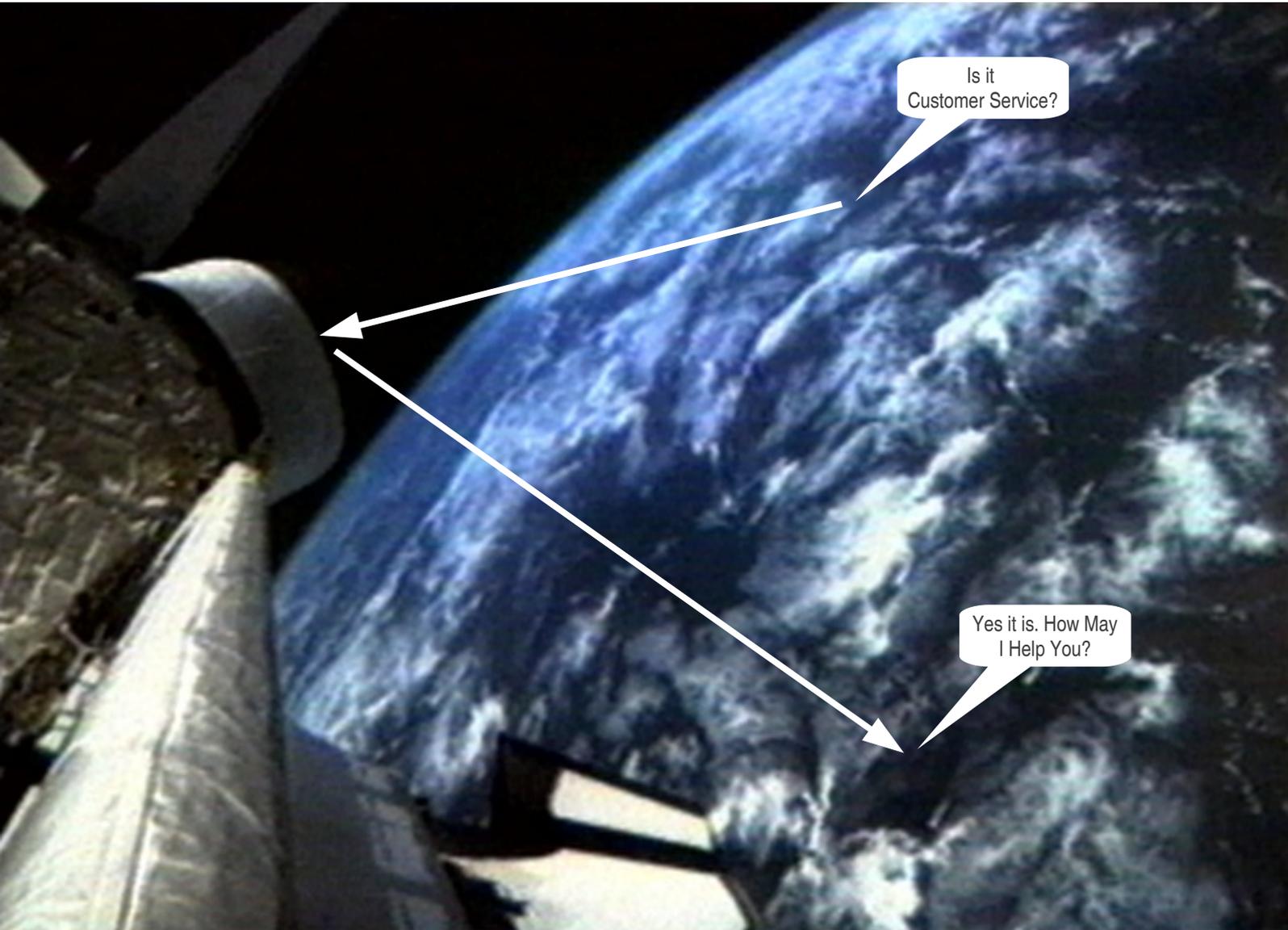




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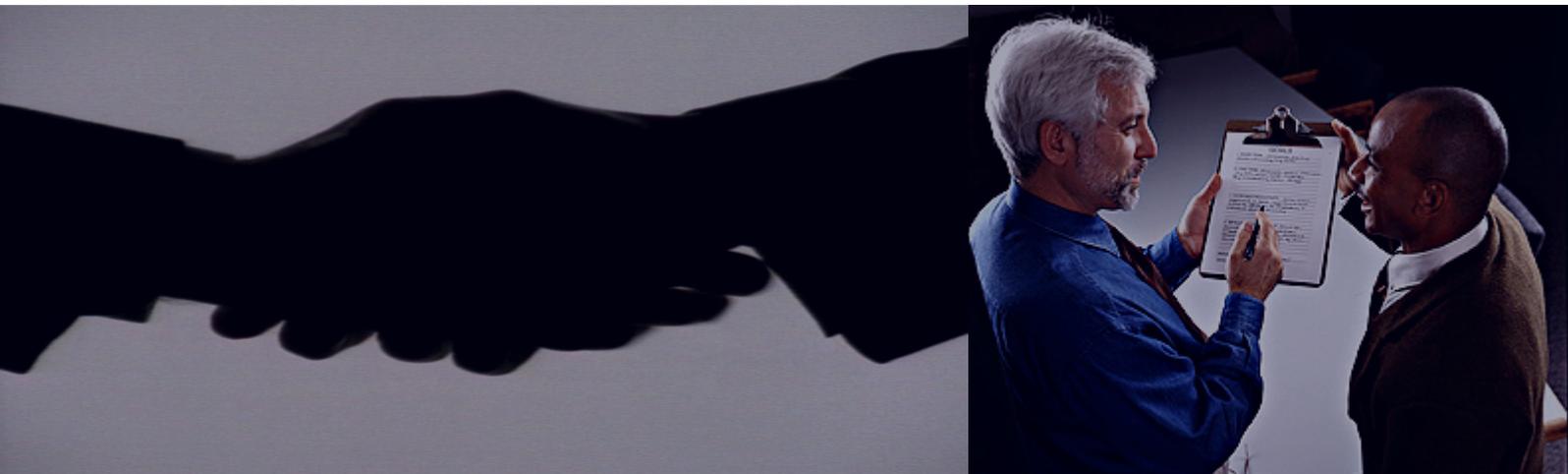


## **Strategizing Business Process Outsourcing**

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## Introduction

Outsourcing is the involvement of an external entity to provide some product or service to a business usually on a medium to long-term basis. With increased pressures from the markets, countries (especially the developed nations) are skeptically revisiting their once-hailed globalization policies and moving towards protectionist philosophies. In this context, the phenomenon of outsourcing, especially when combined with offshoring, is often a point of debate and discussion. However, there are many challenges to put this concept in the right perspective and exploit it effectively and appropriately. Your company could be facing some of them. Let's try to understand some of the fundamental issues with outsourcing.



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## Issue 1: Objective or Business Driver

Most company managers believe that cost advantage is the sole business driver for outsourcing. This could be a communication issue or a lack of understanding of the big picture. And if this were true, companies need to revisit this thought process / strategy process. While costs might be one of the significant drivers, other drivers like quality considerations, market presence in a geographical area, strategic focus on core competencies, risk diversification using networked companies, or even realization of synergies with other companies through culture, methodology, management style, etc., could also be equally significant, if not more, than the costs. A strict cost advantage focus is most times a short-term focus with a thin line of feasibility and is most likely to fail. At your company, do cost considerations win over other factors when choosing strategic options? A simple test to find out how effective your outsourcing strategy is to randomly pick managers and ask them to identify the business drivers that were key to the decision. Is the understanding of the business drivers for your outsourcing synchronous across your organization? If not, you might be having a false premise or a sub-optimal implementation model. Contact us for a confidential discussion on assessing your outsourcing strategy.

## Issue 2: Defining the Outsourcing Relationship

The next challenge is to define the outsourcing relationship. This is typically a mixed bag of management thought, and it often holds the key to the extent of benefit from the process. At the lowest end of the chain, one has the outsourced professionals as 'contractors'; people who have little say in the relationship and the management of the parent company. The next level is that of a 'client-service provider' relationship. Here, there is a little more autonomy for the entity performing the outsourcing, especially at the operative level. As one goes up the progression, it is the case of a 'business partnership'. Here, both the businesses interact at the tactical level as 'partners' and operate in sync with each other. The highest level of progression is the 'strategic' level, where a steering committee operates at the strategic level of the two companies. Depending on the nature of the relationship, one can identify additional benefits from the interaction of the two business entities. Needless to say, a higher level of relationship requires a strategic assessment of the capabilities of the providers, a criterion that is often used during the selection of the entity. It is always beneficial to have a relationship at the strategic level, as this would help both companies to optimize their operations and investments, and ensure smooth transitions with the demands of the markets. This also ensures a substantial minimization of the risks involved, as per a recent research publication of mine. If you think you are already operating at that level, ask yourself if you have the president of the outsourcing entity as a 'virtual member' of your board. The other issue that one faces is the strategic-operational disconnect in most companies. Middle managers and line managers often view outsourcing as a potential risk to their existence. This factor tends to distort the working relationships and the synergy of operation of the two entities. Do you think you have the right relationship with your outsourcing partner? A simple test would be to ask your managers if they would like to share more responsibilities with their counterparts in the outsourcing entity. Contact us for more details.



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### Issue 3: Approaches to Understand What is Being Outsourced

The biggest challenge for most companies is to understand and define what they are outsourcing. Depending on the choice a corporate makes, it often defines the nature of contract, the manageability of the outsourcing and the alignment of the operation with the corporate strategy. The key parameters that need to be considered are:

1. the degree of standardization of the processes,
2. the amount of flexibility desired in the product or service and
3. the openness of the organization to learn from its outsourcing counterparts.

The most popular paradigm today is that of Business Process Outsourcing. As the name indicates, this is a process oriented outsourcing philosophy, thereby focusing on the 'How' and 'When'. Such a method is most prone to 'hard constraints' as it keeps the strategy of the outsourcing entity fairly independent of the parent. In this process, there is a huge likelihood of encountering the overbearing burden of change orders!

The second most popular paradigm today is the entity or resource paradigm. This paradigm focuses on the 'Who' aspect and is fairly concentrated on the people that are going to do the activity. This method is more flexible and is useful for non-standard processes.

The third paradigm is still in its innovative phases of inception. It is what I call the intent or goal paradigm. In this approach, the focus is a goal or the 'What' aspect of outsourcing. This allows the outsourcing entity to define its own 'How', 'When' and 'Who' aspects. This paradigm is most effective in 'open' organizational cultures and in 'maturing' companies from the operational perspective.

The fourth paradigm is yet another in its innovative phases. It is what I call the strategic development paradigm. In this approach, the focus is on understanding how the business comprising of all the partner entities could work and benefit from each other, at the same time, adding significant value to the end customer/consumer. The focus of this paradigm is on the 'Why' aspect. This gives an additional degree of freedom in defining the 'What', the 'How', the 'When' and the 'Who' aspects. Needless to say, this is the most beneficial paradigm of outsourcing. Are you on the right balance in understanding and defining your approach on what is being outsourced? Help optimize your approach. For a confidential discussion, contact us now.

The understanding of what is being outsourced has serious implications on contract management. It changes the way the expectations are defined, the requirements are defined and the performance is monitored and controlled (steered).

### Issue 4: Leveraging Outsourcing

I am currently looking at an interesting model to understand outsourcing. We are exploring an analogy with existing financial models for businesses. From a customer perspective, a business along with its outsourcing counterparts could be treated at par with a Debt Equity Ratio model whereby the outsourced component is the debt and the in-house component is the equity component. Fixed assets in this case include the company's core value chain while the current assets (-current liabilities) or the working capital includes the company's secondary processes or support processes to the value chain. This analogy actually helps us understand the leverage one can get out of a typical outsourcing model.

Two aspects become key at this stage:

1. Area that is outsourced (core process or primary value chain vs. secondary processes or support processes) and
2. Extent of outsourcing (Full, partial or none).

It would be comparable to ask questions like should a machine be bought using capital raised through equity or through debt. Just as debt handling poses its own dimensions to capital, so does outsourcing create its own dimensions. Our attempt is to create a model for optimizing the outsourcing using this analogy.

### Concluding Remarks

We have also developed models based on the systems approach to determine the suitability of outsourcing decisions. These models link business decisions to operational processes and analyze the feasibility and efficacy of various outsourcing scenario. Unlike the methods of analogy, therefore, these models are direct assessments of the efficacy of the outsourcing scenario. Get your outsourcing scenario modeled for a better handle on optimizing the processes, managing the processes and identifying potential risks. Contact us to know more.

In the broad scheme of events, outsourcing decisions can be very challenging not only from the fundamentals, but also from intricate relationships and influences these decisions have on the overall corporate business cycle. Issues like reversibility of the decision to outsource (and the cost associated with that at each stage), intellectual property management and getting a handle of the requirements with changing market conditions could often be tricky and might act as disincentives to go for such an option. However, a well understood scheme in the big picture often goes a long way at creating powerful 'win-win' strategies and amazing advantages for the corporate doing it right. Get a better assessment of your outsourcing decisions and your overall strategy. Contact us now!

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## About the Author



*Rotarian Nikhil S. Gurjar is the President of Consulting Connoisseurs, a new generation management consulting company based out of Navi Mumbai. The company specializes in providing solutions based on both conventional methods in management consulting as well as the state of the art tools using modeling and simulation. With several years of experience in Europe and the US, Nikhil Gurjar is one of the few experts in the country who understands and uses these tools for business applications and policy research. He is also associated with agencies like CII, PPMAI, MSME for different types of services. Before the launch of the company, Nikhil was the Head of Planning at a very large Greenfield steel project in the US. For more details, visit [www.consultingconnoisseurs.com](http://www.consultingconnoisseurs.com).*