

Why “IT” Does Matter in BPO

Information Technology’s Key Role in the Success of Business Process Outsourcing

By Stan Lepeak and Lee Ann Moore, EquaTerra

Large organizations moving to outsource any of their business processes have scores of issues and questions they must confront before taking that step. Two considerations that are too often underemphasized are the role of the Information Technology (IT) department and the role of IT itself in the business process outsourcing effort.

When looking to develop a business process outsourcing (BPO) strategy, organizations must closely evaluate their current and future IT systems and application environments. Organizations recognize the need to assess key elements, such as their reasons for pursuing BPO, establishing what processes may be included in the engagements, determining their expectations in balancing process improvements and cost savings, and weighing the service providers to consider. The most effective organizations will take the additional step of calculating how IT can maximize the benefits of the outsourcing relationship – regardless if the process being outsourced is outside the IT organization.

EquaTerra’s Definition of BPO

“Business process outsourcing, or BPO, is the act of transferring responsibility for a significant part of a business process and the respective process results to a third-party service provider, typically including the transfer of responsibility for all systems and technology related to the business process.”

This extra step is particularly relevant when the outsourcing initiative involves core enterprise applications, such as those that are integrated in an organization’s legacy, proprietary and commercial enterprise software or Enterprise Resource Planning (ERP) systems. In these instances, it is all but impossible to distinguish the IT systems from the business processes they support.

IT not only supports the transactional operations of the business processes being outsourced, but it is also critical to analysis, tracking and quality control efforts. It also plays a vital role in ongoing outsourcing management and governance with the service provider.

Organizations pursuing BPO need to be certain that they have the skills – and take the time – to adequately assess their IT options. This means understanding the capabilities of their existing enterprise software environment as well as the capabilities of the IT applications and systems of the chosen BPO service provider. By making IT requirements, needs and capabilities an integral part of the outsourcing relationship from the beginning, an organization significantly improves the likelihood of success at BPO.

How can an organization best accomplish this? To begin with, as the organization investigates its BPO alternatives, it should take these steps:

- Measure and evaluate current cost levels as a starting point for estimating savings that may be gained through outsourcing.
- Determine how the existing IT systems enhance or constrain current business process performance in order to project how outsourcing will affect performance levels.
- Compare and contrast the current enterprise software environment to the environments of BPO service provider candidates. This is particularly important if the provider candidates advocate a proprietary or semi-proprietary ERP environment.
- Gauge the capabilities of the enterprise software environment that supports ongoing outsourcing management and governance, as well as assess the costs to provide this support. This includes operational expenses and any required software enhancements or upgrades.

- Define the scope of what is to be outsourced from the perspective of the enterprise software environment. The business process elements being outsourced should be mapped against the underlying support software applications. Rarely do the IT components map cleanly to the business functions being outsourced, so it is necessary to understand the challenges involved in extracting the relevant IT applications.

“Without a good IT system, you have no idea how successful the outsourcing process has been. You need to have a way of measuring your success, and IT can provide this.”

– EquaTerra Fortune 1000 Client

The IT-BPO Challenge

These steps may appear straightforward, but they are challenging to many organizations for three primary reasons. First, BPO initiatives tend to be driven by business units without adequate IT group involvement; second, the initiatives focus on cost reduction or process improvement, not IT; and third, the individuals who are making the BPO decisions don't always fully understand the impact of their decisions on IT.

Business units and executive management are nearly always the power behind a drive for BPO. These constituencies are often not sufficiently IT-literate, or simply not interested enough in IT issues to keep the organization's enterprise software interests on the table. The IT organization and CIO (wrongfully) may play a lesser supporting role in the BPO decision and won't have the opportunity to fully convey the challenges related to enterprise software and ERP environments.

As an organization is driven by key motivators for BPO – cost reduction and improved process performance – too often any IT issues are pushed into the background or are not recognized as core enablers to both of these goals. The BPO goals are entwined in the IT environment, but it is the non-IT elements, such as strategy, people, resources, operational locations, process definitions and operating models, that take center stage.

Finally, many BPO decision makers focus intently on the outcome of the BPO effort and fail to adequately consider how the organization and its service provider will achieve that outcome. As an example, human resources professionals considering BPO generally have a great interest in event-driven employee self-service portals. But their focus is on how the portal performs, without regard for the underlying applications and systems. BPO buyers don't consider that the appealing capabilities viewed in a service provider demo may not work in their own IT environment without significant time, effort and cost.

Giving Weight to IT Issues

How should an organization overcome a natural tendency to overlook IT issues? It is unreasonable to suggest that a human resources or procurement professional, or any other business unit representative driving BPO efforts, should assume the role of the IT expert and address the IT issues inherent in a BPO engagement. However, the organization's BPO decision makers must ensure that someone is playing that role. Ideally, this would involve representatives from the IT group as well as third-party advisors or even representatives from key strategic IT vendor partners.

“IT should provide the right tool to enable efficient delivery of the service and provide the opportunity to improve the service experience. IT should operate with no barriers. It should allow the company to build enhanced capability to offer the customer better and more efficient service.”

– EquaTerra Fortune 1000 Client

It is critical for any organization to understand the importance of the underlying IT and enterprise software operating environment – with all its strengths and weaknesses, costs, supporting vendors' capabilities and future direction. This holds true for both the existing environment of the service provider and the way that environment will evolve over the life of the BPO relationship. This will not be easy, because the BPO service provider environment is highly dynamic, affected by factors such as the current client load, future service offering plans,

scheduled retirement of other service offerings, and the provider's current and projected strategic relationships.

Technology's Role in Outsourcing Management

Management, or governance, of the outsourcing relationship has proven to be the key to ongoing outsourcing success. The elements of successful governance are as follows (along with examples of the issues involved):

- Service quality management (performance, satisfaction)
- Issue management (escalation, emergency)
- Change management (program, demand, consumption)
- Commercial management (contract, benchmarking, financial)
- Compliance management (regulatory, safety, privacy)
- Communication management (business requirements, relationship alignment)

Technology can play a key role in supporting an organization's governance efforts, but in itself, technology is not a substitute for adequate and skilled resources and solid programs and processes. Just as there are multiple dimensions to governance, there are different types of IT requirements needed to support it. EquaTerra's analysis of the market for IT tools to support governance shows that it is still relatively immature, and the software providers specializing in this area are often small. Many will eventually disappear as the market consolidates and matures. Larger, established enterprise software vendors are still in the early stages of developing and delivering additional capabilities aimed at outsourcing governance support.

The lack of tools often means an organization will use a mix of commercial and homegrown applications to support outsourcing governance. Whatever tools are deployed, they should:

- Monitor outsourcing performance and support quality control efforts
- Enable and support compliance efforts
- Support reporting needs and enable analysis

- Ensure adequate security in outsourcing efforts
- Provide an unbiased perspective on provider performance
- Monitor contracts and service provider performance and track SLA adherence

“IT is important for good, strong controls over authorization levels, approvals and payment processes. IT should provide strong transaction controls, which comply with a company's authorization matrix and provide an easy identification process for things like conflicts of interest within ERP authorization matrices.

– EquaTerra Fortune 1000 Client

How Organizations View ERP in BPO

A recent EquaTerra study titled, “Assessing the Role of Enterprise Applications Software in BPO,” of large North American and European organizations, with 5,000 or more employees and at least \$1 billion in annual revenue, revealed some interesting insights into organizations' views regarding the role of enterprise and ERP software in BPO. All of the companies were involved in or were about to be involved in a BPO engagement, and the survey showed that BPO has become pervasive in the marketplace and that future demand remains strong, both in North America and Europe.

Interestingly, the study highlighted that outsourcing buyers generally have clear ideas on their preferences for enterprise application environments to support their BPO efforts. While many BPO buyers ultimately choose a proprietary or semi-proprietary approach when it comes to supporting enterprise software and IT systems, they tend to identify with commercial ERP vendors as preferred suppliers. This reaffirms the need for BPO buyers to fully understand the attributes of the underlying IT environments, particularly the user interfaces and integration points of the BPO service providers they engage.

Existing IT environments are often the drivers for enterprise software preferences in BPO, reflecting a desire for

continuity. However, these existing IT environments may not lead to the best solution for BPO. BPO buyers owe it to themselves to thoroughly assess the existing IT environment to gain a clear understanding of how it can support BPO.

Value of Information Technology to BPO Success: Ranked

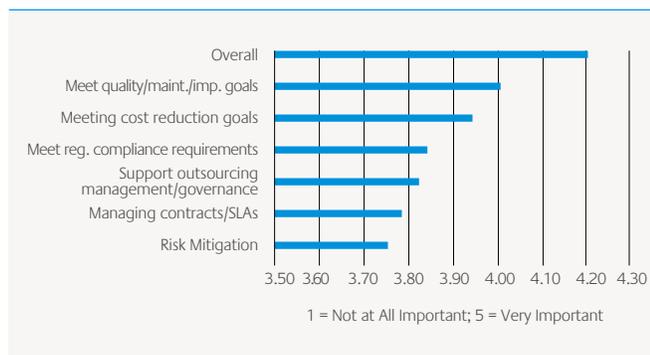


Figure 1

Source: EquaTerra Market Research Study, 2Q06

Respondents favored SAP and Oracle when it came to enterprise software vendors for BPO. Microsoft was third, with “proprietary” solutions coming in fourth. In nearly all BPO scenarios, there are proprietary elements to the enterprise software platform. Most BPO service providers have standard custom/proprietary software components that they deploy or develop at a buyer’s request, particularly at the user-interface layer and also at the backend where they interface with other buyer applications.

Buyers were attracted to the capabilities exhibited in commercial ERP applications – particularly if they were using those applications prior to undertaking BPO – even if they ultimately do not select a BPO service provider that partially or fully uses those commercial applications.

The survey revealed no strong preferences for who should own the software license for commercial ERP software in a BPO engagement. Reasons cited by those who favor the service provider holding the license are the ease of “one-stop shopping,” as well as financial reasons and a desire to leverage the BPO provider’s ERP platform. For those who favored holding the license themselves, leading reasons cited were that it offered the flexibility to swap BPO service providers if needed, and the license allowed broader usage than the processes being considered for outsourcing.

An interesting divergence of opinion was noted in the way North American and European corporate executives viewed IT. Half of North American executives saw it as central to BPO success, but only 14 percent of Europeans held that view. European respondents indicated a greater focus on the provider’s “cultural fit” and collaboration, while their North American counterparts expressed more interest in the quality of the BPO service provider’s IT applications and systems. Also, Europeans tend to view IT more as a commodity and rank other BPO drivers as more important.

Conclusion

As this paper has shown, IT plays a critical role in any outsourcing effort. It is the backbone that supports the transactional operations of the business processes being outsourced. It is also critical to supporting analysis, tracking, quality control efforts, and outsourcing management and governance.

In light of the importance of IT, organizations engaged in or pursuing BPO must ensure that they truly understand the capabilities of their existing enterprise software environment in supporting BPO, as well as the capabilities of the candidate BPO service providers. Embedding IT requirements, needs and capabilities from the start will improve the likelihood of success for any organization undertaking BPO.

It is EquaTerra’s view that organizations undertaking BPO must also strive to leverage existing investments and technologies. This is important not only from a cost standpoint, but also to maintain comfort levels and familiarity with IT applications and systems used in the past. That being said, organizations need decision-making processes in place to determine when it makes the most sense to move onto new platforms and technologies.

For more information about EquaTerra and its outsourcing advisory services, please visit the company online at www.equaterra.com or contact Lee Ann Moore at 713 669 9292 or LeeAnn.Moore@equaterra.com.

About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their business processes. With an average of more than 20 years of industry experience in over 600 global transformation and outsourcing projects, our advisors offer unmatched industry expertise. EquaTerra has deep functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes with advisors throughout North America, Europe and Asia Pacific. Our people are passionate about providing objective, conflict-free advice to our clients, which has fueled our exponential growth over the past three years. We help clients achieve significant cost savings and process improvement with outsourcing, internal transformation and shared services solutions. It is all we do.