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## Outsourcing Journal

February 2002 Issue

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### Best First Steps in BPO Exult & Bank of America



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#### (From the CEO of Everest and Outsourcing Center):

What elements are really necessary to make an outsourcing partnership successful over the long term? Although the details differ with each arrangement, the principles are the same. Bank of America knew what it would take to ensure success when it decided to outsource its human resources functions. Here's the bottom-line story of the definitive steps they took upfront to find the right supplier, shape their new relationship together, and the effect of the Bank taking an equity stake in Exult.

#### All or Nothing at All An Outsourcing Drama of Contrasting Characters

*By Kathleen Goolsby, Senior Writer*



Shakespeare was a master at writing dramas about the humor and ironies that occur when people will do anything to get what they want. His play, "All's Well That Ends Well," could be the tale of many outsourcing relationships, for buyers often partner with suppliers without first making sure their interests are aligned.

In the Shakespearean drama, Helena came up with a scheme to get the husband she wanted. But even though her risky plan successfully brought them together, her plan had no provisions for how to keep them together on an ongoing basis.

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In ALL'S WELL THAT ENDS WELL, Helena falls in love with Bertram. He's a Count at the King's court, and she knows her own low social ranking makes her affection a hopeless situation. But it so happened that the King was pronounced incurable of a condition for which Helena had a rare prescription. She made a deal with the King: if her prescription worked, she would get to marry her choice of bachelors at court. In two days, the King was well, and Helena chose Bertram for her husband. Bertram objected because of her low rank, but the King kept his promise. But immediately after the wedding Bertram pretended to be called away to war, leaving the unkissed Helena behind.

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Helena could have learned a lot from the highly successful relationship of Bank of America and [Exult](#)! They're in it for the long haul, with a 10-year outsourcing contract for just over a billion dollars. "It's such an exceptional alliance," says Mary Lou Cagle, the bank's senior vice president, "because we thought our way through it together." Asked to describe why their arrangement works so well, Cagle responds, "People and relationship." What often takes years to develop, the bank and Exult accomplished in just a few short weeks. Here's what they did.

#### Act I, Scene I

Bank of America, the largest U.S. bank, grew its franchise by merging and acquiring other businesses; but, with the new millennium, came a new strategic shift. According to Cagle, the bank wanted to "focus relentlessly on getting more customers and doing more business with the 30 million households and 2 million business customers we already have." Yet, the bank didn't want to lose its momentum in making technological advances in its internal administrative processes just because of a strategic shift in focusing resources to its core services to customers. The solution was to outsource non-core functions.

As Cagle points out, Bank of America's business is to take appropriate risks. Its choice of partnering with [Exult](#) - which had 400 employees at that point in time, contrasted with 144,000 people at the behemoth bank - was based on the outsourcer's unique but sound business model, proven executive experience, venture capital backing for long-term investment and Exult's procedures for accomplishing process improvements. It also helped that Exult was introduced and highly recommended to the bank by one of its well-respected contacts. (see [Getting Hitched](#))

The bank was also concerned about a risk with regard to its 700 employees who had performed the work that would be outsourced. They would be transferred to Exult. Many of them were like "family," as they had been with the bank for many years. Bank of America wanted to ensure its "family members" would be well taken care of in the future and would have good career opportunities.

So the parties took a significant stabilizing step at the outset of their relationship - they signed a 10-year agreement. Cagle says the bank wanted the long-term contract so the associates would feel confident and stable in the move. [Exult](#) worked with the bank's employees to explain the move as an exciting potential to be on the front-end for the bank and Exult's future clients, rather than being considered part of the bank's "back-office" functions.

Their strategies have worked, as there has since been lower turnover in the ranks that transferred to Exult than the bank had previously experienced. So it was a win for the bank, its associates, and the outsourcer who needed to

quickly ramp up with employees.

Structuring an outsourcing relationship to maximize the value that results from being equal partners in strategic objectives is not easy. Cagle agrees and says it's even more difficult when a company has no history of creating alliances. But she had read Stephen Dent's book, "Partnering Intelligence: Creating Value for Your Business by Building Strong Alliances" (October 1999, Davies-Black Publishing, Palo Alto, CA), explaining how 70% of alliances fail because they don't put enough effort into building the relationship up-front.

"We took it seriously and hired Stephen as our coach," Cagle explains. "This is not a client-vendor relationship. We look at this alliance as a very valuable new piece of business for both of us." Dent helped them build a new culture together and a framework for their day-to-day interactions. Their alliance is based on mutual trust, which Dent helped them hone in strategy sessions before the work was turned over to Exult. (see [How to Maximize the Alliance Factor in Outsourcing Defining Moments for Exult and Bank of America](#)) "We continue to put dedicated resources into shaping the principles and strategies that we have agreed to for this alliance," the bank's VP says. "We know how important this is and that in the long run this is what will cause us to be successful."

### Intermission

In any drama, there's a lot going on backstage to enable the action out front. Similarly, outsourcing arrangements have their share of shifting around the scenery, equipment and people after the contract is signed. That transitional period is often fraught with complications; but even though this is the largest HR outsourcing arrangement in history, Bank of America and [Exult](#) took necessary precautions upfront to minimize those challenges.

Cagle describes their methodology as "processes and stabilizing, then improving, then continued investment and relentless focus on new technology." It's the stabilizing component that many relationships forget to add into their planning.

With an objective of not dwelling on the transfer of 700 associates for a long period of time after the November 2000 contract was signed, Cagle says the bank and Exult went through "intense collaboration in order to assure continuity of service and associate satisfaction with the transitioned processes." By July 2001, the parties were celebrating their successful transfer of the five outsourced processes (accounts payable, information technology, payroll, benefits, and service delivery [call center management]).

Their seamless transition of this complex initiative was accomplished in a significantly shorter timeframe than industry standards. It required a thorough communication and planning process, and it tested and strengthened their alliance. They transitioned the work according to functions and their various off-peak times. Accounts payable, whose heavy workload is in October through December, was moved in January. Payroll was moved in February, avoiding the peak W-2 work in January. The personnel call center went live on Exult's platform in July, signaling the end of the seven-month transition.

The goal for 2001 was to achieve stability. "We didn't want our associates at the bank to feel anything was different," comments Cagle. "In fact, the guarantee on the contract is that there would be no degradation of service." Although Exult brings new ideas to the table, she says the bank is not ready to leap forward "until we know for darn sure that we are stable."

### The Climax

So how does one go about ensuring high-quality services? Bank of America

tucked some incentives into the deal.

One of the processes outsourced is management of the bank's third-party contracts with the two outsourcers that were delivering benefits services before the Exult contract. According to Cagle, [Exult](#) is financially rewarded with a gainsharing arrangement on the savings achieved on managing those third-party contracts. Nevertheless, the bank retains control over steps Exult takes to accomplish this objective, in order to ensure quality of services is not diminished.

The bank also took a significant equity stake of 10 million shares in Exult. It is, after all, in the bank's interest for Exult to be successful. Moreover, as Exult's strategic financial partner, the bank may have opportunities to provide products and services to Exult's other clients. Cagle's advice for companies considering outsourcing is to think about what's in it for the buyer organization and structure the arrangement around that value. "It's not just about getting rid of work," she says.

How important to the success of their relationship are the gainsharing and equity stake mechanisms? Partnering coach, Stephen Dent, says it's more than giving both parties an outcome objective to work on together. The crux, he says, is how they go about achieving that outcome - the painful way or in a culture based on trust. [Exult](#), he explains, could not have achieved the scale that Bank of America wanted without the infusion of cash; consequently, that money leveled the playing field, making the parties more equal. "And it really forced the two players to determine that their relationship had to be genuinely successful," Dent adds.

In a gainsharing situation, the mutual benefit is that both parties want to grow the pie. "There will always be problems in growing that pie where partners don't trust each other," advises Dent.

So, in the end, their success comes down to being able to trust each other. They took care of that upfront, taking the BEST FIRST STEPS possible.

### ***Lessons from the Outsourcing Journal***

- A buyer must understand how its objectives are aligned with the potential value to be achieved through outsourcing.
- Transitioning the work to the outsourcer is not an overnight switch; it takes time and upfront planning.
- Gainsharing, equity stakes and other risk-reward pricing structures enhance the value that can be achieved through outsourcing, but their ultimate success is built on mutual trust and carefully understanding what is required.

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