IT Outsourcing, Benefits and Critical Success Factors

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Case #3:

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Case Study

One of the largest offshore oil exploration and production company in Indonesia, operating in the Southeast Sumatra, completed its SAP ERP implementation project in 1998. The company then needed user support in applying the system to achieve and sustain the benefits of the SAP implementation. The company operates 24 hours a day, 7 days a week in an offshore location that requires high availability and reliability on its ERP and other applications. At the same time, its business environment also requires to have a highly productive information technology services in terms of quality, predictability and responsiveness. This high availability and reliability, predictable and yet cost effective information system support cost were a difficult challenge because the company did not have adequate IT resources.

How Accenture Helped

Accenture provided IT application support services, established the company's IT business processes and managed the overall delivery of information technology services since 1998.

Accenture leveraged its IT Outsourcing Delivery Methods and IT Outsourcing Delivery Assets to ensure that the company achieves its outsourcing objectives of:

- Increasing productivity (quality, predictability and responsiveness) of IT services
- Providing access to skilled IT resources
- Increasing access to current IT technologies and best practices

What would be the benefit for the company in adopting an outsourcing concept? What are the critical success factors for making outsourcing work?
Outsourcing is contracting of a third party to manage a business process more effectively and efficiently than can be done in-house. This can be applied for any goods or services. Griffiths defined outsourcing as the strategic use of outside resources to perform activities traditionally handled by internal staff and resources. Actually, the practice of outsourcing is not new. Kakabadse tracks one of the earliest occurrences of outsourcing to the ancient Roman Empire, where tax collection was outsourced.

In this information era, where information technology (IT) becomes source of competitive advantages, the idea of outsourcing is also applied for the procurement of IT services. According to Meta Group, almost all global companies have outsourced some of their information technology requirements by 2006. While this appears to be an amazing statistics, it is perhaps not surprising that IT outsourcing is becoming so prevalent given the apparent benefits, both for customers and service providers.

Though organizations outsource IT for many reasons, the growth of IT outsourcing can be attributed to two primary phenomena: a focus on core competencies and a lack of understanding of IT value. The first reason is based on common understanding that sustainable competitive advantage can only be achieved through a focus on core competencies, thus the management of the organizations have chosen to concentrate on what an organization does better than anyone else and outsourcing the rest. The IT function has been viewed as a non-core activity in various companies. Furthermore, many senior executives believe that IT vendors possess economies of scale and technical expertise to provide IT service more efficiently than internal IT department. The second reason is based on views that IT is a cost that needs to be minimized. Believing that outsourcing will help meet the IT needs of the company less expensively, they tend to outsource it.

Luke Ho and Anthony S. Atkins list key benefits of practicing IT outsourcing as follows:

1. **Cost Reduction**
   Outsourcing can be utilized to get lower cost base of external service providers, which allows reduction in IT operation cost or total cost of IT ownership. This enables the company to free additional finances for use in other areas with strategic values.

2. **Access to Specialist Resources**
   Reputable service providers sharpen their expertise by working with multiple clients facing similar challenges, and make extensive investments in both technological and human resources. Therefore, careful selection of service provider with cutting-edge technologies and skills can provide access to world-class capabilities and specialist resources, which can reduce the risk of failure, while at the same time overtake competitors on the technological front.

3. **Improved Focus**
   IT outsourcing allows the company to focus on its core business by offloading operational aspects to service providers with expertise in IT fields. Companies can focus on optimizing their supply chain, meeting client’s needs and improve contribution toward business objectives.

4. **Subcontracting of Workload**
   Each company has a limits on resources available to it. This also applies in IT services. Outsourcing can be particularly a preferable option in situations where the company’s internal human resources are inadequate. By diverting some IT workloads to external service providers, internal resources can be allocated to reach business objectives with strategic importance with the aim to achieve higher efficiency.

5. **Better Risk Management**
   Risks are inherent in any business decisions, due to dynamic market competition, government legislations, economic conditions, and technology trends. It can be costly to manage all the risks internally. Outsourcing allows companies to utilize the resources and expertise of specialists, which results in better risk management compared to internal handling.
Benefits of IT Outsourcing

According to the case study, the main reason why the company decided to outsource its IT support services was because of limited internal IT resources to meet both offshore operation needs and business needs. By adopting the outsourcing concept, the company will get the following benefits:

1. Empowered by high quality IT services
   With support from global outsourcing service provider like Accenture, the company will have the opportunity to get reliable 24 x 7 IT support for offshore operations and daily business needs. The company will be empowered by skilled IT resources and latest technologies. Accenture’s long experience both in outsourcing support and SAP will ensure high quality application support services that the company can rely on. Accenture will make sure the alignment of applications and services with established business objectives, so each of them will contribute to specific business outcomes which results in more values from IT investment. This arrangement will also result in productive IT services in terms of quality, predictability and responsiveness.

2. Cost effective IT support
   With limited IT resources, both in human resources and infrastructure, it will be costly for the company to provide all resources needed in-house. Thus, by outsourcing the IT support to external service providers, the company will get lower cost with better quality of service. The company can allocate its resources to the main businesses to reach business objectives. The company, can also focus on improving its own core business to get competitive advantages from competitors.

3. Shared risk
   As the company had just implemented a new system with high degree of complexity like SAP ERP, high expectation from management for user support can be a serious threat if was not managed carefully. Outsourcing that critical IT services to third party with vast experiences in the field was a good decision. The company could minimize risk while at the same time gain access to latest technologies and best practices in utilizing the new system to meet the business objectives.

4. Access to highly specialized skills and latest technologies
   One of intangible benefit for the company is direct access to highly specialized IT skills and latest technologies brought by the service provider. Combination of specialized trainings and experiences in various outsourcing projects will ensure high quality IT skills that are unique and worth to learn and adopt in. Large investments in IT infrastructures by the service provider will also give the company an opportunity to access high-end technologies that can meet their current and future needs.

Critical Success Factors

According to some literatures, there are some issues that are frequently discussed as high-level factors contributing to successful outsourcing. In other words, they are the critical success factors of outsourcing:

1. Careful selection of what to be outsourced
   Each company has its own core competence and supporting activities. Companies outsource some of their business processes to focus on their core competences to remain competitive. Carefully select what processes to be outsourced surely can ensure the result of the outsourcing process. However, the company should also keep some internal IT processes in -house, especially when it is involving the future IT plan for the company, like strategic IT planning, since it is a business responsibility.

2. Choose the right outsourcing service provider
   Choosing the right service provider is really important for the success of outsourcing. A study by Sara Cullen, Leslie P. Willcocks, and Mary C. Lacity suggests that to choose and leverage the right outsourcing service providers, we should manage it as a life-cycle, which includes selection, engagement, transition, management, and regeneration, not as a one-off transaction. They also recommended us to focus on the supplier’s competencies and capabilities before considering their resources. Three important competencies to be evaluated are delivery competency, transformation
competency, and relationship competency. All of them are leveraged from their capabilities and resources.

3. Develop detailed contract with some flexibility
There is a strong relation between contract development and the successful of outsourcing project, especially in relation to risk mitigation. Detailed contract will assure the employment of appropriate IT technical expertise and deployment of IT infrastructure required for specific needs. It will also make the company find it easier to monitor the outsourcing process conformance and quality of service according to the contract. Furthermore, flexibilities built in the contract to some degree are required to anticipate changes in business environment. Some experts also suggest more concern in the length of the contract. Based on the nature of business and the company’s resources, the length of contract may be various. For frequently changing environment, shorter contract will be beneficial. Long term contract will be appropriate for more stable industries like oil and gas. Based on research by Lee, Miranda and Kim, there is improved financial predictability and initial setup costs are spread out over the time of the contract.

4. Build relationship between the business and the outsourcing company
When a company commits to outsource some of business processes, there will some changes in internal management and relationships. Both business and IT executives should be involved in decision making processes, since their commitments will be important for outsourcing arrangements. Understanding the link between IT and business and recognizing of different skills that are needed from each area, both from the company and the service providers, will be useful to make the outsourcing works smoothly. Long term relationship should be also built to make the sustainability of process improvement developed during outsourcing term.

References


