Chapter 8.10
The Fifth Perspective:
Extending the Balanced Scoreboard for Outsourcing

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ABSTRACT

Today, alliances, collaborations, and networks are synonymous with strategy. Business process outsourcing (BPO) is one such type of alliance. With increasing reliance on outsourcing, the organizational boundaries are blurring. The implications for the client organization can be tremendous, as it now relies on an outside organization to fulfill its operational objectives. Currently, there is no single framework that can effectively measure performance for BPO arrangements. In its present form, the balanced scorecard (BSC) only addresses the performance measurement needs of a single enterprise and any perspective on any external relationships is completely missing. The traditional BSC does not suffice as a performance measurement framework for BPO. While both the client and the vendor can use a BSC for their respective organizations, the strategic objectives of the organizations may not be met. In this article the authors propose a new perspective as an extension to the BSC, namely, the goals alignment perspective. Goals alignment of the two organizations will enable creation of performance measures that will help participating organizations to achieve their respective goals.

INTRODUCTION AND MOTIVATION

Maturity of the marketplace, rapid developments in telecommunications and infrastructure, new offshoring destinations, and so forth have catalyzed the growth of the business process outsourcing (BPO) industry. Outsourcing has become synonymous with corporate policy and strategy (Pati & Desai, 2005; Quelin & Duhamel, 2003) and companies are realizing the strategic role it can play in maintaining global competitiveness. The global BPO spending was expected to increase from $773,657 million in 2002 to $1,079,054

million in 2006. The worldwide compounded annual growth rate percentage was expected to be 13% for the same period (NASSCOM, n.d.). Despite the importance of the BPO industry, there is a dearth of a performance measurement system (PMS) that can effectively address the needs of the BPO industry. The objective of this article is to develop a performance measurement framework for organizations involved in BPO. The terms outsourcing and BPO have been used interchangeably in this article. Balanced Scorecard (BSC) is a widely accepted and most frequently cited performance measurement framework (Neely, 2005), and in its present form is applicable to single organizations (Bititci, Mendibil, Martinez, & Albores, 2005). The BSC has been taken as a base and then extended for the needs of the outsourcing industry. In this article, the BSC, which is used as the basic performance measurement framework, is extended to meet the specific needs of the outsourcing industry. To achieve this, the article integrates existing concepts in strategy, performance management, and extended enterprises. These are then applied to outsourcing.

The competitive landscape of the business world is changing (Bititci et al., 2005). Bottom-line pressures on service delivery organizations have forced managers to come up with innovative solutions to meet the challenges of reducing costs while maximizing stakeholder value (Bititci et al., 2005). Organizations are strategically combining core competencies and capabilities to create unique competencies and a competitive advantage through collaboration (Bititci et al., 2005). Among the collaborating enterprises, a number of organizations participate in the decision-making process. This demands knowledge integration and deep change in power structures in the organizations concerned (Bititci et al., 2005). With continuing pressure on cost bases, it is becoming difficult for companies to fulfill their own needs and this is driving companies to look at innovative collaborations as strategic alternatives. A PMS

integrated across organizations becomes critical when alliances form the basis of success.

BPO is an example of one such type of alliance. It has been defined as the delegation of some part or all of a business process by a client organization to an external service provider, who, in turn, owns, administrates, and manages the selected processes based upon defined and measurable business performance metrics (Puccinelli, 2003). While it promises great returns on the bottom line, it is transforming the way businesses are being run the world over. This has led companies to examine their organization structures and to realize that creating the greatest value does not require them to own, manage, and directly control all of their assets and resources. Strategic alliances and partnerships with those who provide expertise in a particular area are being viewed as the most efficient way to gain results. Access to global talent, economies of scale, process engineering and enhancements, wage arbitrage, increased profit margins, and improvements in quality are some of the gains that companies have realized (Fjermestad & Saitta, 2005).

The implications for client organizations—processes move to an outside firm, customers are being served by an outside firm and above all, execution of strategy is being entrusted to an outside firm (Vining & Globerman, 1999). The complexity of the system makes performance measurement a difficult and challenging task, at the same time, making performance measurement critical.

LITERATURE REVIEW

The importance of an effective PMS cannot be overstated. A PMS is critical in translating organizational strategy and goals into reality. Performance measurement is a means to make strategy come alive (Bauer, Tanner, & Neely, 2004). It provides the essential link between strategy, execution, and value creation. With the

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