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An Empirical Examination of the Determinants of Successful Transition Management in Offshore Business Process Outsourcing

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ABSTRACT

Business process outsourcing (BPO) is fast becoming a mainstream business phenomenon and in recent times offshore business process outsourcing has gained momentum, with a number of companies wanting to capitalize on the benefits of offshore services. Effectively transitioning the identified business processes to a cost effective geographic location and stabilizing them in a defined timeframe constitutes an important step for successful offshore BPO. Towards this, transition management assumes paramount importance. In this paper, we report the preliminary findings of our empirical study focused on examining the determinants of successful transition management for offshore BPO, and provide recommendations for both the outsourcing firm and the BPO vendor. We also present directions for further research relating to transition management in offshore BPO arrangements.

Keywords
Transition management, Business Process Outsourcing, Offshore Outsourcing, Offshore BPO, Absorptive Capacity

INTRODUCTION

Offshore outsourcing of business processes gained momentum during the nineties and is evolving at a fast pace finding global acceptance. According to a Gartner study (Gartner Dataquest, 2003), the global market for BPO would touch US $131 Bn in 2004 and reach 173 Bn by 2007, growing at a CAGR of 9.5%. The countries that offer attractive proposition as offshore outsourcing locations include India, Ireland, Vietnam, Russia, Israel, China and Philippines. The emergence of the Internet and telecommunication infrastructure and their adoption by firms for organizational communication, coordination and management has triggered the wave of outsourcing (Laudon & Laudon, 2001). The trend of global enterprises to focus investments on their core business processes and outsource non-core business processes to realize cost savings by way of reducing the cost of transaction processing is the principal driving factor for offshore BPO. In addition, leveraging the process expertise of outsourcing partners, maturity of BPO suppliers, and the ability to migrate to new technologies are also some of the influencing factors for the growth of offshore BPO. Offshore business process services are rendered from cost effective locations situated across the world and include Information Technology Enabled Services (ITES) such as BPO operations, call centers etc. Outsourcing in a generic context has been defined by Lacity and Hirschheim (1993) as “conducting one or more organizational activities, using external agents”. In the case of offshore outsourcing, the outsourcing firm outsources its activities to an outsourcing service provider firm which is located in a different country. Business process outsourcing (BPO) can be defined as execution of business processes and rendering of associated services by an external agent (provider of services). Offshore BPO can be defined as execution of the identified business processes and delivery of the associated services by a service provider located in a different geographic region (country) than the outsourcing firm.

The quality and timeliness of support and services in offshore BPO are the key elements that constitute customer satisfaction. This demands complete familiarity with the outsourcing firm’s business processes and the associated workflows, and their flawless execution. For a successful offshore BPO, therefore, it is essential that the identified business processes be effectively transitioned in the shortest possible time without impacting the service level agreements (SLA) with customers. In this context, transition management in offshore BPO assumes critical importance as during the transition phase the identified
business processes need to be duplicated and stabilized at the location of the offshore BPO service provider (OSP). At the end of the transition phase, the OSP assumes full responsibility for the outsourced business processes while fulfilling or improving the defined SLAs. Offshore transition management in the BPO context can be defined in the following manner:

“Offshore transition management involves duplication, stabilization and execution of business processes of the outsourcing entity at the location of the outsourcing service provider (located in a different geographic region - a different country) in a defined timeframe”

In the ideal scenario, transition management should form an integral part of the agreement between the outsourcing firm and the OSP. Effective offshore transition planning comprehensively accounts for such factors as replicability of process knowledge, speed and efficiency of knowledge transfer and the risks associated with it, regulatory and legal issues, customer interaction and SLAs, and the cost of transition, etc. The above transition management issues are accorded critical importance owing to the fact that the outsourcing firm and OSP are located in different geographic locations, are governed by different legislations, possess varying business experience and industry knowledge, as well as have cultural and social differences prevailing in their respective organizations because of different geographies.

Extant literature has looked at near-shore outsourcing and offshore IT outsourcing from a cost reductions angle (Lacity and Hirschheim, 1993), contracts viewpoint (Gurbaxani, 1996), outsourcing risk analysis approach (Loh and Venkatraman, 1992), IT offshore outsourcing (Rajkumar and Dawley; 1997; Kumar and Willcocks, 1996) etc. However the literature is scarce in the case of BPO. It is in this context that this study gains importance as, BPO, and particularly, offshore transition management as it relates to BPO, to the best of our knowledge has not been investigated and reported in academic literature. This paper addresses the following question: What are the determinants of effective transition management in offshore BPO arrangements? In the next section, we describe a typical BPO life cycle and explain its various phases. In the succeeding section, we present the research methodology employed in our study. Next, based on the analysis of the case study results, we discuss the determinants of effective transition management in offshore BPO arrangements. Finally, we present the implications of our findings and provide directions for further work.

BUSINESS PROCESS OUTSOURCING LIFE CYCLE

The BPO life cycle broadly comprises of three stages: Sales, Transition Management and Operations. The business model of some OSPs could include one more step between Sales and Transition Management termed Discovery. Figure 1 depicts a typical BPO life cycle.

Sales

Sales is the first phase in a BPO life cycle and involves responding to request for proposals (RFPs) from the outsourcing firm, bidding for new projects, bidding for non-RFP, etc.

Discovery

Discovery is an optional but value added step performed by some OSPs wherein the senior management of the OSP would assist the outsourcing firm to determine the appropriate set of processes to outsource. This includes activities such as high level process mapping, financials as well as mapping the processes on a risk vs. BPO fitness matrix. This matrix essentially measures the risks involved in outsourcing business processes. If the risks far outweigh the benefits, then such processes are not considered as candidates for outsourcing. The discovery process usually takes between 1-4 weeks depending on the number and complexity of business processes involved.

Figure 1. Steps involved in a Business Process Outsourcing life cycle
Transition Management

Transition management is the key step before an offshore BPO project becomes fully operational. Before the transition management exercise commences, the scope of the BPO and the corresponding SLAs are captured in a formal contract along with the commercials. This contract forms the Master Services Agreement (MSA), which is a statement of work. Transition management begins with the formation of the project management team at the end of the outsourcing firm as well as the OSP. This cross-locational team plays a key role in understanding the processes and the associated workflows that would be replicated at the OSP as part of the transition management exercise.

Transition management can be broadly segmented into two tracks:

- **Knowledge track**: The project management team of the OSP carries out extensive mapping of the AS-IS business processes of the outsourcing firm. Process mapping and modeling tools are used extensively and the team interacts with the various process and application owners at the outsourcing firm to capture the AS-IS processes. Simultaneously, another team is formed at the OSP’s end, called the Initial Operations Team (IOT), who would act as trainers for the operations team. Typically the strength of the IOT is 3-5 members and would first undergo training on the outsourcing firm’s processes before they train the operations team. The strength of the operations team could vary from 10-30 people (depending on the project size and complexity) and would undergo training under the IOT. The training includes an in-depth understanding of the business processes and a host of soft skills training such as cultural sensitization, communication, etc.

- **Technology track**: This track is a very time consuming one and captures the AS-IS technology architecture of the outsourcing firm and comes up with the blueprint of the technological infrastructure needed at the OSP’s end to replicate and execute the business processes. This involves the procurement and installation of hardware (switches, routers), software, etc.

Operations Management

This phase begins as soon as the transition phase comes to a conclusion and the project goes live with the OSP taking full responsibility for the outsourced business processes. The operations phase typically has provision for a defined pilot/trial period during which the transition managers monitor the performance until a steady state is achieved. This is carried out to ensure that the BPO arrangement conforms to the service level agreements and that the outsourced business processes can be executed by the OSP smoothly.

RESEARCH METHODOLOGY

We adopted a case study methodology for this research. The key mode of data collection was an open-ended, semi-structured questionnaire, which was used to conduct interviews with transition managers. The questionnaire included questions relating to company size, number of employees, number and type of offshore BPO projects in progress, client list, BPO life cycle, transition management process, capabilities of the transition management team, capabilities of the operations team, top management involvement, legal and regulatory issues, knowledge sharing process, contracts, infrastructure, transition cost and transition time. In addition, we also had access to secondary sources of data such as the transition management manuals/plans of the OSPs we studied. Transition management is a dynamic activity that unfolds over time and hence a case study research could more accurately capture the nature and degree of specific changes. Moreover transition management being an unexplored area, a case study methodology is more suited to examine this phenomenon. A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, when boundaries between phenomenon and context are not evident; and in which multiple sources of evidence are used (Yin, 1984). We employed the case research strategy as it is particularly helpful in situations of a “phenomenon in the making” to gain novel and rich insights (Yin, 1984). These are situations where there are few theoretical foundations and exact measures for the key variables. The strength of the case study approach is that it enables one to capture reality in considerable detail more than what is possible with surveys, experiments or field studies. To allow for replication logic we adopted a multi case design wherein a number of cases were treated as a number of experiments, each case serving to confirm or reject the inferences drawn from the previous ones (Yin, 1984). The cases were analyzed using pattern matching and explanation building, as suggested by Yin (1984).

We collected data from three Indian OSPs based in Bangalore. We interviewed 9 transition managers - all with considerable experience in transition management, and each interview lasted two to three hours. The transition managers had participated in 21 medium-large transition management exercises. The details of the OSPs we interacted with have been withheld to ensure confidentiality. This was necessary as the offshore BPO arrangements are bound by strict confidentiality contracts. All the three firms we studied are medium-sized OSPs with 500-1500 employees. The details of the BPO projects as well as the people interviewed are presented in Table 1.
In the above table, HR services included the following: background checking, payroll, health and welfare, recruiting, compensation planning, etc. Finance and accounting services include general ledger, tax management, accounts receivable, treasury and cash management etc. The administrative services covered document management, asset management, etc. Payment services included check electronicization, automated clearinghouse, letters of lines of credit, etc. Under Other services we found instances of procurement services, logistics services, etc.

**RESEARCH FINDINGS**

Eisenhardt (1989) recommends starting data analysis with an in-depth study of each individual case and this first step is called within case analysis. This entails sifting through all the data, discarding whatever is irrelevant and bringing together what seems most important. The idea is to allow the most significant observations to emerge from all data gathered in the field, while reducing the volume of data. We adopted the above mentioned approach. The second step of the analysis consisted of a cross case search for patterns across the different transition management exercises. A third level of analysis was used to explain the phenomenon by stipulating a set of possible causal links about it (Yin, 1994). Yin (1994) suggests beginning such an analysis by taking the data collected from a first case to build a logical sequence of events explaining the case outcomes. The hypothesized set of events is then verified in a second case and if it is confirmed, we proceed with the third case. In addition, we also used checklists, and event listings applied within and across the cases as suggested by Miles and Huberman (1984). The secondary data sources for our research included the transition management manuals of the OSPs. The transition manuals were examined for the detailed flow of events which form part of the transition management exercise and the exceptions to the same. The data from the transition management manuals helped us in achieving triangulation of sources and methods triangulation (Patton, 1999). In our analysis, we found that a number of determinants emerged as common across the various interviews, although their relative criticality varied across transition exercises. Based on the data analysis, we arrived at the model (Figure 2), which captures the key determinants of an effective offshore transition management exercise. In this section, we analyze and present the findings of our research.

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Table 1. Details of personnel interviewed and the type of BPO
Process Complexity

The complexity of the processes that are outsourced would have an effect on the transition management exercise and in turn would affect the offshore BPO arrangement. If the risks associated with outsourcing certain processes are very high owing to their complexity, then such processes should be carefully evaluated before considering them for outsourcing. Our study suggests that the outsourcing firms usually prefer to retain internally the processes with high complexity as a way of risk management measure. A transition manager we interviewed had this to say:

“Processes which are very complex and where the risks involved in offshore BPO and transition management are very high are best retained within the firm”

As the complexity of the processes increase, so does the risk involved in the transition management exercise. Higher process complexity also affects the time taken to complete the transition exercise because it requires a longer assimilation period for the OSP transition team. The knowledge base as well as the capability of the transition management team would have a role to play here, as a good transition management team would be able to understand the complexity of the processes and effectively assimilate them in the OSP environment within the stipulated timeline.

Top management commitment

Top management commitment and buy-in of both the outsourcing firm as well as the OSP is important for the success of an offshore BPO contract. Top-management involvement is critical because BPO would result in a shift in the way the firm handles its processes. Moreover, strong top management commitment is necessary to drive the message to the middle management including the process owners as well as the end users. This percolation of top management commitment down the hierarchy would result in increased cooperation and collaboration between the employees of the outsourcing firm and the transition management team. Thus a strong top management commitment would result in an effective transition management exercise. Top management needs to monitor the project closely as success of the offshore BPO exercise stems directly from the commitment of top management. The top management commitment during the transition management phase is particularly important because this is the phase that actually marks the beginning of shift in the way process execution is handled and therefore is likely to experience maximum resistance for change. One of the transition managers we interviewed observed the following:

“Top management commitment is perhaps the single most important factor driving an offshore BPO arrangement and transition management. This includes the top-management commitment of both the outsourcing firm as well as the OSP”
Buy-in of business process owner

The business process owners are responsible for new business processes, processes under development as well as processes being re-engineered. Therefore, the commitment and buy-in of the business process owner is important for successful offshore BPO because an effective knowledge transfer would not happen without their full cooperation. The commitment of the business process owners needs to be ensured as the key inputs regarding the AS-IS business processes would lie with them. The business process owner needs to have trust in the OSP’s capabilities regarding the process replication, processing, data handling and security capabilities. In this context, the capability of the transition management staff, operations staff and the checks and balances in place while handling and processing data gain critical importance. During the course of the interviews, one transition manager shared his views on this issue:

“Buy-in of business process owners is important and it would directly impact the transition management exercise. Business process owners need to be reassured on issues of concern such as his/her job, capability of the OSP’s team etc”

Transition planning

Transition planning involves detailing the steps involved in the transition management exercise. In-depth discussions on the micro level details of the transition management exercise between the representatives of the outsourcing firm as well as the OSP occur at this stage. Transition plans would have well defined milestones, with exit and entry criteria. Typically, the factors considered in the transition plan include operations team size, training requirements, transition manager responsibilities, transition time, exceptions etc. Detailed strategies related to knowledge transfer and infrastructure replication are formulated as part of transition planning. Breaking down the entire transition management exercise into logical and managerial phases with well-defined hand-off points between phases emerged as one of the good practices in transition planning. One of the OSP’s in our sample was using well-defined matrices to measure the level of progress and success of each phase. This OSP clearly defined the dependency between the phases and the entry and exit criteria for each phase. A good transition plan would capture the risks associated with transition and include mitigation and contingency plans. To quote a transition manager we interviewed:

“A good transition plan facilitates smooth transition into steady state operation, clearly identifies roles and responsibilities and thus the accountabilities for success, and minimizes the risks associated with offshore BPO”

Contract Structure

The outsourcing firm and the OSP should jointly define the service level agreements (SLAs) unambiguously as part of the overall contract. Well-formulated SLAs would govern the quality of the services under the contract and allow for structured evaluation of the performance of the OSP. It helps to clearly capture the exceptions to SLAs and specify the limits for exceptions as well as incentives or penalty clauses in cases of variations in SLAs. During the transition phase, a higher degree of exceptions to the SLAs are allowed to facilitate the transition and operations team to acquire the necessary knowledge. Stringent SLA adherence requirements during the transition phase is likely to affect the transition interval as it is likely that the OSP team may be not be fully geared to deliver on stringent SLAs. One of the transition managers’ had the following to say on the contract structure:

“Adhering to stringent SLAs of the contract is a critical success factor for the transition management exercise as it builds credibility of the OSP. During the pilot phase, the transition manager needs to interact closely with the outsourcing firm in ensuring and monitoring SLAs”

Capability of transition management team

Capability of the transition management team refers to the essential capabilities required for the transition management exercise such as managing people, effective interaction and communication with the process owners, effective interaction and communication with the team members, accurate capture and replication of business processes, successful trial run of the BPO contract, monitoring of operations until the processes become stable etc. The transition managers in association with the operations team should be able to not only deliver the services agreed to in the SLAs, but should also be able to improve upon these processes. Since the competence of the OSP lies in managing and improving processes, the OSP would be in an ideal position to bring in their best practices knowledge gained from their other engagements. Capability of the transition management team would be reflected in the time taken for the successful completion of the transition management exercise, cost of the transition management exercise, and in developing credibility and trust with the outsourcing firm.
Capability of operations team
For a transition management exercise to be effective, the operations team needs to acquire/possess the essential capabilities such as processing skills, structured problem solving skills, communication and interpersonal skills, and demonstrate timeliness, consistency etc. Executing the relevant processes, problem identification, and developing a workable solution are some of the other inherent skills needed. We found that innovative capabilities of the OSP operations team also augment the effectiveness of the transition management exercise. The ability of the operations management team to come up to speed to deliver the defined level of performance is therefore an important determinant for effective transition management.

Absorptive capacity of the OSP and knowledge transfer
Absorptive capacity is the ability of an organization to identify, assimilate and exploit information (knowledge) from the environment (Cohen and Levinthal, 1990). In the context of transition management, absorptive capacity of the OSP refers to the ability of the OSP to absorb the necessary knowledge (about the processes of the outsourcing firm) quickly and effectively. Remarked one of the transition managers:

“The ability of the OSP to transfer, assimilate and internalise the knowledge of the outsourcing firm is absolutely fundamental to the success of the offshore BPO arrangement”

Knowledge transfer relates to the transfer of knowledge residing in the outsourcing firm on specific business processes. For the transition management exercise to succeed, this knowledge needs to be transferred to the OSP effectively and in a finite time frame. The necessary knowledge to be assimilated could be about customers, knowledge about problems and their resolution, knowledge about people with expertise on whom the team can refer to for additional help, application/process documentation, escalation process etc. In this regard, the ability of the OSP’s team to extract and assimilate the necessary knowledge also plays a vital role in transition management. Another transition manager remarked:

“Effective transition management requires an effective knowledge sharing arrangement. Knowledge sharing should involve not only the explicit knowledge and manuals, but it should also cover the implicit knowledge held by experts. Moreover, a structured knowledge transfer exercise would shorten the learning curve of the OSP’s team”

Infrastructure
Infrastructure in the context of offshore BPO includes the hardware and software such as routers, switches, PCs, Internet and telephonic connectivity, project management software such as Microsoft Project, transaction processing software, a host of business process applications. For offshore BPO, OSPs are required to have sophisticated interconnectivity with their customers through well planned IT and communication infrastructure. Needless to say, the infrastructure should be secure and reliable and hence measures such as firewalls; encryption mechanisms while transmitting data and disaster recovery mechanisms are crucial. Offshore BPO requires replicating the outsourcing firm’s infrastructure or installing a more competitive infrastructure to support the outsourcing firm’s business processes at an offshore location. Thus the availability of a secure and reliable infrastructure has a positive influence on the transition management exercise. One of the transition managers made the following remark regarding infrastructure:

“In offshore transition management exercises, acquiring and setting up secure and reliable infrastructure is the most time consuming exercise owing to influence of a multitude of factors such as import regulations, delivery lead time, system compatibility etc”

Transition Cost
Transition cost is very important consideration in offshore BPO arrangements and effective management of transition cost requires minimizing the overlap of resources across locations at any given point in time during the transition period. Some overlap during the transition is inevitable; however higher the overlap of resources at any given time, the higher the transition cost. Therefore the element of transition cost should be accounted for in the transition plan, as the transition cost has a bearing on the overall attractiveness and feasibility of offshore BPO arrangements. Also, higher the transition time, the higher the transition cost would be. Thus an effective and successful transition would minimize the transition cost.

CONCLUSION
In this paper, we identified the key determinants of an effective transition management exercise in an offshore BPO arrangement through case study research. The degree of impact of the determinants on transition may vary depending on the nature and complexity of the transition management exercise. The key determinants listed in the paper could be accorded
importance during an offshore transition management exercise to reduce the risks and uncertainties in transition management. Our research reveals that process complexity, top management commitment, buy-in of business process owner, transition planning, contract structure, capability of transition management team, capability of operations team, absorptive capacity and effectiveness of knowledge transfer, infrastructure and transition cost are the key determinants of an effective transition management exercise. This research is a first step in understanding the factors influencing transition management in offshore BPO arrangements. Towards that we believe this paper makes important contributions for both practitioners and researchers. Practitioners can have a better understanding of the factors influencing transition management in offshore BPO arrangements and plan their efforts accordingly. This paper builds on the existing literature on IT outsourcing and offshoring and extends the same in the context of BPO. By examining the very important issue of transition management in offshore BPO arrangements, this paper contributes to the emerging area of BPO offshoring. Researchers could use these variables in design of their studies pertaining to offshore BPO.

The results presented here are preliminary in nature and the research is in progress. Going further, we intend to examine the degree of impact of the determinants on effective transition management. Comparing and contrasting the determinants of effective transition management in vertical vs. horizontal BPO arrangements also seems to be an interesting research problem to undertake. A possible area of future research could be comparing and contrasting offshore versus near-shore transition management engagements. Another possible area of research is to examine the determinants of effective transition management in situations where the processes are insourced (business processes are executed by a subsidiary firm). Additional areas that need further investigations include studying the impact of the cost of transition on the overall efficacy of the offshore BPO arrangement, ways to accelerate the transition and knowledge management strategies for offshore BPO transition. Future research efforts could test the generalisability of the determinants against a larger sample size. Scope exists to quantify the business process complexity and their impact on transition risk could also be looked at. Moreover future research could extend this research incorporating the cultural issues prevailing in various geographies and cross-country settings, thereby developing a more thorough understanding of the global offshore BPO phenomenon. Finally, there is a need to examine and construct transition management strategies for different types of BPO arrangements and their impact on the financials of the outsourcing as well as OSPs.

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