

## **Transourcing™ Will Transform the Enterprise and Drive the Emergence of a Global Human Capital Market**

### ***What is Transourcing, and why is it important?***

Transourcing is the stage of market adoption at which the enterprise has transformed itself from process owner to process orchestrator, and outsourcing becomes so common that it ceases to exist as a distinctive practice. Transourcing should have board-level visibility because early adopters will gain such a competitive advantage that they will remake entire industries.

This will happen due to the convergence of several developments:

- Today's large organizations have structures that were appropriate during the industrial economy, whose markets were not as volatile as today's. They cannot respond to rapidly changing market needs; they need a way to liberate themselves from business processes that do not add value.
- Globally, the growth of demand for many of products and services will be in markets in which firms have little marketing experience, China and India, whose development will be so rapid that companies will need to source marketing expertise externally (from themselves) as it emerges.
- The continued growth of digital network infrastructure is driving a global shift from an industrial economy to a knowledge economy in which people worldwide exchange ideas and products seamlessly and adopt increasingly common work habits and skills. A knowledge economy features shorter product life cycles and demands an unprecedented level of innovation.
- The rapid development of highly educated knowledge workers in China, India and others will compensate for population declines in western countries. As processes standardize and enterprises and providers gain experience with loosely coupled networks, a global human capital market will emerge in which companies will source expertise worldwide, and networked teams of knowledge workers will innovate, produce and provide differentiated customer experiences to global markets. Notably, global human capital markets will drive consumption growth as well.

### ***Point of View***

*A new phase of outsourcing will help enterprises overcome their adaptiveness gap and meet the imminent challenge of competing in emerging markets.*

*Global leaders should make outsourcing a core competence—it holds the key to innovation in today's economy.*

### ***What factors are driving adoption, and how will it happen?***

#### **Enterprise organizational transformation**

- Transourcing will introduce widespread flexibility into the global enterprise at the business process level. It will isolate an increasing palette of business processes and execute them over rapidly configurable partner networks. Notably, it will emphasize acquiring capabilities that companies will need to fulfill the needs of customers in emerging markets. Enterprises' increasing choice of how to structure and execute their processes will enable them to redefine their operations so that they can better align themselves with customer needs.



- During the first phase of transformation, enterprises will delegate non-core processes in BPO<sup>1</sup> efforts, which will enable them to enhance their competence in outsourcing while gaining flexibility, as their organizations get smaller and more agile. During the second transformation phase, they will shift the emphasis to acquiring competencies to address new markets.
- Transourcing features networked participants that can be assembled into teams quickly in order to fulfill volatile demand. This vision can only happen when a coordinating company sets the standards among its supplier base or, later on, the market at large adopts standardized processes. The adoption of business process standards is a strong indicator for the mass adoption of Transourcing.
- The transformation of enterprise software is steadily reducing the IT barrier to change. Service-oriented architecture and Web services are being adopted by corporate developers and enterprise software vendors. This software is loosely coupled, which enables its various parts to congeal over time.
- The standardization (Web services, service-oriented architecture) and best practices (the Rational Unified Process et al) of iterative software development have been critical to the adoption of distributed, object-oriented systems. Similar standardization movements exist for many industries (i.e. SCOR<sup>2</sup>, CMM<sup>3</sup>, ACORD<sup>4</sup>, STP<sup>5</sup>), and their breakthroughs will facilitate Transourcing in its later stages.
- The heart of collaboration with partner networks will be knowledge transfer and mentoring, consistent points of failure in outsourcing. Knowledge management practices and tools will be key enablers, but they will have to ensure that they accommodate cross-cultural teams and short project life cycles. Transourcing represents a significant opportunity for KM vendors and service providers.

### **The Distributed computing example**

- Large-scale human endeavors fail the majority of the time because we do not have the capacity to master the complexity of large projects. Whether IT, outsourcing or government projects, failure rates are 75-85% depending on how one massages the numbers. Iterative object-oriented software development methodology shows how we can succeed with large, transformational projects by adopting a different paradigm.
- Object-oriented development methods enable companies to change the rules of large projects. Object-oriented software is inherently interoperable<sup>6</sup> when proper architectural principles are observed. Therefore, a large system can be developed in stages. Especially when the system leverages existing legacy systems, a large initiative can deliver benefits at each stage of development through cost savings and revenue enhancement. In other words, the company does not have to wait until the whole system is developed in order to realize benefits.
- This incremental benefits realization reveals how Transourcing can be used to transform the enterprise. These projects pay for themselves and succeed much more often because their architectures are loosely coupled and designed for flexibility. They enable projects to deliver real incremental value. Their delivery dates are more frequent, so they go into production more aligned with business requirements due to the relative speed of delivery. An iterative business process modeling and outsourcing approach can produce the same dynamic.
- Like object-oriented software, Transourcing structures will manage complexity through encapsulation<sup>7</sup> and loosely coupled management. Loosely coupled management works by specifying outcomes and allowing partners unprecedented latitude in how they meet targets. It stands in sharp contrast to the current approach, which features tightly coupled management that specifies and controls how partners execute processes.



### **Innovation's new importance**

- The focus of a new breed of enterprise will be innovation, not efficiency, because world-class efficiency will produce comparatively less differentiation in the years ahead. Today, industrial era enterprises remain competitive because they can produce and distribute products much more efficiently than competitors, but their huge, tightly coupled organizations stifle innovation, which will overtake efficiency in the amount of value created in the knowledge economy.
- In concert with innovation, the business focus for many enterprises will shift from internal operations to external innovation. As enterprises learn how to innovate better, the sources of new ideas will come from their (outsourced) partner networks. There will be considerable knowledge exchange from experiences within and among global markets. The emerging KPO (Knowledge Process Outsourcing) providers reflect this development.
- Innovation is a concerted effort to create a product, service or practice that has significant elements of novelty and usefulness. The practice of innovation is a critical component of competitiveness, especially when product/service life cycles are short. Today, product/service life cycles are shortening with alacrity due to the heightened level of information-based communication in the market place. Information sharing shortens life cycles.
- Innovation is therefore a top-level imperative for most enterprises. However, most approaches to innovation fail to produce marketable results, and product introduction failure rates are traditionally very high. In agricultural and industrial economies, product life cycles were long, and few companies were ever forced to create true competence in innovation.
- Enterprises are ambivalent about innovation and product creation because they represent an inherent conflict: the drive to amortize past investments (including process-oriented constraints of marketing, distribution, service, etc.) conflicts with companies' need to satisfy customers' wishes for novelty. In practice, this too often leads to vapid product extensions.

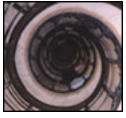
### **The Impact of global markets**

- The global consumption of the world's products and services is rapidly becoming more integrated, but it will be unrecognizable within a few short years, as the European-U.S. cultural dominance becomes tempered by the growth of Asia. The size of China's luxury market is already greater than Germany's, even though it represents a miniscule fraction of China's current population.
- The impact of Asia's markets will be amplified by the fact that customers have gained more market influence and autonomy at the expense of producers due to pervasive digital networks.
- This presents western enterprises with an unprecedented challenge: their largest traditional markets have been Europe, Latin America and North America, all European-based cultures, at least in part. China and India each have deep, distinct cultures.
- The current version of the global stage has been fashioned by western countries, and consumers in India and China are presently attracted to western goods. This trend will eventually be tempered by a return to their cultural roots in order to integrate the global with the local.
- Western companies that supply global consumer markets will be incapable of developing the expertise internally to excel in these markets in the medium term. They will have to engage capabilities for marketing, product design, service and customer experience through local partners.

### ***Preliminary adoption model***

Global adoption of Transourcing will unfold in several stages in the next decade. More important than the time period is the progress between stages, which is a direct function of knowledge and capability. The stages are summarized as follows:

- Stage I (Basic)—the business driver is reducing costs by outsourcing a discrete process. The project is overseen by the process manager. Expectations are often made by looking at manufacturing experiences of outsourcing.



- Stage II (Intermediate)—the focus here is departmental efficiency, and the scope often includes more than one process. The project is overseen by a department executive. Shared services often figures in, and there may be some BPO or offshore. The outlook and expectations are more tactical than strategic.
- Stage III (Advanced)—at this stage, the scope is clearly enterprise, and outsourcing is overseen at the CIO, COO or SVP level. While the drivers include efficiency, the new emphasis is acquiring capabilities that do not exist within the enterprise. By Stage III, the enterprise has BPOed several of its non-strategic business processes, and it has several offshore locations to mitigate risk and focus on brand building within emerging markets.
- Stage IV (Visionary)—here the focus is trans-enterprise, as outsourcing has become pervasive and much of the enterprise's competitive advantage is derived by its partner network. The enterprise is permeable, and key elements of innovation and business strategy are driven by partners. A major focus is employees in emerging markets and community activities, as the enterprise drives its brand in emerging markets.

### ***How do I move now to take advantage of Transourcing?***

Obviously, these are preliminary general guidelines; all recommendations depend on business strategy, current experience with outsourcing and knowledge of emerging markets.

- Create an executive agenda to incorporate outsourcing into corporate strategy; and task a senior executive to develop enterprise adoption strategy, which you introduce as a vital part of corporate strategy. This should include developing a working model of the web of relationships around the enterprise and putting complementary service providers on the map.
- Reexamine existing operational models and strategies at the department or enterprise level. Created an abstracted operational map of enterprise's operating processes, and focus on outcomes between nodes in order to prepare for transition to loosely coupled management. It is important to understand the enterprise's operational ecosystem beyond its present scope.
- Reevaluate partners and outsourcing relationships. Who are the most innovative or forward looking? Realize that the Transourcing point of view will change the status quo, and some partners may not want to embrace it.
- Seek partners to conduct pilots featuring increased collaboration and loosely coupled management, focusing on capability acquisition as well as efficiency and adaptiveness.
- Create outsourcing knowledge team tasked with gathering and sharing outsourcing knowledge, as this will be vital to developing a core competence in Transourcing. Make sure the team includes members from partners that are involved in pilots. Rotate key people through the team.
- Task an international executive with creating or reevaluating China and India strategy in light of Transourcing. This should include engaging providers, partnering with local marketing/research firms and closely studying rapidly evolving consumer markets.

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<sup>1</sup> Business Process Outsourcing

<sup>2</sup> Supply Chain Operations Reference model

<sup>3</sup> Capability Maturity Model

<sup>4</sup> ACORD Standards (insurance)

<sup>5</sup> Straight Through Processing

<sup>6</sup> Object-oriented systems are built of interoperable components that are loosely coupled using standardized methods. Their focus on interoperability contrasts sharply with "traditional" enterprise applications, which were built as silos and *integrated* later.

<sup>7</sup> Encapsulation refers to a method of managing complexity. Information and processes/methods are encapsulated inside a networked entity (company or software component), which is self-contained; it only shares the information needed to execute certain defined requests. In other words, what goes on inside the (partner) company is less important than its understanding and fulfillment of the request.