GOVERNANCE CHALLENGES IN BUSINESS PROCESS OFFSHORING: THE BASE)) SOLUTION

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A CHALLENGE AND AN OPPORTUNITY

Gary Kirsten, CFO of ABC Inc. a large Fortune 500 firm, noted that it was 6:00 PM as he looked out the 60th floor window of his Manhattan office. Management of ABC Inc. had recently given centralized control to Gary for many of the firm’s Finance and Accounting (F&A) processes. The management had entrusted Gary with the daunting task of aggressive cost cutting. Specifically, his target was 30%. Gary’s firm was under tremendous pressure to cut its costs quickly and drastically. With ABC’s margins hovering around 3-4%, the CEO believed that cutting cost in support processes such as F&A was an important goal.

Gary wanted to go beyond just cutting costs; he expected F&A processes to add more value and improve the firm’s “bottom line.” In particular, Gary believed that several aspects of the F&A processes could be exploited to make them “revenue generating” rather than simply being a “cost head” to the firm. Gary was also not very happy with the current information collection mechanisms used on F&A processes. Management was not willing to put in the investments required to significantly improve process monitoring. Consequently, Gary considered outsourcing to be a potentially attractive option.

Many other firms seemed to be offshoring F&A processes in order to cut costs, but Gary wasn’t so sure about the effectiveness of outsourcing to low cost countries. He knew that the CFO of another firm, XYZ Inc., was in a similar situation two years ago. XYZ spent almost 75% of their sales on items procured from vendors. Like ABC Inc., XYZ also had tight operating margins and competition was stiff. As a result, invoice processing significantly affected the firms’ profitability as payment at the right time enabled XYZ to gain discounts from suppliers. When XYZ outsourced its accounts payable (AP) process they found that their lack of ability to monitor payments caused “profit leakage” due to invoices not processed on time. In addition, large payments often impacted cash flows. Gary knew that XYZ managers often worried about their lack of visibility and inability to directly manage cash flows. XYZ’s overall experience with their vendor had not been good. In fact, it bordered upon being disastrous. The problems had started when XYZ began transferring their accounts payable (AP) process offshore. The AP process of XYZ involved several disparate systems that were built over time and would not “talk” to each other, including multiple ERP systems for various plants. Such disparate systems delayed the transition and made standardization difficult. Offshoring the processes had actually increased overall costs by 10% because of the coordination costs involved.

Gary believed that ABC’s systems were even more complex than XYZ’s. Indeed, conflicts among IT systems at ABC had created huge barriers to his plan to implement a more efficient, unified AP process. Gary believed that a unified process would benefit the firm in multiple ways. First, the legal environment surrounding invoice processing required monitoring the history and compliance of each invoice. This was complex given the current IT infrastructure. Gary knew that managers at XYZ had spent a tremendous amount of time managing their supplier to verify whether it was complying with process requirements and
providing targeted service levels. Gary hoped that his staff could spend less time on transactional tasks and more time thinking of value adding activities that might better “extract” profit from the AP process.

While Gary was wary of the experiences of XYZ Inc., he still held out hopes that outsourcing might help ABC. He had recently read a series of press reports asserting that vendors had become better in managing these processes, and that transaction process outsourcing was growing at a fast pace. For example, leading market research firms suggested that the global Business Process Outsourcing (BPO) industry on HR related activities was estimated to grow from $28.1 billion in 2007 to $42.9 billion in 2012 (Gartner 2008).\(^2\) Similarly the Finance and Accounting (F&A) BPO industry was estimated to grow from $12 billion to $19 billion in 2012 at a CAGR of 12%.\(^3\) Further, market research firms suggested that transaction processes such as the Finance and Accounting (F&A) and Human Resource (HR) processes had been a source of immediate cost reduction and quick payback for these firms, often as low as 3 to 6 months. This sounded like music to Gary’s ears. At the same time, he figured that achieving such results might be difficult given ABC’s particular challenges.

Gary stared at a proposal from Wipro Technologies, a leading BPO company in India. Several of his managers had been in touch with Wipro and they had suggested outsourcing all of the company’s accounts payables processes to them. Gary thought that offshoring might give him the kind of cost savings his CEO was demanding. Before committing to such a course of action, however, he knew that he would have to feel much more secure about the vendor’s ability to manage the migration and ultimate execution of the process.

ABOUT WIPRO TECHNOLOGIES

Wipro is the first PCMM Level 5 and SEI CMMi Level 5 certified IT Services Company globally. Wipro provides comprehensive IT solutions and services (including systems integration, IS outsourcing, package implementation, software application development and maintenance) and Research & Development services (hardware and software design, development and implementation) to corporations globally.

Wipro’s unique value proposition is further delivered through our pioneering Offshore Outsourcing Model and stringent Quality Processes of SEI and Six Sigma.

BPO AND THE ACCOUNTS PAYABLE PROCESS

Gary had heard that many processes in domains such as Finance & Accounting and HR had been standardized by vendors using a “Lift and Shift” model. However, simply “lifting” and

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\(^2\) Gartner Report Number G00162336, November 25 2008

\(^3\) Gartner Report Number G00162882, December 19 2008
“shifting” the processes involved several nightmarish possibilities. In particular, Gary mentally tried to make a list of his key pain points. His core problems stemmed from the size and the wide disparity of processes located among the divisions within his organization. He thought that coordinating multiple processes from multiple divisions would be difficult for an outsourcing partner, given the complexities ABC had faced in managing the F&A processes within the firm itself. He wondered, “How can an external, foreign supplier manage the volumes of invoices from different business units?” As Gary began to feel overwhelmed at the prospect, he noted several problems that he expected to encounter when transferring the processes offshore:

1. The nature of the AP process in itself was complex. Visibility into the process and monitoring it was important from a resource allocation standpoint. Each process (or transaction type) within the company had its own set of priorities. For example, some clients might need to have a different priority in payment as compared to others. Payments that had larger discounts needed to be processed quicker and faster as compared to payments that did not have discounting. This impacted the bottom line. These priority rules had to be accommodated for each process, thus creating queues of jobs that needed to be processed by employees (agents). Agents varied in their expertise. Further, agents had to adopt priority rules based on attributes associated with the invoice. Enforcing these internal controls required a high level of visibility within the process and ABC often ran into resistance with divisions since the “experienced” agents often did not approve or prefer corporate interference. Gary felt that increased visibility of the processes allowed for a “single version of truth,” i.e. managers could rely on one source of information for all of their needs and contingencies. For example, to redress supplier grievances, management could easily find the required information to provide to the supplier in one simple step rather than wasting time to look around multiple places.

2. In line with the complexity of the process, there had been growing concerns from ABC’s suppliers regarding invoice errors, and dissatisfaction with the time that ABC Inc. was taking to release payments. Some internal processes were poorly managed. However, Gary attributed many problems to the fact that various divisions had complete autonomy in decision making. The lack of centralized control caused lack of transparency in the AP process. Supplier grievances had risen 40%. In order to address these grievances, AP managers needed to maintain a clear audit trail. If a vendor queried or challenged a payment, then the relevant division was required to show a trail of the transaction history that could be used to verify the payment status. If any of the payment processes had exceptions, they had to be handled carefully and records of the exceptions maintained. Further, when exceptions became more common, division managers had to monitor and create different rules to govern a revised process. Therefore, identification and data collection on these “exceptions” was important. Given the multi-divisional structure of ABC, these exceptions were many.

3. Monitoring was critical to other issues too. In particular, benchmarking and metrics programs could increase opportunities for cost savings in the future. Currently, ABC had
poor metrics on internal processes within individual divisions. Part of the reason was low visibility into processes within the divisions. Gary was of the opinion that processes that could not be measured could not be improved. Attaining the highest level of visibility allowed ABC Inc. the opportunity to gain insights by mining AP data and improve the profitability. Gary strongly believed that his team should move beyond the current focus on cost reduction and move to process improvement and “revenue generation.” He believed that such a mindset would also raise the importance of effectively managing the AP processes within the firm.

4. In addition to benchmarking and monitoring, Gary felt that the payment process was mired in red-tape. It typically involved multiple approval hierarchies based on invoice values. Gary’s division often saw such processes as a “necessary evil” since they were not the best use of his managers’ time. With increasing pressure to curtail costs, Gary believed that his division would be better served by investing their time on issues that were relevant to the bottom-line of the firm. Developing metrics and visibility into individual processes was the first step in reconfiguring how his managers spent their time. Transferring the current AP process offshore might potentially increase the number of times invoices would be handled due to the additional layer of staff and possibly increase his staff’s burden rather than reduce it.

Gary wondered how outsourcing might amplify, and not destroy, the latent value embedded in the AP process. His problems were not just restricted to the finance division, but also the IT division. His meeting with the CIO of ABC Inc. the previous day had shed light on other problems that needed to be addressed:

1. ABC Inc. used multiple invoice formats within the firm. Some divisions processed paper invoices, others used email invoices and yet others used traditional FAX and XML based electronic invoices. Often, these invoice formats were processed based on different business rules making reconciliation across the different procedures difficult. This resulted in many invoices not being appropriately processed, creating a considerable amount of financial loss apart from process complexity. Often the finance staff in XYZ had to make several phone calls to divisional personnel to clarify the different aspects of invoice processes.

2. The variation in processes between the divisions caused “data within data” kind of scenarios. How could all this data be integrated into a single framework that provided visibility? Gary feared that outsourcing such multiple processes might create a huge hassle for his division, thus wiping out potential cost savings. He wondered what the costs of managing these processes would be, and whether service levels would truly improve.

3. ABC Inc. operated multiple information systems in different locations, and faced significant challenges in standardizing these processes when they would outsource. Also, individual divisions had widely differing expectations on the service levels that they expected in
processing the invoices. Gary spent a good deal of time on the phone interacting with his divisional Finance and Purchasing staff. Often they unable to agree upon a common process or service level for their respective divisions.

4. Gary had to review multiple spread sheets each month, each crafted by division managers according to their specific needs. Gary’s calls for standardization had been ignored. Further, some of his staff tended to download the data onto their desktops from ERP systems, and then perform the analyses using standardized Excel templates. Often such analyses would be difficult to capture with the current systems. Partly this was because the current IT infrastructure within the firm was complex. Each of the functional groups in different business units had over time implemented different systems to manage different business processes. The current economic climate did not allow for the large investments required to unite the disparate systems.

5. Finally, data integrity was not what Gary wanted it to be. He had his doubts regarding the accuracy of data reported by the divisions. Indeed, data errors were a key source of supplier grievances.

Gary wondered whether all of these problems and process complexities would make outsourcing of the AP process too costly. It was difficult to estimate how much management time would be needed to ensure adequate controls were in place, to verify audit trails, to mine data for business insights, to manage the supplier relationship, and to manage AP process exceptions. Would supplier governance cost be high enough to wipe out cost savings? Given that the transaction volumes ran into the millions and generated huge amounts of data, how could ABC coordinate their efforts with agents at the vendor? In particular, how would improvements to processes be identified and incorporated? The challenges of executing such a workflow from an offshore location seemed to be daunting. “No wonder XYZ Inc. suffered cost increases when they shipped their work offshore” Gary thought.

Further, he thought that the contract itself might be quite complex. A massive outsourcing initiative “Might rob our company of visibility into processes,” Gary thought. He wasn’t sure if he could trust offshore delivery. XYZ Inc’s experience was that their offshore process had become a “black box” of sorts. Adding more resources to a “black box” was not really an option. Gary realized that a quick payback from offshoring would be difficult to achieve. If processes were managed offshore as a “black box,” the loss of transparency and control could end up consuming considerable resources of the firm. In addition, Gary’s firm would lose its ability to re-engineer the process. The prospect of millions of invoices getting lost in the service provider “black box” could hurt his business severely in the long run.

**BASE**))

As Gary was getting more restless with his problems, his phone rang. Daman, one of WIPRO’s sales persons, was on the call. After listening to Gary’s concerns, Daman began
describing a process execution and governance tool known as “Base)))”, engineered by WIPRO. Daman explained that Base))) could be an answer to a majority of Gary’s perplexing questions. A technology mediated governance model facilitated by the Base))) tool could enable them to quickly offshore some of the processes and facilitate greater transparency and a faster payback. The Base))) tool could facilitate coordination between ABC Inc. and the service provider – and within the various agents of the service provider – with the broad set of functionalities that the tool offered. Further, Daman suggested that Base))) could potentially solve his problems. Daman suggested that the Base))) tool provided benefits related to effectiveness, efficiency, compliance and governance.

Daman went on to explain some important features of Base))). From an effectiveness standpoint, Base))) contained the ability to decouple the disparate systems in the organization with minimal set up. In particular, this decoupling enabled each organization to maintain its IT infrastructure in the division and manage to still bring together the possibility of gaining economies of scale of the processing that may happen in multiple divisions. The platform could accommodate different sets of processes, integrate the incoming data from multiple systems, present a single interface, manage the overall services and enable effective monitoring of the systems. Further, the system enabled the organization to access a workflow platform that effectively managed the process, and allowed prioritization and integration of the different sets of processes from the various units of ABC Inc. These benefits addressed many of the limitations of ABC’s IT infrastructure.

Gary thought that the Base))) could also contribute to improving the overall efficiency of the AP process. This was primarily the benefit of improved audit trails enabled by the tool. In particular, greater visibility and control enabled by the capturing the history of invoice transactions could enable process improvements, decrease turnaround times for invoices, and enable better monitoring of the invoices. The increased visibility could enable them to put together metrics and targets based on best in class performance across the divisions. Such metrics might include invoice backlogs, cash conversion cycle times, and on-time versus delayed payments. The visibility provided by Base))) could also promote efficiency in dealing with the numerous exceptions that occurred, thereby minimizing financial loss and improving supplier satisfaction. In addition, increased visibility could increase compliance to processes, service level agreements, and contract terms. Processes often involved approval protocols that were complex and multi-leveled depending on the nature and importance of the transaction.

Finally, Gary realized that Base))) could give his company greater control over activities in the offshore environment with appropriate reporting structures that could be customized according to ABC’s needs. Information could be disbursed online through better availability of the standard operating procedures. In addition, the tool might also help better govern ABC’s own suppliers by monitoring vendor-wise performance metrics and SLA’s.
Suddenly many of the Gary’s worries started to disappear as he started to think about all the different metrics that he could potentially collect from the tool. While Gary was still not convinced, he began to see how such a tool could help. He asked Daman to describe how the tool might be applied to an accounts payable process.

EXAMPLE PROCESS: ACCOUNTS PAYABLE

Daman used Figures 1a, 1b and 1c to illustrate how the Base interfaces with the overall workflow of an accounts payable process. The processes began at the client site when a paper invoice arrives and is scanned (Figure 1a). Base inputs scanned data in a batch mode with the help of a scheduler. Each batch of data could be collected and input in multiple chosen formats, thus enabling the software to integrate the data from various systems. Further, the workflow software creates internal work processes for each individual invoice that can be handled by the accounts processor. The processing agent goes through a sequence of steps shown in Figure 1a. Once the processes are entered into the workflow software, the reporting matrix enables sorting of typical workflow issues including validation of the invoice. This validation might often require setting up of the appropriate business rules, reporting and escalation across different levels of the organization in order to appropriately route the invoice payment approvals to the involved individuals.

Upon validation, the payables processes would be managed appropriately. The workflow system creates queues of jobs for each process (Figure 1b). For example, each of the invoices in a queue would be routed to a handling agent who possesses the appropriate skill sets. Once in queue, the invoice would be monitored for processing quality; an audit trail of the process would be maintained to ensure verifiability of process history. This might include the history of the various reminders for the process, the escalations that may have happened in processing the invoice, and the interaction history of processing the invoice. This phase also requires a considerable monitoring of the service levels and data gathering that enables the computation of the service level and other measures of interest that can be used to compare against pre-defined agreements.

Base enabled collation of multiple measures related to the process across various levels. These measures are not limited to but may include:

a) Governance of the process including:
   
i. transaction backlog (actual transaction volume versus forecasted transaction volume - See Figure 2)

   ii. total transactions within the system

   iii. turnaround time (TAT) analysis (see a sample screen shot of the TAT feature in Figure 3)

   iv. quality of process execution in terms of the accuracy of transactions
b) Process metrics including:
   i. nature of exceptions
   ii. classification of exception transactions by vendor
   iii. other process reports such as age of the different transactions and their numbers
   iv. percentage of exceptions
   v. Invoice cycle times

c) Business metrics such as:
   i. the number of invoices that are coming of age
   ii. the nature and type of discounting applicable to particular invoices.
   iii. cost per invoice

Daman suggested that this example of the accounts payable process could be extrapolated to include multiple classes of metrics in each of the processes.

BEYOND ACCOUNTS PAYABLE

With many of his doubts resolved, Gary thought about the applicability of Base))) beyond the account payable process. For example, Gary could use the tool to coordinate other business related outcomes. For example, Gary thought that the metrics extracted from Base))) could be customized to his needs and he could potentially link process metrics to business outcomes such as cost reductions and other sales related metrics such as “Days payables Outstanding,” “Days Sales of Inventory” and other similar measures. Further, Gary wondered whether the tool would allow them to monitor metrics to implement six-sigma processes. These initiatives could make the processes considerably tighter and so they could establish service levels around the process and facilitate process improvements. Gary was reasonably sure that the Base))) could be customized for any kind of transaction processing for their firm.

Gary then questioned Daman on the cost of implementing the tool. Daman explained, “The cost and implementation timelines for implementation of Base))) would vary depending on the number of processes for which Base))) is being implemented, the number of process users, the complexity of the processes and the type of interface requirements between Base))) and existing systems of the client.” Daman explained that he needed to develop quotes for individual processes. He went on to talk about the “4D Process” of implementing Base))) shown in Figure 4. Further, Gary learnt that these tools also required a post deployment support provided by
WIPRO throughout the contract duration. A more detailed assessment would require Gary’s company to request for an RFP.

CONCLUSION

This case illustrates some of the key governance and process challenges that an organization can face when offshoring processes in general, and how technology can serve as an effective medium to tackle these challenges. The illustration of the accounts payable process shows how technology can be of considerable assistance in the governance and monitoring of offshore relationships, particularly when the appropriate measurement processes across different business levels can be put in place. Individual users of a tool such as Base))) need to judge the cost efficacy and understand the returns on the tool depending on the nature of the process, level of customization and their process related objectives.
FIGURE 1C: THE ACCOUNTS PAYABLE PROCESS

FIGURE 2: A SAMPLE REPORT ON INCOMING TASK VOLUME
FIGURE 3: A SAMPLE MEASUREMENT REPORT ON TRANSACTION TURNAROUND TIME

FIGURE 4: PHASES OF BASE))) IMPLEMENTATION

- Business analysts understand the “As-is” processes and map out all the opportunities for improvement leveraging Base))) Capabilities.
- Based on the As-is study a detailed business requirement document (BRD) is then prepared where the requirements are detailed out down to the field level. This document along with the functional design is then shared with the client SMEs for review and signoff.
- Customizations and configurations are per the client specific requirements are then incorporated into the core product. Any interface requirements and data migration are also taken care of at this stage. Robust unit testing and system interface testing is carried out to ensure smooth transition of base))) for deployment into the production environment.
- Actual migration of Base))) into the UAT (User acceptance testing) environment is done at this stage. The SMEs and process users then test the product based on real business scenarios once there is a signoff on the UAT, Base))) is deployed into the production environment.