The cost of convenience: Navigating the complexities of an IT outsourcing failure faced by Hertz

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Abstract

Due to rapid technology advancements, IT services are now much cheaper. Thus, outsourcing is in high demand as companies prioritize core functions for customer satisfaction. This essay delves into the diversified reality of IT outsourcing, by examining a real-world IT outsourcing failure, faced by American car company Hertz. Practical recommendations for firms to effectively manage IT outsourcing challenges are provided, referring to Uzonwanne's rational decision-making model (2016) and Reynolds' multistep outsourcing process (2016). Ultimately, through a comprehensive analysis this essay integrates strategic planning and IT governance mechanisms to outline a successful outsourcing landscape for an organization.

Introduction and Context

IT outsourcing involves the delegation of specific information technology tasks or services to external third-party vendors or service providers through contractual agreements. A growing number of organizations are embracing cloud computing as a means to outsource certain aspects or even the entirety of their IT operations. "Cloud computing is defined as on-demand access, via the internet, to computing resources hosted at a remote data center managed by a cloud services provider (CSP)" (IBM Newsletter).

Hertz Global Holdings, also known as Hertz, originated in 1918 as an American vehicle rental corporation based in Estero, Florida. Hertz purchased two additional rental car companies, "Dollar and Thrifty", in 2012. When introducing something new to the market, "outsourcing can accelerate and smooth out the start-up" (Reynolds,2016).

Outsourcing is popular among firms deciding to lower IT costs. External vendors can use their scale, tools, and expertise to offer more efficient services at lower prices than in-house options. With Hertz's stock falling by 85% over time, the company sought to outsource a marketing-focused website and mobile app to broaden its market presence without adding to its overhead expenses. These digital platforms were envisioned not only to promote the Hertz brand but also to serve as versatile tools that could be seamlessly extended to support Dollar and Thrifty brands (Belden, 2020).
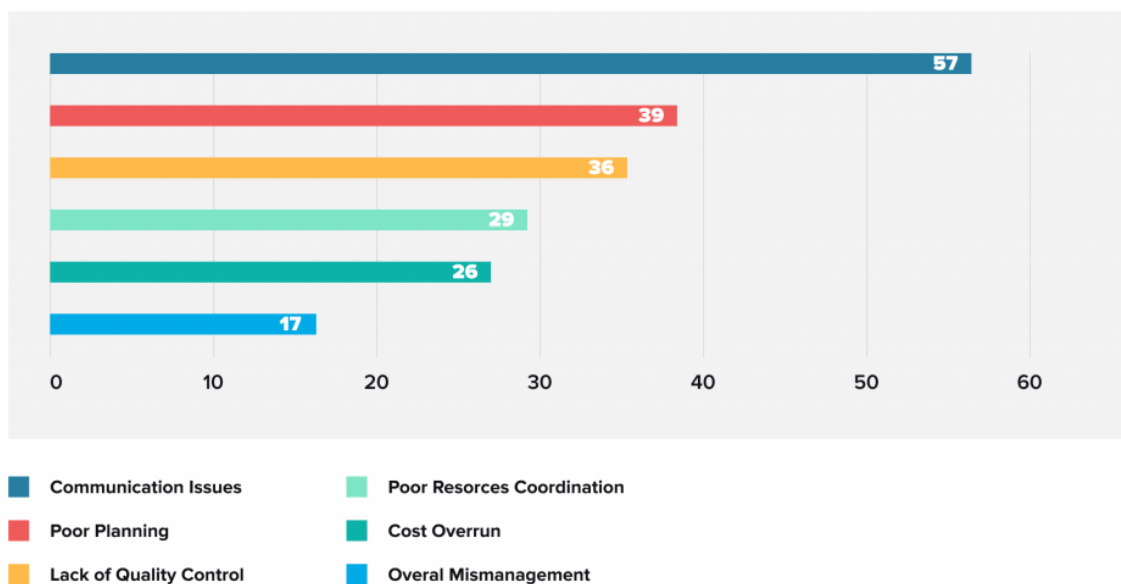
One other striking aspects of outsourcing is the acquisition of unique capabilities. This explains that we should consider outsourcing when external resources can perform a task more effectively than our internal capabilities allow. Most external vendors typically possess specialized skills and experience in managing specific IT functions or technologies. Not having enough experience and resources for this project internally, Hertz decided to choose Accenture over IBM relying on its outstanding world-class reputation.

Despite these potential advantages mentioned above, outsourcing initiatives can face various challenges. For further analysis in this regard, we will look at how the IT giant Accenture faced a lawsuit by Hertz in 2019, alleging that the "management and consulting failed to deliver new customer-facing website and apps, which was generously paid for" (Nicastro, 2019).

Information Systems Management Issue

"Does Outsourcing Really Improve Firm Performance (Lahiri, 2015)*?"* The most recent Bain Management Tools & Trends survey found that 77% of sampled companies adhere to an outsourcing strategy, yet over half of these firms fail to realize anticipated benefits (Global Journals Inc. (US), 2016).

Why software outsourcing projects fail?

■ Communication Issues	■ Poor Resorces Coordination
■ Poor Planning	■ Cost Overrun
■ Lack of Quality Control	■ Overal Mismanagement

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According to the above visualization, **lack of Communication** is a critical challenge managers' face when outsourcing. This challenge arises not just with a language barrier but also due to different time zones, cultural aspects, and poor transparency of the manager coordinating the project. One other vital issue is **inadequate planning** of the outsourcing project. Without clearly defined objectives and responsibilities can lead to misunderstandings of what is required from the service provider. Evaluating and electing the best outsourcing vendor suitable for the project with the necessary experience and expertise is essential as per the process of successful outsourcing.

Poor quality control is another setback of IT outsourcing. Handing over too many business operations to an outsourcing vendor can be counterproductive as a severe loss of control on those operations

outsourced. Without necessary control, there is a possibility that the outsourcing vendor would skip testing operations, resulting in faulty or unreliable services. Additionally, **inefficient resource coordination** creates a hitch in outsourcing that leads to wasted time and effort for the project. In certain outsourcing scenarios, smaller suppliers may rely on key individuals to oversee projects. If these people become unavailable, it might halt project development and risk project continuity.

IT initiatives sometimes experience unexpected technical challenges or complications that need additional resources or time to resolve. Also, with the development of the project, clients might propose modifications or additions to the initial scope of service. All these instances eventually lead to **cost overruns**. Lastly, **overall mismanagement** can occur due to over-dependence on a single outsourcing vendor. If the vendor experiences any organizational disruptions it may have a substantial influence on the entire outsourced project (Vashkovska, 2020).

Furthermore, outsourcing some IT services deal with sensitive data of the business that might pose security and compliance issues if adequate measures are not in place. When mitigating the IT outsourcing risks discussed above a proper management process should be implemented. Accordingly, the Rational decision-making model-a general model with 7 different stages, which needs to be associated with the context of outsourcing- (Uzonwanne, 2016) and the multistep process for successful outsourcing by (Reynolds,2016) can be used. Doing this will not only fuel the project's success but will also result in a remarkable impact on all the stakeholders involved.

Discussion and Argument

"Hertz spent months planning the project, defining the goals and strategy for its digital business, and developed a roadmap" (Moyce,2019). This is the start where Hertz went wrong, in determining and outlining the scope of the project independently. Instead, a better option for Hertz was to include and operate with Accenture together to plan and assess the scope of the project by using Accenture's professional knowledge in this field.

However, Accenture which agreed on launching the software by 2017, postponed the launch twice to April 2018. Regardless, Hertz condoned the delays of the launch for a while until they realized that the designed website that was yet to be delivered, did not meet any requirements stated by Hertz in the contract. Accenture was then "withdrawn from the project, resulting in a lawsuit launched by Hertz in late 2019" (UpperEdge, Inc., 2019).

The most concerning accusation in the lawsuit is that Accenture did not implement a "responsive design at all" as expected by Hertz (Dolfing, 2019). This is where Hertz had to focus on outsourcing vendor management, where you overlook and validate not only the final stage but every stage of the project. Furthermore, as suggested by Uzonwanne (2016) including a 'Gap analysis' as one of the phases in the project, would have been convenient for Accenture to develop the expected design. The ultimate purpose of the gap analysis is to transition the organization from its present state to the planned future state, thereby reaching the final design or desired outcome.

Another allegation made by Hertz, is Accenture neglecting the development of a "common core platform that could be extended to Dollar and Thrifty brands globally"(Moyce, 2019). This claim implies Hertz failed to adequately establish a legal contract with its supplier, Accenture. Without a written agreement, there is an absence of transparency on expectations, duties, deadlines, and other critical parts of the outsourcing partnership. This culminates in misunderstandings, disputes, and difficulty in implementing any negotiated rules. To mitigate such a risk, "defining a service level agreement and developing an outsourcing contract" are vital steps to be considered.

Moreover, Accenture was claimed to have lacked experience with technologies such as RAPID and have been unable to run any tests on the design. This statement suggests that the decision to outsource was taken without a full assessment of Accenture's corresponding skills and capabilities but instead based solely on a "one-day presentation" (Moxley, 2019). In this scenario, the business should have used a more

thorough approach to evaluate and choose the outsourcing vendor. By skipping this stage, Hertz would have also missed significant details that may have influenced their decision-making process of the project.

According to Dolfing (2019), due to vulnerabilities in the code designed by Accenture's developers for the customer-facing e-commerce website there were potential problems with maintaining the security and integrity of data associated with the project or system. Eventually, Hertz encountered additional expenditures with the progression of the lawsuit against Accenture and to solve the incomplete project needs. This emphasizes the importance of creating a SMART outsourcing strategy at the initial phase of the project.

Uzonwanne (2016) proposes a predominant final phase, as the implementation and evaluation of the final outcome. This phase involves the corrective action to do if the anticipated outcome is not met, that entails returning to the gap analysis step to identify and re-evaluate the steps outlined for the solution process. Finally, Hertz needs to have an effective Business Continuity Plan (BCP) as well in a situation of an IT outsourcing failure to ensure operational continuity in the face of diverse interruptions. A well-executed BCP shows clients that the company is capable of handling interruptions successfully, instilling confidence and assurance of the company's reputation.

Conclusion

In the digital age, as businesses grapple with agility and innovation it is evident that IT outsourcing shows an upward trend globally. It is predicted that "by 2025, the global IT outsourcing market will be worth $397.6 billion" (Markets, 2020). We witnessed how the pandemic made organizations prioritize enhancing digital services, to facilitate communication and collaboration between consumers and suppliers.

"Singapore's former prime minister Lee Kuan Yew once said: *If you deprive yourself of outsourcing and your competitors do not, you're putting yourself out of business*" (Gallimore, 2021). Overall, no company globally will ever be able to completely avoid an IT outsourcing failure. However, personally one of the main lessons learnt in this research is that, it is vital an organization does not turn a blind eye to external factors like economic crises and different travel trends. For example, the firm is primally reliant on the tourism industry so any economic crisis or different travel trends has a tremendous impact on Hertz's revenue.

From my perspective, during challenging economic times, Hertz can engage in collaborative marketing activities with other airlines, hotels, and travel agencies, to provide combined packages or services together which attract new consumers. Furthermore, given the increased awareness of environmental problems impacting travel preferences, Hertz could consider expanding its outsourcing efforts by including other modes of transportation such as bicycles, scooters, and shuttles in its range of services. This strategic growth coincides with changing customer patterns and consolidates Hertz's competitiveness in the transportation industry.

Critical Reflections

If you want to ensure the business project will not face an IT Outsourcing failure, managers should consider using **Strategic Planning**. Strategic planning is a process that enables managers to identify desired objectives and develop feasible strategies accordingly to attain business objectives. There are several types of strategic planning methods, including issue-based, organic-based, and goals-based (Reynolds, 2016). When dealing with quality expectations and design in outsourced products, a goal-based strategic planning approach is crucial, involving four phases.

Before Hertz decided to outsource, a thorough analysis of the current situation of the organization should have been their initial phase. This initial phase could be summarized by using a SWOT analysis.
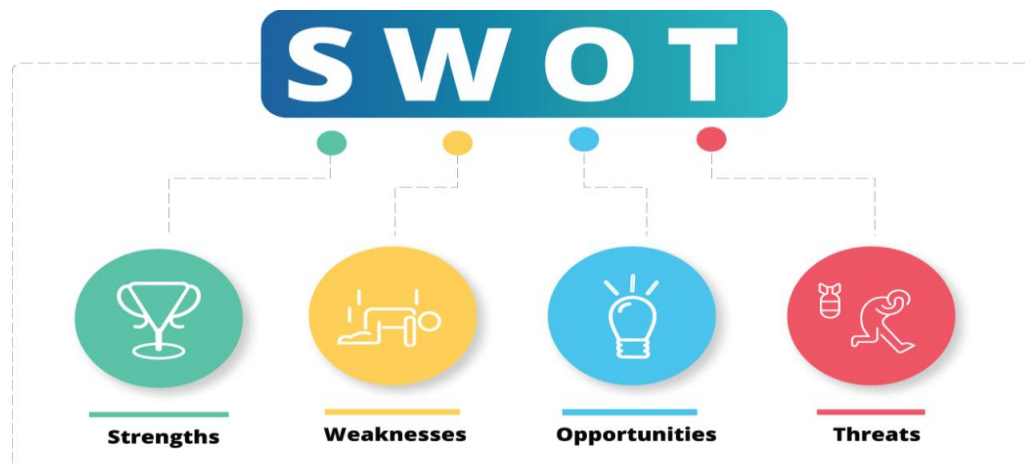
Hertz is recognized globally for its trustworthy service in the car rental market, but faces challenges such as maintaining a diverse fleet leading to increased maintenance costs. Another aspect of deriving an effective strategy is to maximize the firm's opportunities. Embracing electric and sustainable transportation advances will help Hertz expand into emerging markets in addition to its corporate social responsibility goals. However, there are threats, such as declining demand and fierce competition, which force Hertz to lower prices and profits. To aid the 'Threats analysis' of Hertz, the "Michael Porter's Five Forces Model" outlined by Reynolds (2016) could be utilized.

The second phase is where the mission, vision, values, goals, and objectives of the organization are set. Hertz CEO defined one of the goals, as to seek a "transformative IT agenda" (Thibodeau, 2016). In this case, Hertz failed to achieve its objective by outsourcing an IT operation to Accenture and had to outsource again to IBM instead. Considering these two phases and then 'selecting the best strategy' is the

third phase Hertz could implement. Moving on to the final phase 'setting up the plan', is where hertz will need to include the entire organization to cooperate and execute this plan.

However, Hertz being a leading car rental company globally hasn't taken regard to its **IT Governance** aspect of the organization. Effective IT governance aims to maximize the value of IT investments and minimize the associated risks of an organization. By applying the PDCA (Plan-Do-Check-Act) model in IT governance, Hertz can address its IT outsourcing failure and learn from experiences to constantly improve its outsourcing operations. Accordingly, Hertz needs to thoroughly evaluate the outsourced failure and develop a strategy to prevent such a risk. "The company's current goal is for one-quarter of its fleet to be electric by the end of 2024" (General Motors Co.,2022). To accomplish this, Hertz has to utilize the PDCA model along with ITIL (IT Infrastructure Library) and COBIT (Control Objectives for Information and Related Technology) main IT governance frameworks to develop knowledge-based choices and respond to different circumstances in outsourcing partnerships. These IT governance frameworks provide useful best practices for process improvement teams. They assist the team in planning and make recommendations for implementation and assessment. By implementing ITIL's service lifecycle model (strategy, design, transition, operation, and continuous improvement), Hertz can verify that outsourced IT operations are in line with corporate goals and delivered efficiently. COBIT's monitoring and assessment capabilities enable Hertz to measure performance, supervise service delivery, and assure legal compliance.

Moreover, in response to IT outsourcing failures, Hertz can implement a Business Continuity Plan (BCP) to prevent service disruptions in the future. Hertz should involve key stakeholders from IT, legal, operations, and executive leadership in the preparation and implementation of the business continuity plan. Initially, Hertz needs to organize an emergency response team that will ensure critical business functions aren't disrupted. Integrating a continuous improvement environment in the recovery process is essential for continuing business operations. Hertz can also perform a post-recovery assessment to determine the success of the business continuity strategy. It is also recommended to obtain external assistance, if necessary, to establish a complete and effective recuperation plan.

To conclude, businesses may unlock new prospects of IT outsourcing dynamics by developing a better grasp of IT governance and fostering a management strategic planning approach. By learning from past failures and incorporating planning and governance, businesses like Hertz can manage risks, improve service delivery, and derive value from outsourcing relationships.

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