

Creating sustainable change in back office transformation

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The success of sourcing initiatives depends upon sufficient value being created to support a compelling business case. If the chosen solution is outsourcing then the value delivered needs to satisfy a business case on both sides. Creation of sufficient value is only likely to take place if the function can be 'transformed'. This will typically involve significant changes to the operating model, the services delivered and the processes and technology that support them. These changes must be supported by programme management, change management and infrastructure improvement. If applied correctly, this 'Business Transformation Model' can deliver the step change in performance that is required to deliver the business value promised by more innovative sourcing arrangements.

Background

Changing sourcing arrangements from the traditional DIY vertical model only makes sense if new value can be created. The principle sources of value are:

1. *Improved service quality* – higher performance standards than the legacy function.
2. *Lower operating costs* – should cost less than the previous cost base.
3. *Investment avoidance* – ‘back office’ functions require ongoing investment – particularly in IT. Depending on the platform, these investments can be controlled or avoided altogether a change in sourcing arrangements.
4. *Flexibility* – the service can be scaled up or down to cater for growth, acquisition or divestment.
5. *Management focus* – senior management can focus on core business challenges.
6. *Compliance* – with an ever increasing regulatory burden e.g. Sarbanes-Oxley, the risk of non-compliance is lowered when using existing platforms

However merely changing the sourcing arrangements does not in itself necessarily realise these potential improvements. They have to be created by some kind of transformation or discontinuity in the way service is provided.

Traditional ‘People transfer’ type outsourcing where the entire function (often including the people, technology and property) move to a new organisation does not in itself create new value because nothing has changed. The outsourcer will have a plan of how to lower costs over time.

Value creation is more straightforward and the ‘lift and drop’ type of arrangement where the work moves to a new organisation but the means of production do not transfer. ‘Offshoring’ is an example of this type of deal. Cost savings can be made from arbitrage, and from aggregation. In addition technology costs be lower on a larger optimised platform and functionality may be better. However, offshore operations create a raft of new and different problems to solve.

In preparing business cases for new sourcing arrangements it’s critical to understand where the new value is going to come from and how it will be realised. In recent years ‘governance’ has become a key word in outsourcing and much has been written about best practice in governance design and operation. The fact is that in arrangement where

sufficient value is created for both parties to enjoy good business benefits the governance is less difficult. Too often a great deal of effort goes into arguing over the division of a 'cake' which is simply too small. It makes more sense to devote that effort into making the cake bigger instead.

But how is this new value created and how can it be sustained?

Entrepreneurial mindset

It's critical that the new service views itself as a specialist provider of the services – that is their business. As such it has the same dynamics as any other business. It needs to develop and nurture its own IP and differentiating factors. It must identify, attract, develop, motivate and retain the right people. It must sell its services into the marketplace and grow revenues year on year. It must design pricing and operating models such that it generates an attractive margin for stakeholders. Whether the 'new' provider is an internally managed shared service or an outsource vendor – it is now a provider of (for example) HR services to customers – not the support function of a company producing food products.

This is important because the top talent, management focus and investment budget available to the food company will quite rightly be directed at the core business. Those working in 'support services' will be regarded as of secondary importance. They will not enjoy the same career prospects or rewards as those working in the core business however exceptional they may be. Their departments will struggle to compete for the investment required to keep quality at benchmark levels. This is a critical underlying change factor in back offices. It will be at its strongest in an enterprise partnership model because the former back office becomes a new stand alone business with the freedom to reward those who contribute to business growth. A traditional people transfer type deal or a 'lift and drop' deal will experience this change in as far as the outsourcer has an entrepreneurial approach. In a shared service arrangement much will depend on the way the service is set up. If it is set up as a profit centre rather than a cost recovery operation it will have a more entrepreneurial outlook – but internally that can be seen as a 'zero sum game' and there can be resentment at a new profit centre creating revenues 'at the expense' of an established profit centre.

While an entrepreneurial mindset does not directly create sustainable change it cannot be underestimated as a powerful motivational factor.

Outsource providers are potentially well placed to introduce this entrepreneurial attitude. Their talent within these companies can be a valuable source of innovation and new thinking – both inside the scope of a sourcing arrangement and potentially outside it as well.

A Systematic Approach

Creating superior performance in back office functions requires an analysis of the success factors – both direct factors and those which enable stronger performance.

There are five key areas:

- Service
- Process Design
- Technology Support
- Change Management
- Infrastructure

i. Service

Most back office functions are not service orientated. They are ‘gatekeepers of the process’ there to tell you what you can or can’t have. This mindset has to change in the new sourcing arrangement. A satisfied customer is one whose perception of the service they have received is at least equal to their expectation. This is critical to understand. Their perception of the service may not be the same as an objective measurement of technical delivery. Research has shown that quality of delivery accounts for only one third of service perception. Customer expectation needs to be understood and if necessary modified and managed. Too often this important activity is omitted. The service offered must be properly defined in terms of the outputs visible to customers. This exercise should lead to a degree of rationalisation. Usually functions which have evolved over time include some redundant activity which is no longer valued by the customer.

ii. Process

Once you have a clear definition of the services to be offered you then need to ensure that they are being delivered in the most effective and efficient way. There are many techniques for improving process and different practitioners favour different methods. What is critical is that the process to deliver the required outputs is optimised both in terms of quality and consistency of delivery and resource utilisation.

iii. Technology

Almost all business support functions can be improved by appropriate technology support. Once the process is optimised it should be underpinned and automated by technology. I am not advocating bespoke software development. In theory, best practice in terms of process should be encapsulated in the software design. All too often this is not the case. Having selected the software which most closely reflects the optimum process design it will most likely be more cost effective to accept some process variation than to attempt to customise the software. Though Process and Technology Design are clearly separate domains they need to be viewed as a package or the results can be painful.

iv. Change Management

However expertly you define and rationalise services, and then design process and deploy technology to deliver them – in the end all this must be accomplished through the endeavour of the employees. Their motivation, comfort levels and perception of the value to themselves is of the utmost importance in sustaining rapid and radical improvement.

In any project of this kind you can divide the people roughly into four camps.

- Early adopters
- The Undecided
- Overt dissidents
- Covert dissidents

The distribution of these groups will vary but it's likely that 'the undecided' will be by far the largest – perhaps as much as 60%. The leadership of the project will then do battle with the dissidents for the hearts and minds of that majority group. The outcome of this contest will have a profound effect on the outcome of the project. The technique is work through the early adopter group – empowering them to be agents of change. Overt dissidents can often be 'saved'. They are people who believe in saying what they think and are prepared to engage. If you can convince a few of these to come on board it can make a big difference. Covert dissidents are the most difficult. They are the ones who will make sycophantic noises in the public forum but do everything they can to undermine the project behind closed doors. They see malevolence and conspiracy behind every announcement and initiative. It is important to identify these people and confront them. It may be best that they part company with the organisation. If the leadership is successful in winning over the Undecided then the project will be to flourish and sustainable improvement becomes a real possibility.

v. Infrastructure

Very often back office functions have poor infrastructure. They may operate out of poor real estate both in terms of location, quality and layout. They may have poor equipment and materials. Investing in infrastructure can often produce a payback both financially and in terms of improved performance. Better designed facilities will often occupy less floor space producing a direct operational saving. Attention to Indirect Procurement categories also has strong cost reduction potential in addition to opening the way to 'fit for purpose' provision of the right tools to do the job.

Programme Management

Each of these five areas can yield significant benefits in terms of transformation – but the key is to work all these elements together in a co-ordinated plan – Programme Management. There are some consecutive elements and some concurrent efforts.

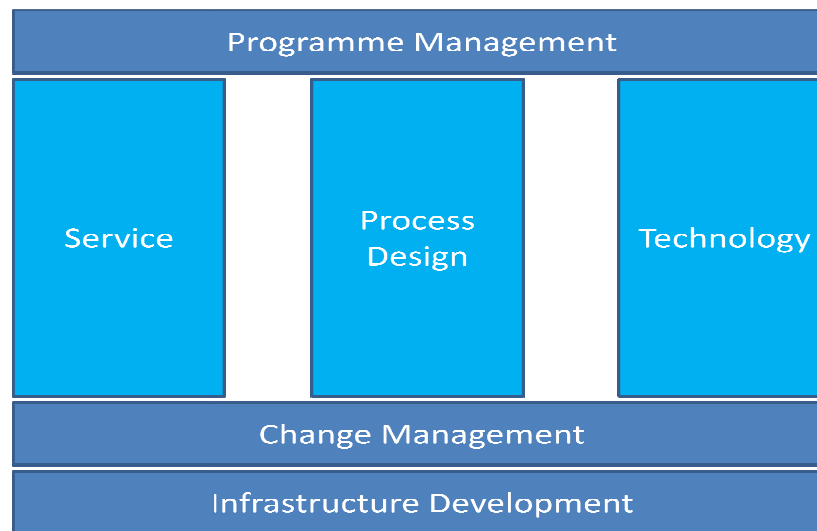


Figure 1: Business transformation model

While the design of each individual programme will be different to take into account context and cultural factors – the principles are shown above. Managing the Programme and the people is an ongoing task. The Change Management challenge begins before the deal is signed and continues throughout the transformation process. Infrastructure development can have long lead times due to existing leases or supply agreements. Deriving benefit in this area will involve a series of discreet projects that will normally need to be completed in a coherent order.

Service, Process and Technology need to be approached in that order as noted above – with the important caveat that the use of standard technology platforms is in itself an important route to value. However, it is important to follow the design process logically first and then understand the potential for increasing value through modification of the processes.

A critical aspect of Programme Management is ensure that sustainability is built into the overall approach. At today's pace of change assumptions made in the business case can erode rapidly so these must be kept under constant review. Failing to do this can lead to 'value leakage' – where business benefits can dissolve. This is a particular danger in a long outsourcing contract where the provider may be relying on a stable period of higher margins at the end of the contract to compensate for more volatility and lower margins in the earlier years.

Conclusion

The key to creating new value in back office transformation is to undertake a well designed coherent programme of multi-dimensional improvement. However, if one thing matters above all others it is to change the culture and 'mindset'. Without this change is unlikely to be sustainable because initiatives will be blocked and crowded out. It can be likened to trying to re-direct a river. If the effort falters for a moment the water will find its old course again.

About EightyTwenty Insight

EightyTwenty Insight is a new approach to sourcing advice:

- Strategy-led: starting with the end in mind.
- Expert-driven: lean, fast and focussed on what matters.
- Methodology-enabled: but not prescriptive.
- Enabling & empowering: by transferring knowledge, skills, tools & methods.

We understand the pressures organizations face today and the importance of a tailored approach - one that builds lasting relationships and works with your team to provide the best solution. EightyTwenty Insight was formed to provide this more sophisticated approach. We provide sourcing advice to the public and private sectors, in the BPO, ITO, HRO and F&A markets; utilising a team of experienced professionals.

EightyTwenty Insight aims to be the 'local pilot' - the expert that can help you navigate a difficult course successfully - reaching your destination faster and with lower risk.

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