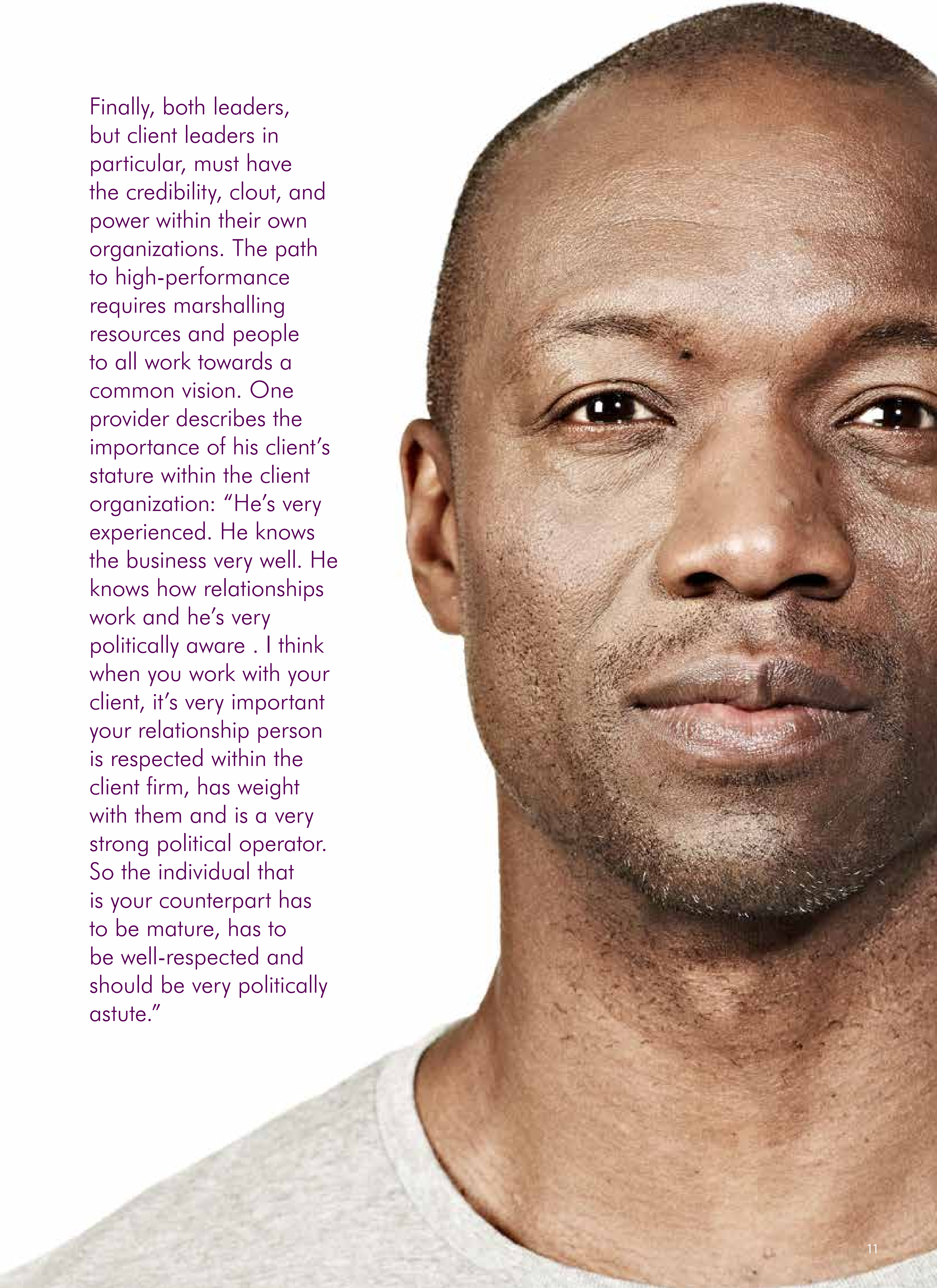
Outcomes first: the leaders do what is best for the client organization and then settle for a commercially equitable agreement

Action-oriented: the 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 goodwill and intentions

In addition to these attitudes and behaviors, the client and provider leaders must have the right chemistry. In several cases, we found client-provider pairs who were both experienced leaders, but the combination simply did not work. For example, at one high-performing BPO relationship in Europe, the client leader requested a new provider account manager because the first person assigned—who was quite senior—had his own ideas for what needed to be done. The provider assigned a new account leader who was more junior and more compatible with the client lead. The client lead contrasted the two provider leads: "The provider appointed a UK-based delivery account manager and through the initial period, the relationship did not work. I don't know whether it was chemistry or what; he was a more senior guy with the attitude: well, I've done it, I've got the t-shirt, I know what I'm doing, I don't know why you're panicking, leave me alone to get on with it. He may have been a very good person but I couldn't work with him. The provider bravely and ultimately was correct to say: okay, if that's the case, we'll pull him out. They put somebody else in who was actually more junior but was somebody with whom we could work. The junior one was very engaged, very hard working, and took instructions a little better."

Finally, both leaders, but client leaders in particular, must have the credibility, clout, and power within their own organizations. The path to high-performance requires marshalling resources and people to all work towards a common vision. One provider describes the importance of his client's stature within the client organization: "He's very experienced. He knows the business very well. He knows how relationships work and he's very politically aware . I think when you work with your client, it's very important your relationship person is respected within the client firm, has weight with them and is a very strong political operator. So the individual that is your counterpart has to be mature, has to be well-respected and should be very politically astute."



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For further information about this research, please visit www.accenture.com/highperformancebpo

Reference

i The survey was conducted by Everest Group with support from Accenture in late 2011 and is reported in Accenture (2012) *Achieving High-Performance in BPO Accenture,* London.

ii The interviews were carried out between October 2011 and September 2012. They were typically 45-60 minutes in length and used a pre-designed questionnaire aimed at eliciting performance outcomes and effective and unsuccessful practices. The sample was drawn from across sectors and countries, with outsourcing deals ranging in size from small to very large. Nearly 50 percent could be identified as high-performance organizations on the criteria detailed above.

iii We have been conducting BPO case studies since 2000. Some of our first BPO case studies are published in Willcocks, L., and Lacity, M. (2006), *Global Sourcing of Business and IT Services*, Palgrave, United Kingdom. Our most recent BPO work is found in: Lacity, M., and Willcocks, L. (2012), *Advanced Outsourcing Practice: Rethinking ITO, BPO, and Cloud Services*, Palgrave, London, (forthcoming).

iv Lacity, M., Solomon, S., Yan, A., and Willcocks, L. (2011), "Business Process Outsourcing Studies: A Critical Review and Research Directions," *Journal of Information Technology*, Vol. 26, 4, pp. 221-258.

v For the eight practice papers, please see http://www.accenture.com/Microsites/highperfbpo/Pages/key-behaviors.aspx

vi See: Lacity, M. and Willcocks, L. (2012), *Mastering High-Performance BPO Theme Paper: Dynamic Innovation*.

vii Kern, T., Willcocks, L., and Van Heck, E. (2002b), "The Winners Curse in IT Outsourcing: Strategies for Avoiding Relational Trauma," *California Management Review*, Vol. 44, 2, pp. 47-69.

viii See Lacity, M., and Willcocks, L. (2012), *Mastering High-Performance: The Case of Microsoft's OneFinance* at http://www.accenture.com/Microsites/highperfbpo/Pages/who-got-it-right.aspx

ix Burns, J. (1978) Leadership, New York: Harper and Row.

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