Six Keys to a Successful BPO Transition

By Joe Spears, eBay's Senior Director of Corporate Accounting, and Vijayant Malik, Genpact's VP of Global Finance and Accounting.

THE BACK STORY

Since its 1998 IPO, eBay has gone from online experiment in consumer-to-consumer, e-commerce to a Fortune 500 enterprise that sells $60 billion in goods annually. It now satisfies the needs of 88 million individual buyers and sellers, along with an expanding list of small businesses. This metamorphosis was not without growing pains. Exploding demand for eBay's services created an enviable but still very thorny problem.

By 2004, eBay's annual revenues had exceeded $3 billion. Up to then, its AP function had borne an exponentially growing workload quite well. But with no slow down in sight, it was suddenly obvious that a much larger transaction accounting capacity would be needed than the current structure could ever cost-effectively deliver.

This is a common curse for fast growing companies. But the problem was magnified for eBay. It has a near limitless variety and depth of online inventory it can market, from items in production to ones that have been collecting dust in an attic for the last 50 years. And all those wares are ready to ship at a moment's notice to buyers anywhere on the planet. This ability to instantly gratify demand has a downside: It creates powerful expectations among eBay sellers for equally instantaneous payment. If meeting these expectations weren't enough, eBay's acquisition of several companies with complementary market focus (but disparate AP processes) created additional backroom integration challenges.

Closing the gap - between front-end demand, and backroom capacity for transactional accounting needs - called for a new solution. In early 2005, eBay responded by migrating all of its AP operations to Genpact.

The transition was far from perfect at first. Yet hard lessons learned early did yield impressive results in time. Year-end 2009 revenues were nearly triple 2004 levels, and AP transaction volume and headcount grew almost two fold, but with a much-improved cost footprint and a standardized and consistent global process that enabled on-time payments to grow 30 percent. In other words, more volume is being handled, and handled more effectively, per AP person. This success paved the way for migration of other eBay transaction accounting processes. From 2006 to early 2008, eBay outsourced its global Vendor/Supplier Maintenance and General Ledger (GL) activities. In the hope that these experiences can serve as a blueprint for others, this White Paper outlines the "Six Keys to a Successful BPO Transition" that eBay and Genpact identified along their way.

REMOVING BLIND SPOTS

No BPO transition is simple, even if ultimately successful. But our experience shows that, done for the right reasons, and with the right expectations, any transition can deliver returns far exceeding the time and energy invested. The trick is to recognize not only obvious organizational barriers to progress, and managerial tactics that can aid it, but also to address the blind spots Transition Teams can often develop.

Unfortunately, most Phase I BPO transitions suffer from a surprising lack of vision about where the outsourcing effort is meant to take those involved. Such institutional blindness causes some to see the transition solely, and perhaps cynically, in terms of geographic arbitrage. In today's difficult business environment, capturing initial savings by moving from a higher cost labor market to a lower one may represent a logical start point. But if that's the be-all and end-all of the vision for a transition, there is no vision.

Sooner than later, what you let go of inside your organization must be replaced by an effective outsourcing relationship that can grow with the business long term. In the case of eBay's Phase I Accounts Payable transition, the vision was to build a bigger, better "global backroom," one that could meet the AP needs of an online marketplace that had grown much faster than anyone in eBay, or out, could have foreseen 10 years previous.

To build a platform upon which it could grow forward, eBay did, indeed, need access to a large, cost-effective labor pool. But that pool absolutely had to have the requisite process and domain expertise to quickly scale up. And the transition had to be minimally disruptive to current performance, even as it made Next Level performance possible. Most importantly, this goal, and the upside and downside of successfully realizing it, needed to be explained forthrightly to employees from the start. Admittedly, there's risk to being painfully honest about what a transition will mean for all involved. But the risks are far worse if those most materially impacted are deliberately deprived of details, or are forced to operate on faulty assumptions stemming from a poorly communicated vision.

Realizing the vision for eBay's first transition meant reducing AP staff by two-thirds. It also meant retraining the remaining third to be more managers (of a new offshore team) than processors, as most had long been. We had to be upfront with employees about this. We also had to be honest with ourselves. You can't make everyone comfortable with what the planned transition will mean for him or her. Some employees you'd like to keep through the transition period might opt to leave prematurely. Others that are asked to take on a bigger permanent role may conclude a fresh start elsewhere is best. On the other hand, treating those impacted like mushrooms (by keeping them in the dark and feeding them "fertilizer" early and often) only increases the odds of such departures.

No matter how unwelcome a transition, most employees can respect the business reasons for it, and even accept its most negative implications for them, provided those reasons and implications are clearly, candidly spelled out. Moreover, open communication makes those impacted more likely to respect and trust management to deal with them in a manner that's objectively fair, if not always personally desirable. eBay, for example, made sure everyone had the opportunity to compete for newly created roles and that those who weren't offered new posts knew what severance awaited in exchange for seeing the transition through to a successful end. Result? Only one person left prematurely.

This brings us to the first of our six keys to a successful BPO transition….

1. Manage change by securing the commitment of senior leaders in an overt fashion, and by recognizing subtle cultural differences that can undermine initial transition efforts.

Stakeholders only commit to change in as much as they see leaders are committed. Senior BPO leaders can demonstrate commitment to a transition by staying intimately involved through its first six months, when the process is most hectic, and those overseeing it least sure of the course. The commitment of senior leaders on the outsourcer's side, meanwhile, can be secured by showing "what's possible" post transition that wasn't previously. For instance, once a process is globally consolidated and mapped, and its performance tracked, the outsourcer often gains a newfound visibility and degree of actionable intelligence.

Though performance may not be where all would like early on, if the outsourcing company's leaders are shown how this metric-driven visibility can eventually allow for "continuous process improvement" after bugs are worked out, they can be made into evangelists who's commitment is obvious. Their commitment can be further baked into the transition's project timeline through regular formal reviews and progress updates. To maintain commitment post transition, leaders on both the outsourcing and BPO sides should create a post "Go Live" executive Governance process.

Even when it's obvious leaders are steadfastly united in support of a transition, less overt cultural differences can undermine progress. Ironically, the same diversity of experiences and perspectives that is of long-term benefit when trying to transform backroom processes can, at first, contribute to misunderstanding, miscommunication, frustration, and perhaps even decreased levels of service. Cultural "fit" must be evaluated from the outset. Careful interviewing of potential BPO team members by the outsourcing company's transition team can be a great help here. The outsourcing company must also remain mindful of cultural crosscurrents in its business that must be navigated.

eBay, for example, had to contend with unique challenges associated with a highly customer-centric culture. Sellers on its site are as much "customers" as buyers are. That means eBay's success depends on both being extremely satisfied with their transactional experience. eBay's AP function also caters to business units, or internal customers, that try to be as accommodative as possible to the desires of end customers. All of this creates a strong business culture bias toward giving the customer what it wants. Unfortunately, the customer isn't always right, particularly when it comes to following AP protocols. In fact, early root-cause analysis found that the failure of eBay customers to comply with those protocols was a principal reason they weren't getting paid in a timely enough fashion.

To its credit, eBay, like many American-born businesses, has a bias for seeking outside criticism of how it operates. Its US leaders knew they weren't always right, and wanted unvarnished assessments of

where things may be going wrong. So on one hand, BPO staff had to learn to alter their "business culture" mindset to think of eBay payees as "customers." On the other, they needed to be more assertive in challenging eBay's approach to managing of underlying AP processes. Genpact BPO staff needed to treat their eBay managers less as customers and more as colleagues with whom they could comfortably air concerns and then collaboratively tackle problems. This kind of rapport can't be built in day, so the sooner both parties begin bridge-building the better.

2. Assess organizational readiness for a BPO transition from a mental as well technical standpoint, taking care to set realistic expectations and manage them actively.

Organizational readiness for a transition is broader than technical readiness. Again, we're talking about honest communication about what's ahead. This means being realistic in setting proper expectations. When establishing timelines for progress through various stages of transition, be sure to always under promise and over deliver. The surest way to demonstrate organizational un-readiness is to agree to target dates for delivery that, deep down, you know will be all but impossible to meet. Even if you come close to doing the impossible, you'll only get credit for failure, particularly among those who want to see their doubts about the transition confirmed.

Building goodwill and confidence in a transition's prospects for success can be done several ways. Seemingly simpler processes can be transitioned first, followed by higher-end process moves. Fielding more BPO staff to start than is ever likely to be needed is also a smart precaution. Overstaffing will also make it easier to address the higher process volumes and bigger backlogs that will accompany more complicated follow-on transitions that carry steeper learning curves. During the pilot, the outsourcer can boost readiness further by sending key people to BPO offices abroad.

Investing sufficient face time on "knowledge transfer" this way eliminates the chance of a temporary "fumbling," or worse, of more lasting "leakage" of legacy information vital to process performance post-transition. An effective governance model (including considerations for decision making, dispute resolution and innovation) is important at the day-to-day, process-management level. Cumulatively, the preceding measures help immensely in retaining the knowledge and in establishing the practical and psychological foundations needed to stabilize process performance.

3. Anticipate risks and formulate a plan for mitigating them, beginning with a strategy for dealing with "loss of control" threats, both real and imagined.

Each BPO transition is different, as are the risks that accompany them. Yet there are threats common enough to all transitions to deserve mention. Transitions are always moments of inherent vulnerability. When trying to hand off a relay baton without bobbling it or breaking stride, or attempting to build a world-class bridge high above open waters, there

are bound to be difficult losses and painful setbacks. Anticipating what might come can minimize them, however.

Be on guard for a decline in performance and baseline service levels due to migration or process changes. It's also smart to expect a dilution of accountability and responsibility as roles are reassigned or fundamentally redefined. Service disruption due to network breakdown is yet another possibility, as is performance disruption due to latency issues or poor availability of systems.

All of these can easily leading to difficulty in running the business as usual while migrating the processes. Most notable, perhaps, of all the risks, is "loss of control" over process. Whether this loss is actual or merely perceptual matters little. If the outsourcer feels it's lost control even when it has all the levers to remotely exercise it, the resulting problems are just as real.

To err on the side of caution, mission-critical processes should be more closely held by the outsourcing organization, at least to start. eBay, for example, retained control of SOX activity even as it's ceded GL activity to Genpact. It did so with the thinking that any perception of lax SOX compliance and reporting would be just as devastating as a real problem with procedural controls.

Our point? Reputational Risk isn't to be managed lightly. For the sake of both parties in a transition, the BPO must be given breathing room to overcome reflexive reservations that cannot be avoided initially, but can be eliminated as a solid track record in other areas is built over time. Barriers like language and geographic distance can compound the threat of lost control. Both those barriers can be addressed without great difficulty if acknowledged early and honestly.

For instance, are there team members in key intermediary roles (between outsourcer and BPO, between BPO and customers) that are multilingual? Do all team members have tools to mitigate risks associated with language and geography, and to leverage a "global backroom" platform to advantage? For eBay, Genpact adopted overlapping shifts for India and the United States and the European Union (EU). This allowed work to be done after and during the US/EU workday. In addition, a task module was created that gave eBay close status in real-time.

As a result, eBay can now check the module daily to ensure Genpact completes all close tasks on time. Genpact and eBay accountants and mangers also discuss any emerging issues on daily calls.

4. Build project-management infrastructure that recognizes the "process of transition" needs to be managed as carefully as processes being transitioned.

A BPO transition is as much a business process as, say, the AP process to be outsourced. Glossing over this point can prove costly. Yes, mapping how the AP process should look post-transition, and how it will be managed end-to-end, and by whom, are important. But before any of that can be done, the transition itself needs a project-management

infrastructure that establishes clear roles and responsibilities for migrating and stabilizing the process being outsourced.

Within this command structure a Transition Project Manager, or TPM, should have final authority on all migration and stabilizations activities internally, and within the BPO team. As a first order of business, this TPM should select Sub-Project Team Leaders to facilitate various action steps and report on progress or problems. Notably, how well this transition proceeds will send a message as to how well the process being transitioned will run later. Those impacted must see transition is not only possible but also inevitable, and that a smooth one (with their cooperation) is preferable to all.

A meticulously scripted project timeline will help greatly in securing active cooperation. Also, ensure communication plans are part of the project-management strategy and transition timeline. In short, say what you'll do, and do what you say you'll do. Hold weekly sub-project team reviews and have teams adhere to a consistent status-reporting process. Finally, if there's a sub-project in which performance can have a major ripple effect on others, it should be designated for standalone transition. The transition status of such a special sub-project should be reported up to the TPM, and across to other sub-project teams impacted. In eBay's case, the ERP platform it used to manage purchase-order activity had to be modified to permit interoperability with Genpact's IT platform.

5. Create a Governance Mechanism that can discreetly collect feedback from the TPM and other key stakeholders and provide formal executive oversight and guidance.

Start by forming an Executive Steering Committee (ESC). Ideally, it should include two senior leadership team members from each of the organizations, and representation from all business units impacted by the transition. The ESC would be charged with conducting formal senior-level reviews of the transition with the help periodic briefings from the TPM. In this respect, the ESC/TPM governance relationship is not unlike that between a company's Board of Directors and its Chief Executive. And just as any enterprise must have increasingly hands-on levels governance, a transition should have a Management Committee (MC) and Service Delivery Committee (SDC).

Together, the ESC, MC and SDC would aid vertical reporting (frontline to middle- to senior-management) and horizontal oversight (across the outsourcer/BPO process being integrated). Specifically, the MC would monitor and manage service agreements while the SDC, comprised of line staff from both organizations, would review operational performance and drive continuous improvement. Bigger picture, the committees create a governance mechanism that can strengthen the feedback loop connecting Process Stakeholders to coordinating Project Managers, reporting Project Managers to vision-minded Senior Leaders, and evangelizing Senior Leaders to assurance-seeking Process Stakeholders. Worst case, any choke point - in the up looping of information, or down looping of instruction - could seriously compromise a transition's velocity and efficacy. By contrast, committees at each tier can provide information and counsel to corresponding Project Managers, or vice-versa, depending on what feedback is cycling through the Service Delivery Committee/Management Committee/Executive Steering Committee loop.

Senior leaders (at the outsourcing and BPO company's CXO level) can then "playback" information about recent challenges or successes to key process stakeholders. This would be done in a manner that lets stakeholders know that either (a) their concerns were heard and are being addressed, or (b) their fruitful efforts have been recognized and are greatly appreciated. Once the transition is complete, this three-tier governance function will take on more lasting importance as a mechanism for continued oversight and guidance of the fully integrated outsourcer/BPO process platform.

6. Properly define how success will be measured, both qualitatively and quantitatively, and validate numbers and "noise" each in the context of the other.

Even if a transition is moving ahead as scripted it's no guarantee the script is moving the outsourcer to the outcome it anticipates. That sort of surety comes only with constant quantitative and qualitative measurement. Identifying the right benchmarks for success - and vigilantly measuring efforts against them over time - is critical. Active, accurate measurement must be done not only during the transition, but also once it's complete, and operations are in stable-state mode.

Quantitative and qualitative measures should also be validated each in the context of the other. If "noise levels" (read: audible dissatisfaction) hold steady among internal and external customers even as process backlogs shrink, for example, it may mean enough hasn't yet been done to help customers "perceive" progress. Or maybe enough hasn't been done to help once-bitten-twice-shy customers understand what they must do to make solid initial progress lasting (rather than the latest in a line of fleeting fixes). Conversely, if backlogs hold steady and noise levels fall, it may mean disaffected customers are lowering expectations in an unhealthy way - that they are resigned to not waste anymore breath voicing honest feedback of a transition they don't expect to succeed. If turning this last key to a successful BPO transition seems tricky, it is. Like picking an intricate lock, it demands an ability to "feel" and "hear" movements you can't readily see. Having a BPO expert with you who's worked through similar barriers in the past helps. So does having the patience to stay committed to the task until the door to a new Global Backroom finally swings wide open.

GENPACT

About Genpact

Genpact is a leader in managing business processes, offering a broad portfolio of enterprise and industry-specific services. The company manages over 3,000 processes for more than 400 clients worldwide. Putting process in the forefront, Genpact couples its deep process knowledge and insights with focused IT capabilities, targeted analytics and pragmatic reengineering to deliver comprehensive solutions for clients. Lean and Six Sigma are ingrained in the company's culture, which views the management of business processes as a science. Genpact has developed Smart Enterprise Processes (SEP[SM]), a groundbreaking, rigorously scientific methodology for managing business processes, which focuses on optimizing process effectiveness in addition to efficiency to deliver superior business outcomes. Services are seamlessly delivered from a global network of centers to meet a client's business objectives, cultural and language needs and cost reduction goals.

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For more information on this subject, or additional copies of this paper, please contact:

Shalini Malhotra, shalini.malhotra@genpact.com