

Business Process Outsourcing

IT HARMONY

Business Process Outsourcing (BPO) involves certain risks. These risks have to be distributed between all the parties to prevent major losses. When outsourcing a critical function, a BPO vendor also has to bear the risks involved in that process.

1. Issue in Outsourcing Implementation

To sort out the matters of risk sharing and other issues related to outsourcing, it is imperative that a BPO company and the outsourcing firm come up with a clear and definite written contractual agreement. They should be clear about their responsibilities and have definite limits as regards knowledge sharing.

Legal contract

A clear-cut contract of this kind definitely requires the assistance of a legal representative. The involved companies should take the help of experienced lawyers to draw up these agreements. A good BPO contract should have all the elements of a valid contract. Documenting such an agreement, is however, a difficult job. It requires not just immense experience and an understanding of the law; but also a thorough knowledge of the subject matter- *outsourcing*.

Legal advisors normally use their prior experience to draw up contracts. This leads to using successful precedents to draw up a new contract, and using a similar format with minor changes depending on the business requirements. Though

a good idea, such precedents are not suitable in all situations

The reasons for unsuitability could be that:

- These contracts are usually drawn up for the IT industry and not for the BPO industry
- Precedents are made into draft contracts and exchanged for initial agreements. These drafts become the final agreements and important aspects are ignored.
- The most relevant points are missed out, as the legal representative is more concerned with quickly finishing the job on hand.

Be wise- choose right

The involved parties should ensure that the legal representative they have chosen is aware of the issues involved in the BPO industry. BPO deals are generally related to IT these days. So, what the involved parties have to make sure is that the contract clearly spells out whether the deal refers exclusively to BPO, or IT, or both.

Another essential element of the contract has to be the effect of the service provider on his client and his business processes. It is important to get the basis elements

of the contract right, lest there should be conflicts of interest between the parties. All stipulations should be legally binding.

Intellectual property

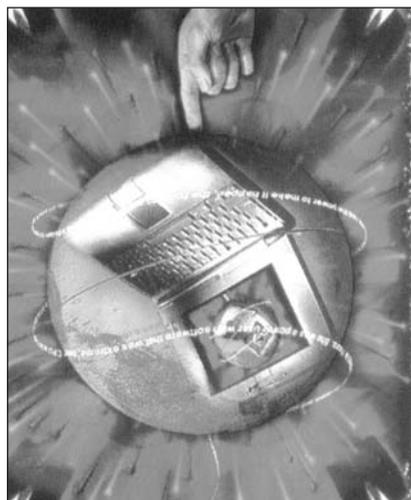
An essential element of the contract is to deal with each party's rights over the intellectual property that passes between them. This should stipulate the extent to which the service provider can use the information belonging to the client.

The question of what constitutes intellectual property should be answered clearly in the agreement drawn up between the service provider and the client. A lot of data is generated at various levels of operations carried out by the BPO service provider.

IT service providers usually have a clear demarcation between property belonging to the service provider and the client. Since these jobs generally involve developing a source code for the client, it is easy to differentiate between the client's intellectual property and that of the service provider. If the source code is unchanged, it belongs to the service provider. If the code has been modified for the clients, it belongs to them.

It's different for BPO

Dealing with BPO service providers is different. The service provider re-engineers some processes, as the situation demands. Distinguishing them on the basis of ownership is not always possible. For example, the client may have provided a procedure for dealing with all problems to a BPO centre providing customer care, but the procedure has to be altered as per the customer requirements. If it



were ruled that all modifications belong to the client, the service provider would be reticent about making any modifications. This would affect the performance of the service provider, and ultimately, the client. So, the agreement should provide for incentives to a service provider for innovating to provide better solutions to the client.

Intellectual property sharing requires a thorough understanding between the parties about the kind of information that can be shared, and to what extent. Confidentiality must be maintained with regard to the information the two parties have. Otherwise, the business might be affected.

Other issues

The agreement has to deal with numerous issues that could arise during the contract period. For example, who is liable and to what extent, in case either company fails, i.e., closes down etc. Another issue concerns employees. Certain employees might deal with key processes of the business in both companies. These employees need to be retained. To ensure this, both companies would strive to make

certain that such employees are adequately compensated and provided with proper incentives. On the termination of the contract, key employees should be sent back to the client's organization to safeguard in-house intelligence.

The liability of each company towards each other needs to be decided upon when drafting the contract. These and several other issues have to be sorted out clearly while drawing up a contractual agreement.

End of contract period

The contract between the parties should also contain the terms for dealing with intellectual property after the contract expires. The parties should remove any scope for disputes at the end of the contract period. The following steps can be taken to avoid disputes:

- Ensuring that the client receives back any intellectual property in the possession of the service provider during the contract period. This property may have been associated with the actual process, or created during the contract period.
- Obligating the service provider to transfer all processes to the client.
- Identifying the business processes that are most likely to change over a period of time and make provisions for incorporating these changes into the current practices.

Provisions should also be made to bring about changes as and when company policies, regulation and practices change.

Conclusion

Drawing up the agreement is a most important function. Both the

service provider and the client have to pay great attention to all the details and reach a consensus about the nitty-gritty before venturing into business together. The main objective is that both the companies should be able to work together and provide each other with better service.

2. Measuring Success in Outsourcing Implementation

A company should be able to measure the effectiveness of the processes it has outsourced. The rationale is that in the absence of measurement parameters, it is impossible to monitor operational efficiencies. An operation that is unchecked cannot deliver results the parent company desires. In short, an inefficient system defeats the very purpose of outsourcing.

Beware of errors

Often, the process execution stage encounters certain errors. These could be both carry forward errors and direct errors.

Carry forward errors: These occur when a Business Process Outsourcing (BPO) provider supplies inaccurate or incorrect information to the company. Let us see an example AB Bank Corporation out-sources a job of market research to identify customers who would be most receptive to its new banking solutions. The BPO provider fails to provide accurate data. As a result AB is unable to provide new banking solutions to the right customer segment.

In effect, the BPO provider's error leads to immeasurable losses for the bank in the form of lost opportunities. A carry forward error may not lead to direct losses in financial terms. However, an opportunity

once lost can neither be quantified in financial terms, nor regained. Often, such errors might not be easily identifiable. Even if identified, it is neither possible to trace the origin of the error, nor is it possible to calculate the resultant losses.

Direct errors: A direct error immediately affects the company's bottom line. A direct error is the outcome of a defect in execution. It leads to either increased costs, or



loss of revenue, or both. Such errors can be immediately identified and the loss thereof measured.

Consider classifying an item of accounts receivable as received before the amount is actually received. The error creates problems for the parent company. Financial errors lead to incorrect financial statements. Another such error would take place if a recruiting agency ignores proper background in the recruitment process. These recruitment oversights can have a longer-lasting impact on the company and can turn out to be expensive.

Depending on the nature of the process in which they occur, direct errors can lead to carry forward errors. Direct errors imply additional costs, whether or not the information is used for the purpose of decision-making.

Knowledge continuum

Knowledge continuum has two end points—one is data origin, and the other knowledge end. At the one end is the routine work, which does not require any expertise on the part of the employees. It involves work such as data transformation. On the other end is the work requiring higher skills of analysis and decision-making. It involves work such as extracting knowledge from available information to aid in decision-making. This requires a high degree of expertise and training. Also employees need to exercise their judgment in important matters.

The data end workers usually commit direct errors. Carry forward errors can arise on the knowledge end. A carry forward error can result in financial losses if the erroneous information is used in decision-making.

Identifying important functions

Companies can use certain techniques to prevent such errors, or, at least identify them quickly to measure the resultant losses.

The Function Value Analysis Technique (FVAT) is one such technique. It measures the relative value of functions that are affected by direct errors. FVAT identifies the High Functional Value Elements. A high functional value element is that function, which is critical for a BPO user. The criticality of these



functions is far greater than that of all other processes performed by the outsourcing agency.

Suppose that XYZ Co. Ltd. has outsourced its finance and accounting functions to an F&A service provider. The service provider has to carry out several functions in fulfilling his duties to XYZ Co.Ltd. However, the company will be very particular in maintaining two specific functions: timely settlement of accounts receivables and payables, and accuracy in the amounts involved. Thus, the timeliness and accuracy of accounts become the high functional value elements for the F&A service provider.

In the case of a call-center, the high functional value elements would be the accuracy in data integration and the ability of the worker to resolve customer concerns in the first call.

Instruments to measure

There are no set metrics to measure the performance of a BPO unit. Developing such metrics is the need of the day. A firm can measure a BPO unit's performance by measuring its work quality.

Measuring the quality of the BPO users' output would be easier once the high functional value elements are identified. Monitoring all the functions is a tedious task. Constantly supervising the high functional value elements for quality maintenance would be easier and a relatively more accurate way of measuring the BPO's performance. The quality required for these functions can be specified, and the actual output can be measured based on the specified dimensions. For example, there can be specific acceptable and unacceptable levels of the quality of work.

Another way to maintain the quality levels in the BPO firm is by specifying the BPO user's expectations of the BPO service provider. Instead of voicing the results it expects, it should delegate the work and specify the parameters for quality maintenance.

Core or critical?

Depending on whether a particular process is a core process or a critical one, the parameters for mea-

suring the effectiveness of process execution change. If a function is a core competency of the firm, the question is whether it should be outsourced? Such segregation is difficult. All processes are interdependent, and estimating each one's level of criticality is not possible.

Some processes have a high threshold of criticality, while others a low threshold. This threshold is measured on the basis of the end result of performing an activity. For example, activities such as accounts payable and maintaining customer contact are routine functions, but of critical importance. In contrast, processes such as equity research are not done repeatedly, but imply significant risks and opportunities for the firm. These are processes with low criticality.

Processes having high threshold of criticality represent a lower risk, and any errors in these processes are usually direct errors. Processes with a low threshold of criticality carry a higher risk. Any failures in these processes lead to carry-forward errors.

Keep an eye on it!

A firm should constantly monitor all processes- whether in-house or outsourced. It is imperative that constant checks to be carried out to realistically assess the organisation's efficiency. Unless quality maintenance parameters are maintained and verified constantly, how will the company know if it is realizing the true potential of its investments?

To conclude, it is not enough to just take a decision to outsource certain work. It is also important to maintain efficiency levels with the help of measurement parameters. ■