



MITIGATING TRANSFORMATIONAL RISKS IN BUSINESS PROCESS OUTSOURCING

EXPLORING THE LITTLE-KNOWN ROLE OF SOFTWARE

Technology evolves continuously, and so should the software on which BPO providers base their services. Optimally, a provider leverages the efforts of a software vendor who constantly improves its solutions through adoption of market best practices.



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EXECUTIVE SUMMARY

THE CHALLENGE OF OUTSOURCING

Transferring business processes to an external business process outsourcing (BPO) provider carries various forms of transformational risk. The initial transition phase is especially critical: costs can be unpredictable, the atmosphere volatile, and employees resistant to change. During the evolution phase, customers may find that their business requirements, such as their geographical or functional scope, change frequently. And to protect themselves from provider lock-in at contract end, they need to ensure that processes can be ported easily to another provider or back in-house. While customers may have legitimate concerns about change management, organizational readiness, and developing the appropriate strategy for change, they should not have to worry about whether the software and respective vendor they choose support these goals.

This document is designed to help customers understand the role of technology in the context of BPO and enable them to assess a software product with the aim of making their transition to BPO less risky. By selecting a homogeneous and readily tailored software platform and ensuring the software vendor cooperates with the BPO provider, they can achieve a smooth transition – a project that evolves according to their needs and can be neatly resolved at contract end.

Customers should insist on using software that offers an easily configured and comprehensive suite of enterprise applications; broad geographical scope; and out-of-the-box templates, interfaces, and implementation methodologies. The software should also be proven in the BPO market. And there must be sufficient resources for its implementation, maintenance, and ongoing improvement.

BPO success is not just about process redesign and good technology; it is about using the transformational and operational skills of the BPO provider in the best possible way. Thus, a software vendor must do more than provide software. The vendor must also cooperate with the service provider to see that everything works and that both the BPO customer and provider make the right design choices.

THE TRANSFORMATION PROCESS

MITIGATING RISK TO IMPROVE TOTAL PROJECT VALUE

Multiple factors determine the success of a BPO engagement and the value it delivers. Cost reduction, quality improvements, and risk mitigation are all essential factors that need to be taken into account when BPO decisions are made. The risks associated with BPO can be grouped into five categories: transformational, operational, financial, strategic, and legal. Figure 1 demonstrates how the full value of a BPO deal is based on cost, quality, and risk.

Although all risks need to be addressed by BPO customers and providers, transformational risks are usually the most immediate concern. Without a smooth transition to the targeted service model, all subsequent efforts can be invalidated and the entire project endangered. It is important to recognize that transformational risks are not limited to the transition phase but span the entire BPO life cycle.

During the initial transition, costs can be unpredictable and the overall atmosphere volatile. To complicate things further, employees are prone to resist change. Successful BPO projects indicate that achieving early successes results in a much higher buy-in from all business areas impacted by the change. These early successes are crucial to making BPO “stick.” Thus mitigating initial risk is key to getting a BPO project off the ground and laying the base for its long-term success.

	Cost Improvement	Quality Improvement	Risk Management
Transition	Transition and Evolution <ul style="list-style-type: none"> Transfer of technology, people, and processes Support and improvements 	During Transition and Evolution <ul style="list-style-type: none"> Achieve short-term successes (first three months) Reach quality early on Install continuous improvement process 	Transformational <ul style="list-style-type: none"> Minimize disruption related to migration Adhere to changing business requirements Build in evolution and exit scenarios Operational <ul style="list-style-type: none"> Ensure consistency and adherence of output to business objectives
Operations	Ongoing Process Management <ul style="list-style-type: none"> Process steps Monitoring Error checks 	During Operations <ul style="list-style-type: none"> Reduce error level Improve business via better processes and control (for example, working capital, global view of the organization) 	Strategic <ul style="list-style-type: none"> Accommodate organizational evolution (restructurings, mergers and acquisitions) Avoid loss of strategic capabilities Financial <ul style="list-style-type: none"> Enable predictability of cost items Control agreement cost
Contract Expiration	Keeping Long-Term Options Open <ul style="list-style-type: none"> Increasing scope of solutions or outsourcing Switching providers Re-insourcing 	After Contract End <ul style="list-style-type: none"> Retain quality processes Gain ability to build on achieved level 	Legal <ul style="list-style-type: none"> Ensure compliance Ease contract governance Minimize risk and cost of disputes

Figure 1: Key BPO Value Drivers

Integration is one of the most complex parts of implementing new technology – often representing more than a third of the time the process requires.

Less obvious – but no less important – are the transformational risks associated with the ongoing evolution of the BPO engagement. As the project evolves, customers may find that their business requirements (for example, geographical and functional scope) change frequently. So it is important they ensure, right from the outset, that when the contract ends, they have a BPO solution that is highly portable.

RISK DURING INITIAL TRANSITION

SELECTING THE RIGHT SOFTWARE

Making the transition from in-house to outsourced business processes can create a volatile atmosphere in a company. Costs are difficult to predict, and both employees and operations can suffer from the shift. If the transition drags on too long, it can generate resistance to change among employees, make them dissatisfied, and endanger the success of the whole BPO project.

Comprehensive Software Needed

Finding a comprehensive and preconfigured enterprise resource planning (ERP) solution – for example, for human capital management (HCM) – can help reduce implementation risk. Customers need software that supports best practices and, often, broad country coverage. To avoid “work-arounds” that would saddle the BPO provider with the cost of custom development, the chosen software needs to provide for synergies in configuration and blueprinting across customers as well as enable simplified interface building. With a homogeneous system run by the BPO provider, both the provider and the customer have far less data to migrate, which also helps counteract risk.

To assess how well certain software fits their BPO project, customers should look at the experience and capabilities of the software vendor who is to deliver the solution on which outsourced processes are run. Does the vendor company have a wide customer base of large, complex organizations? Has it handled unique and technically difficult requirements? Can it localize software by country need? Broad country cover-

age is vital – and typically cannot be met by any provider-proprietary BPO software. For example, if a company wants to deploy a pan-European payroll on a single software instance, it needs software that can ensure the quality of business process output across all countries and avoid unnecessary customer-specific development. In short, the company requires software that offers a comprehensive set of preconfigured checks and balances. This kind of software also lightens the burden during transition.

Intuitive employee and manager self-services – in all required languages – ensure high adoption rates. They also lower error rates among occasional users. For real employee convenience, these self-services should contain guidance for each step, personalized context information, and the opportunity for review at the end of each step. They should also contain predefined events that guide users in a friendly fashion through transactions such as open-benefit enrollments or changes in marital status.

When technology arrives preconfigured – which is more likely to occur when the chosen BPO provider has a solid, cooperative relationship with the software vendor – it shortens process deployment (and later, evolution and upgrade). That’s why, for example, SAP offers more than 100 out-of-the-box self-services for employees and managers, covering the most standard interactions between the two. These self-services include ready-to-run processes and user interfaces. They

are available in 28 languages with country-specific enhancements for 32 countries.

Simple Solution Tailoring

One of the critical things to consider when evaluating the software used by a BPO provider is whether it can be tailored to each customer’s requirements without expensive customized code. The more standard an implementation, the easier it is to evolve and upgrade. This kind of simplicity also ensures user acceptance while avoiding the constraints of a one-size-fits-all approach.

An easy and efficient way to drive solution tailoring is through predefined configuration switches and modeling tools. This kind of business process configurability requires the software vendor to have long-term experience and market knowledge, a sizeable development organization, and a large customer base that provides a steady flow of insight into state-of-the-art customer processes. These processes are embedded into the solution using predefined configuration switches. For example, customers can use the extensive set of organization-level configuration switches offered by SAP to define human resources (HR) business processes and then adapt the standard interactive forms needed for process steps using integrated market-leading design tools. SAP also offers a series of guided procedures – a framework for modeling and managing processes – that includes templates that customers can change to match their specific processes.

SAP has learned from experience that between 40% and 70% of business process configuration is common across companies and can be provided by simply copying a template – which a BPO provider can do more easily in cooperation with the chosen software vendor. In addition, a provider can deploy solutions across multiple customers (“multitenant” solutions) and can adapt one customer’s business processes without affecting the processes of other customers, which reduces complexity during transformation.

Simplified Integration

Outsourced processes don’t typically run in isolation; consequently, BPO customers need to integrate the outsourced solutions run by the provider with other enterprise application software. Figure 2 shows how an overtime management process touches other processes.

Typically, integration is one of the most complex parts of implementing new technology – often representing more

than a third of the time the process requires and characterized by difficulty in predicting the effort entailed. A large number of built-in, standardized, and upgrade-compatible interfaces can greatly simplify integration and reduce the risks related to it.

For example, here are some of the interfaces that should be readily available in an HR outsourcing scenario:

- Integration between organizational management and guided procedures or workflow

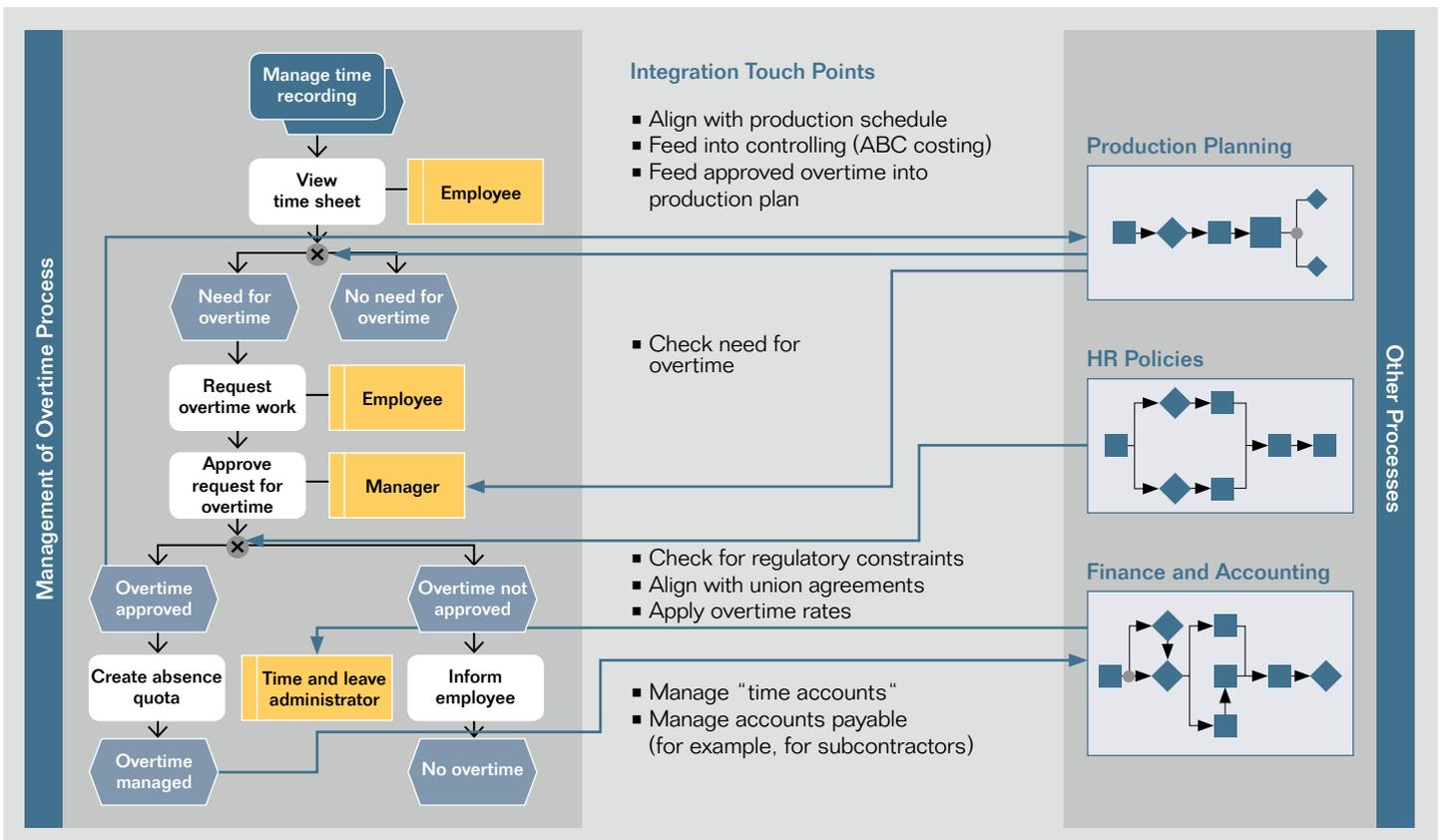


Figure 2: Example of Process Touch Points and Associated Integration Needs

- Payroll integration with financials for enterprise structures, cost centers, vendors, accounts payable, and general ledger
- Incentive-compensation integration with contracts and commissions and with accounts receivable

Plug-and-Play Reporting Tools

Initial transition is dramatically simplified by using a software product that offers standard business reports along with preconfigured analytics covering most global and local reporting needs. In particular, this kind of software increases managers' acceptance and reduces the volatility of change management.

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If a software vendor delivers predefined queries and key performance indicators, and if providers can use other business intelligence functions to complement the predefined reports and analytics, the BPO project can get up and running quickly. In addition to enabling better reporting opportunities, increased data consistency, and faster migration of full historical and real-time data, this will increase end-user satisfaction during critical initial and transition phases – which is when customer satisfaction is “imprinted.”

Proven Implementation Methodology

To reduce implementation risk, it is imperative that customers select a provider that uses a proven set of methodologies to deliver effective results and limit initial transition time. Figure 3 illustrates how best practices impact an ERP implementation.¹ Often, BPO providers rely on their software vendor to provide such methodologies.

A strong methodology ensures optimal performance, availability, and maintainability. It also provides a secure migration tool for mass data load and tested migration content. And it enables the migration of historical data and real-time data, thus avoiding the risk of migrating at year-end or month-end when workload is already at its peak.

The more mature and proven a methodology and the greater its worldwide implementation exposure, the more time customers can save and the lower their implementation risk.

Proven and Comprehensive Training

It is important that employees receive excellent and comprehensive training on the business software selected. The training portfolio should cover all the provider's solutions that impact the customer as well as allow for customer-specific learning that spans the full solution life cycle. This facilitates a faster and more effective implementation and broadens the knowledge pool – which in turn leads to a smoother, less risky initial transition.

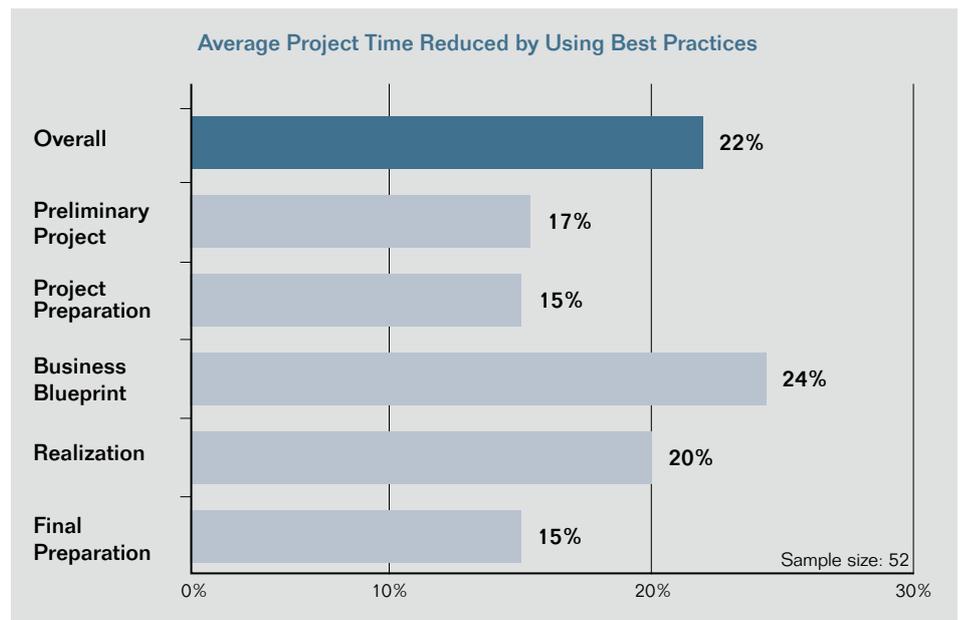


Figure 3: Impact of Best Practices

1. SAP Best Practices Survey, 2005.

By responding and reacting to best-practice requirements from the market, providing seamless upgrades, and supporting the BPO provider, software vendors can help ensure a risk-free evolution.



Vendor Support for BPO Provider

A close and consistent cooperation between software provider and BPO service provider ensures that all solution parameters (including functionality, scope, configurability, integration points, intelligence tools, implementation methodologies and accelerators, and availability of extra implementation resources) are fully understood by the service provider's solution engineers – or, ideally, are crystallized into templates.

It is critical that the software vendor invest substantially in the BPO provider. To obviate risk during the evolution of the BPO project, the vendor should dedicate resources to the provider to

ensure the solutions being implemented are fully leveraged and deployed in the best possible way. By adhering to standards and best practices, the vendor makes sure that all improvement features are deployed for the customer's benefit. But having a strong BPO provider and a solid software vendor is not enough to ensure the success of a BPO service delivery – the two must work together in a quest for ongoing evolution and improvement.

Typically, software vendors are not structured to cater to the needs of BPO providers. This is a job that requires substantial vendor investment. That's why, when customers are looking for a sustainable BPO platform, they should

verify the solidity of the relationship between the service provider and the software vendor. The provider must be able to design, implement, and operate the processes and the technology platform, and the vendor must be prepared to assist the provider in deployment, maintenance, and evolution. This is essential for BPO project success.

As an example, SAP works closely with a carefully chosen set of BPO providers, collaborating with them on process design and technology. Its clear and proven operating model includes tiered support for BPO providers and a strong life-cycle perspective on the design and implementation of a solution.

RISK DURING EVOLUTION

SELECTING AN EXPERIENCED SOFTWARE VENDOR

Customers may find that during their BPO engagement, their business requirements – for example, geographical and functional scope – change frequently. They can mitigate evolution risk if the software used by the BPO provider can accommodate such changes without massive implementation or buildup of new, complex interfaces. A software vendor with a large geographic and functional coverage and the ability to extend and enhance the solution footprint provides a comprehensive safety net for BPO evolution.

Accommodating Changes

By underpinning BPO with a solution that is both deep and broad, providers are assured they can accommodate their customers' potential functional and geographical extensions within the existing platform and avoid complex new implementations. A software vendor that has the hindsight achieved through broad experience, the insight of thousands of live customers, and the expertise gained through comprehensive localization projects can help BPO customers and providers change or extend their scope as necessary.

The best platform for accommodating change is a totally integrated solution that covers all relevant processes. For example, an integrated solution for HR outsourcing should cover performance management, learning solutions, compensation management, attendance, payroll, benefits, recruitment, and organization management. It should also include built-in integration scenarios that enable real-time processing among these different areas – both within the outsourced functions and between

outsourced and retained applications. This helps avoid the unplanned costs and risks associated with customer-built interfaces.

During the evolution phase, software code extensions may become unavoidable. In such cases, sticking to a commercial software solution at least reduces the risk of unplanned upgrade costs by providing upgrade-compatible user exits that enable customer-specific code extensions. It's important to consider right at the outset of the project that a customer-specific solution might have to be added – on the customer's platform, the BPO provider's platform, or both. Commercial software is safer than provider-proprietary solutions as a basis for making such modifications.

To contain change-related risk while progressively adding new scenarios and subprocesses (such as an HR or an IT help desk), it is important that there be very little incremental deployment effort. A particularly effective way of achieving this is to leverage a multiclient technology. This makes it much easier to adapt business processes for an individual customer without impacting other customers, since the adaptation only requires adding customer-specific enhancements on top of the BPO provider's template copy.

Ensuring Smooth Upgrades

Working with a software solution that can be upgraded seamlessly provides significant advantages for both customers and providers. Every upgrade project typically carries project risks such as time and budget overruns and BPO-specific risks such as an interruption

of service delivery. To minimize these risks, customers should choose a software vendor that is focused on continuous innovation and offers upgrade automation tools and professional release documentation, ensuring there is no need to fully reconfigure the delivery platform. They should also choose a vendor that applies rigorous quality standards to further reduce the risk inherent in BPO evolution. These quality standards include having extensive tests of the upgrade tools and documentation conducted by independent consultants before shipping new releases.

Improving on an Innovation-Ready Software Platform

Technology evolves continuously, and so should the software on which BPO providers base their services. Optimally, a provider leverages the efforts of a software vendor who constantly improves its solutions through adoption of market best practices. By incorporating feedback from extensive user and interest groups into their solutions, good software vendors can be confident that their customers – including BPO customers and providers – can influence the software development agenda and timeline. This minimizes the risk of any misalignment between improvements and market requirements.

BPO providers and customers can also benefit from a software vendor's extensive pool of software partners. (This is one real advantage of working with software from one of the larger vendors.) Software partners codevelop solutions and provide additional solution functionality. Such partnerships enhance

and add value to a vendor's solutions, as can be seen in the close partnership between SAP and Adobe. The two companies worked together to build an automated, completely digital solution, the SAP® Interactive Forms software by Adobe, which allows providers to generate forms – customized for their different customers – directly from SAP applications. Once the forms are completed, the solution allows new and updated information to flow directly back to the applications. Working with an ecosystem of software partners increases and improves the scope of the software platform significantly.

When evaluating BPO providers, customers should check that the provider's chosen software vendor has a solid

history in leading and sustaining technology innovations. Today, for example, a vendor with a focus on enterprise service-oriented architecture (enterprise SOA) enables the quick support of new or changed business processes by composing enterprise services (exposed from existing enterprise applications) rather than building new code. A software vendor's enterprise services should offer the granular and stable functionality that helps BPO providers achieve business efficiency and flexibility. This kind of granularity simplifies the extraction, migration, and later evolution of single processes (such as time and attendance management) and enables these processes to be recombined using different delivery models (both insourced and outsourced).

Overall, basing a BPO engagement on a software platform that enables continuous innovation of processes and service delivery is not only crucial to BPO service quality, it is essential to mitigating the risk of becoming locked into software that at some point becomes "legacy."

Offering Ongoing Support for BPO Providers

For a project to succeed, the chosen software vendor and the BPO provider must have a close relationship. In order to obviate risk during the evolution of a BPO project, it is especially important that the software vendor consciously invest in this relationship – for example,



A close and consistent cooperation between software provider and BPO service provider ensures that all solution parameters are fully understood and leveraged by the provider's solution engineers.

by allocating dedicated experts who ensure that the solution options the provider offers are fully leveraged and deployed in the best possible way.

The vendor should also provide a tried and tested service package that includes, for example, services and tools aimed at ensuring smooth migration from other solutions to the target solution. This package should facilitate business blueprinting, user training, migration of business processes, and fast migration of historical data (such as master data records) for all reporting functions.

Finally, the software vendor should support the BPO provider by leveraging synergies through a multiclient BPO platform architecture. By reusing existing configuration templates, the BPO provider can add new customers quickly. A multiclient technology also enables the provider to adopt business processes for an individual customer without affecting the processes of other customers. This is achieved by having the vendor add customer-specific configuration enhancements on top of the provider's template copy.

Figure 4 illustrates some of the services SAP provides to BPO providers whose service offering qualifies as "Powered by SAP."

By helping the provider and customer adhere to standards and best practices, the software vendor ensures that all improvement features are deployed for the customer's benefit – with minimal resources in a minimum time frame. And by combining this approach with tools and services geared to software evolution, the vendor provides great help in containing the risks associated with services migration and evolution.

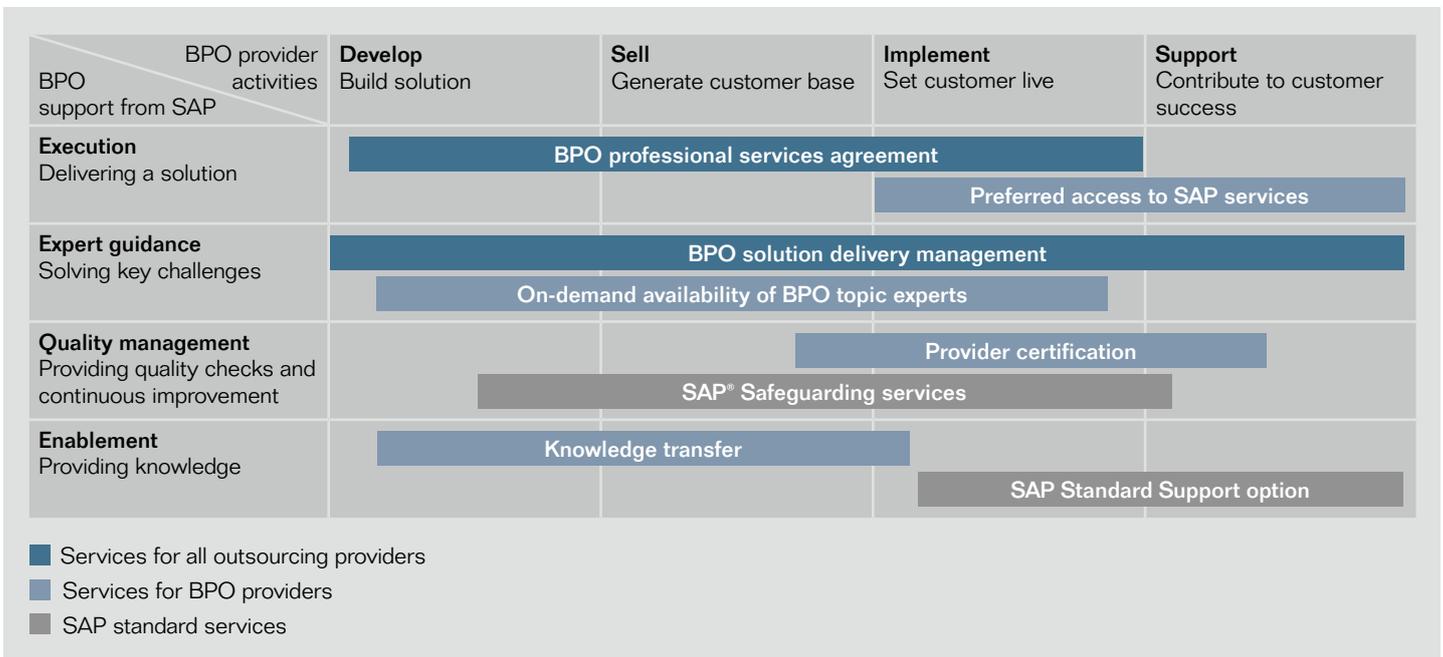


Figure 4: Support Throughout the BPO Life Cycle

CONTRACT-END SCENARIO

MINIMIZING END-GAME RISK RIGHT FROM THE START

Early successes are crucial to making BPO “stick.”



At some point, the BPO provider may choose to transfer processes back in-house or to a new provider, either partially or fully. This does not have to be an unpredictable, risky undertaking. If services have been underpinned by the right software from the start, then people, process, and technology risks are greatly reduced. And if customers have easy and affordable access to people with deep knowledge about software implementation – either in-house staff or outside consultants – their risk is further reduced. Typically, such resources are more widely available for the software packages delivered by large, international vendors.

Many problems that arise at contract end stem from the customer's lack of retained knowledge about the processes that were outsourced as well as from the fact that the current provider's software platform is complex and lacks transparency. The more transparent, homogeneous, and portable the software platform used by the BPO provider, the easier and more risk-free the migration becomes. Extensive configurability is key to a smooth transition; it keeps custom coding to a minimum while enabling customer-specific business processes. And transferable business configuration sets allow the cost-efficient migration of configuration settings from the BPO provider to any other environment.

Besides transferring the outsourced processes and all associated configurations, customers must consider the interfaces to adjacent processes, which are very important. The more standardized the interfaces, the easier they can be reintegrated with their retained systems and the less likely they are to need a complete overhaul. Using a straightforward application software platform to cover the full geographic and process scope of a BPO project substantially reduces the complexity of transitioning to a new delivery platform.

KEY TECHNOLOGY ELEMENTS THAT REDUCE BPO RISK

ENSURING EFFICIENT TRANSFORMATION, EVOLUTION, AND REINTEGRATION

When companies outsource business processes, there are a number of elements they can rely on to help lower transformational risk and keep the substantial cost of transformation under control:

- Comprehensive suite of enterprise applications that have the broad geographic and functional scope needed to support a swift initial transition
- Preconfigured technology that enables BPO providers to get up and running quickly and allows them to tailor services to their customers' needs without expensive customized code
- Predefined interfaces
- Integration with the retained organization
- Plug-and-play reporting tools that simplify the initial transition and increase employee satisfaction
- Proven implementation methodology that reduces implementation risk
- Multiclient structure that supports BPO from a technology standpoint

If all these elements are supported by a pool of experienced developers, consultants, and trainers, then transition risk is indeed minimized.

The evolution of a BPO project should be equally smooth; the software utilized by the BPO provider should be able to accommodate changes easily and accommodate new requirements swiftly. By responding and reacting to best-practice requirements from the market, providing seamless upgrades, and supporting the BPO provider, software vendors can help ensure a risk-free evolution. And when it comes to contract end, a portable architecture and technology means the process can be more easily reintegrated into the customer's in-house landscape or that of a new provider.

To learn more about how SAP can help your organization outsource a business process with minimal risk, call your SAP representative, send an e-mail to bpo@sap.com, or visit us on the Web at www.sap.com/services/bpo.

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