Outsourcing is gaining center stage in the strategic agenda of the CFO. But as companies go down the path of adopting outsourcing — either transactional or core business processes — they have to be mindful of a few tenents to ensure success of their program.

# Best Practices in

Outsourcing a business process to a service provider is never an easy decision. In fact, it's usually a highly complex one. A recent survey brought out the issues that would top a chief financial officer's agenda in 2010. The survey findings highlighted one key fact: Nearly half of the respondents in the WNS Annual CFO survey said they planned to enhance the scope of their outsourcing engagement in the coming year.

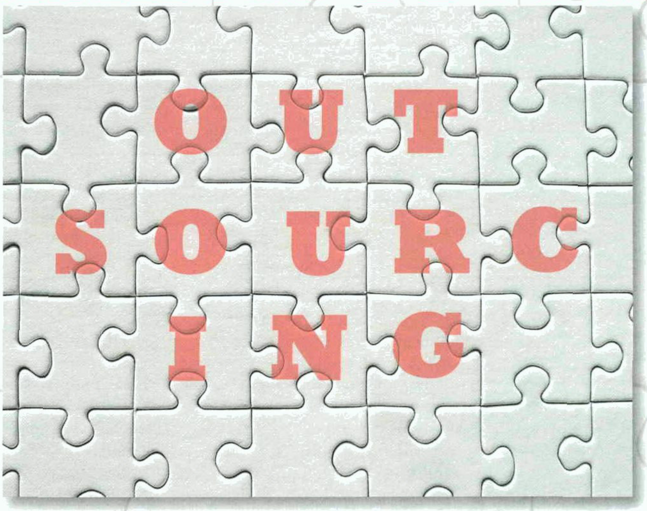
At the same time, 42 percent identified loss of control over outsourced finance and accounting processes as the most commonly cited risk.

Loss of control is not the only concern typically associated with outsourcing. Among other key concerns voiced by finance executives evaluating outsourcing are availability of talent, lack of understanding of business environment, impact on the quality of service delivered to the end-customer (internal or external), cultural alignment with the service provider. Data security, effectiveness of the process controls, change management and governance.

For many companies, poor experience with a prior outsourcing program often acts as a deterrent to future outsourcing initiatives. When considering outsourcing services, prospective buyers need to consider: "How do I ensure that service quality does not deteriorate?" and "How will my team work with a service provider situated thousands of miles away?"

The recent economic slowdown is compelling companies to consid-

# Business Process OUTSOURCING



## By Manish Vora

er strategies that will allow rapid and sustainable overhead optimization. Companies across all industries are seriously considering outsourcing business processes such as finance and accounting, procurement, human resources, customer care, research and analytics. Most companies are evaluating alternative operating models like outsourcing for activities that are not considered as core to their business.

On the other hand, in some cases, companies that have prior outsourcing experiences are considering outsourcing as an option even for activities traditionally considered core competencies or that are complex in nature, such as financial planning and analysis, supply chain management and contract management.

Meticulous planning and investment of management time and commitment are required during, each stage of the lifecycle of an outsourcing program, whether it's pre-contract, transition or steady-state operations.

Though commercial considerations form an important criteria, vendor selection made on the basis of price as the primary consideration is not the right way to go. Try to negotiate a contract that reflects the realities of business.

### Taking the Steps

To move forward with a plan for outsourcing, here are some considerations:

■ **Pre-contracting phase.** Companies should first define their outsourcing strategy, objectives and success criteria. Management must ask why it wants to outsource, what can be achieved and what is the vision for the program three, five and 10 years down the line? Is outsourcing a strategic initiative or is it just a vehicle for labor arbitrage?

Executive sponsorship from the top is an absolute must. Middle management cannot pull it off on its own, since buy-in and support will be required from multiple stakeholders outside of operations (HR, IT, information security, risk management and procurement, for example).

■ **Processes.** Companies must carefully select processes that would be considered for outsourcing, determine the extent of process and technology change they would like to implement at the time of outsourcing and the high-level timeline.

It is important to develop a core team of individuals that will act as program champions. Companies should partner with HR representatives on the core team to formulate an employee communication plan that includes frequent and open communication with impacted employees, since this is a best practice.

■ **Selecting the right service provider.** A crucial step is selecting the right service provider. Companies must focus on capabilities and cultural fit as the key criteria for selecting the service provider.

Though commercial considerations form an important criteria, vendor selection made on the basis of price as the primary consideration is not the right way to go. Companies should try to negotiate a contract that reflects the realities of business. A balanced contract that is fair to both parties is a prerequisite for ensuring an optimal relationship between the customer and service provider.

■ **Transition.** Transition is perhaps the most critical phase as it facilitates "buy-in" from individuals within the organization who may have doubts about outsourcing. It is during transition when rubber hits the road. Both parties must lay the foundation of a governance framework that is nimble, proactive and effective.

Since there are many moving parts during transition, it's important to implement a change-management framework that is well considered. Transferring knowledge to the service provider is crucial, and it is never a bad idea to over-invest in the initial training. The company should invest in resources to ensure adequate support is provided to the service provider during initial training and stabilization phases.

**Management Expectations.** Management should also set the right expectations internally, as there could be some "teething" issues when a process that was being performed "right down the hallway" by long-tenured personnel is now being performed in a "different part of the world" by new hires. It's imperative during transition to have open and frequent communication at various levels between the company and its employees, its customers, its vendors and its service provider , to ensure that all relevant stakeholders are aligned.

**Steady State.** During steady-state operations, once a process has been migrated, both parties should be focused on maintaining quality of service delivery, improving the end-customer experience and ongoing process improvements.

A nimble and effective governance structure must be implemented at all levels between the two organizations and a framework must be established to expeditiously manage issues and exceptions and a culture of continuous process improvements must be ingrained into the program so that the company derives full benefit from outsourcing.

In the course of an outsourcing relationship, both parties will face rough weather. The strength of the relationship will be severely tested. At all times, both the company and its service provider must come to the table with a problem-solving mindset. No problem is insurmountable if both parties are committed to solving it. Both parties must consider themselves as business partners and shed the commercially focused customer-vendor mentality.

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