DO OFFSHORE BPO SUPPLIERS SUCCEED IN ADDING VALUE, BEYOND COST REDUCTION?

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Abstract

Business Process Offshoring[3] (BPO) continues to receive a significant amount of attention from the UK media, with frequent reports of companies either offshoring more work to India or moving operations back to the UK. These reports typically convey a perception that the primary reason, and sometimes, the only reason that companies offshore work is to take advantage of lower wage costs in offshore locations, therefore reducing operational costs for labour intensive work.

Academic colleagues have used transaction cost economics, in its simplest form, to suggest that a company will outsource[4] a business process to a BPO supplier if the transaction costs associated with outsourcing are less than internal production costs. What is less clear is whether companies that outsource work enjoy any additional benefits beyond cost reduction, although recent industry-based research from the US suggests that they may do so. For example, a recent survey by Forrester Research[5] found that 71 percent of offshoring organisations rated their offshore providers as achieving better quality and timelines than US outsourcing firms; a study by PwC[6] Consulting confirmed this finding for BPO clients in the Fortune 1000.

In this paper we investigate the concept of 'added value' and explore whether a third party offshore BPO supplier can add value to a UK client's extended organisation beyond a one off reduction in operational costs due to labour arbitrage. Our research is case study based and informed by in-depth interviews with senior managers and operational staff in one of major UK based diversified client, and its Sri Lanka based BPO supplier WNS carried out during June and July, 2006. We present evidence to show that the BPO supplier has added value to its client's activities beyond cost reduction, and we make recommendations to help academics and practitioners understand where and how value can be added when business processes are offshored.

[3] Offshoring involves a process moving across a geographic boundary
[4] Outsourcing involves a process moving across a firm boundary
[5] http://www.forrester.com (July 2006)
[6] http://www.pwc.com (July 2006)

Business Process Offshoring

The growth in offshoring to India began in the late 1990s when companies first moved IT application development and maintenance to captive centres or third party suppliers in order to take advantage of the highly skilled but low cost workforces. Three other factors were important in the growth of this market: lower cost technology links becoming available; changing attitudes towards foreign investment; and deregulation in the destination countries.

The BPO industry began with the offshoring of transactional back office and call centre work and has grown substantially since early 2000. Since then, companies have offshored work with increasing knowledge content from other functional areas of their organisations. This paper examines the offshoring of finance and accounting (F&A) business processes. We have chosen to focus on this area for two reasons. Firstly, F&A processes represent a large segment of the total BPO market, by market value, and secondly, these processes are of interest as some require high domain expertise. To put this focus on F&A in context, Everest Research Institute[7] indicates that the F&A global BPO market place, worth USD 12bn – 13bn in 2004, will grow to USD 33bn – 36bn by 2007.

Whilst Sri Lanka has not received as much attention as India in BPO research to date, and its BPO growth still relatively young compared to India, Sri Lanka nevertheless is a notable offshoring destination, in great part because it has over 6,000 qualified accountants and over 20,000 part qualified accountants, but also because it has the largest pool of Chartered Institute of Management Accountants (CIMA) certified accountants outside the UK[8]

Literature review – the main theoretical perspectives

It is important to distinguish between the terms offshoring and outsourcing which are sometimes used interchangeably within the growing body of literature in these fields. In this paper, business process offshoring is defined as 'a process moving across a geographic boundary' and outsourcing is defined as 'a process moving across a firm boundary' (Kroll, 2004; Pujals, 2005). It is important to realise that a process can be

[7] http://www.vunet.com/articles (July 2006)

[8] Based on Information extracted from CIMA Sri Lanka website (www.cima.lk) (July 2006)

offshored without being outsourced, i.e. it can be moved within the organization to an offshore location, commonly termed a captive. Conversely a process can be both offshored and outsourced, i.e. it can be moved to a third party offshore BPO supplier. This arrangement is the primary focus of this paper.

The academic literature underpinning BPO dates back to early nineteenth century when Ricardo (1817) proposed that countries differ with respect to resources available for the production of goods, and that a country will export the goods that it produces most efficiently and import goods that it produces least efficiently. More recently, Krugman (1985) developed this idea and suggested that production efficiency seekers will operate in foreign countries where one or more of the factors of production are relatively under priced and similarly knowledge seekers will operate in foreign countries where the workforce is relatively more knowledgeable. He argued that the real world suffers from imperfect market conditions where factors of production are somewhat immobile; this is an incentive for organisations to seek out foreign opportunities and capitalise on foreign countries' resources.

At the firm level, transaction cost economic theory (TCE) (Coase, 1937; Klein, 1978; Williamson, 1979) has been widely used by academic colleagues to explain various aspects of BPO and outsourcing. In its simplest form, TCE suggests that a company would outsource[9] a business process if the costs associated with the outsourced process are less than the costs of performing and managing the process internally. The costs of transacting with an outsourcing supplier would be included in the analysis, for example, the costs of selecting a supplier, negotiating and agreeing a contract, and managing the supplier and service delivery. TCE, however, takes no account of the resources or capabilities that are available to a company from offshore BPO suppliers through the sourcing decision.

An alternative theoretical perspective suggests that the decision to outsource a business process is a strategic one and that outsourcing can be used to fill gaps in the firm's resources and capabilities (Penrose, 1959; Barney, 1991). This 'resource based view' (RBV) suggests that a company can develop a competitive advantage by developing resources which are rare and valuable if they can be sustained over time, and that companies may outsource a business process to a supplier if it perceives the supplier has better resources and capabilities than those available internally.

RBV suggests that companies should only carry out activities internally where the company has a distinctive or core competence (Hamel and Prahalad, 1994; Coyne, Hall and Clifford, 1997; Galunic and Rodan, 1998; Mascarenhas, Beveja and Jamil, 1998), and other activities that are non-core or peripheral to the organisation should be outsourced. Knowledge based view (KBV) (Nonaka and Takeuchi, 1995; Grant, 1996) goes one step further than RBV and suggests that knowledge is the most significant resource within the firm in terms of developing competitive advantage and that it is a very complex resource to manage because it exists in both explicit and tacit forms (Nonaka and Takeuchi, 1995).

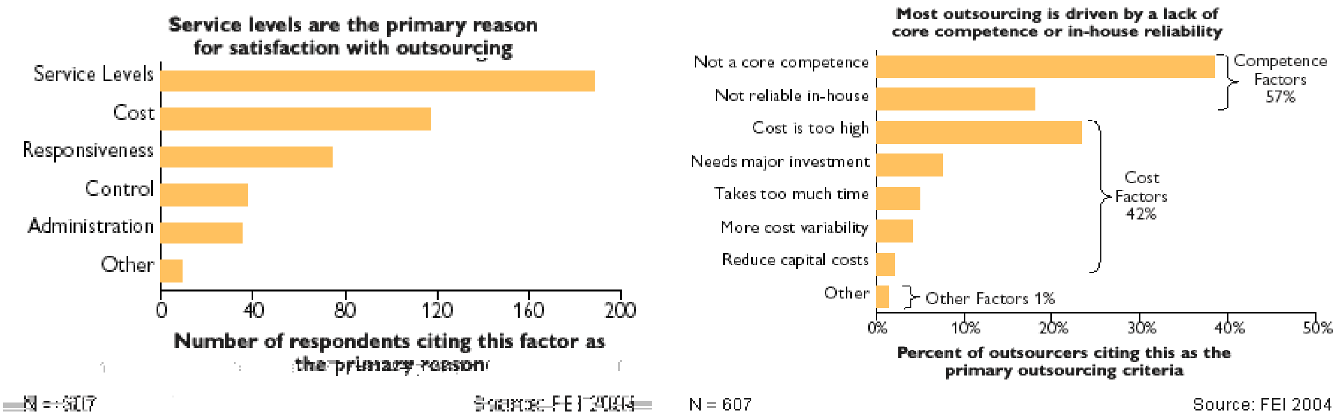
Different theoretical perspectives have also been used to explain the governance mechanisms that are best employed for managing a third party BPO supplier, once a decision has been made to outsource. Agency theory (Alchian and Demsetz, 1972; Jensen and Mekling, 1976; Eisenhardt 1985, 1989), for example, suggests that if a company (the principal) outsources processes to a third party supplier (the agent); an agency problem may arise where the principal and the agent have different goals and it proves difficult or expensive for the principal to measure what the agent is doing (Eisenhardt, 1985). Contracts between the principal and supplier are widely used in business process outsourcing to safeguard the interests of both parties; however, MacNeil (1980) argues that a formal contract guided by promissory norms do not play a substantial role in most relationships. Instead it is the set of understandings among exchange partners (organisations and suppliers) or the ‘implicit contract’ guided by non-promissory norms that substantially affects the relationship (Anderson and Weitz, 1992). According to Andaleeb (1992), parties which engage in exchange, based upon implicit contracts, are less in need of monitoring their exchange partners or building safeguards in the relationship.

The theory of real options has been recently applied to BPO (Myers, 1977) to explain the build, operate, and transfer (BOT) option that has recently been selected by some UK companies as their preferred governance structure for offshoring. BOT is a contractual arrangement between a client and third party offshore supplier wherein the supplier builds and operates a facility on behalf of the client, but the client has a contractual option to transfer ownership of all or part of that facility back to the client after a pre-specified period of time.

Literature review – finance and accounting BPO

The academic literature in the area of finance and accounting BPO is limited. McCracken (2004), for example, refers to results of the Financial Executives International (FEI) sixth annual survey carried out in 2004, which suggests that most outsourcing decisions are driven by a lack of core competency or in-house reliability (figure 1).

<u>Figure 1</u> Factors of Outsourcing
(Source: McCracken (2004))



Rosenthal (2004) also cites a study carried out by Everest Group during July to October 2003 (Supplier Research) which suggests that offshoring suppliers are providing four distinct value propositions to organisations:

1. Cost savings - labour costs reduced by 30% to 70% percent; overall net process costs reduced by 20% to 50%; cash flow improvements.

2. Greater leverage – through access to supplier leverage gained from infrastructure sharing and process consolidation.

3. Improved reporting – more accurate process; improved delivery and increased speed of reporting.

4. Better control - greater process transparency (perceived as important because of the new Sarbanes-Oxley Act).

Rosenthal (2005) also suggested that, compared to processes that have been retained in-house or processes that have simply evolved over time, outsourced processes were better defined and documented, leading to greater clarity.

Research methodology and findings

In depth, semi-structured interviews were carried out with senior managers and operational staff of client and Sri Lanka based BPO supplier WNS during June and July 2006. At this time, the majority of the client work had been offshore for about 15 months and some part of client work had just been moved offshore. By including both of these parts of work in our research we are able to present some of the learnings from offshoring client works that have subsequently been incorporated into the plans for offshoring subsequent work. The interview questions were designed to understand what the drivers were for offshoring work; what type of work was offshored; whether any improvements had been made in processes; how the work was managed; how the supplier was governed; and whether any value had been added beyond cost reduction.

Drivers for offshoring and outsourcing

At the most senior levels within client organisation, the drivers for offshoring were explained as follows:

"Strategically we wanted our finance team in the UK to be providing more decision support to the business, but all the transaction related work they had to do took priority, so we wanted to break away from that. Next, was cost arbitrage; then, to improve process efficiency and with a different set of individuals, offshoring would provide the impetus to do that, most of these were historical processes and we really

wanted to jump start the process improvement, and finally skill sets and qualifications". Director, Financial Operations & Control

This was echoed by the managers responsible for the implementation and management of the offshore operation:

"*I think the primary reason for offshoring is cost and behind this should be process efficiency. The work which has been offshored is of a more transactional type and as a result I do not feel that skill capability has been a key factor for offshoring*". Head of Finance Operations

"*I think the cost driver to satisfy the share holders is the primary objective for offshoring. In any business case for offshoring, they will always talk about FTE's[10] which links to cost".* Offshoring Programme Manager

Although cost was not the only reason behind the decision to offshore, it was clearly a very important driver; this is explained by transaction cost theory. Indeed, the client was aware of the concept of transaction costs and had explicitly identified transaction costs in their cost analysis.

"*If you consider that prior to offshoring, we had the cost of people, buildings, PC's and servers and other system costs. With offshoring all these costs disappeared and got replaced by people costs offshore, building or space costs offshore and systems. This gave us a labour cost arbitrage of around 80 percent, but then you had to add some extra transaction costs purely caused by offshoring, which were things such as: telecommunication costs, governance costs, contract negotiation costs etc. and this brought our total cost arbitrage to around 40-50 percent*". Director of Finance Operations

We argue, however, that transaction cost theory does not adequately explain the 'non cost' drivers for offshoring at client organisation i.e. process improvement and access to skills and qualifications. The plan for implementation was split into two distinct stages by the client, i.e. stage one 'lift and shift, and 'stage two, 'improve process. Stage one involved moving the processes offshore without changing them while stage two involved analysing and measuring these processes, designing and

[10] FTE – full time equivalent staff

developing improvements, and then implementing and measuring these improvements. Client had previously tried to improve processes onshore, but with limited success:

"*There is no scientific or logical reason for not being able to carry out process improvements onshore, but it could have been difficult due to culture, the focus, and not being considered core functionality which meant less priority. In fact, there have been various attempts to do process improvements onshore and failed*". Director, Financial Operations & Control

"*Through offshoring we expected to achieve a higher skill capability of staff, a change of mindset and motivation from staff to make it better. In an offshore location, we are able to run a considered back office function as a set of core activities thus providing the impetus". "[Onshore] there was seen to be no pressing need for process improvement. There was neither time nor space created to do that. There was an instance within Finance division where a process improvement project was instigated with the complete remit dedicated to improvement, but was disbanded after eighteen months*". Financial Controller

We suggest that one of the key drivers for offshoring was the expectation that the supplier could deliver process improvements that client found difficult to deliver in house. In this respect, client was seeking to access 'process improvement' resources and capabilities as well as 'accounting skills and qualifications' from the offshore supplier. We argue that the resource based view of the organisation helps explain this driver in the offshoring decision that transaction cost theory fails to fully explain.

"Prior to offshoring, I would say that the onshore team was effective, not brilliant though, they were certainly not efficient. There were too many systems hand offs and they were heavily dependant on individual's knowledge, rather than documented procedures" Director of Finance Operations

It appears that the impetus, catalyst and direction to change and improve business processes at client organisation were provided by moving the work offshore and assigning the work to a new team which was to be measured on improving the process. In this respect, we argue that offshoring to a third party supplier provides a sharp focus for change and improvement because the work is moving both across the boundary of the firm and a geographical boundary and a substantial intervention from both client and supplier is needed to manage this transition. We suggest that this 'sharp focus for change and improvement' was required in order to both unfreeze the current process and unlock the tacit knowledge and cultural assumptions (Nonaka and Takeuchi, 1995) within the onshore team, which were inhibiting change and improvement.

"*Existing processes were inefficient, archaic, had limited documentation and focus on ever-increasing effectiveness impacted the ability to do meaningful, insightful analysis because the ability to support data and systems needed for such insight was always was low in priority. These were key inhibitors in moving things forward whilst onshore*" Financial Controller.

Type of work offshored

The work that was offshored by client organisation consisted amongst other processes, banking and cash management and management accounting and control. Banking and cash management includes the business processes involved in 'sales to cash' including, accounts receivable and banking activities. These processes are transactional in nature and around 50 full time equivalent (FTE) staffs were employed offshore in this area. Management accounting and control includes the business processes involved in 'record to report' including general ledger, forecasting, budgeting and the preparation of management accounts. These processes are more complex than banking and cash management and around 30 full time equivalent (FTE) staffs were employed offshore in this area.

This work was previously done by the banking and cash management and management accounting and control teams within the client organisation. One of the areas of difficulty experienced by the offshore supplier occurred when they did not have a complete end-to-end understanding and visibility of some of the business processes offshored, and the general ledger work included processes where an end-to -end understanding and full process visibility proved difficult to obtain.

"I felt that GL was something quite difficult to offshore. It did not fit into the standard process driven transactional model and it was difficult to classify as a process and

involved a considerable factor of ad-hoc work that could not be specified in a standard process. In addition it required a considerable amount of historical knowledge". External Reporting Manager

"My feeling is that not all processes that have been offshored are ideally suited for transfer due to the need for too many handoffs." Assistant Vice President, WNS Global Services

We argue that it is very important for outsourcing suppliers to have a complete end-to-end visibility and a full understanding of a process in order for it to be successfully offshored. If process improvements are expected, this prerequisite to offshoring becomes even more critical because suppliers would not be aware of the full impact of any changes they made to the process and may therefore make an end-to-end process worse rather than improve it. In addition, we argue that a lack of end-to-end visibility will contribute to a culture within the offshore environment where staff would focus on the task at the expense of taking a more holistic view. The end result in these circumstances is that the offshoring supplier would simply provide a highly 'mechanical' service making the proposition of value addition harder to achieve.

Achieving process improvements

The plan for implementation was split into two distinct stages by the client, i.e. stage one 'lift and shift,' and 'stage two, 'improve process. Client found that the time taken by the outsourcing supplier to be able to start improving the process depended upon the complexity of the process and varied between 15 and 18 months:

"*At which point process improvements kick in is based on the complexity of the processes. In the case of more transactional processes – providing all other factors remain conducive – we can begin pushing through process improvements around the 15 to 18 month mark. However, in the case of complex processes, it could take even longer*" Vice President Operations at WNS

"*We are currently starting to look into the process improvement stage. However, as we have limitations on business background given the processes that has been offshored, our process improvement speed isn't going to be rapid*" and "*it is currently* *at stabilisation stage of the process which takes around 16 to 18 months. In terms of process improvements that have been performed so far, it has been minor process cleaning type of work e.g. cleaning journals etc*". Team Manager, WNS

The numbers of staffs available to work on process improvement appear to be a constraint upon whether, and how quickly, process improvements could be made. The offshore suppliers had to implement an offshore model based on the same number of FTEs as were previously onshore:

"This impacts the time available to provide value addition. It is perhaps a better option to have more people offshore to start with and then reduce numbers beyond what was on shored subsequently. This will clearly allow time for process improvements and to drive efficiencies. There has to be some up front investment to achieve improvements". Assistant Vice President, WNS

"With the numbers in our teams we are running at full capacity and this leaves us no time to think about process improvements. With a greater number of people we could segregate the work (to carry out improvements) which could ultimately reduce the number of FTEs and drive more efficiency" Team Manager, WNS

As part of transferring business processes offshore, WNS documented the processes and these documents were then to be updated as any improvements to the process were made. We argue this documentation allows a certain amount of explicit process knowledge to be captured, but it is incomplete in fully describing all aspects of how the service should be performed. In this respect, we argue that some tacit knowledge may have been lost in offshoring and this knowledge needs to be re-discovered by the offshore team before any process improvements could be made. This re-discovery stage corresponds to the 'stablisation' stage described previously. In addition, we argue that the offshoring supplier must have the resources available to focus on improving the process which may mean that extra headcount should be provided for this purpose.

Customer Supplier Relationships and Service Level Agreements (SLAs)

The customer supplier relationships and service level agreements were perceived as important areas of focus by client and WNS and much work was put into these aspects of outsourcing, by both client organisation and its outsourcing supplier. All parties realised that these areas were critical to successful process change and improvement:

"When something is written down in a contractual format, this undoubtedly drives the behaviour. A management structure that drives the output process according to a strict SLA can introduce some rigidity in the process. This can in turn clearly contribute to a strong boundary in a customer-supplier relationship (us vs. them mindset) as well as a completely wrong focus on something else that lacks quality." Offshoring Programme Manager

"*Strict SLAs can easily lead the offshoring supplier down the wrong path. It can drive the focus away from the quality of the work carried out offshore. What is required instead of hundreds of SLA's tied to turn-around-times (TAT's) is a set of key measurements that could be wrapped into a high-level SLA which would drive a quality performance*". Finance Operations & Control Director

In particular, client recognised that there are potential trade offs between 'service quality' and 'service speed' and between 'control over the supplier' and 'supplier flexibility'. They argue that a 'partner' relationship is needed with the outsourcing supplier to properly manage these trade offs where the supplier is viewed as an 'extension' of the customer organisation.

"*With regards to relationship instead of a customer-supplier kind of contract – it's all about 'getting more out of showing a carrot rather than using a stick'. Are we really a partner or a supplier really is the key question on a suppliers mind? Organisations need to really clarify this – in order to achieve better results overall*". Project Manager

We argue that clients experience supports the need for clients and suppliers to focus on their relationship (MacNeil, 1980), rather than relying solely on a contract to ensure that the supplier delivers what the client requires.

The Build, Operate, Transfer (BOT) model

The client selected a build, operate, transfer (BOT) model as a governance structure for offshoring allowing client to elect to keep these activities offshore but transfer back in house at sometime in the future. The reasons why client selected to follow a BOT model rather than permanently outsource to third party suppliers are explored below:

"*I think suppliers bring something to the party which we don't have, mostly non-operational aspects, such as: building and infrastructure setup; IT workings; relevant governmental relationships; recruitment; training; data protection etc*". Finance Director of operations

"[The BOT model] has got a lot to do with our culture and the key objective was to learn from the suppliers initially and to bring the skill back in-house. Also, we wanted to be in control over the longer term. However, if it is the right thing to do – don't know. It is also possible that should we decide not to action the "T", it will then ask the supplier to run it for a new period – freshly negotiated". Financial Controller

"*The reasons why we like to operate on a BOT model is to achieve the following: monetary considerations (margin increase); enablement of inter-company moves because of the global footprint we would like to have; and the opportunity learn from suppliers and bring this skill in-house*". Director of Finance Operations

We argue that the resource based view of the organisation helps explain why client has elected to use BOT as a governance structure for offshoring. In addition, client has negotiated the option to continue receiving service from the offshore providers or transfer these resources back in house, at some future point in time. This is of value to client as it provides some flexibility to deal with future environmental and market uncertainty and can therefore be considered as a real option (Myers, 1977). In addition, we argue that client is aware of the value of a visible and branded presence in India and Sri Lanka in terms of their expansion in the global marketplace.

The client regards the customer supplier relationship as very important in terms of the transfer option.

"*Type of relationship demonstrated by us is really linked to the BOT model. As, if down the line if we are to action the "T" then the relationship with supplier and the staff is vitally important*". Financial Controller

"*The relationship building factor is more related to the BOT scenario. It is part of the vision of us. In order to make a successful company we wanted the people to feel part of the company. Rather than being a customer-supplier relationship that can be very SLA driven and very specific - we believed in a relationship. We wanted to get more out of the customer-supplier relationship – which is also part of the our culture*". Financial Operations & Control Director

Is value added beyond cost reduction?

From the interviews that we conducted, we found a substantial amount of evidence that value had been added beyond cost reduction and the senior managers at client organisation were satisfied with progress in this area.

"I would say that we have achieved around 10-15 percent in terms of process improvements and I would not expect it to be much higher than that at this stage". Director, Finance Operations and Control

"Some of the reconciliation problems would have never come to light if not for offshoring." Financial Controller

"*I think in a way there has been some value addition in that offshoring has acutely highlighted some flaws in our processes that has been covered-off by onshore staff because they have done it through experience in the past. These problems have now risen to the surface and of course the cost perspective. Documentation has also been of some value*". Director of Operations

"*For us to be happy with offshoring there were some Critical Success Factors (CSF) that had to be met. Factors such as month-end processing carried out on time, successful initial offshoring pilot project and that fact that banking and cash management and management accounting and control teams have been offshored successfully can be considered as having achieved offshoring. Some of our core* *books and records are maintained 6000 miles away in Sri Lanka and some parts of the business are unaware of the fact. This in itself is an achievement and value addition*". Financial Controller

However, we also found some evidence that at lower levels of management; client organisation managers expected that the outsourcing suppliers would have made improvements to processes faster which is in contrast to the more strategic approach taken at senior management levels.

"*Our existing processes were awful. I expected the supplier to pick these up and suggest and correct changes very pro-actively. But so far only an odd few improvements have happened in offshore and nothing major*". Offshoring Service Controller

The perspective from the outsourcing supplier highlights the importance of the supplier understanding the process; building up experience and delivering value through outcome as well as output. This was understood at the more senior levels within client organisation but less so at lower levels of management.

"*The value addition to customers that we provide is not an instant thing. There have to be various factors that need to come right – the supplier requires a through understanding of the process first. Having done this, it is important that we build up experience in terms of running the process in order to understand how it behaves in reality. What is important to understand is that the supplier will have the process methodology expertise that could be applied to improve processes – for example Six Sigma – however, what the supplier lacks initially is the solid process knowledge – this invariably comes with experience of running these processes*". Vice President Operations, WNS

"*One other key factor in terms of value addition that must be understood by the customers is the difference in providing the value addition through outcome or through output. With regards to output it is a very SLA driven thing. Outcome however is more strategic. In order to provide an outcome based value addition, then suppliers must be bought into the strategic thought process of the customer."* CEO Enterprise Services, WNS

Recommendations and conclusions

Based on our research, we argue that the outsourcing supplier WNS has provided added value, beyond cost reduction, to client but it has taken some 15 months for this addition of value to be realised, primarily through process improvements. We also argue that these improvements have required the customer and supplier to work closely together and understand the importance of the customer supplier relationship; the effect of service level agreements on supplier behaviour and the importance of providing the appropriate FTE resources needed for both operational delivery and process improvement.

We argue that value addition, beyond cost reduction, is not a natural evolution of offshoring and outsourcing business processes. It depends on how the customer and supplier work together; what they expect, and what they measure. We suggest that there are potential tradeoffs between 'service quality' and 'service speed' and between 'control over the supplier' and 'supplier flexibility'. We endorse clients view that a 'partner' relationship is needed with the outsourcing supplier to properly manage these trade-offs; where the supplier is viewed as an 'extension' of the customer organisation. In this respect, we agree with the argument presented by Puranam and Srikanth (2005) that there has to be a trade off between quality, flexibility and cost advantage and that it is not possible to optimise all three of these variables at the same time.

Based on our findings, we make the following recommendations to practioners who intend to outsource finance and accounting processes to Sri Lanka/India and wish to gain additional value, beyond cost reduction, from their outsourcing supplier:

1. Ensure that that the outsourcing supplier has full end-to-end visibility into business processes that are selected for offshoring.

2. Allow the outsourcing supplier to gain familiarity and understanding of these business processes whilst they are on shore in order to maximise the transfer of tacit knowledge from the onshore team.

3. Ensure that SLA is not overly complex and reflects what is required from the outsourcing supplier. The SLA should provide both adequate controls for the client and adequate flexibility to the offshoring supplier to improve processes and, because these requirements need to be balanced, an open and constructive relationship is important for long term value addition. Broadly, the SLA needs to lean very much towards an outcome rather than an output.

4. Ensure that the appropriate resources are provided for process improvements. Specifically, this may mean that at the start of the engagement there are more staff offshore than were previously employed onshore. this should be treated as an investment in improving processes which can be expected to provide a return in terms of improved quality or reduced cost over the longer term.

Future research

We recognise the limitations of our research in that it is based on the experience of only one customer organisation and one of its outsourcing suppliers. We call for more research in this area, particularly into how agreements are made between customer and suppliers and how these shape the service that is delivered. In addition, the success of the BOT o model provides a very fruitful area for future research.

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