Business process outsourcing

Case study: How to develop Deloitte S2G's shared service activities in the Barcelona customer response centre

Lahti University of Applied Sciences
Degree programme of International Business

SOIVA, JAAKKO   Business process outsourcing
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ABSTRACT

This thesis deals with business process outsourcing, a significant and current business phenomenon. The purpose of this thesis is to find out how a business process outsourcing vendor could improve its shared service activities in its cooperation with a business process outsourcing buyer.

In the theoretical part, outsourcing, business process outsourcing and shared services will be introduced. Essential issues like offshore business process outsourcing, business process outsourcing vendor-buyer relationship and the future of business process outsourcing will be presented.

The case study is about how a professional service firm, Deloitte S2G (Servicios Generales de Gestión), could improve its performance in the Hewlett Packard accounts payables and employee reimbursement customer response centre in Barcelona, Spain. Recommendations are given based on literature, studies, theme interviews and observation.

This thesis suggests that in order to improve its performance in the Hewlett Packard customer response centre, Deloitte S2G should seek to simplify the business processes, give increased attention to the training of employees and include more bonuses and rewards into the employee salary structure to improve employee performance.

Offshore business process outsourcing has been increasing in the last few years and many multinational companies have been moving their Western European shared service centres into countries in Eastern Europe and to India to achieve cost savings.This thesis suggests that Deloitte S2G should increasingly concentrate in the business process outsourcing of national companies who are not that likely to outsource business processes offshore. Also the neighbouring countries could provide interesting possibilities. Business process outsourcing is growing strongly and it is likely that Deloitte S2G will be having many business opportunities in the near future.

Key words: Outsourcing, business process outsourcing, shared services, shared service centre, offshore outsourcing, Deloitte S2G, Hewlett Packard

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TIIVISTELMÄ

Tämä opinnäytetyö käsittelee liiketoimintaprosessien ulkoistamista (business process outsourcing), joka on merkittävä ja ajankohtainen liiketoiminnan ilmiö. Tämän opinnäytetyön tarkoitus on selvittää, kuinka liiketoimintaprosessien ulkoistamisen toimittajayritys voisi parantaa shared service-toimintaansa yhteistyössään liiketoimintaprosessien ulkoistamisen ostajayrityksen kanssa.

Teoriaosassa esitellään ulkoistaminen, liiketoimintaprosessien ulkoistaminen ja shares services. Esille tuodaan olennaisia asioita, kuten kaukoulkoistaminen, liiketoimintaprosessien ulkoistamisen toimittaja-ostajasuhde ja liiketoimintaprosessien ulkoistamisen tulevaisuus.

Case-tapaus käsittelee, kuinka asiantuntijapalvelufirma Deloitte S2G (Servicios Generales de Gestión) voisi parantaa suoritustaan Hewlett Packardin ostoreskontran ja työntekijöiden kulukorvausten asiakaspalvelukeskuksessa Barcelonassa Espanjassa. Parannusehdotuksia annetaan kirjallisuuteen, tutkimuksiin, teemahaastatteluihin ja havainnointiin perustuen.

Tämä opinnäytetyö tuo esille näkökulman, että parantaakseen suoritustaan Hewlett Packardin asiakaspalvelukeskuksessa, Deloitte S2G:n tulisi pyrkiä yksinkertaistamaan liiketoimintaprosessejaan, antaa lisääntyvää huomiota työntekijöiden koulutukseen ja saavuttaa parantunutta työntekijöiden suoritustasoa sisällyttämällä palkkausrakenteeseen enemmän bonuksia.

Kaukoulkoistaminen on lisääntynyt viime vuosina ja monet monikansalliset yritykset ovat siirtäneet Länsi-Euroopan shared service-keskuksiaan Itä-Eurooppaan ja Intiaan saavuttaakseen kustannussäästöjä. Tämä opinnäytetyö esittää, että Deloitte S2G:n tulisi enenevästi keskittyä kansallisten yritysten liiketoimintaprosessien ulkoistamiseen, jotka eivät niin todennäköisesti siirry kaukoulkoistamiseen. Myös naapurimaat voivat tarjota mielenkiintoisia tilaisuuksia. Liiketoimintaprosessien ulkoistaminen kasvaa voimakkaasti ja näyttää siltä, että Deloitte S2G:lla tulee olemaan paljon liiketoimintamahdollisuuksia lähitulevaisuudessa.

Avainsanat: ulkoistaminen, liiketoimintaprosessien ulkoistaminen, shared services, shared service centre, kaukoulkoistaminen, Deloitte S2G, Hewlett Packard

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1. INTRODUCTION

1.1. Purpose of the study

The world has been changing rapidly in the past decade. The development of information technology has decreased the significance of physical distance and companies have been eager to take hold of the opportunities that the changes have been bringing. In the recent times, business process outsourcing has become an important business phenomenon. Companies have been focusing more and more on their core business and outsourced other functions to be performed by external service providers.

Business process outsourcing is operational finance. Business processes are outsourced to vendor companies that are specialised in the required activities. As the location where work is performed has become less essential, many companies have outsourced activities to other companies also in other parts of the world.

Companies have business processes that exist essentially to support other activities and people within the company, for example internal processes like finance, accounting and human resources. Shared services means that services are brought together, reporting to a single management team. This team provides the services to other departments and functions of the company. Shared service centres allow companies to bring together activities that were previously performed by different business units even in different countries in order to achieve cost savings, clearer focus and better service quality.

Business process outsourcing and shared services are current topics. They have been developing during the last decade and their importance is likely to keep on growing in the near future. In the theoretical part of this thesis, outsourcing, business process outsourcing, shared services and shared service centre activities will be discussed along with relevant issues like business process outsourcing vendor and buyer relationship, outsourcing contract, pricing, risks and the future of business process outsourcing.

The case study is of a project between Deloitte S2G (Servicios Generales de Gestión) and Hewlett Packard in Barcelona, Spain. Hewlett Packard has outsourced the business processes of the customer response centre in its shared service centre in Barcelona to Deloitte S2G, a Spanish Deloitte member firm. Hewlett Packard is one of the leading Fortune 500 companies and Deloitte is one of the big four professional service firms in the world. In the case study the geographical region where the project is taking place will be introduced, as well as the case study companies and the activities of the customer response centre. The focus of the case study is on how Deloitte S2G might improve its performance and activities in the customer response centre. Suggestions are given to Deloitte S2G as a company also.

1.2 Methodology

This thesis is a qualitative study. In a qualitative study the aim is to describe real life situations and to research the subject comprehensively. Instead of aiming to prove old, already known claims, in qualitative research the focus is to find out and reveal new facts. Research material has been gathered from literature, researches, articles, interviews and practical observations. The author works in Deloitte S2G in the Hewlett Packard project, so practical observations are possible through working life situations. The interviews have been done with three persons in different positions within the company, all working in the project. In choosing the persons interviewed, the goal was to have a diversified picture from different points of view.

The three persons interviewed were first the team leader of purchasing and vendor payables of the Nordic countries and employee reimbursement, secondly a financial analyst and thirdly the supervisor of the customer response centre project. Theme interview was chosen because it has the approach of concentrating in the point of view of each person interviewed after having gone through the basic interview questions. In a theme interview the discussion is directed towards certain themes that are discussed and the themes give direction to the interview instead of individual questions (Hirsijärvi&Hurme 2004, 48). Themes used in the interview were history of the project, BPO buyer-vendor relationship and Deloitte S2G as a company.

After choosing the topic and the research approach, the next step was to start finding the right literature for the theoretical part. As business process outsourcing and shared services are relatively new topics, literature on the subject is not widely available yet. After reading several books regarding the topic or closely related to the topic, the most suitable information and sources were chosen to be used in the writing process. The content of the books chosen covered mainly issues from outsourcing, business process outsourcing and shared services. Other necessary information was obtained from articles, researches and internet.

The combination of literature, interviews and working experience in the industry in the case study company give a partly theoretical and partly practical approach to the study. The study methods were chosen on the basis of availability and accessibility of the information.

1.3. Structure and limitations

This thesis is divided into five chapters. The introduction forms the first chapter. In the second chapter of the thesis general information is presented on what are outsourcing, business process outsourcing and shared service centres. Studies regarding the topic are presented and some practical examples are given. The third chapter includes the case study where a practical business life example of business process outsourcing and shared service activities of the Deloitte S2G Hewlett Packard cooperation is presented. In the fourth chapter recommendations are given on how the activities and performance of the customer response centre might be improved. The fifth chapter of the thesis includes the summary. This thesis concentrates on business process outsourcing only slightly touching topics like business transformation outsourcing.

Business process outsourcing has several sociological and political aspects. Offshore outsourcing touches globalisation, a topic that has received wide publicity in the media. Globalisation has raised criticism in the Western countries with claims that jobs are taken away from Western employees while companies are enjoying cost savings from transporting jobs to third world countries. However this thesis is concentrating on the business side of the topic not discussing the sociological or political aspects of the issue.

The contract information between Deloitte S2G and Hewlett Packard is considered classified and was mostly not accessible for the study. That is because in business process outsourcing, the contract information includes essential information of the service level agreements and is considered sensitive information. Also other secret type of information regarding the cooperation between Deloitte and Hewlett Packard was not accessible.

2. BUSINESS PROCESS OUTSOURCING (BPO)

2.1. What is Outsourcing?

Hiring outside groups to do work that an organization either can not do or chooses not to do for itself dates far back in time. For example explorers and mercenaries are examples of the concept of outsourcing. Even the term outsourcing is not particularly new. It was first used in the 1970s in manufacturing and since then it has been gradually adopted for other industries as well.

The whole professional services industry of accountants, lawyers, advertisers and consultants is based on the concept of outsourcing. Most recently, companies have started outsourcing their entire back offices, doing tasks like customer order processing, payroll, accounts receivables, and accounts payables through outside specialists. Nowadays it would be difficult to find any organization that is not outsourcing.

In fact, more than 90 percent of companies say that outsourcing is an important part of their overall business strategy (Corbett 2004a). Harvard Business Review lists it as one of the most important new management ideas and practices of the 20th century (Sibbet 1997).

The world today is very competitive. Frontiers and physical distance are more and more losing their significance as information technology can reach any place quickly regardless of the location. What customers are choosing anywhere in the world affects companies and new technology has made it easier for newcomers to enter into the global competition. Companies are increasingly focusing on their competitive advantage. Specialists are brought in for complementary activities. (Corbett 2004b, 4.)

The competitive advantage of a company lasts for a shorter and shorter time in today's world. It means that every company can not have the best expertise in every area of its operation. In responding to this, companies are becoming more focused and specialized. Each activity is viewed from the perspective if it brings competitive advantage or not. Those areas of the company function which do not respond to that need, are likely to be eliminated entirely or an external service provider can be used, which is called outsourcing. It corresponds to the realities of the modern world. It is best to outsource those activities that need to be performed but which the organization gains little unique competitive advantage by doing itself. (Corbett 2004b, 4.)

Technology advances quickly and it would be a considerable risk to invest in high technology that soon loses its value. Outsourcing non-core operations that require high technology reduces that risk. Even in non-core operations a company should seek to perform better than its competitors or have better outsourcing providers than the competitors. The standard of performance has become higher.

Outsourcing has the potential to improve the performance and lower the costs in areas that do not bring competitive advantage. The areas of the company that bring competitive advantage are called core competencies (Hamel& Prahalad 1990, 79-91). Tom Peters, an authority in the outsourcing field, has said "Do what you do best and outsource the rest" meaning that companies should focus on their core competencies and outsource every other part of their operation (Deloitte S2G new employee training manual 2007).
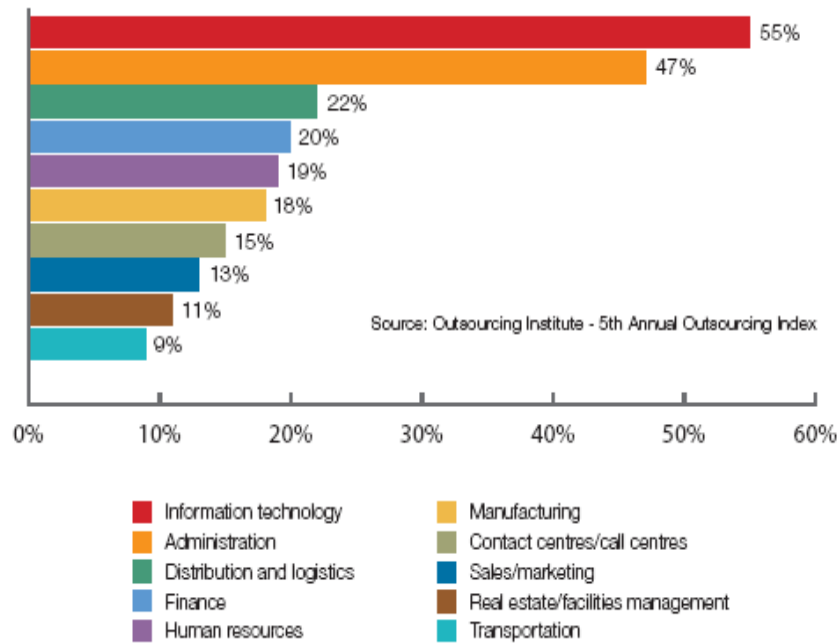
FIGURE 1. How different industries are outsourcing (Outsourcing institute – 5th Annual Outsourcing Index. 2005)

The industry that most uses outsourcing is information technology, closely followed by administration. These two areas are considerably more towards outsourcing than any other area of company activities. In distribution and logistics, finance, human resources, manufacturing, call centres, marketing, real estate and transportation outsourcing is used, but not in a remarkable way.

2.2. Why companies outsource

The basic reason for outsourcing is to reduce costs. Another reason is to be able to focus more on the company's core competence that provides the competitive advantage. If the company does not have certain skills, they can find specialized outsourcing providers to serve that area. However, results in outsourcing are not guaranteed. The challenges are choosing the right opportunities for outsourcing; setting realistic expectations; choosing the right providers; building a good

relationship that offers benefit both to customer and provider and managing outsourcing's organizational impacts (Corbett 2004b, 3-20).

Sometimes outsourcing problems can also be a good solution. Some organizations that are not satisfied with their competence and prices have outsourced some activities and they have been satisfied with the outcome. Despite that they might have been in a situation where at first they were forced to outsource. (Deloitte Finland 2006, 4.)

The conclusion many managers reach when they realise they need to eliminate inefficient internal service units, is to outsource it. They see moving the problem out of the organisation as the easiest course of action. (Fahy, Roche, Weiner 2005, 218.)

There are many reasons why companies may choose to outsource some or all of their activities. A company that wants to lower the costs of a certain activity might be able to achieve the cost reduction through outsourcing the activity. When the company's performance in a certain activity is not satisfying, outsourcing the activity to a service provider can bring performance improvement. In a situation where the capabilities required for an activity are not part of the core strategy of the company, the activity can be outsourced to a service provider who has the right capabilities. If potential loss of control is not an issue to a company, than outsourcing is a valid option.

When a service is no longer relevant to a company, outsourcing can be used if the service is still wanted to be performed. In some situations outsourcing an activity just might be easier and more practical as it could be more challenging to make the changes internally. Outsourcing is chosen if it seems to be better, cheaper and more effective alternative than performing the activity inside the company. Previous positive experience with outsourcing is also one of the reasons why companies outsource.

2.3. What is Business Process Outsourcing (BPO)?

Business process outsourcing (BPO) has emerged as one of the leading business and economic issues currently. When a company outsources operations to a service provider, whose core competence is centred on those processes, the company is likely to experience service improvements that can be turned into competitive advantages over rivals. Business process outsourcing is defined working across the organization to deliver value to customers or as the movement of business processes from inside the organization to external service providers (Click & Duening *2004, 4).* Business process outsourcing is operational finance including for example account payables and procurement.

In the nineteenth century there was a great change from agrarian age to industrial age and people began moving from countryside to cities to work in factories. In the latter half of the twentieth century many factory jobs were exported to other countries where manufacturing and labour was cheaper. Closer to the end of the twentieth century came the information age and many were beginning to find jobs in the service sector instead of factory work. With business process outsourcing a similar kind of change is taking place. Business processes that were formerly performed in the Western countries are now being exported to other countries. Technology development plays a big part in this.

Before more developed software, it was necessary for highly educated people to analyze a firm's data and information to make it useful. In general, the more highly educated the labour, the more costly it is. Analysts traditionally have been the white-collar middle managers who have served as the glue, gatekeepers, and information stewards in organizations of all sizes. The transition of analyst jobs from inside the organization to outsourcing partners will displace many of these middle-level roles as the development of analytic software continues (Click & Duening 2004, *7-8).*

Since Adam Smith, specialization has been said to be the key to productivity. A big company might have large administration costs and costs that are not directly involved with the core competencies and could be expensive.
Accounting, payroll administration, human resources, and other processes are all necessary for the business to operate. If a business truly focused only on its core competence, it would not operate those units that are not tied directly to meeting customer needs and generating revenue. The potential for B2B firms to exist and to provide the specific services they do is based entirely on their ability to add value to their clients' businesses. If these firms were not able to provide high-quality, lower-cost services, they would not exist. (Click & Duening 2004, 18.)

There are three types of business process outsourcing: offshore, onshore, and near shore. The names refer to the physical distance between buyer and vendor. Offshore BPO means business process outsourcing where the service provider is in another part of the world, which began with the factory jobs moving overseas. Onshore means close to the physical location of the company, in the same city for example. Near shore means business process outsourcing taking place in a neighbouring country or close by, which allows companies to test BPO without the level of risk associated with going offshore. Firms that go with a near shore strategy are often seeking cost savings.

Finance and information technology functions along with back-office functions such as payroll and benefits administration, customer service, call center, and technical support are some of the areas that have been outsourced to vendors who specialize in those areas. BPO shifts the focus of traditional outsourcing and the way the relationships with outside specialists are defined towards more process centric, end-to-end view of the business activities. With business process outsourcing, providers operate across the customer's value chain often straight to the customer's customer. Business process outsourcing means working with the outside specialist to examine the current process, reengineer it, and then manage the new, reengineered process all as part of the same initiative. Decisions in the BPO initiative are made from the customer's perspective with the goal of improved customer satisfaction and increased revenue. (Corbett 2004b, 23.)

The financial services sector is a key adopter of BPO and this trend is likely to continue. Growth areas for BPO in the financial services industry include finance and accounting operations, human resources and procurement.
Such processes are regarded as non-core to the financial services company's performance and very suitable to outsource.

In many ways, business process outsourcing is resulting from three very powerful forces getting together: the Internet, software applications, and process-centric thinking. Speed has emerged as an essential factor in the success of any business, and the common systems working over the Internet is an approach that can dramatically cut the time it takes to bring them online. (Corbett 2004b, 32*)*

BPO is not a technology or a technology system; it is a business strategy. Today, there is a shift from primarily large companies using BPO to small and medium sized companies using BPO as well. As outsourcing non-core business competencies has become more common, many companies are now using their best-in-class capacity in non-core business processes to earn additional revenue. For example Amazon.com, the online retailer known mainly for discount books, has become a provider of outsourced e-business solutions. The new outsourcing subsidiary offers hosting services using Amazon's existing storefront and shopping technology customer support services included. (Berman 2003, 1-4.)

Amazon simply adopted its already well-established e-business infrastructure to generate additional revenue. Amazon has sought additional opportunities to outsource its application infrastructure to other Web-based retailers. The company has more than 30 such partnerships. Comparing selling goods or selling online know-how and services, the services bring greater profit margins. In its formal shift into outsourcing services, Amazon furthers its role as a technology innovator first and retailer second. (Berman 2003, 1-4.)

There are many reasons why companies use BPO. Cost savings take place in many cases as a result of moving processes to countries with lower wages. BPO is also used to transfer service functions to specialized providers to gain competitive advantage. Even though costs would rise, eventually the better service quality has

the potential to bring increased revenues, which increases the competitiveness of the company in the market.

A common term nowadays is Business transformation outsourcing (BTO) which is defined as a long-term relationship through which an outsourcing vendor assists the buyer in stimulating continuous business change while also achieving operational effectiveness. BPO has a more operational and cost-cutting focus as BTO focuses more on value creation. As BPO concentrates usually on non core functions, BTO aims to create business change with the recognition of disadvantageous processes and usually seeking to eliminate them. (Click & Duening 2004, 39.)

BPO is not right for every company, nor is it right for every process in a given company. BPO is used for example when a company has a technical support team which has customer inquiries more than they can handle or if the accounts receivable team is slow in tracking down late payers. The reason for choosing BPO can be based on improving the company's performance in that process. The decision to outsource is no longer only cost savings.

Defining the core competences of the company is essential for any company, including a company considering BPO. Pralahad and Hamel defined core competence (1990, 79-91) to a process that has three traits:
1. It makes a contribution to perceived customer benefits.
2. It is difficult for competitors to imitate.
3. It can be leveraged to a wide variety of markets

Once the organization's core competence has been identified, the processes that are non core should also be identified and classified. Click and Duening (2004, 59) developed three classification categories for business processes that are not part of the organization's core business:
1. Critical
2. Key
3. Support.

Critical functions are those that must be performed nearly without mistakes and have potential to become a future core competence if competitive conditions change. Key functions are those that are important to the organization, but are not tightly connected to the core business. Support processes are essential to the operation of the business but will never become the organization's core competence. Support processes are the most routine and fault-tolerant of the three types. These functions include such processes as call centre, payroll administration, and mailroom activities. (Click & Duening 2004, 59.)

In large organizations, most people do not know who processes their pay checks - and most do not care that much. They are aware when a pay check is late, but they are also forgiving because they know they are under contract and will receive their check when the mistake has been identified and cleared. Support functions are necessary for the organization to function effectively, but they do not have any greater significance to the company (Click & Duening *2004,* 59).

2.4. Shared Services

A company's business processes end at its customers, the people paying the bills. There are, however, many internal processes that affect these business processes but exist essentially to support the people within the company, its internal customers. Human resources, finance, and accounting, information technology, travel, and facilities services are all examples of these internal processes. (Corbett 2004b, 26-27.*)*

By outsourcing operations like for example work within a finance department involved in maintaining its company's books: reviewing and verifying receivables and payables, making deposits, reconciling bank statements, entering updates into the company's financial system, and producing timely reports for management (the internal customer of the process), the buyer gains access to a more flexible workforce, one that can be ramped up for quick quarterly and year-end processing and then regulated back down for the rest of the year. The company can tap specialized financial skills it only needs occasionally. All of the work of

recruiting and staffing personnel and dealing with day-to-day operational issues are assumed by the service provider.

As a result, internal skills can be freed, making more time available for financial planning and forecasting. All of these are real benefits from outsourcing within the finance department that many companies have done in the past. Still the company is missing some benefits of BPO. The company is still individually purchasing banking and other financial services. It is contracting as a single purchaser for external audit services. The elements of the work may have been outsourced, but the process itself has remained essentially unchanged. Those barriers can be eliminated by restructuring certain functions under a shared services model. Financial shared service centre is a means to control expenses and reduce infrastructure costs. (Corbett 2004b, 23-27.*)*

Shared services is different from other forms of service provision, because the nature of the services provided is determined primarily by the customer, there is a common provision of services and because these are available to a number of users. Unlike conventional internal service provision, the customer defines the level of the service and decides which services to take up. Activities are therefore usually transferred from operating units to the shared services centre. Of course some organizations may use the concept of shared services deliberately to centralize for reasons of cost cutting without having much regard to the customer. (Reilly 2003, 2.)

2.5. Shared service centres

With shared services, common support activities, such as human resources, finance, purchasing, facilities operations, information technology, and the like, are brought together, reporting to a single management team. This team takes on the role of an internal outsourcer, providing these services to their customers, the other departments and functions of the company. Shared services centres allow the organization to consolidate activities previously performed separately within individual business units. Bringing these functions together under a single shared

services umbrella leads to a clearer focus on the actual processes being performed, their true costs, and how best to serve the internal customers (Corbett *2004b, 29-30).*

Shared services centres first appeared in America in the 1980s as business units specifically created to process high volume, low value transactions for the finance department. Since then the shared services centres model has evolved, with regional and global centres offering multifunctional services now being already the norm. A significant number of organisations worldwide have established regional or global Shared services centres. (Fahy 2005*, 206.)*

By 2000, it was estimated that at least 50 percent of Fortune 500 companies had implemented shared services and in 2004 Michael Corbett estimates (2004b, 31) that those numbers probably rose to 80 to 90 percent in four years so this author sees that might be safe to say that in 2007 nearly 100% of the Fortune 500 companies have implemented shared services.

In many cases, the most effective way to create the shared services environment can be through business process outsourcing. That is, bringing in an outside organization to manage the consolidation of these operations and simultaneously to redesign the processes and deploy the enabling technologies (Corbett 2004b, 31).

There are a number of approaches to shared services being adopted around the world. They range from the most basic form of consolidation of transactional activities all the way to creating an independent business set up to provide shared services internally and to sell shared services externally to multiple clients. At the heart of the shared services approach is the simplification and rationalisation of process, systems, structures and locations:
. Processes are standardised, continually improved and automated where possible.
. Systems are rationalised to single versions on a single database.
. Organisational structures are simplified and streamlined where possible.
. Operations are consolidated into a single location.
(Fahy 2005, 206-207.)

The outsourcing of transaction-intensive processes is at the centre of much of what is possible through business processes outsourcing. While they are certainly critical to the operation of any business, they seldom offer much opportunity for creating competitive advantage. There is a tremendous opportunity to improve the speed and lower the cost of transaction processing through the application of technology. Much of the work of a transaction is placeless and can be performed anywhere. Because transaction volumes are subject to peaks, valleys, and seasonality, the average cost per transaction can be lowered significantly by having a variable-cost, as opposed to a fixed-cost structure that suits well for an outside organization paid on a per transaction basis. In shared service centres the transactions are high in volume, but add minimal value. The volume varies, but the outcome is measurable. (Corbett 2004b, 32-37.)

For example, whether or not outsourced, the internal shared services centres of most large corporations already have within their operations most of the competencies, capabilities, and resources that would be required to provide their services not only to the current parent company, but to others as well as already mentioned. They could become commercial enterprises delivering finance, human resources, procurement, information technology, and other services on a paid basis. This idea of using business process outsourcing as a vehicle to commercialize existing internal operations is a very powerful one. This economic value can come in the form of lower prices, new revenue streams, equity in a new business venture and sometimes all three. (Corbett 2004b, 35-36.)

The rapid development of information systems has removed many of the tasks that traditionally occupied the finance department. Manual transaction processing in areas such as purchase to pay and order to cash are being replaced by e-procurement and e-fulfilment applications with strategic finance activities such as corporate performance management moving to centre stage. Shared services centres and business process outsourcing have allowed finance to focus on more strategic issues and to standardise processes. In the hard competition, the strongest are those, who are able to provide business support at the lowest cost per unit.

It has become common to centralise at a single European location all transaction processing activities to create competitive advantage both in services and cost for the finance function. In 2007 already shared services centres have become so common that it is more difficult to create competitive advantage through it, but big companies might experience losses, if they have not established a shared service centre. Companies forming shared services centres have to decide where to locate the centres. Many times consultancy firms are used in helping to form the decision, if it should be in a place where the company already has an existing site or to go to a new place. It would have to be a location offering skilled labour, excellent telecommunications infrastructure, suitably priced property and of course tax issues of the country in question would have to be taken into consideration among other things.

The main aims of moving into shared services are to lower costs and raise service levels; liberate business and operating units to permit focus on the strategic aspects of their operations; make the best use of investments in technology; focus on continuous improvement and to harmonise and standardise common business processes. But it is not only the prospect of achieving operational savings that makes shared services such an attractive option. Rather than continuing to operate these functions as individual business units, shared service centres allow organizations to create a stand-alone business that, by nature, operates more efficiently through the elimination of redundancies. The potential tax savings can also be considerable. Governments in countries such as Holland and Belgium have already introduced specific tax regimes to encourage shared services activities. (Fahy 2005, 209.)

If a shared services centre is to successfully deliver all possible benefits, then the right IT strategy is necessary. The move to a shared services culture will often involve either an adjustment or extension of an organisation's IT arrangements, or even further implementation. Therefore any move to a shared services environment must incorporate a clear understanding of an organisation's IT strategy. The shared services unit must not only be able to interact with other business units' IT systems, but be in a position to take advantage of new IT

solutions while carrying out its services, which can lead to cost reductions and improved performance. (Fahy 2005, 210.)

Under the web-enabled shared services centre, high volumes of detailed data are captured and processed automatically but exceptions may still occur. As a result, the role of the shared services centre changes from processing transactions and applying internal controls, to one in which the centre deals with processing exceptions while internal controls are embedded in the web applications. These include not just traditional e-commerce applications in the form of Business-to-Business (B2B) procurement, but also services to employees and suppliers. For example, employees can fill in expenses claims with screen prompts highlighting invalid or excessive claims. (Fahy 2005, 211)

Within best-in-class shared service centres, technology is used as a vehicle to implement fundamental changes to business processes. Implementations typically cut across a large area of the business enterprise. For example, workflow management tools typically contain details on the routing of tasks throughout a business. Every single shared service centre business transaction from verifying an invoice or creating a new vendor in the master data records, to requesting a credit note from a vendor can become a task list. In this way, the shared service centre end user can process a task in an automated fashion by using a business model, the task list and appropriate data. By combining workflow technology with electronic document imaging, and Internet/ intranet/ extranet technology shared service centres can achieve important efficiencies. Developed information technology (IT) makes outsourcing an increasingly attractive option for many companies as the vendor usually is a specialist with ready access to the technology. (Fahy 2005, 212-213.)

2.6. Offshoring

Offshore outsourcing is a significant part of outsourcing currently, but in fact manual labour tasks have been done in Asia for a long time already. What is new is that the global digital infrastructure built in the 1990s is now making it just as possible to perform information-based activities anywhere in the world and to immediately deliver the results anywhere else in the world. Designs can be drawn, programs written, bills generated, and customer calls answered just as easily halfway around the world as they can be across the street. The resulting offshoring of knowledge-based work has quickly become just as cost-effective and commonplace as it has proven to be for manufacturing in the past. (Corbett 2004b 39.)

It is not only lower costs that create the cost difference in favour of offshoring. The competition between BPO vendors is also making the prices favourable to the buyers. Productivity differences are an important aspect as well. Highly educated and well-trained individuals at mostly third-world locations are very motivated to work hard to improve their standard of living. As business is changing rapidly nowadays, sophistication of offshoring strategies means it is important to have clarity on the long-term plan in BPO and not only seek short term cost savings.

Cost savings are clearly the most compelling driver for offshoring at this moment, but other aspects are being taken into consideration as well. Another benefit that is sought is quality. One example where offshoring can produce higher quality is in call centres.
Not only are the net costs lower, but in India, for example, customer service jobs are far more highly estimated than they are in the West. While most American call center operators are high school graduates, in India most have college degrees (Brady 2003, 43).

Global companies are operating somewhere in the world every hour of the day. Customer calls need to be made and received. Invoices need to be generated and payments processed. Software problems need to be worked on in real-time, regardless of the time zone of the user who first encountered it, which has caused

the biggest companies to have shared services centres in every part of the world, for example Hewlett Packard has centres for BPO operations in Mexico, Spain and Singapore to be able to reach internal and external customers in every necessary time zone.

In going offshore, a company has the opportunity to change its business in two primary ways: its net costs and its net capabilities. Net costs refer to all the costs that might be impacted by the change, such as labour, support, technology, communications, infrastructure, legal costs, insurance, and taxes. At the same time, offshoring will also affect the organization's net capabilities. Capability means all of the operating characteristics of the business, including the volume of work that can be processed, its quality, speed, and flexibility. (Corbett 2004b, *44-45.)*

The first and the most frequently employed strategy is strategic sourcing. Strategic sourcing means that the business is seeking both a positive effect on its net costs and a positive effect on its net capabilities. The second strategy is commodity sourcing meaning that the business is not seeking a simultaneous improvement in costs and capability, but may be quite willing to capture the lower costs even if there's a trade-off resulting in some diminution of its capabilities. Value sourcing on the other hand takes place when the company is willing to absorb higher costs in order have an improvement in its net capabilities. The final strategy created by the blending of costs and capabilities is beachhead sourcing. Here, in the beginning company expects neither a net cost nor a net capability advantage. It believes that over time it will be able to work towards having positive cost and capability effects. (Corbett 2004b, 45-47.)

The most popular destinations for offshore outsourcing are first India and then Philippines. India has a pool of talented workforce that can offer relatively cheaper labour, good communication infrastructure and a stable government making it a feasible destination for outsourcing financial services. Some argue that offshoring is one of the most important opportunities for improving businesses performance and therefore the overall economy available today; others argue that companies are seeking short-term gains at the expense of both

employees and customers. Similar type of discussions took place as manufacturing jobs went offshore over the past three decades and were replaced by today's services industries. Offshoring is now an integral part of outsourcing, and outsourcing is an integral part of the globalization of businesses. (Corbett 2004b, 51-55.)

Deloitte 2007 global financial services offshoring report undertaken by Deloitte Touche Tohmatsu's (DTT) Global Financial Services Industry (GFSI) group shows that offshoring decisions are too often based only on seeking cost savings. The offshoring industry is growing up quickly. The report concentrating on financial services industry tells that most major financial institutions now have sizeable, low-cost offshore operations. Even though the report focuses on financial services, its conclusions benefit in understanding the general current. trends in offshoring (Deloitte 2007, 1-2.)

More than half of all financial institutions surveyed are now saving more than 40 percent for each offshore business process. In 2006 alone, this has led to the number of personnel working in low cost countries to double, from three to six percent by year end 2006. In the global financial services industry offshoring has clearly changed the dynamics. Offshoring has matured at a rapid pace. Less than 10 percent of major financial institutions had moved processes offshore in 2001. By 2006, over 75 percent of major financial institutions had operations offshore. (Deloitte 2007, 2-3.)

India remains the most favorite offshoring hub but is likely to lose share in the future. China threatens to be India's principal offshoring competitor. Some 200 million Chinese people are currently learning English, providing a growing pool of skilled labour force that will compete with India over the next 10 years. China's share of offshore labour is already rising, with a third of financial institutions now having back-office (mainly IT) processes based in China. Over the last three to four years, there has been significant growth in business process offshoring, particularly around transaction processing, finance and HR.

In 2003, two-thirds of activity offshore was IT-related. However, by 2006, over 80 percent of offshore activity involved a full range of business processes. The Deloitte research (Deloitte 2007, 3-4.) also shows that financial institutions that offshored one or two business processes saved on average 20 percent less than companies with over five business processes offshored. That suggests that the wider and more extensive offshoring is, the better cost savings the company gets

In deciding to offshore operations, institutions need to take a critical decision: whether to build a captive site or outsource to a third-party vendor. A company has to ask itself what risk level it wants to pursue in building offshore operations. Typically, institutions struggling with offshoring initiatives lack clarity on the group's overall strategy. There is confusion on how the contribution of offshore initiatives goes in line with the group strategy. A company's offshoring strategy needs to affect all its business units. Otherwise each business unit tends to implement their own offshoring strategy. The result is fragmented benefits that fail to get the benefit of economies of scale. Even if only a part of the company's business units are offshored, not too much autonomy should be given to the units. The programs should be centrally controlled not to weaken implementation sharpness. (Deloitte 2007, 5.)

According to the Deloitte 2007 Offshoring report the key to success in offshoring is to develop a long-term plan that clearly identifies how the organization can realize value from the offshoring entity from the beginning of the journey. As offshoring matures, financial institutions should benchmark their offshore operations against peers in both financial services and in other sectors meaning learning from their operations and experiences. The emergence of the giant Indian offshore vendors has emphasized the importance of re-engineering processes. Several global outsourcers are significantly changing their delivery model by building scale in low cost delivery locations across the globe. The industrialization of processes is taking place across the financial services industry. Recent research shows 91 percent of financial services companies are simplifying processes and 74 percent have centralized operations. (Deloitte 2007, 6-8.)

2.7. Make or buy and vendor selection

A big decision that faces all organizations considering their alternatives for managing a business process is to make or buy. The decision involves many factors, including the cost associated with developing the capabilities of the company internally (making) or outsourcing them to a service provider (buying). One strategic cost of outsourcing is that there is a loss of organizational learning in the outsourced activity.

This can lead to problems later if the activity that is outsourced is important to the organization's core competence and the organization is not working closely enough with its vendor in mutual exchange of knowledge. On the other hand, benefits can come from a deep partnership arrangement between BPO buyer and vendor when the relationship focuses not just on cost cutting, but also on knowledge sharing, innovation, and reciprocal exchange across business processes, including the outsourcer's core competence. (Click & Duening *2004, 70.*)

From the BPO buyer's perspective the BPO life cycle has five phases:
1 Analyze opportunity
2 Select vendor
3 Develop contract
4 Transition
5 Operate
(Click & Duening *2004,* 70.)

One of the first decisions any organization must make after identifying a BPO opportunity is whether to hire a third-party intermediary to assist with the vendor selection. Third-party intermediaries that specialize in request for proposal (RFP) drafting, distribution, and response evaluation can reduce the time it takes to identify a suitable outsourcing vendor. However the organization should also seek to develop BPO experts within the organization. The learning process and transition takes time. Professional service firms skilled in matching client needs with vendor capacities are likely to be able to provide significant value to the BPO buyer. (Click *2004, 77-79.*)

The transition phase is one in which the business process that formerly had been handled in-house is wholly or in part shifted to the outsourcing vendor. In the beginning stages it is still easy to back off from a BPO relationship. Many BPO projects are initiated with a pilot effort before a full rollout. (Click & Duening *2004, 66.)*

In some situations, a BPO buyer may want to retain all or part of its existing assets to continue to develop internal competence in a process. For example, a firm may choose to outsource a part of its call center to a vendor as a means of freeing internal call centre staff time to make improvements to the own operations of the company (Click & Duening *2004, 80).*

Retaining a process on the buying organization's premises usually means that the transition can be completed more quickly than moving assets to the premises of the vendor, but not necessarily. There are many advantages to keeping assets on-site. One of these is that it is easier to retain existing personnel, many might be unwilling to relocate to the vendor, especially if the vendor is overseas. Employees involved in a process that has been outsourced can become productive members of the vendor organization. Of course on the side of the BPO buyer, organisational change might bring resistance inside the personnel. Resistance to change usually reaches a peak just before the decision to move forward. Once the decision is taken, the mental energy that had previously been applied to resisting the change is now committed to adapting or to moving on to a new employer. (Click & Duening *2004, 81.)*

2.8. Outsourcing contract

The outsourcing success rate for first-time users of the strategy has not changed much since the late nineties, but careful consideration of the elements of a good outsourcing contract can help avoid many of the significant risk factors. In fact, a poorly made outsourcing contract is one of the most significant reasons cited by companies for failed outsourcing relationships. In successful BPO initiatives there

must be a foundation of interpersonal and interorganizational trust. Outsourcing is by definition a collaborative effort, rather than a zero-sum game. Zero-sum negotiating means that each party is motivated to get as much value as possible from the limited available resources, even on the expense of the other party. By contrast, in positive-sum negotiating, the parties are interested in creating more resources and value than currently exists and then dividing up the gains. In BPO the approach is win-win, meaning that the aim is that both parties would be having benefit. Also the BPO relationship is usually viewed as long term. (Click & Duening 2004, 112- 113.)

As the BPO buyer is selecting an outsourcing provider and negotiating the outsourcing contract, both parties have the opportunity to evaluate each other's corporate culture and mindset to see if there is cultural fit taking place. The BPO buyer should also check the vendor's track record in dealing with previous clients. When the parties have proceeded to contract making, the long-term strategic interests of both parties should be reflected in the terms of the contract. It is important to be able to describe the services and performance levels in precise language. The contract should include details about measuring service performance and steps to take to remedy performance shortfalls. Finally, it is important for the parties to plan for exit. (Click & Duening *2004,* 114.)

It is paradoxical to get the legal team involved early. Early involvement ensures that the team can be well concentrated in the business process and understands the appropriate service levels metrics. Drafting precise contract terms including avenues for remedy in case performance falls short of expectations can help preserve a relationship during difficult situations. In a service level agreement (SLA), a vendor agrees to achieve defined levels of performance. If the vendor fails to meet these defined objectives, the SLA provides the buyer with various rights and remedies. Agreement must be reached between the parties regarding how to measure service levels. The challenge is to ensure that the bonuses and penalties directly correlate to the business value the organization is realizing. A carefully crafted set of SLA's is in the interests of the vendor and buyer. Poorly drafted SLA's almost ensure a failed outsourcing relationship. (Click & Duening *2004,* 114-119.)

The contract should specify how disputes are to be resolved, including under what conditions and in what manner they are escalated within and between the organizations. The contract typically restricts the parties from hiring each others' employees for specified periods of time. Alternatively, it may establish a payment structure for compensating the current employer if its employees are hired by the other party. If the cooperation should end between the BPO vendor and buyer, the outsourcing contracts specify termination for cause, for convenience, as a result of other qualifying events, and at the end of the planned term. There are two key considerations: the definition of the types of termination and their trigger events, and the specification of the responsibilities of the parties and the allocation of costs in each situation. (Corbett 2004b, 161-162.)

Statistics suggest that many companies terminate outsourcing arrangements before the end of the contract period. Some of the failures could be avoided by paying more attention to contract forming. The outsourcing contract is a living document, which must be reviewed and changed if needed. In light of the statistics concerning the number of firms that terminate outsourcing contracts prematurely, termination provisions are among the most valuable things to include in the contract. If a BPO relationship falls apart and one or both parties decide to terminate the agreement, it may be necessary for the buyer to reabsorb the outsourced process or find another vendor. In either case, the transition of the outsourced process under these circumstances should be considered in the original contract. The transition from a service provider to a second service provider, or the reintegration of the outsourced process back to the client, is exponentially more difficult than the original outsourcing process. (Click & Duening *2004,* 127-132.)

2.9. Pricing

It's through pricing, contracting, and negotiating that the organizations involved
define their outsourcing relationship. There are no standard terms or prices for
companies to use. Price becomes a matter of determining what's fair given the
responsibilities and risks being assumed.

Pricing of outsourced services may be set in any number of ways, and
combinations of the various pricing alternatives are common. The most common
approach is the fixed-price contract where a vendor manages a buyer's process
and gets paid a fee based on meeting agreed performance benchmarks.
There are also variable-pricing strategies that allow firms to pay only for the
capacity they use or only for performance-related outcomes. BPO buyers
increasingly are demanding variable-pricing approaches, and vendors are
responding. (Click & Duening *2004, 27-33.*)

With fixed-price engagements the vendor's fee is the same regardless of the
volume of services provided. The vendor assumes the risk of absorbing cost
variability. When set too low, fixed-price arrangements diminish the vendor's
flexibility and motivation to respond to changing business objectives or emerging
technologies. Although variable pricing allows for increased risk sharing, it may
also create misunderstandings if and when costs exceed expectations, especially if
scope and accountability are poorly defined. (Click & Duening *2004,* 122.)

Pricing, in the form of credits or bonuses, may be tied to achieving or failing to
achieve service levels, as well as events of default. Credits can be handled either
through cash rebates to the buyer or credits against future amounts owed to the
service provider. Reporting and availability of compliance data should be agreed
upon. One common mistake in setting service levels is to set a standard or
average, but to neglect to define appropriate service levels for under performance.
For example, if the service level for a call centre requires that 95 percent of all
calls must be answered within a certain time period, the SLA should also address
the minimum acceptable standard for the remaining 5 percent of the calls. (Click
& Duening *2004, 122-123.*)

Some pricing issues that can be present in the contract are gain sharing where the provider receives a portion of any additional savings it can generate for its customer through its efforts. The SLA agreements usually include achievement bonuses. These are typically one-time payments for reaching certain milestones. These milestones may be tied to earlier-than expected completion dates, higher-than-committed service levels, or better than-expected throughput. If both buyer and vendor have money at risk, risk/ reward sharing might be included in the contract so that both gain a percentage of the additional value created by their collaborative efforts. The most satisfied outsourcing buyers have used a specified pricing model. (Corbett 2004b, 156-157.)

2.10 BPO vendor buyer relationship

The typical BPO relationship will last four to six years and will involve on-going negotiations and deal making. Stability in the buyer-vendor relationship is built on the foundation of a carefully constructed contract. Hidden costs associated with a poor contract can destroy a relationship. Managing the BPO relationship successfully is a challenge for both buyers and vendors. The BPO buyer's decision about which vendor to select is very much affected on how well the buyer and vendor firms relate to one another. It would be unwise to select a BPO vendor whose organizational culture was a clear mismatch with the BPO buyer's. The other party should not insist on adopting one or the other culture based on familiarity and comfort. It is especially important in offshore BPO where cultural issues, from length of workday to treatment of gender or socioeconomic class, might be likely to arise. (Click & Duening *2004, 80, 156.*)

Behind each BPO partner relationship the service level agreements (SLA) specify actions that will be taken to ensure customer satisfaction. Organizations often have only a few individuals who have read and understood the SLA's. In the event that something goes wrong— and it always will— the SLA's will detail how to make corrections. Organizations should carefully monitor performance on the SLA's — both its own capacity for enforcing them and the vendor's capacity for responding to problems. The costs associated with non-performance are obvious— direct loss of business. There are also hidden and opportunity costs

associated with slow response times, including customer dissatisfaction if the outsourced process is customer facing, employee disgruntlement, and a loss of confidence and trust between buyer and vendor that may adversely affect the future of the relationship. The BPO buyer must ensure that it is monitoring the "temperature" of the BPO relationship and that it can respond if things begin to go to the wrong direction. (Click & Duening *2004, 86.)*

Negotiation skills are important in managing a BPO relationship. A company involved in BPO as buyer or vendor should have individuals in the right positions with ability to negotiate points of view and present them in an acceptable way to the other party.

Many BPO buyers have project management teams working in between the company's needs and the vendor's services. Whether those teams or other persons are in charge of the communication, effective communication skills are necessary to prevent simple problems from becoming complex ones. Business understanding is important in the relationship also, as the changing business needs have to be acknowledged in order to maintain the vendor services in line with the BPO buyer's business objectives. (Click & Duening *2004,* 155.)

The depth of the BPO relationship depends on the criticality of the outsourced business process. The closer the outsourced process is to the core business process of the BPO buyer, the greater the depth required in the BPO relationship. The greater the value expected to be extracted from the relationship, the more time and resources will be required to develop and maintain the relationship. There is a need for the BPO buyer to guide the vendor in the relationship. For example in Finland more than half of the BPO buyers underestimate the need for guidance and 6% of the outsourcing buyers overestimate it. There is the risk of losing control and then the vendor starts to dominate the relationship. (Deloitte Finland 2006, 17.)

Working with a single provider for multiple processes may reduce costs as familiarity and trust develop over time. From the point of view of the buyer, the potential costs associated with vendor failure increase as dependence on the vendor increases. An approach for the BPO buyer to decrease the risk is to work

with several BPO service providers simultaneously, which is called multisourcing.

Service level agreement (SLA) driven cooperative, requiring intense dialogue between the parties is an extension of the buyer's organization, with a number of dependencies and commitments between the parties for each other's success (Click & Duening 2004,157).

In order to have a trusting BPO relationship at first there must be a shared vision and common expectations. Mutual respect and understanding are key aspects in a trustful relationship. To develop trust, actions need to be consistent and to have a certain predictability of response. Trust develops in a long term relationship that is maturing and enduring. It is likely to be broken if respect for confidentiality issues has not taken place. Proactive and intense communication promotes the development of the relationship. The overall approach of both companies should be encouraging and participative. As the companies share risks and rewards, their relationship deepens.

To have a successful BPO relationship, the BPO buyer must understand and respect the vendor's need to make a profit. The BPO relationship cannot be driven by cost reduction above all other considerations. In order for the vendor to continue to be motivated to provide high-quality services, there must be profit in the relationship. The SLA's must be reviewed occasionally, as business conditions change, the original SLA's may be out of line with industry practice and need to be renewed. As already mentioned, the importance of forming the BPO contract carefully is great. The buyer's responsibilities should be clearly articulated. Many BPO contracts clearly articulate the vendor's responsibilities, ignoring or minimizing those of the buyer. (Click & Duening *2004,* 157.)

In the relationship systematic problem identification and resolution techniques should be used rather than waiting for problems to arise. A proactive approach should be used, which must be based on inter organizational trust and honesty. In some cases, it may be useful to replace team members who have become hostile to the BPO project or who have developed personal animosities. Many BPO

partnerships have adopted the balanced scorecard approach in order to evaluate performance and facilitate discussion on value creation opportunities. (Click & Duening *2004,* 162-163.)

It is important to continually link business needs and services delivered. If an outsourcing relationship is damaged or strained, another strategy is to use a top ten issues approach. Using this approach the top ten issues are identified confronting the project at each meeting. Subsequent meetings track the progress on the issues and, hopefully, drive them down the list and out of the top ten. Offshore BPO relationships will be challenging in that on-site meetings may require international travel. Teleconferencing technology is used to help reduce costs associated with managing the offshore BPO project. (Click & Duening *2004,* 163-164.)

The approach for the relationship should be to be allies. The cultural differences should be tolerated generally whether regarding to company cultures or other cultural issues if possible. A practical advice regarding the seating order in common meetings should be arranged in a manner that avoids furthering an "us versus them" mentality. When there is a need to negotiate SLA terms changes or contract extensions, the focus should be in getting a "win-win" solution. To improve the relationship, it would be essential to develop an understanding of and appreciation for the other party's business and competitive arena. Another practical thing for relationship improvement might be to hold meetings at each other's premises on a rotating basis, allowing each to serve as the host but of course for practical reasons that might not be always convenient. (Click & Duening *2004,* 164.)

In a good BPO relationship three essential things are present. There is flexibility which means that both sides are willing to make adaptations as circumstances change. Information exchange also takes place, buyer and vendor proactively providing information useful to each other. The third thing is solidarity meaning that a high value is placed on the relationship which directs the behaviour toward relationship maintenance. (Click & Duening *2004,* 164-165.)

2.11 BPO relationship risk factors

In a BPO relationship both sides are aiming to create positive outcomes from the relationship. Outsourcing has often been perceived as a risky undertaking. Among the things that have been worrying the companies have been for example the fear of surrendering control over important business functions thinking that valuable data might fall into competitors' hands, the costs of outsourcing exceeding expectations and disappearing of in-house knowledge. As BPO is growing rapidly, no doubt many new vendor firms entering the market will make claims about capabilities and capacities they do not possess.

The relationship will work best when both sides seek to provide value-added service to the operations and strategy to each other. An appropriate control level for the buyer is one that allows the vendor the freedom to provide the services for which it was contracted without ceding the ability to prevent small problems from becoming large ones. Problems are most likely to arise when the vendor unconsciously shifts to viewing performance on the buyer's contract as routine and reduces its level of internal oversight.

If problems arise that can not be solved, it is more usual to change the outsourcing vendor than to insource. Many outsourcing buyer companies consider threats of insourcing a good way to control the vendor. In order for that to work there has to be small insources so the threats are taken seriously. Solving outsourcing problems in court is very rare in outsourcing in general, even though for example in Finland 28% of the outsourcing buyer companies have encountered problems with the quality of the service (Deloitte Finland 2006, 4).

One reason for failed BPO relationships is inflexibility in BPO agreements as already mentioned. It is necessary that BPO agreements be designed to provide for adequate flexibility in order to withstand both the dynamics of the business environment and the pressures that are present in such a contractual agreement. Long-term contracts that lack flexibility significantly increase the likelihood of dissatisfaction between the parties and can negatively affect the relationship.

Once the contract is in force, there is a great temptation for both parties to make use of the relationship and attempt to better their lot— often at the expense of the other party.

The best way to reduce this temptation is to craft a contract for a long-term relationship with short-term SLA's that can be adjusted to meet changing conditions. SLA specifications and/ or metrics must be clearly defined and well designed because this is what allows the buyer a comfort level in turning over control of its business processes to the vendor. The metrics associated with SLA's indicate whether the company is receiving the services it is paying for. The expectations must be clearly articulated (Click & Duening *2004, 165-170).*

If there is not enough attention given to relationship governance issues, it often leads to relationship difficulties. In the beginning and in the course of the relationship, goals that each party has, need to be communicated. There must also be action and commitment taken towards the goals. Many BPO relationships fail when one or the other party starts to think that the other party is not acting on the goals in a consistent manner. When one party feels the other is not living up to its stated goals, resentment and other negative emotions can arise. A strong project management plan will require each party not only to articulate its organizational goals and objectives, but also to demonstrate how it is pursuing them. There is a need for integration in the BPO relationship, it requires sharing of vision and values and development of a common culture. The entire relationship must be viewed as a business asset that is worthy of investment over time. (Click & Duening *2004, 165-170.)*

2.12. BPO Risks

Business decision makers have many fears concerning outsourcing. They might feel that although an activity would not be a core competence, it might still be too critical to be outsourced. They might be concerned about losing flexibility by getting locked into a long-term contract with a service provider. They are concerned about how their customers or employees might react. Regarding

offshore outsourcing they are thinking of negative publicity of job losses and effects on the local community. (Corbett 2004b, *3-20.)*

Some have still fresh memories of the tech bubble and the rapid crash and are thinking the same might happen with BPO. Data security risks and privacy concerns are among the biggest concerns of the outsourcing buyers. There is a concern of losing important information to wrong hands. In order for a BPO vendor to assist a client in managing things, the vendor must have access to some of the most sensitive and critical information the company has meaning that the vendor should be chosen carefully.

An organization faces also risks like losing the learning and capacity growing opportunity as it outsources part of its activities. If the BPO vendor fails, the buyer is still accountable for the activities it has outsourced as if the failure was made by the buyer itself. Of course the risk increases the more company's activities are outsourced. Failures in BPO can have a serious impact on a company's reputation and competitive position. But a valid point is that much of the risk has been removed from basic BPO arrangements because of the experience gained by buyers and vendors during the last years.

Risks in BPO increase when it is a question about offshoring. The benefits in offshoring are not automatic, and everything has to be planned well. A problem many times encountered by BPO buyers is that offshore vendors are often overconfident of their own abilities and eager to take on new projects, which well might be out of their current level of expertise. From the BPO buyers' perspective companies working with offshore vendors must control the pace of the project and must ensure that specifications are carefully developed and understood before allowing the work to begin. Then, it is advisable to work on projects in stages, reviewing the work produced by the offshore team little by little. (Click & Duening *2004, 42.)*
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2.13 Future of BPO

BPO is a phenomenon of today. BPO offshore is currently urgent. For example more than half of all financial institutions surveyed in the Deloitte 2007 offshoring report are now saving more than 40 percent for each business process offshored (Deloitte 2007). In 2006, the average of their employees offshore doubled compared to the six percent raise of total group staff. According to Deloitte 2007 offshoring report as offshoring goes further, financial institutions are likely to create an optimal hybrid model by selectively using a combination of vendors and captives. As mentioned earlier, the Deloitte 2007 offshoring report found out that financial institutions that offshored one or two business processes saved on average 20 percent less than companies with over five business processes offshore so this author sees that in the future it is likely that offshoring will get even more extensive and cover much more of companies' activities, which might take place through several outsourcing vendors to lessen the risk. (Deloitte 2007, 8.)

As the technology keeps on developing and physical distance becomes more and more obsolete, the movement of service work to lowest-cost providers, no matter where they may reside, will continue in some form. It seems unlikely that new barriers will be formed that will seriously limit global free trade. Not only offshoring, but generally BPO has been a competitive advantage but now it is becoming mandatory. The personal computer was a remarkable business revolution in its day, but no one pays attention to a company today because it uses a PC. It would be more remarkable to find a company without a PC. It could be the same with BPO. It will become more and more common and for many companies it means that if they are not involved in it, they will be losing market share.

Of course no one can say with certainty what the future will hold for BPO. A setback for offshore BPO could be legislative barricades. Global terror could make nations rethink the value of free trade and return to protectionist and nationalist policies. But that seems very unlikely. Some of the regulations that are could be enacted include formal reporting requirements for firms that use offshore

outsourcing and there could even some legislative action to regulate offshore outsourcing. However that most likely will not reverse or slow the movement of business processes to their lowest-cost labour source. (Click & Duening 2004, 217-219.)

Free trade is a global revolution that is likely to continue be debated over the coming decades and that its effects will be felt in many different ways. The opportunities for entrepreneurs to go abroad and use the highly talented global labour pools are greater than never before. (Click & Duening 2004, 207.)

The pace of change in BPO continues to accelerate. A lot of media attention has been focusing on the number and types of jobs that were being sent offshore. Although the jobs issue is important and the reality of worker displacement must not be ignored, it is highly unlikely that outsourcing is going to go away. Similar pain was felt and protectionist arguments were raised during the era when manufacturing jobs were moved to cheaper labour regions around the world. (Click & Duening 2004, 207-209.)

Cost savings typically come from the wage difference between employees in highly developed Western countries and those in the emerging economies, such as Asia and Eastern Europe. Java programmers in India earn $5,000 per year verses $60,000 per year in the United States (Greenhouse 2003).

Some concerns have been raised that India's success might complicate its future because of the pressure increasing on wages as there is a high demand for skilled workers. It will cause the salaries in India to rise substantially. Some 200 million Chinese people are currently learning English, so China will be a big competitor for India in the BPO market in the coming years. (Corbett 2004b, *42.)*

As long as there are big differences in salaries in different parts of the world, business processes will be taken into countries where the same work can be produced with more economic prices. An important aspect according to this author would be that companies would use the profit and savings from

outsourcing and offshoring to increase spending on research and development, because that is how the next equivalents of BPO or PC's will be born.

As the pace of change is faster than ever in the world, it would be important that research and development would take place, not just for the sake of companies, but for Western societies as well. As jobs are moving abroad, there should be innovation so that growth and jobs would be created in the developed countries. That happened with the industrial revolution as there were new jobs in the cities in factories as many farming related jobs were lost in the countryside. After industrial jobs were moved for example to Asia, the service sector began offering jobs. Now as also professional "white collar jobs" are moving to countries like India, innovation is needed to take the developed world further.

In the 1940-50´s computers were introduced. Does this mean that every aspect of information technology is good? That the transition has not been painful for some? Or that every IT project proves to be a success for the company that undertakes it? Of course not. But most would agree that, as an industry and as a business tool, information technology has an overwhelmingly positive impact. It is certainly an inseparable part of our lives. In many ways, outsourcing's recent past and probable future are following the same path. (Corbett 2004b, 196.)

Companies have many times worked with only one outsourcing vendor. Now in order to diversify the risk they have the possibility to create several outsourcing relationships as the number of suitable vendors has been increasing. Nowadays secondary work is going to places like Sri Lanka, China, South Africa, the Philippines, Singapore and Malaysia. Using these dual relationships, multi sourcing, to create competition between the service providers is a good way to produce even better cost savings.

New business models have emerged, the BPO industry is maturing. In the future more and more development is likely to take place. Approaches to BPO can become more diverse or on the other hand certain best practices and ways to do things could become the only ways to do BPO. The future will show.

3. CASE STUDY: HOW TO DEVELOP DELOITTE S2G's SHARED SERVICE
ACTIVITIES IN THE BARCELONA CUSTOMER RESPONSE CENTRE

3.1. Case study introduction

The former chapter focused on several relevant business process outsourcing
issues generally. In this chapter the aim is to present an example of business
process outsourcing from business life and to come up with suggestions how the
activities of the company could be improved in the project. First the geographical
area where the case is taking place will be introduced. Then the companies,
Deloitte S2G and Hewlett Packard will be presented followed by a description of
the shared service activities of the customer response centre.

Customer response centre is part of the Hewlett Packard BPO Shared Service
Centre in Sant Cugat, Barcelona. The customer response centre (CRC) takes care
of two things: first it acts as first level accounts payables for Western European
countries and also partly takes care of procurement. Secondly it handles employee
reimbursement for Hewlett Packard (HP) for EMEA region (Europe, Middle East,
Africa). HP has outsourced the activities of Crc to Deloitte S2G.

HP BPO shared service centre is located in Sant Cugat in the Barcelona
metropolitan area in Catalonia. Catalonia is a region in Northeastern Spain with
autonomy in many sectors including education, police forces, area development,
environmental issues and partly tax collection. There are slightly more than seven
million citizens in Catalonia with approximately 60% of the population living in
the Barcelona metropolitan area. The official languages are Catalan and Spanish.
Culturally Catalonia is a unique region with many exceptions to other parts of
Spain. (Generalitat de Catalunya 2007.)

Industrially Catalonia is one of the most developed regions in Spain with a lot of
car, metal, chemical and medical industry. The industrial revolution in Spain
began from the textile industry in Barcelona. Nowadays Barcelona, the capital of
Catalonia, is an important business and finance centre. Barcelona has a stock

exchange (Bolsa de Barcelona), many banks and headquarters of several large companies. Barcelona is also the most important publishing centre in Spain. (Generalitat de Catalunya 2007.)

3.2. Deloitte S2G company presentation

Deloitte is the biggest professional service firm in Spain. It is part of the multinational company Deloitte, Touche & Tohmatsu which is present in 136 countries. Worldwide the company has 133.000 employees. Company's revenue in 2005-2006 was 20.000 millions of euros. Deloitte is formed of 70 member firms. The company bases its success in the abilities of its professionals and the customer focus in all the services it offers. The aim of the company is to produce the best possible additional value to its customers through quality service individualized to each customer's needs. The company values are integrity, excellent added value to the customer, commitment to each other and strength based in cultural diversity. (Deloitte S2G 2007.)

Deloitte has grown progressively in the different geographical areas where it is present (America, EMEA and Asia Pacific/Japan). The increase of the yearly revenue in the recent years is showing the growth of the business volume especially in America and Europe. Worldwide some of the biggest clients of Deloitte include Merrill Lynch, Microsoft and Vodafone. (Deloitte S2G 2007.)

In Spain Deloitte has about 3300 employees, of which 119 are partners. The company is owned by the partners. Deloitte in Spain offers services in auditing, consulting, risk services, outsourcing and legal services. The industries where Deloitte is operating in Spain include financial services, consumer business, energy and resources, aviation and transport services, public sector, industry, construction, technology, media and telecommunications. (Deloitte S2G 2007.)

Deloitte is one of the big four professional service firms in the world. In Spain Deloitte is the leader in its field. Of the Spanish Stock Exchange (IBEX) companies, Deloitte does auditing for 57% of them and less then half of the

companies are audited by the three other big consulting firms. In Spain, Deloitte has important clients in each industry, organizations like Banco de España, General Motors, El Corte Inglés, Generalitat Catalunya and Iberia. The whole consulting industry is experiencing strong growth in Spain. In 2006-2007 the growth was 10.4%, the industry's revenue growing from 7.570 millions of Euros to 8.357 millions of Euro (Sarrieri 2007). A comparison between the big four firms in Spain in 2006 shows Deloitte's leader position:

Revenue

Deloitte 290,50 millions of euros
PriceWaterhouseCoopers 270,70 millions of euros
KPMG 213,08 millions of euros
Ernst&Young 198 millions of euros

Number of offices

PriceWaterhouseCoopers 21 offices
Deloitte 20 offices
KPMG 16 offices
Ernst&Young 14 offices

Professionals working for the company

Deloitte 3284 professionals
PriceWaterhouseCoopers 2518 professionals
KPMG 2038 professionals
Ernst&Young   1894 professionals
(Deloitte S2G 2007)

Deloitte is formed of member firms. Deloitte S2G (Servicios Generales de Gestión) is one its Spanish member firms. Deloitte handles its business process outsourcing in Spain through S2G, which is the leader in Spain specialized in the outsourcing of financial and administrative professional services. S2G has 680

professionals working for the company. Deloitte S2G's clients are organizations from small and medium sized to multinational companies. The company seeks to adapt its services to the individual needs of each client organization. Services included are global outsourcing, functional outsourcing and consultancy regarding outsourcing processes. (Deloitte S2G 2007.)

3.3. Company presentation: Hewlett Packard

Hewlett Packard is a leading global provider of products, technologies, solutions and services to consumers and business. The company operates in fields of IT infrastructure, personal computing and access devices, global services, and imaging and printing. Hewlett Packard invests annually 4 billion USD to research & development, which fuels the invention of products, solutions and new technologies so that customers can be served better and new markets entered. The vision of Hewlett Packard is to invent, engineer and deliver technology solutions that drive business value, create social value and improve the lives of the customers. (Hewlett Packard 2007.)

3.4. The customer response centre

The rapid development of information systems has removed many of the tasks that traditionally occupied the finance department. Before the tasks that are now being performed by the Customer response centre, were done by Hewlett Packard business units in each country separately. Through the creation of shared services centres and business process outsourcing, finance departments have been able to focus on more strategic issues and to standardise processes that have emerged. The idea of shared service centres is to provide business support at the lowest cost per unit. The outsourcing of transaction-intensive processes is at the centre of business processes outsourcing. While they are certainly critical to the operation of any business, they seldom offer much opportunity for creating competitive advantage.

The customer response centre (crc) is a key element of the Hewlett Packard Barcelona shared service centre. The customer response centre is the front end of the shared service centre and handles resolutions to incoming queries from internal and external customers on financial transaction processing. The customer response centre is the first point of contact for Hewlett Packard accounts payables for Western European countries and also partly takes care of procurement. Secondly it handles employee reimbursement queries for Hewlett Packard (HP) for EMEA region (Europe, Middle East, Africa).

The crc is interfacing daily with company vendors, employees and third parties to handle questions and queries regarding accounts payables. The customer response centre deals in many occasions with queries like for example a vendor contacting the crc why an overdue invoice has not been paid. The crc also deals with payment reminders and collection letters. Regarding employee reimbursement Hewlett Packard employees submit their travel expense claims via applications called Trams and EEM depending on their country and in the case that they have queries regarding the expense claims, they contact the crc. A typical employee reimbursement query would be an employee contacting and asking for clarification why a certain expense claim was rejected. Most of the queries come by email and some by phone.

The aim of the crc is to provide immediate resolution wherever possible and follow up on issues that require interactions with other departments. With accounts payables on many occasions there is a need to contact other HP teams in other countries. The second level accounts payables team and the purchasing and administration team are in Poland, Hewlett Packard International in Ireland, banking operations team and some other teams in Bangalore, India. In employee reimbursement there is daily need to contact the second level support team in Poland.

Each customer interaction is documented in a designated database to allow issue tracking and process improvement. All the transactions of the crc are documented, which allows in-depth analysis of the performance to recognize the issues and areas that most require improvement. Tools like Six Sixma and KPI (Key

Performance Indicator) are used in performance evaluation by the analysts (Virtanen 19.9.2007).

Work in the crc is team work. The 50 plus persons who form the crc belong to different teams. Regarding accounts payables the crc deals with queries for Western European countries, except for UK and Ireland because queries for those countries are handled in Bangalore, India. There are four teams that each handles invoices for different languages and geographical regions: the Nordic team, the German team, the French-Benelux team and the Latin team which handles queries for Italy, Portugal and Spain. The teams are formed mostly of nationals of each country. Besides dealing with accounts payables queries for their countries, each team with the exception of the German team also receives queries regarding employee reimbursement along with the fifth team of the crc, the Trams team, which only concentrates in employee reimbursement.

The processes of accounts payables are standardised, but each country still has some country specifics. The teams not only receive queries from their own countries in their own language, but also queries from other countries in English when the invoice in question is for Hewlett Packard of their country. Languages used in the crc are English and the languages of the represented regions.

Each team in the crc is led by a team leader and the supervisor of the crc is the head of the team leaders. Hewlett Packard has business process analysts closely working with the crc, who are analysing the work of the crc. From the Hewlett Packard side, a manager supervises the project. The team leaders, Deloitte S2G analysts and the supervisor and the Hewlett Packard manager with the Hewlett Packard business process analysts meet weekly to discuss the crc performance (Fagerström 14.9.2007).

The supervisor from Deloitte S2G and the Hewlett Packard responsable manager form an important link in the BPO relationship. They also have weekly one-on-one meetings regarding the crc activities and performance. Every three months there is a meeting of a so called steering committee, which includes managers

from both companies to review the performance and progress and to discuss the cooperation and the SLA's. (Lemus 12.9.2007.)

3.5. History of the customer response centre

Hewlett Packard and Deloitte S2G have had cooperation in Spain since the mid 1990's. First the cooperation only included local financial services. When Hewlett Packard decided to form a shared service centre in Barcelona in 2001, it hired Deloitte S2G to be its consultant in the process. First Hewlett Packard moved its EMEA region shared services from Brussels to Barcelona. Accounts payables was the first migrated part in the process in 2002. As the migration began successfully, PAD (purchasing and administration) and VAT teams followed afterwards. (Lemus 12.9.2007.)

Hewlett Packard faced the decision whether to make or buy, whether to operate the activities internally or to outsource the activities. As Deloitte S2G had already been the consultant in the process and had the experience of already having operated shared service centres for two multinational companies, General Motors and Coca Cola in Barcelona, Hewlett Packard decided to choose Deloitte S2G as its BPO service provider. Of course being a part of a big four firm gave Deloitte S2G the credibility to take over the project. (Lemus 12.9.2007.)

At first only the back office functions were operated in Barcelona and the front offices operated in each country individually as before, but then it was decided to move the front office to Barcelona. In early 2003 the Customer Response Centre was created. Different processes done by Hewlett Packard individual business units in each country started to migrate to Barcelona. Countries were added to the crc little by little. Some countries migrated directly to Bangalore India like for example the accounts payables of UK & Ireland. Some processes came to Barcelona with a plan of temporarily having them there before migrating them to Bangalore. (Lemus 12.9.2007.)
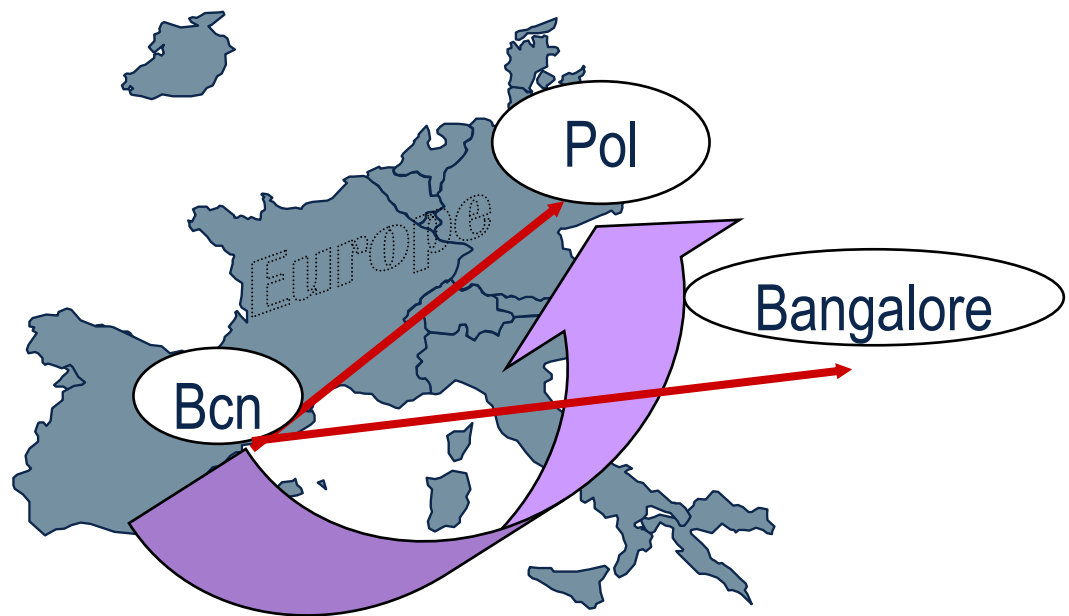
FIGURE 2. Movement of Hewlett Packard´s shared services (Soiva 13.9.2007)

After the migration phase was over, various business processes were reengineered. In 2005 Hewlett Packard started a new shared service centre in Wroclaw, Poland. In order to create volume, several processes started to be moved there. Finally the back office functions of employee reimbursement and accounts payables and the purchase & administration team and the VAT team were moved to Poland. Deloitte S2G was involved in the migration process and consulting. In autumn 2007 the Crc is formed of the front office of accounts payables and employee reimbursement that are operated in Barcelona by Deloitte S2G. (Lemus 12.9.2007.)

The number of Deloitte S2G employees involved in the project started with 20 people in May 2001 and in April 2002 there were 50 employees. The highest headcount is from January 2006 with 220 employees working in the different teams in the project in Barcelona. Now as several processes have been migrated to Poland and India, the current headcount is about 50 employees. (Lemus 12.9.2007.)

3.6. BPO Competitors

Business process transactions have little ties to a particular geographic location and not many interactions with customers need to be face-to-face. Along with Deloitte, many other professional and financial service firms have been becoming outsourcing services providers to develop new revenue opportunities. The firms have been opening spare business process capacity to third parties, acting as a shared service centre. Worldwide for example Accenture, JP Morgan, Statestreet and Merrill Lynch have all been developing shared service centre businesses.

In Catalonia Deloitte S2G's biggest competitors in business process outsourcing are IBM, Accenture, ACS and Hewlett Packard. Hewlett Packard is also Deloitte S2G's competitor in BPO despite of their buyer vendor relationship. If a multinational company would want to create a shared service centre to Barcelona, competition for the project would most likely take place between the above mentioned companies. The competitors have their own shared service centre facilities so they have flexibility to take in bigger projects into their site. As Deloitte S2G's facilities are more limited, bigger projects would have to be done on the customer's site. (Lemus 12.9.2007.)

Comparing Deloitte S2G with its competitors, its strength is its concentration in business process outsourcing. Besides its specialization, it has a long and varied experience of financial outsourcing of almost 20 years and more than 150 clients. For example for IBM and Hewlett Packard, BPO is not their core competence, it is more or less means of creating extra revenue. The other big four firms are not among the biggest competitors in BPO in Catalonia. Their operations are more concentrated in other areas. As BPO is not tied to a certain location, usually competition crosses regional and country borders. For Deloitte S2G that is also an advantage, because it receives projects through the Deloitte network also from other parts of Europe (Virtanen 19.9.2007).

3.7. Business process outsourcing: customer perspective

Business process outsourcing means working with an outside specialist to examine the current process, reengineer it, and then manage the new, reengineered process all as part of the same initiative. Regarding the customer response centre that is exactly what has taken place. As mentioned, when Hewlett Packard was starting to form the customer response centre, Deloitte S2G was involved from the start as a consultant in the process. As the process progressed and it was finally time for Hewlett Packard to decide how to start to operate the customer response centre, Hewlett Packard chose to outsource it and Deloitte S2G was chosen to operate it.

With business process outsourcing, providers operate across the customer's value chain often straight to the customer's customer. With crc Deloitte S2G take cares of the business processes up to Hewlett Packard employees and with accounts payables up to the vendors of Hewlett Packard. Decisions in the BPO initiative are made from the customer's perspective with the goal of improved customer satisfaction.

The customer perspective is an important focus in the crc. Customer satisfaction is continually monitored by a survey called "voice of the customer" the recipients of the service receiving an email link to the survey which gives the customer an opportunity to give feedback and then for the crc to improve its service based on the customer feedback. The crc agents also go through continuous soft skills training and reviewing so that the service level would be excellent, not only technically, but in customer orientation as well.

It is now being already the norm that there are regional and global centres offering multifunctional services. A significant number of organisations worldwide have established regional or global shared services centres. Hewlett Packard as well has shared service centres in different parts of the world, like Dublin, Ireland, Wroclaw, Poland, Singapore and Mexico to offer services in different time zones.

With big companies in Europe, it has become common to centralise at a single European location all transaction processing activities to create competitive advantage both in services and cost for the finance function and to harmonise and standardise common business processes. Hewlett Packard is not unique in doing so. Interestingly, as the shared service centres are usually outsourced to professional and financial service firms, slight competitive advantage might be coming through having the most competent BPO service provider.

3.8. Benefits of outsourcing the customer response centre

As mentioned, companies are increasingly concentrating on their competitive advantage and specialists are brought in for complementary activities (Corbett 2004b, *4)*. That describes very well what is taking place in this project between Deloitte S2G and Hewlett Packard. Hewlett Packard concentrates in its core competence of information technology and operating the customer response centre is left to Deloitte S2G, a professional service company specialized in financial and administrative outsourcing.

As the idea of focusing in core competence is pursued logically, it leads to that a business organization should operate as few non– revenue producing units as possible (Click & Duening *2004*, 18). The customer response centre is a non-revenue producing unit and its activities are support processes.

Support processes are those that are essential to the operation of the business but will never become the organization's core competence. These functions include such processes as call center, payroll administration, and mailroom activities. Support functions are necessary for the organization to function effectively, but they do not have any greater significance to the company (Click & Duening 2004, 59).

A financial shared service centre is a means to control expenses and reduce infrastructure costs. Shared services centres allow the organization to consolidate activities previously performed separately within individual business units.

If Hewlett Packard had employees in each country doing accounts payables and employee reimbursement, this would tie up more personnel, create more inefficiency and produce more costs. Bringing these functions together under a single shared services umbrella leads to a clearer focus on the actual processes being performed, their true costs, and increases the level of customer service. By outsourcing the crc, Hewlett Packard has gained access to a more flexible workforce as Deloitte S2G takes care of the human resources in the project (Virtanen 19.9. 2007).

With BPO a service is bought. The service provider takes care of the details and the BPO buyer receives the ready service (Virtanen 19.9.2007). It is also easier to demand service quality from an outside service provider. The BPO buyer can threaten to withdraw from the cooperation and change the BPO provider or insource the activities, but if the service is internal, it is more difficult to demand performance and also it is more difficult and costly to change staff and make modifications.

One of the motives for outsourcing is that in many cases the outsourcing vendors have access to technology that is needed for business processes. As technology advances quickly, it would be a considerable risk to invest in high technology that soon loses its value. However regarding the customer response centre, this has not been the case, as Hewlett Packard is providing the required technology being among the world leaders in information technology.

The potential for B2B firms to exist and provide the specific services they do is based entirely on their ability to add value to their clients' businesses. If these firms were not able to provide high-quality, lower-cost services, they would not exist. The long and continuous BPO relationship is demonstrating that Deloitte S2G has had the ability to provide additional value to Hewlett Packard in the project.

As outsourcing non-core business competencies has become more common, many companies are now using their best-in-class capacity in non-core business processes to earn additional revenue. Hewlett Packard has been doing that with

business process outsourcing. Despite of concentrating in its core competence in information technology, Hewlett Packard has managed to create additional revenue with operating as a BPO service provider to companies like for example Proctor &Gamble and Nestle. Hewlett Packard has the technology and the premises in Barcelona to provide the services conveniently without compromising its dedication to its core competence.

This author sees that the reason why Hewlett Packard is outsourcing the activities of the customer response centre even though the company would have had the capacity to perform the service internally is that there is a difference between operating as an outsourcing vendor and operating a support function internally. It can be practical to be an outsourcing vendor if the company has the resources to provide a service and to conveniently receive additional revenue, but committing to provide a permanent internal support function ties personnel and human resources. It most likely is more beneficial to hire a specialist to perform those services which is also more flexible. If the quality of the service improves, then the company might be even creating slight competitive advantage in the performance of the support function against its competitors.

Using external suppliers tends to be cheaper where the service to be performed is widely available, because competition keeps down the costs (Reilly 2003, 78). One reason for the easiness of outsourcing support functions is also that they can be easily separated from the rest of the organization. Back-office functions such as payroll and benefits administration, customer service, call centre, and technical support are some of the areas that have been widely outsourced to vendors who specialize in those areas.

One of the benefits of business process outsourcing is that the companies can draw know-how from the other company's expertise. The relationship focuses not just on cost cutting, but also on knowledge sharing, innovation, and exchange across business processes, including the outsourcer's core competence. As in the start of the Barcelona shared service centre project, Deloitte S2G was a consultant in the process of creating the shared service centre and then formed the centre with Hewlett Packard and now has been operating the Crc, Hewlett Packard has

been able to put the learned into practice with the shared service centre in Poland and by being a BPO service provider itself in Barcelona.

3.9 Risks of the Customer service centre project

As Deloitte S2G performs the customer response centre activity in the Hewlett Packard shared service centre in Hewlett Packard's premises, the service is provided onsite. That decreases the risk for Hewlett Packard as it provides better possibilities to monitor and control the situation. Also the relationship between the BPO buyer and vendor can become closer and more developed as there is no physical distance.

One of the biggest fears of outsourcing buyers generally is that valuable data might fall into competitors' hands. With crc the risk of losing company secrets to competitors is minimal as it is only a support function. Many times companies also feel that although an activity would not be a core competence, it might still be too critical to be outsourced. The crc activities are necessary, but not critical.

An organization faces also risks like losing the learning and capacity growing opportunity when it outsources part of its activities, but Hewlett Packard is a big company with wide experience in business process outsourcing and also having the business process onsite increases the possibilities for organizational learning. A common fear that companies have in outsourcing is how their customers or employees might react. Hewlett Packard closely monitors the quality of the service by the metrics which give information on things like response times and also voice of the customer, the customer feedback gives good information on the customer satisfaction rate.

An important thing in a BPO relationship is that the corporate cultures of the companies match, which also decreases the risk of failure. In the crc project a factor that brings the two companies closer is that both companies have a very international staff. There are distinctions in the company cultures though. Deloitte is a conservative professional service firm and Hewlett Packard is an innovative

IT company. For example Deloitte being a professional service firm has a strict dress code and Hewlett Packard's dress code is very relaxed. Deloitte seeks to adapt in each project to the culture of the client. (Virtanen 19.9.2007.)

Hewlett Packard has been relying on Deloitte S2G with the project because it has been going well. When the shared service centre was earlier in Brussels, according to the metrics, the services were not functioning as well as they are currently (Lemus 12.9.2007). From the BPO vendor's point of view, the greatest risk is that because of poor performance or by other factors, the business process is moved to another vendor, insourced or offshored. With the crc project, the greatest risk for Deloitte S2G is that Hewlett Packrd would move crc to Wroclaw, Poland.

3.10. The BPO contract

A poorly made outsourcing contract is one of the most significant reasons cited for failed outsourcing relationships. Deloitte and Hewlett Packard are big and experienced companies and that is certainly helping in forming the BPO contract. Deloitte is also specialised in legal matters and outsourcing contracts which of course can be considered as an advantage.

The BPO contract has details about measuring service performance and steps to take to remedy performance shortfalls. In the service level agreement (SLA), a vendor agrees to achieve defined levels of performance. If the vendor fails to meet these defined objectives, the SLA provides the buyer with various rights and remedies. There are hidden and opportunity costs associated with slow response times, including customer dissatisfaction if the outsourced process is facing customer disgruntlement.

In the crc project, Deloitte S2G receives a fixed fee per agent. The contract also includes gain sharing, if Deloitte S2G manages to find out a way to decrease the headcount in the Crc, it receives 50% of the savings. If the SLA metrics are not achieved for a period of three months, there will be penalties for Deloitte S2G.

Also if minimum service levels are not achieved during one month, there will be penalties. (Lemus 12.9.2007.)

The Deloitte S2g and Hewlett Packard relationship has been going on for several years. BPO relationship is usually viewed as long term and it is also apparent in the BPO contracts. On the other hand, the outsourcing contract is a living document, which must modified if needed. In the Crc project, the contact is yearly checked, but basically there is the possibility to review the contract on a monthly basis (Lemus 12.9.2007).

The contract typically restricts the parties from hiring each others' employees for specified periods of time. Alternately, it may establish a payment structure for compensating the current employer if its employees are hired by the other party. That restriction is in force in the Deloitte S2G and Hewlett Packard contract also prohibiting Hewlett Packard to recruit Deloitte S2G employees who are working in the project (Virtanen 19.9.2007).

4. RECOMMENDATIONS

Despite the success in the crc project, Deloitte S2G faces challenges. As several teams have been migrated away from Barcelona, Deloitte S2G has less flexibility. There is less personnel and, for example, employee changes from one team to another are not possible and promoting employees is more difficult because before it was possible to promote within the different teams. There is also a question if Hewlett Packard will move the crc as well to Poland in the next few years because of the lower costs. However it is also possible that the trend of focusing on cost savings changes into valuing quality instead of lower costs and Hewlett Packard decides to keep the customer response centre in Barcelona.

The current BPO contract (autumn 2007) between Deloitte S2G and Hewlett Packard is more demanding from Deloitte S2G point of view in terms of metrics performance, which brings challenges to achieve the service level agreements (Lemus 12.9. 2007). The SLA's are tighter and there will be loss of profit for Deloitte S2G if the goals are not met. During summer of 2007, Deloitte S2G increased personnel in management positions in the project and made adjustments. As a result the service metrics and the cooperation between the two companies improved notably. (Virtanen 19.9.2007.)

The current trend in BPO is to simplify processes. A recent study shows 91 percent of financial services companies are simplifying processes (Deloitte 2007, 6-8). In this author's opinion, processes in the crc should be standardised and simplified even more. For example in accounts payables there are currently some country specifics for different countries. Simplifying processes brings increased effectiveness. Processes should be continually improved and automated where possible.

In performance improvement an important factor is the employees. In order to improve the work results of the employees, a greater focus in training and courses could prove to be beneficial. To improve the quality of employees, of course higher salaries would raise the level of employees interested in working for the

company and bring increased commitment to the company and performance quality would improve.

If employees' salaries were higher, some of the benefit of cost savings would be lost. Deloitte S2G has to have the right balance between keeping costs down and on the other hand keeping the jobs attractive for talented employees. Employee performance is well documented and easy to evaluate so including more bonuses and rewards into the salary structure could improve the employee performance.

In order to improve its performance Deloitte S2G should continue to give attention to benchmarking, learning from its competitors, Deloitte member firms in Spain, Deloitte worldwide and from Hewlett Packard's other shared service centres in other parts of the world. Deloitte S2G has the important possibility to draw from the experience of Deloitte's different member firms and units worldwide.

The current strength that the Barcelona Crc has is its ability to entice young professionals from Western European countries. It would be more difficult to recruit them to work in Poland and very hard in India. In the next few years it might be that similar bigger shared service centre projects might be difficult to find for Deloitte S2G as big companies have been now moving their shared service centres to Eastern Europe because of the lower costs. Deloitte S2G has proved to be a reliable service provider. In the case of migrating the crc to Poland, Hewlett Packard would have to outsource it to another BPO vendor or insource the activity.

As the pace of change is faster than ever in the world, it would be important to aim to be as innovative as possible. Deloitte S2G has been a pioneer in Spain in business process outsourcing. The company could look for new sectors to operate in, to be innovative and continue being a pioneer in BPO. Deloitte S2G should continue to investigate for ways to benefit from the current trend of increased offshoring and industrialization of processes that is taking place across the financial services industry.

As with BPO the location is not essential, competition in BPO is crossing country borders more and more. For example Deloitte S2G can receive a project from other parts of Europe through another Deloitte member firm. In this author's opinion, Deloitte S2G should more and more aim to specialize, to find its own niche in the BPO market because of the changes and growth that the industry is experiencing.

In this authors opinion nowadays nearshore projects from Western European countries might also offer good opportunities for Deloitte S2G as the BPO prices are in the UK are double compared with Spain and France or Germany about 50% higher. There might be an interesting niche with Western European clients who are looking for cost savings, but still greater expertise and less risks that for example Eastern Europe would bring. (Sarrieri 2007.)

Regarding the future, it might be wise for Deloitte S2G to concentrate in consulting even more and seek BPO opportunities from national companies. They are not likely to outsource activities offshore.

Deloitte has the resources that smaller outsourcing vendors do not have, because of the support of the big organization. On the other hand, Deloitte S2G has the flexibility of a smaller firm. The BPO industry is growing strongly, so even though more and more offshoring is taking place, Deloitte S2G has promising possibilities of increasing its revenue in the Spanish and Western European BPO market.

5. SUMMARY

The purpose of the study was to find out how Deloitte S2G, a business process outsourcing (BPO) vendor, could improve its performance in operating the customer response centre of Hewlett Packard accounts payables and employee reimbursement. The author's interest in business process outsourcing was aroused by starting to work in the industry in the case study company. The choice of the case study topic was therefore natural. The author wanted to learn more of business process outsourcing and the company's operations he works for.

The theoretical framework consisted of outsourcing, business process outsourcing and shared services. Relevant topics like offshoring, BPO vendor buyer relationship related issues and business process outsourcing risks were discussed along with views on the future of BPO. The case study dealt with Deloitte S2G's shared service activities in the Hewlett Packard customer response centre followed by recommendations on how to improve the performance in the project and as a company in light of the current trends in the industry.

In addition to literature, theme interviews were used to have a deeper understanding of Deloitte SG2's activities as a company and especially of its shared service activities in the Hewlett Packard shared service centre. Questions varied in the interview, but the same base questions were used (see appendix). The persons interviewed spoke freely and the discussions proved to be helpful in having more knowledge of Deloitte S2G, the history of the project and the shared service processes of the customer response centre.

The current trend in BPO is that offshoring is increasing and the focus is on cost savings. On the basis of literature, interviews and observation, there might be challenges in keeping the customer response centre in Barcelona in the long term. However it is possible that the trend changes into valuing quality instead of low costs and Hewlett Packard decides to keep the customer response centre in Barcelona.

In order to improve the performance of the customer response centre, in this author's opinion the processes should be simplified and standardised even further which is something that 91 percent of the financial service firms are currently doing (Deloitte 2007, 6-8). Training of the employees should have an increased focus and employee performance could be improved by including more bonuses and rewards into the employee salary structure.

It could have been beneficial for the research process to have had interviews with Deloitte S2G employees in higher positions within the company for strategic viewpoints and also with Hewlett Packard managers to be able to include the perspective of the business process outsourcing buyer in a deeper way into the study.

As a company Deloitte S2G should in this author's opinion seek to focus in business process outsourcing of national companies. The business process outsourcing industry is experiencing strong growth, so despite of the increased offshoring, Deloitte S2G has promising opportunities ahead to increase its revenue in the Spanish and Western European business process outsourcing market.

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APPENDIX: CASE STUDY THEME INTERVIEW QUESTIONS

History of the project

Has Deloitte S2G had similar projects before?

When did the cooperation start between Deloitte S2G and Hewlett Packard regarding the customer response centre?

Are the two companies having other cooperation together in Spain? Or Deloitte with Hewlett Packard in other countries?

How were the Crc activities organized before the creation of Crc? Where the activities performed individually in each country? When Crc was formed, was it formed by S2G?

From Deloitte S2G point of view, what qualities of Deloitte S2G made HP choose it to operate the Crc?

How did the transition phase go when Deloitte SG2 took the responsibilities of running the Crc?

From the beginning, what have been the major steps and biggest changes in Crc?

BPO Buyer- Service provider relationship

A good relationship offers benefit both to the customer and the service provider. How is the relationship maintained?

How are the service level metrics agreed upon in this project between the two companies?

How do the corporate cultures of the two companies match together?

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The outsourcing contract is a living document, which must be reviewed and changed if needed. How often the contract is reviewed?

What is the pricing like in the contract? A fixed-price contract where a vendor manages a buyer's process and gets paid a fee based on meeting agreed performance benchmarks? Is the vendor's fee same regardless of the volume of services provided?

Does the SLA agreement include achievement bonuses?

What kind of resolution techniques are used if needed?

Under what conditions and in what manner issues are escalated within and between the organizations?

What communication channels are used in the cooperation between the companies? What about inside Deloitte S2G?

What would you say are the trouble spots of Crc?

How to improve the activities of Crc? What to improve in the cooperation?

Deloitte S2G as a company

Generally as a company, what do you see that S2G could do to improve its performance?

Does Deloitte S2G have activities in other countries?

How do the new projects come generally, by active sales or old connections?

Are the other big four firms involved in BPO in Catalunya?

Who are the biggest competitors in BPO for Deloitte S2G?

What do you see are the biggest challenges for Deloitte S2G?

How do you see the future for Deloitte S2G?