

Appendix A Project Proposal

Critical Assessment of Business Process Outsourcing by providers of Financial Services

Research Interest

Business Process Outsourcing (BPO) allows organisations to focus on their distinctive, value-adding processes by contracting out the supply of generic activities with 3rd party service providers. Typical examples of such outsourcing would be payroll processing and desktop PC support/helpdesk. The service provider should be able to offer a lower cost service through scale of operation, location and specialisation. In an economic environment that demands that enterprises focus on core competencies and maximum cost-efficiencies, process optimisation and outsourcing has become an attractive option for a large number of European enterprises (Hammer and Champy 1994).

The introduction of e-business applications and Internet technologies allow organisations to integrate their IT systems and hence create a 'virtual' business of collaborating organisations, forming dynamic value systems. (Hegel and Singer 2000). Increasing network capacity, the development of applications that use web-browsers for client access and the emergence of industry data exchange standards are among the technology enablers for this form of inter-organisational collaboration. BPO is now the fastest-growing segment of the European IT services industry (Brown and Scholl 2002).

BPO is emerging from the 'back office' to be used for activities that directly impact on the company's value proposition to consumers. Examples can be seen in the 3rd party financial service companies that supply re-branded services to Virgin Finance and the outsourcing of customer relationship management by lastminute.com

The hypothesis to be explored is that ad-hoc optimisation and outsourcing of the primary activities that support an e-business strategy create particular risks for the business; a strategic approach to disaggregating the organisation must recognise, manage and quantify these risks. The rationale of this is that outsourcing has traditionally presumed essentially static, well-defined processes where economies can be captured through scale and location. By contrast, the competitive advantage of e-business relies on agility, responsiveness, speed of execution and reconfiguration of the supply chain to differentiate the offer in a dynamic marketplace. This creates a tension between the desire to lower costs and the desire to retain control.

Project Objectives

- i) To identify the strategic drivers for Financial Services companies to use business process outsourcing. Within this, explicate how strategists are identifying and reconciling the risk/reward in using BPO, for example where they lose business knowledge and skills to the provider or cannot differentiate their service from competitors. Investigation the impact of outsourcing on these organisations in terms of the retained staff roles and organisational structures that emerge.
- ii) Codify 'best practice' in managing the relationship with service providers, measuring the quality of the delivered service and determining the actual benefits, financial and otherwise, against expectations. From this, a model or framework on how best to undertake process optimisation and outsourcing will be developed.
- iii) To capture what e-business technologies are providing the enablers of BPO and virtual organisations, for example interoperability of systems using emerging 'web services' and XML (Extensible Mark-up Language) data formats (Wells 2000)..

Research Methods

Secondary

1. Literature Study. Relevant journals, books and other sources on business strategy and organisation, process reengineering and e-business technology

Primary

The research appears best suited to qualitative methods, support by a complementary quantitative component. The rationale for this relativist strategy is the small number of chosen cases, multiple stakeholder perspectives and the complexity of the domain. However, most company's business plans will have tangible measures, or success criteria, that will support quantitative analysis.

1. The primary collection of empirical data will consist of semi-structured interviews with staff from financial services companies. The intention is to focus on the 'buyers' of outsourcing services, rather than the providers such as Systems Integrators like IBM. Purposive sampling of key informants will be used, the respondents chosen on the basis of leading business transformation projects or having responsibility for business strategy within the company. The sample size is expected to be between four and six organisations, ideally one of which will be a 'deviant' case where processes have been brought back in-house. The analysis of the results will use a repertory grid technique and derivatives such as principle component analysis.
2. To support and validate the above via triangulation, fully structured questionnaires will be used to follow-up these interviews and as a means to capture quantitative data. The questionnaires may also be used as the principal data gathering mechanism in organisations where no other access is possible.

Schedule

The project will be carried out between July 2002 and November 23rd 2002.

Report to Practitioners

With allowance for confidentiality, participating organisations will receive a précis of the dissertation in the form of a management report. The outline structure is likely to be –

- Executive Summary
- Strategic Context
- Business Drivers and Economics
- Summary of Findings and Model
- Practitioner Implications
- Recommendations

Confidentiality

The companies involved will be offered confidentiality and anonymity in the final report.

References

- Brown R., Scholl, R., (2002), “European Business Process Outsourcing Trends, 2001”, GartnerGroup
- Hammer M., Champy J., (1994), “Re-engineering the Corporation: A Manifesto for Business Revolution”
- Hegel J., Singer, M., (2000), “Unbundling the corporation”, The McKinsey Quarterly, 2000 Number 3, pp. 148-161
- Wells, M., (2000), “Business process re-engineering implementations using Internet technology”, Business Process Management Journal, 6(2), pp. 164-184

Appendix B Analytical Codes

Drivers for Business Process Outsourcing

Code	Explanation
Customer Value	Companies believe that, directly or indirectly, it will enhance their value proposition and/or support value innovation as seen by the consumer
Customer Value/Customer Intimacy	Increasing effectiveness of customer attraction or retention programmes or supporting segment analysis of the customer base
Financial	Obtaining a financial benefit by means of financial engineering of the contract terms.
Financial/Asset Use	Part of a productivity strategy to improve use of assets
Financial/Costs	Part of a productivity strategy to reduce operating costs per unit,
Financial/Costs/Location	Part of a productivity strategy to improve cost structure by choosing a low cost location
Financial/Costs/Margins	Supporting sales of low margin products or a response to competitive pressures to reduce margins
Financial/Costs/Regulation	Compliance with regulatory measures or a means to transfer responsibility for compliance
Financial/Liquidity	Part of a programme to reduce reserves set aside, freeing assets and increasing liquidity
Financial/Revenue Growth	Part of a revenue growth strategy
Learning & Growth/Competence	Recognising the provider has depth or range of skills that are not available within the client to resolve operational or system problems or manage delivery of complex projects.
Learning & Growth/Control	Clients believe that control is enhanced due to discipline imposed by commercial arrangement in prioritising projects, defining objectives and receiving reports on performance.
Learning & Growth/Culture	Clients wish to affect a 'step-change' in the culture of the company, installing a service oriented mindset, or clients simply see Business Process Outsourcing as being 'fashionable'
Learning & Growth/Focus	Allows management attention to be given to core competencies and differentiating activities rather than basic operational problems
Learning & Growth/Organisation	Clients believe that Business Process Outsourcing supports an organisational form or structure that gives some advantage, possibly moving to an 'assembly' operational model
Learning & Growth/Resource	The client does not have sufficient resources to

	bring about change within a reasonable time or they wish to start operations in another country
Learning & Growth/Technology	Gives access to modern technology that assists in reaching a business objective or goal or software that can support Euro trading or support e-business development
Process/Excellence	Clients expect access to process excellence, such as straight-through processing, scale efficiencies or automation
Process/Maturity	Clients value process maturity, that is a proven process with set measures of quality and variance such as six-sigma quality standards
Process/Regulation	The client seeks operational compliance with national tax or other regulations

Restraints on Business Process Outsourcing

Code	Explanation
Customer Value	Restraints arise from the client's perception of what value proposition from vendors
Customer Value/Customer Intimacy	Clients are concerned that customer data will be inaccessible or outsourcing will have a negative impact on the brand
Customer Value/Service	The consumer will perceive a decline in service levels or the client receives poor service from the provider, failing to meet their expectation for service quality or other expectations
Customer Value/Trust	The client is uncertain of the relationship with the provider or is concerned about the immaturity of the marketplace
Financial	Restraints to BPO due to financial considerations by client or vendor
Financial/Costs	The client cannot proceed due to consultancy costs or is unwilling to pay margin on services
Financial/ROI	Restraints come from the client's concerns about the reliability of Return On Investment (ROI) calculations or the payback time
Financial/TCE	The client regards the risks from Transaction Cost Economics (not covered elsewhere) are substantial such as exit costs
Learning & Growth	Otherwise unclassified restraints
Learning & Growth/Competence	Expertise will be lost from the client, the client has some co-specialised resources that would be lost or knowledge is largely tacit
Learning & Growth/Control	The client's perceive that they will lose control, the ability to act flexibly or in time to meet market demand or would lose control of strategy. Control is often context specific.
Learning & Growth/Culture	The client is concerned about disruption elsewhere within the company; the board are believe that Business Process Outsourcing is wrong or have an emotional attachment to the business.
Learning & Growth/Staff	Staff are concerned about their own position being eliminated or other personal losses from business change. Also they lose status from transferring to a little known company or leave the company because of limited career opportunities
Learning & Growth/Technology	Restraints come from technology limitations, incompatibility of systems/networks/software
Process/Governance	Restraints come from a concern about governance, possible bankruptcy of the provider, risks non-compliance by the 3 rd party

Relationship Management and Governance

Code	Explanation
Relationship	Issues arising from seeking a relationship rather than spot contract not specified elsewhere
Contracts	Issues about forming contracts, information asymmetry between client and provider and limiting agency problems via the contract
Duration	Issues arising from the duration of the relationship, where provider can shirk or lose momentum in delivering benefits or client needs change
Governance	Issues from governance, such as contract renegotiations, managing commercial terms and conditions and maintaining the levers of control
Objectives	Issues from aligning client and provider objectives and countering provider temptation to always maximise their commercial gains
Risk-Reward	Using shared risk-reward to give incentives to the provider to limit agency issues
Roles	Issues arising from change and new roles and competencies needed to manage delivery and maintain ownership of strategy
Service Levels	Issues about defining, measuring and controlling service levels by specifying desired outcomes
Transaction Costs	Issues in the relationship that arise from transaction cost economics, such as moral hazard
Value	Ensuring continued value in use from the relationship and managing the perception that the provider is continuing to innovate

Appendix C Interview Questions

1. For context, please describe your own role within the organisation?
2. In your view, what strategic drivers are causing Financial Services companies to re-engineer and/or outsource business processes?

Clients

3. The organisation has begun a Business Process Outsourcing arrangement. Can you explain the purpose and consequences of making that arrangement?
4. Has the company in-sourced a process that had previously been contracted out? Why?
5. The decision to use Business Process Outsourcing was made at a difficult time for the organisation. Would it be fair to describe outsourcing as inherently being a "distress purchase"?
6. Outsourcing organisations in effect compete against the in-house team who promise to do better. At board level, would you say that the financial performance guarantees are seen as being a major part of the appeal of outsourcing?
7. How does the company measure the value of making changes to processes?
8. Have any methodologies been used for modelling or testing processes?
9. At board level is in-house IT seen as being a risk, because the costs are not under control and the reason for expenditure is often loosely associated with business strategy?

Providers

10. What benefits, qualitative and quantitative, are Financial Services companies typically seeking when they partner with your organisation?
11. Outsourcing has often meant the IT function only. Concepts such as transformational outsourcing, business process outsourcing and co-sourcing are now seen more frequently in the literature. What are your thoughts on these concepts and the implications for the portfolio of services that you offers to its clients?
12. Business process re-engineering was promoted by Hammer and Champy etc. as revolutionising business efficiency. Have expectations changed as to what can realistically be accomplished by process redesign?
13. With the benefit of hindsight, how would you advise me to go about selecting an outsourcing partner?

14. In your experience, what are the most frequently heard concerns and objections to outsourcing?
15. Looking at companies, you can take a functional hierarchy of sales, HR, finance etc or a horizontal view of business processes. Would you first prefer to first optimise processes and outsource non-core processes then outsource departments like Finance and IT?
16. Agility and responsiveness are often given as business imperatives. Yet it could seem that process outsourcing ties your hands to taking the contracted service. What are your thoughts on this objection?
17. What management activities have you found necessary with process outsourcing?
18. What governance mechanisms would you recommend to promote co-operative behaviour?
19. What roles would you expect to retain following outsourcing?
20. Response to change after means that staff agree/are sceptical/disagree in 20/60/20 percentages. In retrospect, what was successful in communicating the need for change to staff. And what would you like to have done differently?
21. Do you find that business managers take the view that technological solutions have been 'oversold' in the last 5 years? If so, what the implications for closing the 'perception gap'?
22. What technologies are used/planned to be deployed as part of a business change strategy?
23. How is the payback on investment being assessed? Has this become more 'rigorous' in the last 3 years?
24. Have e-business technologies made, or provide the potential to make, a substantial impact on how financial services companies are structured and how they operate?

Appendix D Introductory Letter

Dear

May I introduce myself as a post-graduate student at the University of Buckingham, currently working on my dissertation towards obtaining an MSc e-Business. For the dissertation component of my MSc, I'm examining business process outsourcing in Financial Services organisations - in particular the strategic drivers for outsourcing, the benefits of doing so and the synergies between process re-engineering and outsourcing.

My research interest springs from work experience; although I'm an unfounded and independent student, I've worked at Thomas Cook for some 9 years.

I am now arranging interviews with practitioners who can give personal insights into the issues raised by outsourcing. Your co-operation in allowing me such a meeting at an early date will go a long way towards my completing this dissertation.

Please let me know if an when such a discussion with yourself or a colleague, perhaps by telephone, would be possible; I can be contacted by e-mail at calum.steen@buckingham.ac.uk or on 07712 187913.

I look forward to speaking with you.

Yours sincerely,

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