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COURSE ASSIGNMENT

Analysis of Key Findings from Vendor and Customer Perspective

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Introduction

According to the Oxford dictionary, outsourcing is the process of arranging for somebody outside a company to do work or provide goods for that company; and offshoring is defined as follows: is the practice of moving a company's work to a foreign country where labour costs are cheaper. So it is possible to say that the only difference stands within the location where the work is completed.

Nowadays, the outsourcing process is more frequently used to assess the specific efficiency of a company's operations. Outsourcing has become a widely used strategy to lower internal costs and to exploit third-party companies' experience and expertise. However, there are some disadvantages when dealing with such activity; for example, a given company could gradually lose its identity.

Essay

The phenomenon of outsourcing is growing fast. Especially in the field of information technology (IT) and information systems, IT managers are giving importance to the matter of IT and IS offshoring. Since outsourcing is a very complicated procedure, and global markets are ever-changing, a company's board often needs to resort to more than one third-party firm to have a specific task done. To lower costs outsourcing, is becoming more often offshoring, since many companies, especially in the IT environment, work with foreign firms. But both advantages and disadvantages come with such complex tasks that management has to consider all possible involved risks.

There are five steps to follow in order to pursue the outsourcing/offshoring activity; The five stages are listed below:

1. **Decision.** Once the work to be outsourced has been chosen, it is necessary to decide which company will be the right one to do the selected task.
2. **Contracting.** In this phase, contact will be developed and negotiated. The purpose of the contract is to define the objective of the agreement, describe the process to make sure that the agreed task will be finalized as it should be. The deal also has to competently represent the incentives, the penalties, and the involved costs that occur or might occur during the accomplishment of the task. It is also necessary to implement in the contract the protection of intellectual properties and similar rights. Defining ways to handle unexpected situations and the termination conditions of the agreement are two relevant clauses that have to be specified.
3. **Transition.** The scope of transition is to set up the way of delivering services since day one.
4. **Transformation.** In this phase, the aim is to take care of the whole delivery process of the contracted services. There is also another sub-phase, which is the delivery of the services as contracted, for example, reduced costs, faster and improved development and security, higher standardization, and better governance.
5. **Steady State.** This last stage of the outsourcing process is the steady state, it is referred to a long duration process which takes advantages of the already established processes, and delivering key performance indicators (KPIs) monitoring and efficient reporting, to guarantee a robust HR management to keep talent closer to the company. In this phase, it is reasonable to encounter a competitive situation; in order to allow this steady state an efficient organization needs to be implemented, taking into consideration teams of a particular dimension, location issues, a model of delivery, and supporting functions.

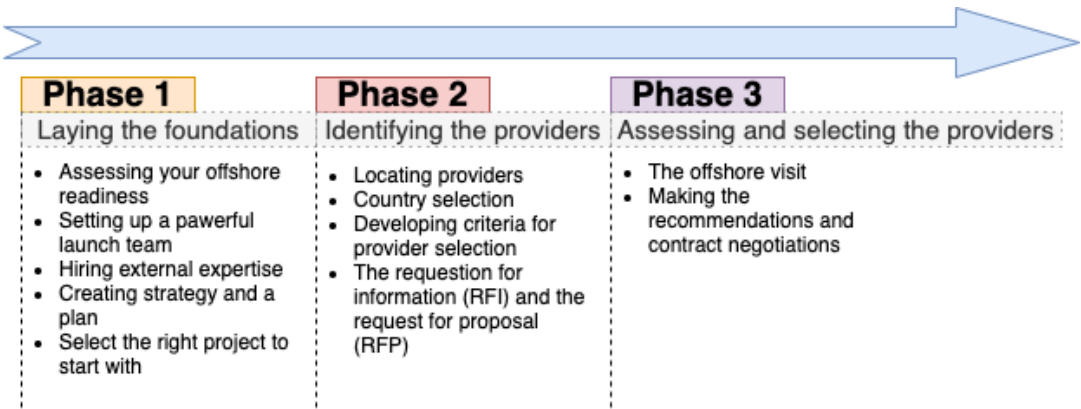
Company's governance, exploiting a strategic and tactical vision, has to describe the KPIs to be reached (through service level agreements [SLAs] and useful dashboards) and knowledge transfer. To understand who the reference people for the smooth pursue of steady state are, there is an instrument called the RACI method (respectively: who is Responsible, Accountable, Consulted, and Informed). Lastly, typical services that are offered in this stage are six:

- business process management,

- application development and implementation,
- application management and operation,
- infrastructure management,
- service management,
- consulting services.

AGILE is a PM methodology characterized by building products that customers really want, using short cycles of work that allow rapid production and constant revision if necessary. In particular, during this last step, it is applied SCRUM, a sub-category of AGILE, which is a PM methodology where a small team is led by a Scrum Master whose main job is to remove all obstacles to complete work. Work is performed in short cycles called sprints, but the team meets daily to discuss current tasks and unclear roadblocks.

In the figure below we can see the three main stages of the outsourcing process from the perspective of the company; this is another point of view of the described methods which focuses more on the journey of offshoring.



Outsourcing is the most common way for the organization to begin the offshore journey, a key question to answer before preparing this journey is "How long will the process take?", for example, time-consuming step is abroad trips that are needed to convince the managers of the firm’s quality. This preliminary step can last from two to six months, depending on the company’s size and the complexity of the work to be done.

- **Phase 1:** once the company enters the first stage, sometimes it has to sign the contract with the first provider they meet, this decision can work and save a considerable amount of time, especially with a small project, but is not always the best idea. The reason behind this is that, since not every potential customer is taken into account, there could be cheaper, or more effective, options available. In this phase, the main activities involved are: assessing the organization (1), setting-up launch team (2), creating a plan and a strategy (3), selecting a pilot project (4). Since these tasks are, most of the times, related to each other, they are not done in this exact order. In this part of the process, feedbacks are always crucially important, to decide which path has to be followed.
Depending on the company’s project management (PM) maturity, this step can be more or less flexible. Some problems can arise, for example, is the staff used to work closely with different cultures? Are the company’s employees willing to establish abroad for extended periods? Are they ready to accept dynamic shifts of power and responsibility in the interpersonal relationships?. These are some of the problems that might arise when dealing with outsourcing. Management talks and discuss their risks’ tolerance level honestly to avoid any dangerous occurrence in the near future. At this point, it is needed a launch team that is formed by a few people who have to be able to make quick decisions, and they should have some experience in the outsourcing field. A lot of providers available on the market are not well known, and for this reason if the board is not very experienced in the outsourcing area, it should employ external consultants. Once all the previous matters have been successfully sorted out, the pilot project can be chosen, following a consolidated strategy and a plan. In order to assure the retention of loyal employees, the human resources (HR) department should be involved earlier in the whole phase.

- **Phase 2:** at this point, providers have to be located, and according to specific criteria of selection, examples of such measures are the provider's company size, provider's financial reliability, provider's management experience and specialization, and ability to scale up operations. Crucial attention has to be paid in the provider's infrastructure, such as international experience, and social security and business characteristics. In order to acquire all these information RFIs (request for information) have to be sent to the provider. Only the most promising providers will be selected and further analyzed with higher-level informational requests which are the RFPs (request for proposal).
- **Phase 3:** eventually, the best firms emerged from the final RFPs will be assessed and selected, to do such organizational activities have to be done. Such events can be call up references and local meetings with provider to determine its management's soft-skill level. Some clients are massively obsessed with the lowest possible prices but it is crucial to remember that the involved cost should not be the most critical criterion. In fact, it can happen that choosing the cheapest option might results in increased costs later. The final choice of the provider is certainly determined by asking evidence of previous provider's work, obviously, inherent to the company's task to be completed. The final selection and the recommendations have to be sent to the project's senior manager of the company. Once the provider is selected, the contract's terms have to be finalized, and the contract negotiation starts. The legal and contract's key points are pricing and additional costs, issues of intellectual properties, warranties and confidentiality, and incentives and penalties. Following these procedures, the provider's performance is better in line with the customer's needs. It is crucial to highlight that the contract is the foundation of the relationship to be built, so the environment has to guarantee smooth cooperation.

There are different frameworks and tools that management can use, as a mean, to drive business and IT communication/alignment to reach the outsourcing/offshoring goal. **ITIL** (IT Infrastructure Library) is undoubtedly the most widely used service management framework for operational goals and for defining processes in service production. It is a set of tips, best practices and concepts created in the 1980s to provide the best possible way to manage a mainframe system-based IT department. Eventually, over the past ten years, it began to focus more on the life cycle approach and service management. From the customer point of view, we can identify a "black box customer view" which is basically a customer interface composed of multiple aspects: service governance and service production. The key points that the latter aspect is made of are processes, people and service assets. As far as ITIL operational activities are concerned, for the customers, the committed team is the delivery one, and the service provider's specialized people involved are service/control desk, operations team, specialists, and consultants. A service provider is someone supplying services to customers. Opposed to ITIL, nowadays, a newer framework which presents a different focus (development and lean product management) is becoming more and more popular: it is called **DevOps**. While ITIL is still slowed down by a phased workflow, DevOps effectively allows managing the work in progress, queues and small batches. Besides, DevOps can be considered as a fully automated and acceptance test based framework: this allows, as explained before, faster development and management of services than ITIL. The bottom line is: does the outsourcing really leads to cost reduction? The answer can be found within the transition and transformation phases described above, they tackle down the real crucial issues, strategy, and risks. The main ways to solve these risks and challenges are:

- defining the essential goals of the outsourcing processes, especially value-add creation, speed, and flexibility. It is also necessary to take into account wages that are crucial but not the most important point;
- considering the free-strategic risks of offshoring which are mainly three: competence loss (1), loss of proprietary knowledge advantage (2), and general vision loss;
- aligning outsourcing strategy and business strategy;
- digging deep into the provider's competence and applying due diligence;
- monitoring, benchmarking, and usage of aright pilot project;

- taking advantage of a small but efficient team for the launch project;
- having efficient governance and a good communication system.

Finally, we can summarize in a table the advantages and disadvantages of the outsourcing process:

Advantages	Disadvantages
Lower labor costs	Language and communication barriers
Cost saving	Cultural and social issues
Tax benefits and financial incentives	Quality control problems
Returning earnings back to home country	Effect on jobs in the home country
24/7 operations	Time zone adjustments
Availability of skilled labor	Loss of identity of the company

It is also possible to speculate on the customer point of view, especially when dealing with the customer services which is more often outsourced or off-shored. Companies partner with big foreign centres to offer affordable customer service for their final customers. These are the most common situations, but a newer type of customer service outsourcing has recently begun to spread. Customers are outsourcing their customer service matters to third parties. While until this moment establishing contact with companies with a complaint has been time-consuming (with customers having to deal with awful phone menus and waiting queues), now many companies developing mobile applications that handle service issues on behalf of the customer have emerged. These companies allow people to outsource their matters and complaints to a specifically optimized third-party service. From a customer's point of view, this is like heaven: they will eventually have their issues resolved or at least get a refund. Even if this is optimal for customers as far as speed and convenience are concerned, it makes life even more complicated for contact centres' future. The ever-growing outsourced customer complaints are a consequence of On-Demand Economy, whose rise inevitably leads to a constant need for customer service. Companies are relying on machine learning and artificial intelligence to improve their processes. Yet ML and AI, while very useful, assume that an end customer is reaching out with his/her issue. Now, as explained above, customers can outsource their queries to a third party (for example, a refund for a delayed flight). The easier it becomes for customers to outsource their issues to a third party, the more complaints contact centres are going to get. These outsourced services are going to be more professional and better equipped to obtain the perfect result for the end customers, and in some cases can even invoke legal action, if the complaints are not resolved with a right satisfaction level. Contact centres will need to up their game and acquire infrastructure and technologies capable of managing all this data. AI tech needs to work together with human agents to improve overall efficiency. Machine learning can automate a lot of repetitive every-day tasks, and in consequence of this, agents are free to handle more complex jobs, such as those brought up by third party customer issues services. The bottom line is that customer service leaders must get ahead of the trend.