

Q & A

By Scott S. Smith

Better Execution of Outsourcing

To do outsourcing right, everyone needs to be using the same dictionary

IN *Get It Done! A Blueprint for Business Execution* (John Wiley & Sons Inc.), Vince Kasten and Ralph Welborn, managing partners of Global Business Transformation at Unisys Corp., address the disconnection between executive orders and results, especially as it applies to outsourcing. Today, only 19 percent of companies have an outsourcing strategy. But those that do may be regretting it since few initiatives have lived up to the promises of the industry when it grew 30 percent a year between 1995 and 2003. Despite well-publicized mega-deal disasters, the outsourcing market is expected to grow to \$500 billion by 2008. In an interview with Kasten, we discussed how to improve outsourcing execution.

A lot has been written about outsourcing execution. How is your book different?

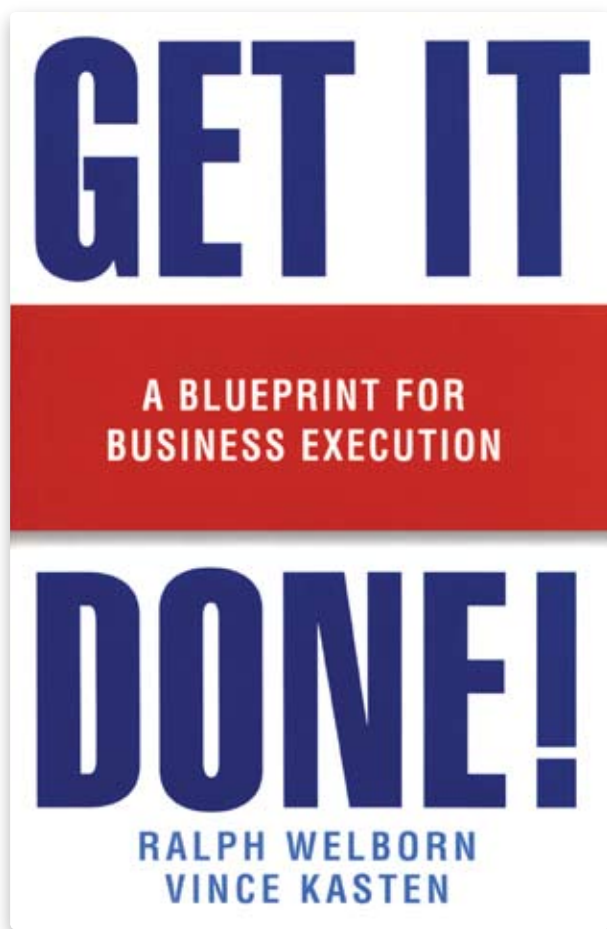
We're dutiful consumers of whatever we can find on the subject because our consulting practice requires it. What we found was that, mostly, what is out there are exhortations for a manager to do a specific task like communicate more, set goals with your employees, change your metrics, and so forth. I was meeting with an executive at Banamex a couple of years ago who told us he found that the key to execution was, as Larry Bossidy and Ram Charan [authors of *Confronting Reality: Doing What Matters to Get Things Right*] emphasize in their books, follow up. I agreed, but I told him that what he didn't know was what was happening behind the scenes to get the results: it could be two divisions working for three months. What often happens around this is enormous attrition because employees

burn out trying to deliver what the big guy wants. You can't depend on a few heroes to get things done no matter what because half of the people they deal with are below average, by definition. You add to this the fact that companies are being asked to do more with less and to do change on an ever-accelerating basis.

What has been largely missing from the discussion about execution is what we call the "semantic disconnect." Different people at different layers of the company have language all their own and agendas that differ. You'd be surprised at how varied the definitions of terms like "customer" and "account" can be. So how do you align all these people to make something happen? That's what we're addressing.

Let's talk about your idea of blueprinting to improve execution of outsourcing.

To get an outsourcing program to work you need to put together a plan for change that includes technology, business process, and cultural, organizational, and governance issues so that the changes hit the target at the same time. Change management is a well-defined field, but



it tends to focus on the program side of things that moves those chess pieces around. But if you go down one more layer, people don't understand what the business process or governance implications are. Blueprinting shows what connects with what, when, where, and how much. Outsourcing lives or dies on your ability to understand that.

A business interaction model describes the company, its relationship with its vendors, partners and customers, and the communication streams that go across those boundaries. But when you outsource something, you're taking something from the "inside my company" space and moving it into another space with all the interface linkages that you had inside your company. The identical issues then come up that you had inside: What is the information and who are the people moving across the interface? What is the governance and how does it work with your business? What blueprinting does is expose these issues early in evaluating outsourcing so that you know how things are and what they should be. Then you can put up meaningful service levels across your outsourcing agreements that both parties understand.

You are critical of traditional thinking in determining what to outsource.

We don't have a quarrel with saying that if it's a non-core activity, then consider outsourcing it, although a lot of the execution of that has been poorly done. But it doesn't always make the best sense to hold your core competencies too tightly. Our first book, *The Jericho Principle*, was about strategic collaboration, and we pointed to the benefits of creating innovation with people outside the company, because you can then mobilize intellectual property and expertise far beyond the resources within your company. You can get access to scale, brand, markets or whatever it is you may need. You can find ideas that have already been market-tested and which venture

capitalists have already invested in.

Somewhere on the landscape, going from simply buying things at arms' length to "you buy me" are strategic alliances and outsourcing relationships. Procter & Gamble has taken huge numbers of designers and product people off its books by having innovation done largely by networks of people outside the company. Of course, the risk is that your crown jewels start moving towards the edge of your company. In *Get It Done!*, we discuss good ways to create relationships so that you can maximize benefits of collaboration outside the company and manage the risks of how intellectual property gets shared.

There haven't been a lot of enthusiastic books lately about business process outsourcing (BPO) because of the trouble the BPO industry has gotten into with massive cost overruns, frequent requirement changes, delayed implementation, etc. How can a company new to the game go about outsourcing in a way that avoids these problems?

Responses to what has happened have been all over the map. UBS has basically taken everything back in-house, which we don't think makes a lot of sense. On the other hand, Dell had to in-source its customer service centers again because of the huge number of complaints they were receiving.



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Depending on who you talk to, way south of a third of the outsourcing arrangements get to the business goals they were intended to achieve. The “why” has largely been because the contracts have almost been predatory, since the outsourcing vendors tried to make a land grab on the theory that this work would leverage the relationship to other more profitable contracts. The problems started with the fact that most companies that outsourced didn’t really understand what they were giving someone else to do, it was just a “my mess for less” basis. The BPO contracts were written for a snapshot-in-time that assumed that a particular process wouldn’t change. The entire insurance BPO business model was based on the idea that a lot of savings could simply be achieved with scale, based on plugging each new customer into the same technology platform. That didn’t always turn out to be the case because different companies do things

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—Vince Kasten

differently. But the contracts were too rigid to allow process changes. When we evaluated CalPERS’ new benefits enrollment to see if they could save money by outsourcing, we found that their cost was an industry-best benchmark, so they kept it inside.

Outsourcing contracts need to be designed as partnership agreements

where there are many different ways to look at the benefits—access to brand, to quality of result, to scale, [to] overflow capacity, and so on. Across all of those dimensions let’s measure what the value is. It’s often not just about cost. A company may want to be a best-in-class provider and outsourcing can help provide improvements.

You suggest “experiential workshops” to improve execution of outsourcing.

We have a friend who is a veteran of over 100 outsource contracts and he says these things live or die on the people issue. So much intellectual property is locked up in people’s heads because of workarounds and exceptions that were added in response to customer changes. You need to get this tacit knowledge into a codified form. But when the outsource consultant walks into someone’s office and says, “Tell me everything about your job,” that person thinks, “I’d better send out my resume,” and resistance to cooperation gets built in. Experiential workshops create a non-threatening, politically neutral, productive ground so that everyone understands everyone else’s experience of the business. We create a structured group brainstorming about finding a solution to a tractable piece of the problem and the atmosphere takes away any tendency to blame others. In an hour you can build a pretty complete initial model to jump-start collaboration.

What is the security status of the international supply chain?

Even if your company doesn’t get things directly from abroad, you need to think about security issues because everyone is becoming more interconnected indirectly and the global supply chain is



Vince Kasten believes that executing a proper outsourcing program must include detailed change management plans.

more fragile than ever. Given the ever-accelerating pace of change, you should not want to try to operate as a fortress anyway, since your capabilities would be limited by isolation. Companies with effective supply chains realize a compound annual growth rate in their market capitalizations between 7 and 28 percent higher than their industry averages, so these are competitive weapons. But there is tension between having an assured vs. an agile supply chain. You need to identify the people involved, as well as the intellectual property, the goods and the information flow. Then codify your understanding about how you can collaborate across these areas openly, while minimizing risks and maximizing benefits. Secure commerce is an imperative because the cost of not having it is too high.

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