

Commitment, Consistency and Control: The “3 C’s” of a Successful Outsourcing Relationship

Many companies – large and small, local and international, publicly traded and privately held – utilize outsourced relationships to improve their bottom line. And why not? Outsourcing service providers routinely extol and regularly deliver the economic benefits of outsourcing: improved operations, lower costs, enhanced shareholder value. However, more and more companies considering the use of an outsourcer are interested in more than simply dollars and cents and the effect of outsourcing on the company balance sheet. These companies realize that while cost containment is critical, customer satisfaction and retention and employee morale are equally as important to the bottom line. Far too often however, companies that embark on an outsourcing relationship find themselves reaping the financial benefits but struggling with the day-to-day management of the relationship between itself and the outsourcer.

So how does one structure a successful outsourcing relationship, one that provides the folks in finance with year over year cost savings while effectively dealing with the non-financial aspects of the relationship? Experience tells us that companies can go a long way toward ensuring a smooth running and rewarding outsourcing engagement by focusing on “the 3 C’s” – Commitment, Consistency and Control.

Commitment

Outsourcing isn’t like a routine subcontracting relationship, which often involves a non-critical task (for instance, the company’s janitorial service). In an outsourcing engagement, the outsourcer takes over mission critical functions within the company that historically have been handled by the company itself (e.g., IT; finance and accounting; HR; customer relations). And because these operations invariably overlap – the payroll function is impacted by finance and accounting as well as HR, which are both overlaid by the IT group – it’s important when outsourcing a critical function to gain buy-in from all affected constituencies.

Take for example the outsourcing of the finance and accounting function within an organization. Whether it’s the implementation of a new accounting system or simply access to information, the outsourcer requires a considerable level of collaboration and support from other business units within the company. The person or group in charge of making the outsourcing relationship work must be vested with the “muscle” to compel the affected business units within the organization to work together. That’s where a vocal and strongly communicated commitment from the organization’s “C-level” management personnel comes into play. At the front end, a clear, consistent, forceful message from company management that the organization is committed to making the outsourcing relationship work and that the engagement is front and center on the company’s “radar screen” will translate into cooperation within the organization and will go a long way toward helping achieve a successful outsourcing.

Consistency

Business process outsourcing engagements are typically long-term relationships; indeed, depending on the scope of the outsourcing, it is not unusual to have a contractual term of 10+ years. As such and because the business functions being outsourced are so critical to the health of the company, it is important from the outset to maintain a certain level of consistency with respect to key players on both sides of the transaction. The concept of “partnering” is uniquely apropos in a business process outsourcing relationship. Not only is the outsourcer intimately involved in the company’s critical business functions and interacting with company personnel on a daily (if not hourly) basis, but in many cases, outsourcer personnel are physically present at the company site for extended periods of time. A certain comfort level needs to develop between outsourcer and company personnel. To prevent the disruptions that invariably result from a continual change in the cast of characters performing the service, the outsourcer should agree that specified key personnel will fill critical service delivery roles for a minimum length of time and that replacement of any of these key players be subject to a sensible transition process that minimizes the chance for disruption. Maintaining a consistent team throughout the term of the relationship fosters collaboration and trust between the company and the outsourcer.

Control

It is not unusual for a business function within a company to overlap with other business functions. When all of these functions are being performed internally, dealing with this overlap is relatively manageable – most companies have a reporting/management structure that ensures that these areas work together. Now, throw into the mix a 3rd party outsourcer, or in many instances, more than one. Indeed, more and more companies that choose outsourcing of multiple business functions as part of their operational model have elected to go with multiple vendors. These companies eschew the relative convenience of the one-stop shop approach in favor of the opportunity to receive “best in class” performance from vendors with a more focused approach to individualized service offerings, and have found that managing their outsourcing engagements as a "portfolio" allow them to share resources when necessary or appropriate. However, managing multiple vendors and ensuring cooperation between each of them – not to mention cooperation between vendors and company personnel in charge of its retained internal business functions – presents a significant challenge.

While gaining collaboration among multiple vendors and internal staff is a challenge, it's not insurmountable. First, the agreements between the company and the various outsource vendors need to contractually mandate cooperation. Subject to appropriate protections for confidential information and security protocols, each outsource vendor should be required to provide other outsource vendors with access to facilities, software and systems, as well as written documentation, etc. necessary for the other vendors to perform the service assigned to them. Second, and perhaps more importantly, the parties should agree to a comprehensive, robust governance mechanism that recognizes that in a long term relationship, change is unavoidable. A well-structured, manageable governance procedure, focusing on how the parties will cope with changes sure to occur over the length of the relationship, provides a means for the company and the outsourcer to align business objectives and incents collaboration while effectively dealing with unforeseen events and market developments.

Conclusion

The outsourcer's central business proposition is that its expertise and experience allow it to perform critical business functions more efficiently and more economically than the company itself. Gaining commitment, maintaining consistency and effectively controlling the outsourcing relationship will help ensure that the outsourcing customer receives the promised benefits of that relationship.