

The Outsourcing “Conundrum”: Securing the Benefits You Expect

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SSON Research & Analytics' (SSON R&A) recent 2022 Outsourcing Report uncovered a very interesting and seemingly paradoxical finding that SSON called the Outsourcing “Conundrum”. In brief, the report found that in terms of past performance, benefits received, and overall happiness, while both outsourcing and captive shared services yielded positive results, in sum, captives win against outsourcing.

Despite this historical performance reality or perception, most organizations plan to increase their percentage of outsourcing levels vs. captive. The cited resolution to this conundrum is that the future relies more on digital transformation and automation (vs. labor arbitrage) to sustain benefits.

Therefore, companies are placing greater faith in an outsourcing model for the investment, capability, and talent required for digital transformation and automation.

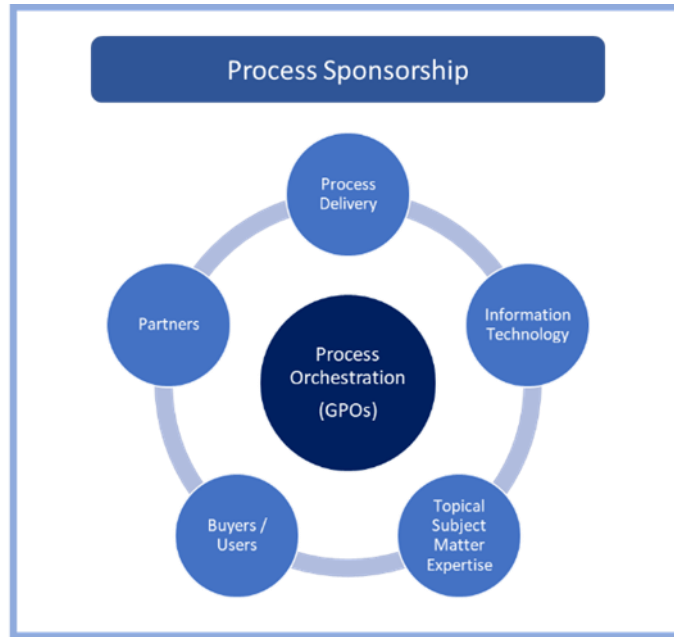
But before you jump on the outsourcing bandwagon too quickly to deliver these digital benefits, consider that historically transformation and innovation have been rated as among the lowest levels of achievement by outsourcing from buyers of services. Below are actions you can take to help ensure you receive the benefits you expect.

1. Prepare your internal organization to lead the change

A number of organizations aspire for digital benefits but fail to put the attention into what will be required internally to reap them. Too often they throw the improvement goal over the wall to the service provider and expect them to innovate and transform on their behalf. Further, they often don't recognize that transformation and innovation often require some level of discontinuity vs. stability and consistency, and fail to condition their stakeholders for the change. The most successful changes lay out a clear set of improvement initiatives, process by process. These initiatives are defined both before an outsourcing contract is signed and are refined throughout the life of the outsourcing relationship. They outline the nature of the change, the investment, the resources and roles of both parties, the change management needs, and the ways to assess and capture value.

2. Secure the right internal resources

While an external provider can provide valuable digital talent, organizations still need to maintain ownership of their processes. A multi-level process ownership model has proven to be effective in driving transformation and innovation. The structure and mechanisms for an effective process ownership model are outlined in the SSON companion piece “End-to-End Process Management and Optimization in Shared Services” and depicted in the graphic below:



3. Secure the right external resources

While the attraction of outsourcing is that they have digital talent, don't assume the service provider has all the talent or that it will be available for your relationship. Providers are not immune to the digital talent wars. The talent they have is quite often assigned to new business development and proposals instead of ongoing relationships. Also, many digital transformations rely today on Software as a Service (SaaS). Just because a service provider has a SaaS application provider alliance relationship does not mean that they are skilled in deploying that technology. Sometimes you need to look elsewhere such as the SaaS provider itself. Look under the covers as to the source of talent and then build in mechanisms into your contract to ensure the right talent is assigned to your relationship. For example, you can specify key personnel be assigned to your relationship with specified involvement intervals such as innovation or improvement program reviews on innovation and technology councils.

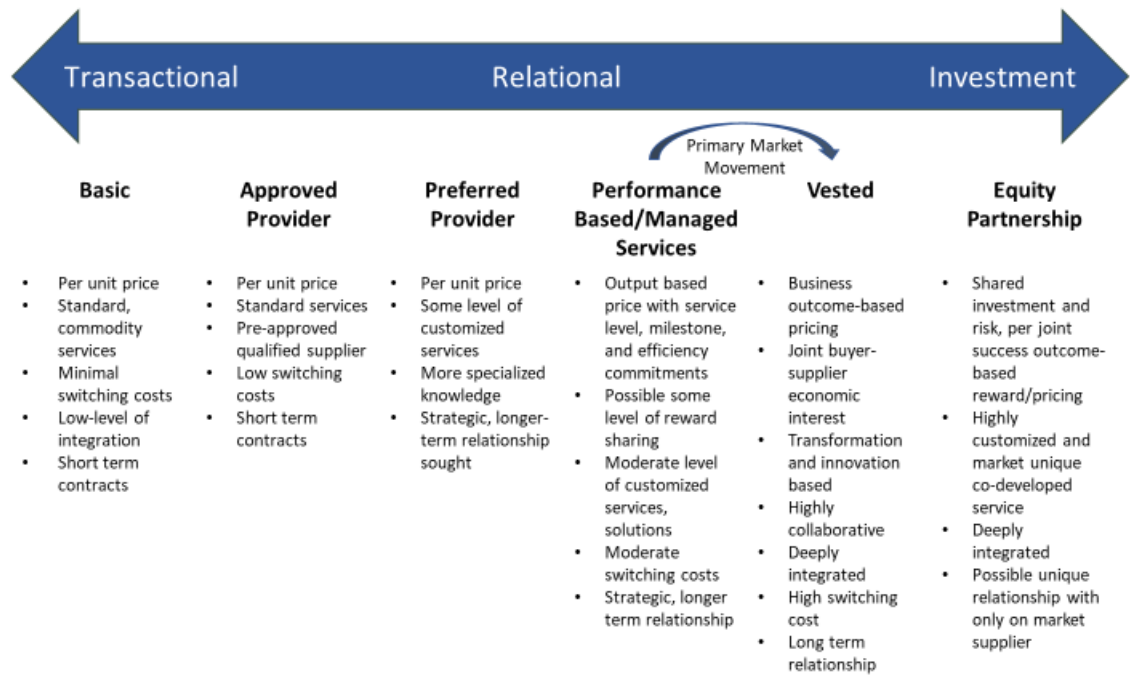
4. Build transformation and innovation into your pricing and performance management models

For purposes of this discussion, it is helpful to differentiate transformation from innovation. Transformation is the application of proven "best" practices. Innovation is the identification and implementation of emergent practices that may not yet be identified or fully proven in the marketplace. To achieve transformation, spend the time during the provider selection and contracting process outlining a specific set of improvements inclusive of the use of automation for major in-scope processes. Have the provider build into their pricing and performance management models the savings and investments required and other expected benefits. The model should either begin with or allow for transition to transaction or outcome vs. headcount (i.e., FTE) based pricing to mirror the expected transformation benefits. Innovation is more difficult to fully instill into committed pricing and performance management models as by its very nature many of the associated improvements are less concrete or easily identifiable. Common contractual methods include "riskreward" sharing mechanisms,

continuous improvement guarantees, and automated adjustments to performance levels based on historical achievement. Each method has their own advantages and pitfalls, but when applied in the right situation and combination can be effective.

5. Build transformation and innovation into your outsourcing relationship management and governance model

While we see outsourcing relationships span the continuum of models below, the most common shift we see in the marketplace today is moving from a “Performance Based/Managed Services” to a “Vested” model.



The more you emphasize transformation and in particular innovation, the more you will need to move toward a more integrated and collaborative relationship with your provider. This requires more frequent dialogue and analysis to understand the economic drivers of each parties’ business and how they are evolving to seek out synergy opportunities.

Do

Adopt a vested partnership relationship model with your service provider

Build committed transformation benefits into your pricing and performance management model

Empower your governance team to orchestrate transformation and innovation Leverage process owners

Don't

Leave transformation and innovation solely to your service provider

Hold to stability and consistency at all costs

Misalign incentives and compensation with an unwillingness to pay for transformation and innovation

Rely exclusively on outsourcer's digital talent

Stay true to some of these proven learnings and your probability of success in the next era of business services delivery will increase significantly.