

# Beyond labor arbitrage: achieving operational excellence through business process outsourcing



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## Executive summary

While cost pressures continue to drive business process outsourcing (BPO) decisions, companies increasingly seek improvement in business outcomes and “transformative” advantages when outsourcing finance and accounting, human resources, procurement, and other business processes.

The advantages to be gained by leveraging the “operational excellence” of partners—including better business outcomes and results, process innovation, efficiency, standardization, improved quality, data privacy, security, continuity, and compliance—can be as important as the traditional outsourcing benefits of lower labor costs and asset transfer.

This paper examines the opportunities for leveraging a BPO partner’s operational excellence for improving business outcomes. It examines the potential impact of the BPO provider’s operational practices on delivery, cost, quality, risk, compliance, agility, and ongoing optimization. Finally, it describes the need for an integrated, end-to-end, multi-disciplinary, and lifecycle approach to operational excellence—as well as the importance of both innovative and industry-standard methodologies, documentation, tools, and infrastructure when selecting a strategic partner.

## Introduction

Accelerating business performance improvement by leveraging a BPO partner’s operational expertise, capabilities, and assets is a strategy that is gaining attention among organizations that outsource business processes. Business functions such as finance and accounting, human resources, and procurement, traditionally viewed as support functions, are now seen as areas of opportunity—where a strategic partner’s ability to improve process quality, speed, security, continuity, and compliance can deliver significant additional cost savings, reduce risk, and enhance competitive advantage. As such, “operational excellence” is fast becoming a critical factor when selecting a BPO provider.

“Cost savings, significantly through labor arbitrage, was the driving force for most of the early BPO relationships,” says Bob Cecil, Executive Director of Global Operations and Business & Financial Advisory Services for EquaTerra. “However, with inflation and exchange rates dampening the labor arbitrage benefit, both buyers and providers of BPO services are increasingly looking to enhanced operational capability and improved business outcomes as the more sustainable benefits of an outsourcing relationship. It is now common to see these business outcome benefits, such as improved cash flow through working capital management or integrated business intelligence far exceeding simple operational cost savings.”

Streamlining and automating Accounts Receivable (AR) processes, for example, can significantly reduce a company’s Days Sales Outstanding (DSO), removing millions of dollars of debt from the corporate balance sheet, decreasing working capital levels, and freeing up cash for investment or debt reduction. Automating and improving the Procure to Pay (P2P) function can maximize Days Payables Outstanding (DPO), optimize cash management, and increase discounts taken—resulting in an improved cash position, lower Cost of Good Sold (COGS), and additional cash freed up for investment and debt reduction.

## Defining operational excellence

Operational excellence is something every business says they want to achieve and every service provider claims to provide. But what is it—and what should one look for in evaluating a BPO partner?

Since different organizations use different terms and approaches, defining operational excellence can be almost as difficult as achieving it. At its simplest and most universal, however, operational excellence can be defined as *the ongoing optimization of processes—and the superior execution of those processes—in order to improve quality and efficiency while reducing risk and cost.*

Regardless of terminology, it is becoming clear that making an impact on business performance requires excellence that spans the entire process—including inputs and outputs from the client as well as the service provider.

To gauge the operational excellence of a potential BPO partner, therefore, outsourcing organizations need to look beyond point improvements and the ability to administer specific business functions at a transactional level. A realistic evaluation requires looking “behind the scenes” at the maturity of the service provider’s people, process, and technology—and their commitment to end-to-end excellence as backed by investment in an ongoing and formal program. Areas of inquiry include:

- Can the partner help you to benchmark existing operations and identify, quantify, and prioritize areas of improvement?
- Is their focus on end-to-end process improvement—or just steps in the process?
- Are financial controls transparent and robust enough to simplify regulatory compliance?
- What kind of visibility do they provide into operations for informed and timely decision making?
- Does the partner have the infrastructure, global resources, and flexibility to support rapid growth, mergers and acquisitions, and other business restructuring?

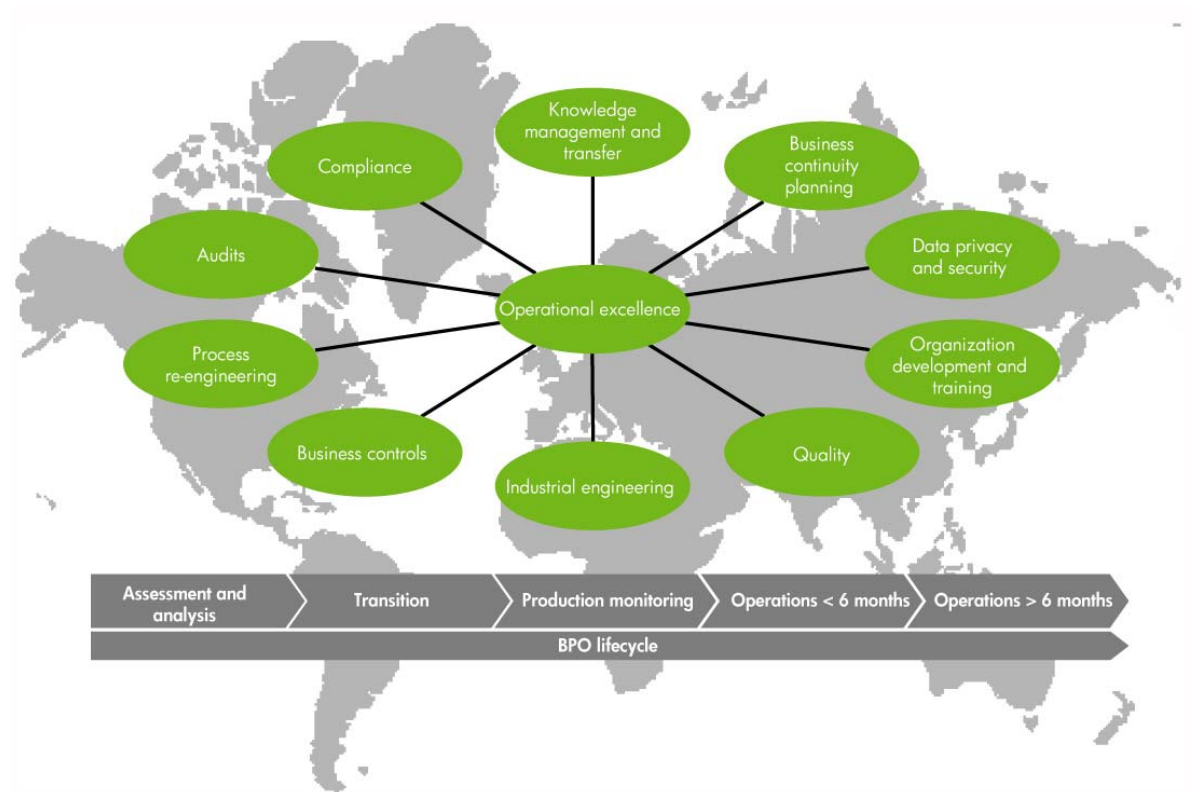
## The need for a holistic, lifecycle approach

Achieving measurable, predictable, and sustainable business performance improvements requires a holistic, multi-disciplinary, and end-to-end approach to operational excellence across people, process, and technology—with the ability to respond quickly and effectively to changes over time.

When outsourcing critical business processes such as finance and accounting, it is especially important to go beyond the words and evaluate the methodologies, approach, tools, and practices used to provide the highest quality, predictability, and control. Outsourcing organizations should look for standardized procedures and a formal operational excellence program that spans the entire BPO lifecycle—from initial benchmarking, assessment, and analysis through process design, transition, and ongoing improvement—and that includes:

- Knowledge management and transfer
- Business continuity planning
- Data privacy and security
- Organizational development and training
- Quality
- Industrial engineering/Continuous process improvement
- Business controls
- Process engineering
- Audits (internal and external)
- Compliance

Figure 1. HP Operational Excellence Framework



Achieving real business performance improvements through a partner’s operational excellence requires more than a serial, single-methodology, or single-function approach. Look for a holistic framework that integrates methodologies and tools across the entire BPO lifecycle.

## Knowledge transfer, documentation, and training

Rapid and efficient transfer of process and other knowledge and uninterrupted availability of a process-certified, professional, and competent workforce is a critical aspect of achieving and sustaining operational excellence. In addition to raw skills and competencies, companies outsourcing their business processes should examine the programs and technologies in place for knowledge transfer, workforce certification, and organizational development. They should also remember that a BPO partner’s staff may sometimes act as the “face” of the company—for example, when a supplier has a question about an order or a payment.

Diligent process documentation and knowledge management policies, processes, and tools are critical to capture institutional knowledge and reduce dependence on key personnel. Both knowledge transfer and workforce training should be centered on the client process, with critical-to-quality (CTQ) objectives identified and translated into deliverables, including the definition of standards for workforce proficiency. Technologies, such as client-specific process simulation training and testing, can greatly reduce time-to-proficiency, as well as validate workforce readiness and improve ongoing management and development. Organizations should investigate service provider workforce policies, tools, training and development, as well as other investments and efforts to improve performance and minimize turnover for cost-efficient and sustainable workforce excellence year after year.

## Continuous improvement

To “close the loop” of sustainable operational excellence, when outsourcing their business processes, companies should look for BPO providers with an integrated program of continuous process improvement. Providers should work with customers to identify areas of opportunity for process improvement such as eliminating non-value-add tasks, automating manual steps, and reducing “touch points” across the end-to-end processes. To the extent possible, processes should also be standardized across business units and countries to reduce maintenance costs and inconsistencies and to replicate the benefits of best-in-class processes. Greater remote transaction processing should also be facilitated to leverage shared service center economies and off-shore labor rates.

Ideally, ongoing improvement should start with a “plan of record,” as documented during the initial process benchmarking, assessment, and analysis phase. While these approved and prioritized improvement projects provide the foundation for ongoing improvement, they should also be formally revisited, at minimum, on an annual basis. This practice drives the identification of new improvements, regular review of priorities, and formal recommitment of stakeholder and management support. Approved process changes should be defined by the current process teams, who have the day-to-day experience to analyze the existing processes, design the new processes, and document the required changes. Where IT changes are required, the existing process team should also document the requirements and lead the actual implementation. In addition to process improvements specific to a given client, companies should look for providers that have made the investment in a dedicated and centralized process improvement team, who drive the standardization, quality, and repeatability of shared processes, tools, and methodologies across client teams.

## Ongoing investment and innovation

Finally, companies should consider the current and ongoing investment a BPO service provider makes across the multiple dimensions of operational excellence: people, process, and technology. For example, while off-shore labor sourcing is a feature of most BPO offerings, the ability to consistently deliver service using similar processes, skill sets, and tools across global service centers—and transparently shift delivery of those services across centers—provides exceptional flexibility and sustainable value. Emerging technologies and techniques are also making a quantum difference in the impact a BPO partner can have on operational excellence and business performance. Among some of the most promising innovations on the horizon are:

- New integrated quality and efficiency production and capacity planning approaches and tools for dramatically improving the operations management of processes; advances include new operational research techniques for automatic volume forecasting, planning, and scheduling to enhance predictability, on-time delivery, and productivity
- Interactive integrated risk management frameworks and advanced data privacy solutions
- More affordable and automated process-simulation-based learning, and electronic job performance assessment tools for real-time input and feedback

The following looks at some of the specific characteristics of a mature operational excellence program in more detail.

## Assessment: identifying opportunities for improvement

The scope and complexity of global business can make it extremely difficult for companies to identify and prioritize opportunities for process and operational improvement. A rigorous operational excellence assessment can simplify these efforts and accelerate savings.

A good BPO provider can help an organization to objectively evaluate current processes against industry benchmarks and apply market intelligence and actual process analysis to determine the size and scope of improvement opportunities. Organizations should pay particular attention to how

“business criticality” is defined and whether and how an ROI analysis is performed. For example, how will relevant factors such as the current state of operations and available technology be weighed? Prioritization should be done in collaboration with client stakeholders, with approved investments and projected savings documented and tracked. There should also be a clear understanding of how approved re-engineering projects feed into planning and a regular, formal review, update, and modification of projects and their prioritization as part of overall continuous improvement.

## Business controls

Embedded and proactive business controls are critical to minimize and manage operational, financial, and legal risks. Having a BPO partner with a robust business controls program can actually reduce the business control “burden” through increased transparency, embedded threshold and other safeguards, and productivity-enhancing tools.

When evaluating a BPO service provider, organizations that outsource should look for a well-defined business controls program that continuously monitors operations and proactively resolves control gaps. It should include consistent and comprehensive review of the control environment (such as interface controls, account reconciliations, separation of duties, authorizations and approvals, record retention, defined key controls for Sarbanes-Oxley, privacy, and security) and have the flexibility to incorporate client-specific business controls, in addition to regulatory and industry-standard controls. Ideally, the service provider’s controls program should also be continuously evaluated for process and/or system changes such as system upgrades, system integration, enterprise resource planning (ERP), and process improvement.

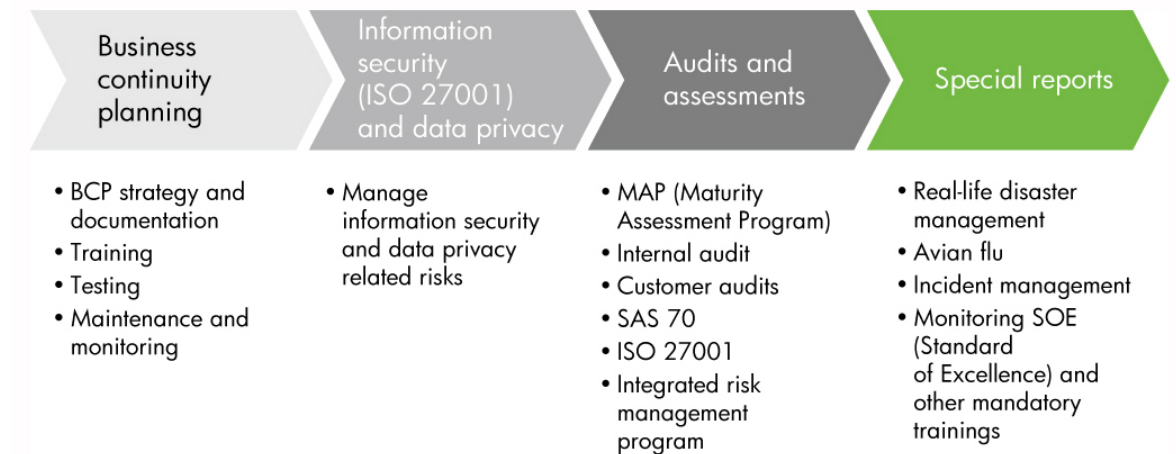
## Integrating quality and efficiency

Process quality and efficiency improvements—including better resource utilization, elimination of non-value-add tasks, and the reduction of defects and process variations—can have a dramatic and immediate impact on end-customer satisfaction, cost, productivity, turnaround time, and return on invested capital.

Unfortunately, although most will agree that quality and efficiency are inseparable and synergistic aspects of excellence across the entire lifecycle of process design, execution, and optimization, most outsourcing organizations and service providers continue to pursue process efficiency and quality programs as separate initiatives.

To fully optimize both quality and efficiency requires an integrated approach that balances trade-offs and combines advanced process engineering and productivity practices with built-in controls for reducing defects and variations.

**Figure 2.** HP IE-Sigma+ Integrated Model



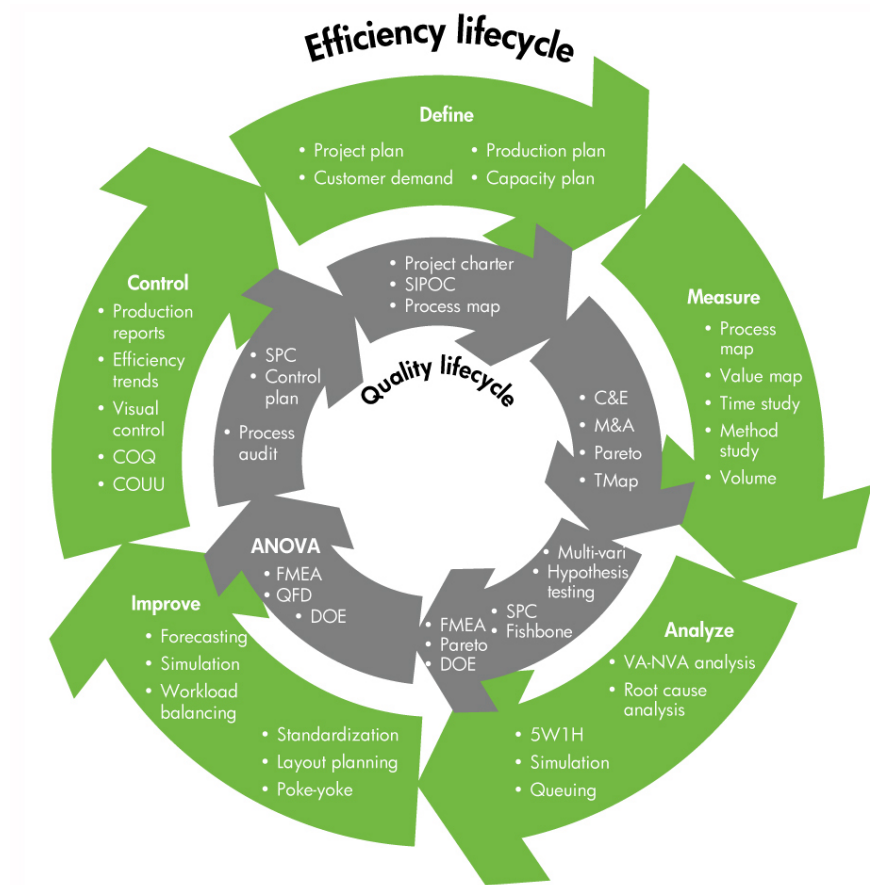
The HP IE Sigma+ methodology integrates industry-standard Six Sigma quality methods with HP-developed industrial engineering techniques and tools for process design, simulation, testing, automation, and optimization in a single step-by-step methodology.

## Risk management

To minimize the risk of outages, security breaches, and non-compliance, companies that outsource should look to BPO service providers that apply proven and standardized methodologies, tools, and best practices for business continuity, information security, and data privacy—all as an integral part of the BPO engagement, from initial assessment through process mapping and ongoing operations management. Questions to consider include:

- Is continuity defined in terms of end service level requirements?
- Do business continuity planning (BCP) and information security efforts extend across your internal operations as well as outsourced operations?
- Are processes designed to meet internal and external audits and assessments and to comply with company, industry, and legal regulations, including Sarbanes-Oxley?
- How will the confidentiality and integrity of data be protected without impacting the legitimate access and productivity of authorized people and processes?
- Has the service provider's risk management program been certified as having met international industry standards, such as the ISO 27001:2005 standard for information security and the SAS 70 standard for audits?

Figure 3. Reducing risk



To reduce risk, HP applies proven and standardized methodologies, tools, and best practices within the HP Business Process Management (BPM) Framework for business continuity, information security, data privacy, and compliance as part of every BPO engagement.

## Conclusion

For companies outsourcing finance and accounting as well as other critical business functions, operational excellence in their BPO partner is a “must have”—for the predictable, consistent delivery of a high-quality operation. This requirement, combined with the opportunity to leverage the investments of a partner to accelerate business transformation, makes careful scrutiny of the operational sophistication, practices, investments, and quality of resources of that partner more important than ever.

Optimized, compliant, and resilient business processes that maintain secure and well-protected information assets significantly reduce legal exposure and the possibility of negative impact to reputation and brand. They also lead to improvements in cost, customer satisfaction, and productivity.



## About HP

A recognized leader in both IT and business process outsourcing, HP provides strategic outsourcing services that have helped transform the business processes of numerous Fortune 100 companies.

Over nearly two decades, HP has developed a standardized, certified, and commercialized HP Global Delivery Operating Model and HP Operational Excellence Framework for the delivery of consistent, affordable, and high-quality HP BPO services from multiple global centers. The HP Operational Excellence Framework integrates a depth and breadth of HP-developed and industry-standard best practices, methodologies, and tools that help clients to:

- Identify and prioritize areas of improvement
- Incorporate and automate the proper business controls
- Optimize both quality and efficiency
- Comply with regulatory requirements and internal and external audits
- Strengthen security and protect data against improper access and misuse
- Proactively avoid any operation or service interruptions
- Gain insight through on-time reporting of key process and control metrics
- Improve business performance and end-user satisfaction

The HP approach is differentiated from “off-the-shelf” models in the marketplace by its integrated, single framework for end-to-end operational excellence across the entire BPO lifecycle. This framework allows us to predictably and consistently meet client expectations and service levels on day one of an outsourcing agreement and deliver continuous improvement over time. In addition, through our global network and operational excellence approach, we have the flexibility to accommodate customer collaboration and customization while maintaining the cost and simplicity advantages of standardization. This flexibility provides us with the capability to scale up or down, based on actual process and customer needs, while delivering services in a way that reduces client-side risk, time, and effort.

HP BPO uses a single, robust operational excellence program across its network of 11 global delivery centers and 56 local/regional centers to provide a world-class cost structure and shared business-continuity services. Our deeply rooted Six Sigma culture and devotion to continuous improvement provides HP and our customers with year-over-year savings along with the level of quality and security they demand. As a result, we are uniquely positioned to help companies navigate through strategic and operational obstacles to build world-class processes.

We can help you to begin to explore the possibilities and quantify the advantages of accelerating operational excellence through outsourcing your business processes today.

For more information, visit the HP Web site at [www.hp.com/go/bpo](http://www.hp.com/go/bpo).