

Strategic outsourcing in business transformation

Keith Griffiths of IBM examines how outsourcing can play a key role in meeting the challenge of organisational change.

Globalisation, deregulation and disaggregation of markets, the imperatives of growth, fierce competition and relentless pressure on costs. This is the landscape on which today's business strategies are being painted. New technologies and their proliferation into every sphere of business, the public sector and, increasingly, the home, have opened up radical new ways of conducting existing business through improved communications with customers and suppliers. The internet and the rapid growth of electronic commerce are set to take this to a new dimension of opportunity.

Against this backdrop, companies are recognising the need to address the fundamentals of how they do business today and how they prepare for and intercept the most promising of those techniques, technologies and market developments which will deliver the leadership capabilities they seek for the future.

Realising the vision

Perhaps the easiest task is to paint the new business model. Translating the vision into reality is the challenge; how to overcome outmoded organisation structures, ossified cultures, business processes designed for a bygone age, inflexible and, perhaps, fragile, legacy systems and technology.

Most successful companies with a long and proud heritage recognise the need for periodic organisational renewal and reinvention of their enterprises, to build on the strengths that have made them successful and to eliminate those features or cultural attributes which hold back their growth and development.

The potential prize for the swift and resolute is great but the challenge can seem daunting. Transformation on the scale and pace that today's business environment demands is forcing companies to contemplate unprecedented levels of change across the spectrum of

their business operations. How can they manage the risks, and ensure certainty of delivery when failure is not an option?

Fundamental reviews

Progressive companies in every sector have completed, or are engaging in, an in-depth examination of their activities to identify those capabilities which comprise their core competencies and help them deliver sustainable competitive advantage and/or provide genuine differentiation in the marketplace.

To be confident that they can maintain and improve their competitiveness companies must perform these core activities at 'best-in-class' standards and ensure that their key strengths are retained within the enterprise. It follows, therefore, that these are the areas which deserve, over the long haul, to attract the maximum management focus and investment. Only in this way can a company increase the depth, effectiveness and cutting edge of those attributes which contribute most directly to the success of the company and help to maximise shareholder value.

Questions to answer

What then of the non-core or enterprise activities? How can they best be

handled to ensure that they are performed in the most efficient and cost-effective manner providing the increasingly high levels of service which the best-in-class core enterprises activities demand?

How can these be orchestrated to deliver service on a flexible basis, responding to peaks and troughs of activity, whether seasonal or geared to the ebbs and flows of the economic cycle? How can they be extended rapidly, perhaps to underpin expansion into new countries or regions, and how can quality and consistency be maintained in this environment?

How can all this be achieved while reducing unit costs and preferably reducing the fixed costs structure of the enterprise? Most importantly, how can all this be brought about without imposing so severe a drain on the management talent of the enterprise that it deflects them from those critical core business activities which are fundamental to the health and success of the company?

Classic methods to identify and eliminate waste and duplication are an obvious starting point. One manifestation of this is the move towards shared service centres (SSCs) to centralise, rationalise and standardise routine, yet critical, business activities, such as accounting/billing, customer service management, sales and marketing support, and general administration or 'back office' processes.

The span and nature of SSC operations are many and varied. Examples exist of those which operate on a cross-divisional basis, within a single company boundary, through to those at the other end of the spectrum which operate on a group basis, perhaps supporting multiple companies in multiple countries across a whole continent or region.

Delivering value

While cost reduction lies at the heart of such initiatives, the more well-devel-



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oped schemes have broader objectives. For example, the business case for SSCs can help underpin the development of a newer, more flexible, support infrastructure of skilled resources, which utilises the latest, most adaptable resilient systems and technology.

These, together with the streamlining of processes, can lead to improvements in delivery and execution and provide enhanced levels of support within the business. In turn, this should provide the foundation for a more flexible organisation with a greater capacity for change.

A further valuable by-product of the SSC concept is that it can help generate additional value for the organisation, such as by centralising much of the key business data, which might hitherto have been held on disparate, potentially incompatible systems and databases. The company has the opportunity to build more easily a comprehensive repository of data of its customers, suppliers and partners which might underpin future customer intimacy programmes or more effective procurement or supplier management initiatives.

The challenge – managing the transformation

The development of an SSC will require a comprehensive review and redesign of the organisations involved and a wholesale reshaping of the processes, systems architecture and technologies utilised. It is likely that the substantial replacement of existing technologies and infrastructures will be involved. Even where the desired systems and facilities exist, it is possible that their use is not uniform and that the existing infrastructure deployment and support arrangements may be inappropriate for the new organisational model.

Where the programme involves large-scale renewal or replacement of the business systems and software application architecture – such as replacing existing bespoke legacy applications with ‘packages’ – the programme takes on an added complexity.

Once the desired SSC concepts and design models have been settled on, the difficult task begins.

Getting the job done

The barriers to successful execution of an SSC strategy are formidable. Companies embarking on this journey need to tackle head-on the issues of massive organisational change, including the inertia associated with the status quo and

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existing ‘baronies’ and boundaries (geographic or organisational).

Top-level executive sponsorship is a prerequisite. A quality communications programme is also needed. This must address, and reinforce continuously, the business rationale for the change and provide feedback mechanisms to deal swiftly with the issues and concerns of both the recipients and providers of the services throughout the lifetime of the change programme. This will need to be underpinned by an effective culture strategy, as will a detailed training programme for all those affected by the new processes, procedures and technologies in the SSC.

The renewal of the IT support systems and the development of comprehensive support arrangements will require quality in IT implementation and integration skills to ensure their timely execution and delivery. These will take on extra significance where the enterprise is required to master substantial new technologies to deliver the SSC.

Such an all-embracing business transformation will require individuals and teams of the highest calibre, who are well-versed in programme management techniques and the formal disciplines of project management. Risk mitigation and contingency strategies are fundamental to securing an orderly and timely implementation and transition.

How can strategic outsourcing help?

Outsourcing has now become established within the array of weapons in the

management armoury. It has, however, evolved from a technique which yielded tactical advantage to one which, used imaginatively, can generate enduring value for an organisation and provide real competitive advantage.

For many organisations, the yardstick for their outsourcing decisions is still a question of whether an external provider can provide services at lower cost with improved levels of service, compared with their internal providers.

Increasingly, however, this is just the starting point for a more informed debate. Can a potential outsourcing partner provide:

- a step change in capability, extending the art of the possible by providing a breadth and depth of skill and expertise beyond the reach of the internal organisation?
- achieve world-class delivery across the value chain by driving innovation and renewal through mastery of the newest techniques, technologies and systems?
- enable faster execution and universal deployment through the utilisation of existing worldwide infrastructures and resources?

When a strategic outsourcing partner can marry these execution and delivery skills with in-depth industry expertise, a solutions portfolio of ‘best-of-breed’ technologies (backed by a multi-billion dollar annual investment in R&D to keep those capabilities at the forefront of the industry), and combine this with demonstrable, practical experience, then the arguments for outsourcing become more compelling.

The calibre and credentials of the key delivery team, which will be drawn from both organisations, will be critical to the success of the programme. The strategic outsourcing partner must bring in people with the talent and skills to get the job done. In particular, the senior executive nominated must have the stature and authority to imbue confidence in all those dependent on the successful outcome of the programme.

A successful track record of relevant large-scale transformation that provides the confidence and certainty that the risks and uncertainties can be anticipated and managed, is not earned lightly.

In IBM’s case, we can draw on an extensive reference capability spanning the major industry sectors, and many public sector organisations, in

all regions touching most areas of critical business activity.

IBM's transformation

We have also swallowed our own medicine through the wholesale re-engineering and reinvention of our company in one of the most competitive and dynamic industry marketplaces. This has involved taking out more than \$7bn of costs over a two-year period. We have transformed our internal processes, business systems architecture and technologies. All this while refocusing and realigning our whole organisation to reflect the global competitive realities we faced. In so doing, we have re-established our leadership position as a services, solutions and technology provider.

Within IBM, this process of change and renewal continues at a relentless pace. Our investment and commitment to the burgeoning area of electronic commerce, across the whole spectrum of our business, reflects our conviction that this is the arena where our future

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success, and that of our customers, will be determined.

We have, therefore, implemented the strategies involved in successful SSC execution, on a national and international basis. These lessons were sometimes painful and always hard won. We strive to harvest the intellectual capital and best practice derived from these endeavours for our own future benefit and for our customers.

The value proposition

We are mindful that each customer situation is unique. The strategic outsourcing relationships must, therefore, reflect those individual customer needs and culture. Our experience shows that the strongest relationships are developed through an open dialogue based on mutual trust and a joint commitment to success, often embracing a shared risk-reward philosophy. The commercial arrangements struck should seek to embody these objectives, reinforcing and strengthening these characteristics throughout the lifetime of the relationship.

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Keith Griffiths is the business development director at IBM global services. He has 30 years' experience of large-scale business transformation in both the private and public sectors in the UK and overseas.