

## Business process outsourcing: IT makes the call

IT needs to have a seat at the outsourcing table. And increasingly, business is welcoming the input

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The writing is on the wall. If your company hasn't outsourced an entire business process yet, bodies and all, there's a good chance it will in the near future. According to IDC, worldwide spending on BPO (business process outsourcing) will grow to \$641.2 billion by 2009, from \$382.5 billion in 2004. Moreover, in the future, BPO won't be limited to today's typical segments, such as customer care and logistics; IDC expects procurement and training to grow in double digits annually. And companies that typically outsourced discrete processes, such as payroll, will increasingly outsource larger chunks of the business.

Does BPO simply fall under the heading of yet another factor outside of IT's control? Or is there a definite role for IT in the BPO process -- from deciding which functions to outsource to choosing a provider, including all the negotiations, maintenance, and transitions that ensue? Think of it this way: If IT doesn't have a seat at the table, it risks calamitous fallout from business decisions that gloss over technology implications.

Just about everyone InfoWorld spoke with, including major BPO vendors, their customers, and BPO analysts, agree that IT's role in the BPO process is increasing. "For every \$100 spent on BPO in 2003, approximately \$12 was spent, on average, on IT related services," says IDC's Vipul Bhargava, author of "Who Let the Processes Out," a report on the impact of BPO on IT. "We expect the IT services component to rise to \$20 by 2008. If organizations spend more money on the IT component of BPO, then IT's role in BPO will inevitably increase as well."

Jack Caffey, managed services BPO solutions director at Hewlett-Packard, agrees. "Two years ago we might walk into an RFP meeting with a potential client and have to insist on speaking with the IT manager. The finance guy would say, 'I thought you guys would handle all that.' That doesn't happen very much anymore. With all the questions around security, terms, and future strategy, they understand that IT has to know how we're doing things."

## IT's Role in BPO

### Determining Process

- ▶ Help identify and define core and noncore processes
- ▶ Define systems underlying affected processes
- ▶ Identify tightly coupled systems and processes
- ▶ Help define process boundaries for BPO

### Determining Provider

- ▶ Contribute outsourcing experience and expertise
- ▶ Match business goals with underlying technology requirements
- ▶ Help translate technical details to business goals
- ▶ Run a reality check on the provider's proposed SLAs and infrastructure
- ▶ Test provider security and business protection

### Negotiations

- ▶ Identify current process resource and cost allocations
- ▶ Evaluate provider's cost savings model based on current allocations
- ▶ Run a reality check on provider's estimated training and transition costs
- ▶ Help create meaningful SLAs
- ▶ Ensure all technology tasks are assigned explicitly to provider or client
- ▶ Provide availability measures for internal systems tied to outsourced processes
- ▶ Strive for clarity in termination clauses

### Transition

- ▶ Help prepare for future systems while maintaining current systems
- ▶ Review provider skill sets, architecture robustness, security, and business continuance
- ▶ Review compliance with necessary regulations
- ▶ Work with provider to identify current infrastructure strengths and shortcomings and potential improvements
- ▶ Evaluate plans on ongoing basis

### Stability and Ongoing Improvement

- ▶ Establish a permanent seat on governance team
- ▶ Understand day-to-day performance issues
- ▶ Get fully engaged in problem solving with provider

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risk having someone else figure that out for you.”

At NewPage, a spinoff of MeadWestvaco and one of the largest producers of coated paper in the United States, the CIO played an advisory role on the leadership committee deciding what to outsource and on the steering committee in charge of HR BPO. “Our leadership team consisted of the CIO; the CFO; the vice presidents of operations; sales and marketing, and HR; and, more recently, the general counsel,” says NewPage CIO Dan Clark.

NewPage was left without an HR department after the spinoff. “We asked ourselves whether HR was really a core competency and how we could get the most traction the quickest.” NewPage decided it would be faster and more cost effective to outsource HR than to build a new staff and new systems. It also lacked its own datacenter and outsourced, that as well. Both went to Accenture, and Clark took charge of the datacenter outsourcing project.

### Who Gets the Contract?

Choosing a provider is a key area where IT brings plenty to the party, thanks to its knowledge of outsourcing and technology. “Lots of businesses find the outsourcing landscape very difficult,” says Sean Kenny, vice

### What Should Be Outsourced?

One critical reason IT should be included in the BPO process is its long experience with outsourcing arrangements. “IT usually has much more experience with outsourcing than the business units, and lots of lessons learned that could be very valuable,” says Gartner Research Director Robert Brown. “IT best knows how to manage multiyear outsourcing contracts and relationships and how best to resolve problems that come up. And they have long experience making multiple outsourcing vendors work together.”

At the first stage of BPO, where the business actually decides what to outsource, IT still may not be invited. But that can be a costly mistake.

“It may make a lot of sense to outsource a certain process from the business point of view, but business owners are often not aware of which systems relate to which processes,” Bhargava says. “Certain processes may be so tightly coupled that it would be very difficult to outsource one of them. This can end up being a big pitfall if IT isn’t there to think about it from the beginning.”

Thomas M. Koulopoulos offers similar counsel. “First work with internal IT to define the process and the scope better, then get a partner,” says the CEO and founder of Delphi Group, the technology and management advisory division of Perot Systems (and author of the upcoming book, *Smartsourcing*). “It’s a real

president of business transformation outsourcing for EDS. "The typical conversation may be, 'Let's get Sue, the CIO, in here and ask her who's in this business and what to do.'"

"IT has been selecting vendors for its own projects forever," IDC's Bhargava says. "If the vendor promises 99.9 percent uptime, IT knows to ask what that means exactly, and, if something goes wrong, how exactly it will be dealt with. IT also can define existing key performance indicators to see if the vendor can match them or do better."

Kenny offers a warning to those who fly without IT as their copilot. "Frankly, most business people have very little idea what they're talking about when they discuss the features and functions of the package with us," Kenny says. "They don't understand the technical implications of building new interfaces to SAP, for example. IT understands these things and should help the business understand how the technical details relate to what the business is trying to accomplish." Kenny also points out that most BPO projects have waves of releases with enhanced features, a routine IT knows intimately.

Security, business continuation, and compliance are other areas where IT can play a vital role. "IT has a strong responsibility when it comes to security and data protection," says Kevin Campbell, global managing director of Accenture's BPO business. "They have to ask all the probing questions and actually test things to make sure they work."

Kenny agrees. "In finance and HR processes there's obviously confidential information the company needs to be concerned about. The CIO knows about 64-bit and 128-bit encryption and CMM level 5. He can check into all that and give assurance to the company that requirements are being met."

Donniel Schulman, IBM's general manager of global finance and administration, business transformation outsourcing, says IT's role is essential. "IT needs to know how we handle backup and business continuity," he says. "If we take a hit on a server in Country X, where do we go next? What about electricity issues? They may go visit our datacenter in India."

### **What Are You Paying For?**

After a provider is chosen, IT can assist in negotiating the contract by helping to ensure that too much isn't left up to the provider. "Frankly, if IT is not involved in negotiations, the vendor will often try to sell you something it's comfortable with, not necessarily the best solution for you," Bhargava says.

Koulopoulos elaborates on the dynamics. "Today, many companies give the outsource provider the job of figuring out where resources and costs are currently allocated. That's immature. Internal IT should figure out where things are currently allocated and then the provider should present a model that explains point by point how to change processes, applications and infrastructure to get the cost savings."

"You need to understand what the process looks like, what the systems are that underpin the process, and who is specifically responsible for what task -- you or the provider," says Gartner's Brown. "Then the real challenge is ensuring that nothing falls through the cracks right in that margin where the two sit together." Brown points out that BPM tools can be useful for mapping out processes and mitigating some of the risk.

"I had a lot of input into the contract regarding what my expectations were," says NewPage's Clark. "If you have a contract where things are not clearly defined, you end up in daily discussions with the provider fighting with them over everything."

Training and transition cost are two other areas of negotiations where IT can should have input. "Especially with offshore outsourcing, there's lots of documentation, change-management processes, and training to make sure those processes are seamlessly transitioned," Brown says. "IT should do a reality check to make sure those costs are not overlooked. Once you add them in, it often causes the business to do a double take. The savings aren't often as great as they thought."

And, of course, IT knows all about SLAs. The business manager should just say "I want my system running seven days a week," according to Brown. "How that translates to technology should be between IT and the vendor."

According to HP's Caffey, IT also better understands that SLAs are often a two-way street. "If we're logged onto a customer's system to view a purchase order and match it up to an image of an invoice, we need availability measures for those systems. We need to have those discussions with someone in IT to make sure we don't get dinged if their systems are down."

And then there's termination. "The CIO is the one that has to raise his hand and ask, 'What happens at the end of seven years if we choose not to renew?'" Caffey asks. "We have to have conversations about bridging and termination plans."

### **How Do You Ensure a Smooth Ride?**

Koulopoulos says the best strategy to ensure BPO success is to get your house in order before the handoff. "Until recently, the conventional wisdom had been transition before transform," Koulopoulos says. "I'm one of the strong proponents of the new approach, which is more of a collaboration -- transform then transition. The outsourcer should work side by side with IT to identify current shortcomings, make improvements, and then transition the systems. It's more complex but it's less of a black box and it reduces risk."

During the transition IT needs to prepare for future systems, and maintain stability of the current system, says Natarajan Chandrasekaran, executive vice president of global operations at Tata Consultancy Services (TCS), one of India's largest global BPO providers. "They should be reviewing whether we are bringing the right skills, setting up a robust and secure architecture, and whether we're compliant with regulations. The security part of the organization usually gets involved in an audit of security and the background of all employees. They constantly evaluate our plans to make sure we're staying ahead of the curve."

If all goes well, after the transitional stage comes a long period of stability with periodic improvements. This is where monitoring SLAs becomes important, but that's not always the whole story.

"SLAs are really like a post-game injury list," says Accenture's Campbell. "The key to success is good ongoing communication and solving issues together with data and facts, not emotions. IT has to be represented on the ongoing governance team to understand day-to-day performance issues and to be involved in constructive problem solving."

Tools are arriving to help make sense of SLAs. "There's lots of data coming from systems underpinning business processes with information on whether the provider is living up to service levels," Brown says. "We're hearing more about third-party providers of tools for these purposes."

Two of these providers are Janeeva and Digital Fuel. "We take in lots of data from all different formats, including e-mails, faxes, and spreadsheets, normalize it, and store it in the system for reporting, contract management, alerting, and forecasting," says Janeeva CEO Vinay Gupta. These management tools are particularly useful for companies with multiple outsourcing relationships.

### **The New World Order**

How can IT make sure it's involved in the BPO process, for the good of both IT and the company as a whole? It can start by acknowledging that BPO is just one aspect of the major changes now affecting IT -- and by embracing, rather than resisting, those changes.

"IT often feels threatened by BPO, but should understand that increasingly its best use will be to support core business processes," Koulopoulos says. "IT has to be the one to foster the discussion on the business's core competencies and processes. And it should understand that when you outsource noncore processes such as accounting, finance, and logistics, you create more time, cycles, and bandwidth to focus on the core. That actually makes IT more valuable to the organization. If I were a CIO, I would also be building a lot of competence in sourcing."

Kenny sees a similar opportunity. "IT is being regarded more as a business partner, which takes it out of the datacenter and puts it more at the table. The challenge for IT professionals is to get to know the business, have meaningful dialogs with their colleagues in other departments, get to know their issues and how the business can leverage technology."

IBM's Schulman goes further: "IT should get ahead of the game. If there's a dollar of investment, then they should say, 'Put it into the trading system or logistics,' not the HR system."

BPO is one of the best chances to accelerate IT's journey from maintaining and developing systems to making direct contributions to the strategic goals of an organization. Of course, disruption may follow: IT staffers that currently support non-core processes may end up with one of the company's BPO providers -- as is often the case with Accenture, EDS, and other seasoned providers. But those who remain will have new pathways to get closer to the heart of the business.

"IT will need fewer people, but more people with relationship, communication, and problem-solving skills," Campbell says. Those skills can be crucial in helping organizations get BPO right. And when extra time and resources actually materialize, working in IT becomes a much more rewarding experience.