the practical management of an outsourcing relationship

February, 2012
Issues in ‘Contract Governance’

- Clients do not apply sufficient resource to the management of the relationship
- ‘Human factors’ are often overlooked
- ‘The Urgent Takes Priority Over the Important’:
  - Focus tends to be on what is going wrong
  - An atmosphere of negativity develops
  - Inadequate time is spent on improving service levels and developing strategy
  - Client-Vendor relationships deteriorate

Administer the Contract..... Manage the Relationship!

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‘Contract Governance’ Dimensions

Plan

Monitor & Control

Core Processes

Time Horizon

Support Processes

Service Delivery
Technology & Services
Service Improvement
Strategic Management
Manage the Relationship
Administer the Contract
Client’s Governance Organisation

- Behavioral
  - Change Management
  - Customer Service Orientation
  - Influencing Others
  - Information Seeking
  - Strategic Thinking
  - ‘Partnering’

- Technical
  - Business Requirements Analysis
  - Service Performance Analysis
  - Project Management
  - IS Knowledge

- Business
  - Business Function Knowledge
  - Client Satisfaction Metrics Knowledge
  - Negotiation
  - Risk Management
  - Strategic Business Planning

Source: Gartner
Managing Service Levels

• Focus your measurements on the important issues - What is it we are looking to buy?
• Measure the outputs (leaving the inputs to the experts – the vendor)
• Beware averaging - some is warranted, but it can dilute focus on what counts.
• Monitoring too many targets may distract attention from future improvement initiatives.
• Reward over-performance only where real business benefits result.
• Rebates are designed to promote future performance excellence, not to punish past poor performance.
• Even with the balance of bonuses, rebating tends to be confrontational.
Rewards & Rebates

What gets measured properly, and rewarded appropriately, delivers the business outputs you aspire to!
Australian Market Overview

Business Process Outsourcing Industry

The Sauce
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Outsourcing Based on Business Process

There are three main categories:

- **Information Technology Outsourcing (ITO)**
  Outsourcing the design, development, implementation, and management of IT products and processes to a third party provider.

- **Voice Outsourcing**
  Outsourcing call center functions such as customer support and telemarketing to a third party provider.

- **Non-voice Outsourcing**
  Business processes that do not fall under ITO or Voice Outsourcing. Examples are accounting, marketing, sales, research and development, and administrative tasks and more recently social media channels.
Outsourcing Jargon
Based on Geographical Distance

Besides the type of business processes involved, we can also look at the geographical distance between the client and the provider:

- **In-shoring/On-shoring**
  Client and provider are in the same country. An example would be a company based in Sydney outsourcing to a company based in Tasmania.

- **Near-shoring**
  Client and provider are in different countries but at a relatively short distance from each other. For instance, an Australian-based company outsourcing to a NZ-based provider.

- **Off-shoring**
  Client and provider are in different countries and at a considerable distance from each other. An example would be a US-based company outsourcing to an India-based provider.
What is the BPO industry?

- The Asia Pacific BPO industry is comprised of a large number of organisations across diverse operational services from animation to payroll processing and has an estimated value of over $6.4 billion per annum within Australia alone.

- Over the last three years the Asia Pacific BPO sector has taken a commanding position in the global arena, with countries such as India, Vietnam and the Philippines in particular experiencing exponential growth due to the impressive standard of service outsourcers are able to deliver.

- Between 45% & 65% of Australian organisations engage in some form of business process outsourcing - be it locally sourced or from offshore providers. There are 17,000 seats in the Philippines serving Australia.

- According to Deloitte over 60% of the world’s back office functions are already outsourced to the Asia Pacific - demonstrating the growing importance of the regional industry.
# BPO Service Sectors & Operational Tasks

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<th>Back Office</th>
<th>Medical</th>
<th>IT&amp;C</th>
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<td>Web Portal Design</td>
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<td>Payroll and Benefits</td>
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<td>Accounts Receivable</td>
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<td>Collections</td>
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<td>HR</td>
<td>Call Centre Support</td>
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<td>Supply Chain</td>
<td>Fulfillment</td>
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<td>Member Services</td>
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**The Sauce**

BRINGING YOU THE BPO NEWS THAT MATTERS
Outsourcing Benefits

- Cost Savings
- Expertise
- Skills Availability
- Flexible Capacity Management
- Time Zone Coverage
Outsourcing Drawbacks

- Management & Control Problems
- Failure to Deliver
- Exposure
- Negative Reputation
- Company Value
The Basic Steps of the Outsourcing Journey

- Many different Processes
- Disparate Assets (Branches / outlets + Shared Services)
- Uniformity & Consistency of Business Processes
- Enterprise understands total Cost of ownership of a business process

Process Standardisation

Enterprise is ready to outsource a business process
Australian Outsourcing Market Overview

1.0 - Lift & Shift Labour Arbitrage
- Market is immature
- Inertia in many organisations
- Government sectors fragmented
- No standardisation
- Competition evolving but no clear leader

2.0 - Process re-engineering delivers better efficiencies technology point solutions
- Appetite for change, but adoption slow
- Growing acceptance of outsourcing solutions
- Growth market potential for process re-engineering
- Move to restructure enterprise
- SMEs becoming a target for BPO vendors

Australia’s Position
- Risk adverse business culture
- BPO not well understood
- Education required
Economic Drivers
NY Stock Exchange

Market loses more than ½ its value

Longest Bull run in history

GFC

Market comes back Steady demand for labour and capital

GFC Mk.2
Australian All Ords

5 Year Chart

Market loses more than ½ its value
Australian Job Vacancy Rate & Vacancy Unemployment Ratio

This chart measures the degree of difficulty that business have filling vacancies.

**Term job vacancy rate Definition:** A simple little ratio of the number of job vacancies in our economy to the sum of employment and job vacancies. In essence, this measures the fraction of jobs in the economy that are open, but haven't been filled. The job vacancy rate is a useful indicator of the business cycle. When the economy is booming, the job vacancy rate is likely to be relatively high. A low rate signals a recession.
US Dollar vs. Australian Dollar

A$ has appreciated 77% over 12 years

Parity
Start of Mining boom
GFC

The Sauce
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Australian Dollar vs. Philippine Peso

Over 12 years the A$ has appreciated by 70%

Start of Mining boom

GFC

Over 12 years the A$ has appreciated by 70%
Australian Dollar vs. Indian Rupee

A$ has appreciated by 98% over 12 years

Start of Mining boom

GFC

A$ has appreciated by 98% over 12 years
Australian Dollar vs. Chinese RMB

$A has appreciated by 35% over 12 years

Start of Mining boom

GFC

$A has appreciated by 35% over 12 years

The Sauce
BRINGING YOU THE BPO NEWS THAT MATTERS
Hot off the Press (ballpark stats)

We partnered with IBM & Fuji Xerox to produce a landmark research study

- 75% of respondents feel that global expansion is the biggest benefit their company has realized from outsourcing.

- 80% of respondents said that reducing costs is the least important driver influencing a company’s outsourcing policy.

- 56% of companies which employ a shared services model use it to reduce costs.

- 84% of respondents state that they are satisfied with the benefits realised from outsourcing.

- 80% of respondents say their preference is to outsource their services within Australia itself.

- Approx 50% of respondents believe that cloud computing technology and applications is a significant driver for business process outsourcing.

Note: Monitor www.thesauce.net.au for availability of full research report.
The New Normal

- Our dollar is likely to stay high for years, even decades - thus amplifying the savings cost to offshore. Whereas our international price competitiveness will be a challenge for certain sectors.

- The construction/mining boom is likely to run until at least the end of this decade, maybe a lot longer - thus perpetuating the skills shortage.

- Labour & Capital will follow the money and there will be less available for service industries.

- Our mid to long term future is in Asia.
In Conclusion

The main reasons for the growth of outsourcing in Australia are:-

- It’s too hard for companies to find and employ suitable staff even if they want to - so what choice do they have if they want their phones answered.

- There is tremendous pressure on companies from shareholders to reposition their capital in their business and change the make-up of their balance sheets and move to an operating expense environment with all of its attendant tax benefits. Which means that they will look to outsourcing as a way of releasing capital by off balance sheet funding.

- The surge in the value (spending power) of the Australian dollar against all other countries has only amplified how inexpensive and attractive it is to assess highly skilled, motivated and willing labour in Asia.

- Interestingly, we are seeing different types of outsourcing opportunities being requested by our Australian clients with requests for non-voice back office projects. By and large our clients are telling us that what they want is access to skills not readily available in Australia and this allows them to focus on their core competencies and support their specialist higher level employees in Australia.
Don't miss the BPO Tour of the Philippines

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New classical approach to outsourcing

Dr George Rivers
Caulfield Campus
23 February 2012
Scope/size of the firm

Today’s talk will be about the determination of firm size (scope of firm’s activities) within the context of maximising economies of specialisation and the roundabout production.
Example of hierarchical production

Take the production of $Z = \text{chip and pinned credit cards}$:
Roundabout production

Credit card = Z

ICT services = X

Hard/software = W

Manag't services = Y
Corner solutions

(a) Structure G

(b) Structure G1 (large firm)

(c) Structure G2 (small firm)
More outsourcing

If TC of labour > TC of intermediate goods/services

= outsourcing
Less outsourcing

If TC of labour < TC of intermediate goods/services

= outsourcing
# Drivers of transaction costs

<table>
<thead>
<tr>
<th>Proxy/actual measures</th>
<th>Types of transaction cost</th>
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<tbody>
<tr>
<td>Value of transactions</td>
<td>Search costs</td>
</tr>
<tr>
<td>Volume of transactions</td>
<td>Search costs (negotiation) costs/</td>
</tr>
<tr>
<td></td>
<td>Policing (enforcement) costs/</td>
</tr>
<tr>
<td></td>
<td>costs/holdup costs</td>
</tr>
<tr>
<td>Frequency of transactions</td>
<td></td>
</tr>
<tr>
<td>Standardization of goods (services)</td>
<td>Negotiation costs</td>
</tr>
<tr>
<td>Degree of union membership</td>
<td>Negotiation costs</td>
</tr>
<tr>
<td>Expenditures on estimations for</td>
<td>Negotiation costs</td>
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<tr>
<td>contract-specific economic indicators</td>
<td></td>
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<tr>
<td>External arbitration costs</td>
<td>External arbitration costs</td>
</tr>
<tr>
<td>Supervision and management costs</td>
<td>Policing and enforcement costs</td>
</tr>
<tr>
<td>Number of hierarchical layers of a firm</td>
<td>Coordination costs</td>
</tr>
<tr>
<td>Degree of R&amp;D intensity</td>
<td>Holdup costs</td>
</tr>
<tr>
<td>Job mobility</td>
<td>Holdup costs</td>
</tr>
<tr>
<td>Government sales to total sales</td>
<td>Holdup costs</td>
</tr>
<tr>
<td>Advertising expenditure to total sales</td>
<td>Holdup costs</td>
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</tbody>
</table>
The Latest Trend in Outsourcing: Microsourcing / Cloudsourcing

Rudy Hirschheim
Louisiana State University
The History of Outsourcing

• **The 1st wave:** IT to Business Process Outsourcing
  – Kodak opens the outsourcing door
  – Outsourcing, Insourcing, Cosourcing, Multisourcing
  – EDS, IBM, CSC

• **The 2nd wave:** Offshoring …welcome to India
  – To India: American Express, back-office, 1994; and GE Capital, 1997
  – Offshoring, Nearshoring, Rural sourcing
  – TCS, Infosys, Satyam, and Wipro

• **The 3rd wave:** Microsourcing/Crowdsourcing
  – Platforms emerge to handle online sourcing
  – Open Sourcing, Crowdsourcing, Online Sourcing Marketplace, Online Sourcing Community, Open Innovation, Human Cloud
  – Rent-a-Coder, TopCoder, Guru, Elance
Microsourcing Vendors

By 2015, market is expected to exceed $20 billion (Evalueserve, 2009)
Outsourcing Trends

- From local to global, maybe to mixed options
- From closed interorganizational relationship to open boundary practice
- From long-term to short-term
- From mega-deals to multisourcing to micro-deals
- From face to face interactions to virtual working context
- From dyadic client-provider relationship to a triadic structure composed of clients, provider, and platforms
- Some have argued that this trend is “The biggest paradigm shift in innovation since the Industrial Revolution” (Kaufman, 2006)
- Virtual enterprise and organizations
- E-lancers proliferation; the workforce and wisdom of the crowd (Howe 2006; Malone 1998)
Key Contention

♦ The future will bring “the non-ownership of assets”. While this notion is not new (e.g. companies renting office / manufacturing space, hiring contractors, etc.) the depth of such ‘renting’ and where/what the assets are, is illustrative of the Third Wave.

♦ We coin the term ‘human crowd’ to describe this microsourcing/crowdsourcing phenomenon, and define it as: a sourcing environment where a pool of online workers, or suppliers, can be tapped on-demand to provide a wide-range of services to any interested buyer around the globe.
'Human cloud' of skilled workers growing in importance

By Stephen Lawson
December 9, 2010 10:37 PM ET

IDG News Service - Online labor by independent "cloud" workers probably represents nearly $1 billion per year in earnings in the U.S., said Elance President and CEO Fabio Rosati, who expects the federal government to consider gathering statistics about the sector beginning next year.
Stakeholders

- Platforms (Websites)
- Clients (Buyers)
- Labor Pool (Suppliers)
Stakeholders and Interactions with Each Other Through the Website(s)

*New twist on familiar idea of online auctions*

<table>
<thead>
<tr>
<th>Platforms Websites</th>
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</thead>
<tbody>
<tr>
<td>Bring Together Clients and Labor Pool</td>
</tr>
<tr>
<td>Facilitate Work Process</td>
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<tr>
<td>Hiring</td>
</tr>
<tr>
<td>Collaboration</td>
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<tr>
<td>Payment</td>
</tr>
<tr>
<td>Arbitration</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post Project(s)</td>
</tr>
<tr>
<td>Select Talent</td>
</tr>
<tr>
<td>Monitor Workers through Webcams, IM (Elance)</td>
</tr>
<tr>
<td>Rate Performance</td>
</tr>
<tr>
<td>Written Contract, Non-Disclosure Agreements</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Labor Pool (Individuals/Groups)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post Information</td>
</tr>
<tr>
<td>Find Job/Project</td>
</tr>
<tr>
<td>Compete by Bidding</td>
</tr>
<tr>
<td>Awarded Job</td>
</tr>
<tr>
<td>Deliver Project</td>
</tr>
<tr>
<td>Paid through the Site</td>
</tr>
</tbody>
</table>
What Tasks Can Be “Outsourced”? 

**General Tasks and IT Focused**

- Administrative Support
- Engineering
- Finance (Accounting)
- Legal Projects
- Research
- Sales & Marketing
- Tutoring Services
- Writing & Translation

- Web Design & Development
- Web Programming
- Database Development
- Testing/QA Assurance
- Project Management

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# Main Types of the Microsourcing/Crowdsourcing Models

<table>
<thead>
<tr>
<th>Platform Type</th>
<th>Description</th>
<th>Example Firms</th>
<th>Traditional Use Cases</th>
<th>Key Benefit</th>
<th>Average Number of Suppliers on Three Largest Platforms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Microsourcer</strong></td>
<td>Connect service providers directly with buyers through a bidding process</td>
<td>Elance, Odesk, Freelancer, Coffeeandpower</td>
<td>Any Service</td>
<td>Relationships of trust established with individual service providers</td>
<td>1,600,000</td>
</tr>
<tr>
<td><strong>Filter</strong></td>
<td>Engage multiple providers competing for a prize</td>
<td>99Designs, MediaPiston, Innocentive, Witmart</td>
<td>Logo Design, Graphic Design, Idea Generation,</td>
<td>Choose from among multiple completed projects</td>
<td>80,000</td>
</tr>
<tr>
<td><strong>Aggregator</strong></td>
<td>Aggregate hundreds or thousands of micro-tasks performed by multiple workers</td>
<td>Mechanical Turk, MobileWorks, CrowdFlower, CloudFactory</td>
<td>Transcription, Content Generation, Categorization, Internet Search</td>
<td>Large quantities of work done very quickly</td>
<td>400,000</td>
</tr>
<tr>
<td><strong>Intermediary</strong></td>
<td>Provide project governance services coupled with qualified workers</td>
<td>TopCoder, Trada, UTest, 10EQS</td>
<td>Software Development, Sales and Marketing, Software Testing</td>
<td>Facilitation and management of complex projects</td>
<td>50,000</td>
</tr>
</tbody>
</table>
The Future – Networked Enterprise

The Path of “Social” Transformation...

Networked Enterprise (a.k.a. Social Business)

Social Media
- Communicate externally

Crowdsourcing
- Collaborate externally

Enterprise 2.0
- Collaborate internally

source: Kaganer, Carmel, Hirschheim, Olsen

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