

From System Outsourcing to Business Process Outsourcing Where Is Technology Outsourcing Leading Us?



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Outsourcing business processes has its advantages, but also brings risk. In order to deal with these, companies must know what options are offered to them by outsourcing, a term gaining in popularity among executives.

In 1989, Eastman Kodak signed a deal with IBM for the technology giant to manage all of its IT systems. The results proved that Kodak made the right move, having lowered its costs on ICT personnel as well as on its systems and telecom maintenance, while also managing to focus on the part of its business that created real value and differentiating itself from the competition. The successful experience brought legitimacy to investing in strategic outsourcing and, more importantly, changed the way executives think.

The level of specialization required by ICTs has led companies to outsource numerous processes. The importance of prioritizing the core business, the need to stay up with the changing technological landscape in order to be competitive, vital support from qualified personnel to carry out the more complex processes and the frenetic pace at which technological products evolve all encourage companies to at least consider the possibility of outsourcing some of their services.

In the paper entitled “La externalización de los servicios de TIC y el *Business Process Outsourcing* (BPO)” [Outsourcing ICT Services and Business Process Outsourcing (BPO)], by IESE professor Sandra Sieber, consultant Valentín Porta and myself, we distinguish between several types of ICT outsourcing, according to what is being subcontracted and the degree to which that subcontracting is taking place. For example, companies can opt to outsource their infrastructure (giving a particular supplier control over aspects such as the communication network, process centers or their distributed systems) or their applications (having the supplier take over the processes, which normally means putting them in direct contact with the software supplier). With regard to the degree of outsourcing, a distinction is made between total outsourcing (when the entire ICT department is handled by an external supplier) and the partial or selective variety (where only certain aspects are handed over). The decision to use some form of outsourcing should be the consequence of a comprehensive analysis of the company.

Minimizing Risks

ICT outsourcing allows companies to control the costs deriving from technology infrastructure management and turn their fixed costs into variable ones. It also lets firms concentrate on their core business in order to respond more swiftly to sectoral changes, creates promotion opportunities for employees with a technology background, and boosts technological innovation.

Nonetheless, outsourcing can also have its pitfalls. For instance, the possibility of the suppliers not being fully integrated into the project; the fact that not all companies need

the most cutting-edge technology in order to move forward; and the risk of the service transfer impeding the company's employees from acquiring new knowledge.

Although the success of the process depends on a variety of factors, the authors point to a few as truly critical in this process. First of all, defining a subcontracting strategy by performing a comprehensive analysis of the company. Second, precise knowledge about what already exists at the company. Also, the negotiation of flexible contracts with the supplier and the ability to assess that company's performance, while also having contractual incentives to spur on improvements. And finally, keeping the necessary in-house skills so as to ensure the future of the ICTs in the event that it became necessary to regain control of the services.

Outsourcing Non-Strategic Processes

New millennium, more outsourcing. As of 2000, there was a burgeoning interest in Business Process Outsourcing (BPO), meaning to farm out all non-strategic processes, including operations tasks and technological functions. The technological development at many companies toward standard management models means technology service providers can offer complete solutions.

As with ICT outsourcing, BPO brings about price reductions, allows for improved operations efficiency and turns fixed costs into variable ones. But the improvements achieved should not only be related to money. Outsourcing should also bring knowledge to the process, flexibility and technological improvement. Nevertheless, it does translate into risks for both the company and the supplier.

The former must be able to distinguish between the strategic and nonstrategic parts of the business in order to know what is potentially outsourceable, as well as being able to evaluate the efficiency of the process, and, above all, must prevent the loss of internal knowledge even when it comes to non-core processes. The fact is that mass subcontracting could possibly strip the company of some type of know-how by handing it over to the supplier. Moreover, depending on the customer, the supplier may end up incurring soaring costs, which could change the confidential way in which it works.

The BPO model requires a supplier to offer "abundant knowledge about business processes, their inputs and outputs and the operational side, while also understanding the impact this has on other areas of the company and on its overall business." The agreement ultimately reached with the service provider, just as with ICT, is the foundation for a well-functioning process, given that in cases where things are not well-defined, chaos is certain.

Looking Toward the Future

But where are we headed? Reports published by Forrester Research in 2003 and 2005 state that given the complexity of putting in place a general BPO model to cover all the technical areas, providers tend to gear themselves toward functionality segments (high-volume transactions, largely shareable services, operations in specific markets, etc.). These kinds of suppliers will look to gain the necessary skills to cover the largest possible number of services. For their part, customers tend to be more demanding as far as price and output given their greater knowledge of the options available, which means

providers must make a dedicated investment in order to satisfy that requirement and quickly develop economies of scale.

In any event, companies should carefully consider the possibility of adopting a BPO model. After doing so, they may decide not to outsource any of their services, but even that decision has its positive side, since it allows the manager to make distinctions between facts and impressions within the company. Saying no to outsourcing should never be the result of the lack of deliberation.