15.571 Generating Business Value from Information Technology
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Generating Business Value
From Information Technology

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Willcocks, Reynolds, Feeny 9 Core Capabilities

Capability	Description
Leadership	Integrates the IS effort with business purpose and activity
Informed Buying	Manages the IS sourcing strategy to meet the needs of the business
Business Systems Thinking	Ensures that IS capabilities are envisioned in every business process
Relationship Building	Gets the business constructively engaged in operational IS issues
Contract Facilitation	Ensures the success of existing contracts for external IT services
Architecture Planning and Design	Creates the coherent blueprint for a technical platform that responds to present and future needs
Vendor Development	Identifies the potential added value from IT service suppliers
Contract Monitoring	Protects the business's contractual position, present and future
Making Technology Work	Rapidly trouble-shoots problems which are being disowned by othersacross the technical supply chain

Debate Question

- Dow's reliance on outsourcers will ultimately limit its success in growing the business.
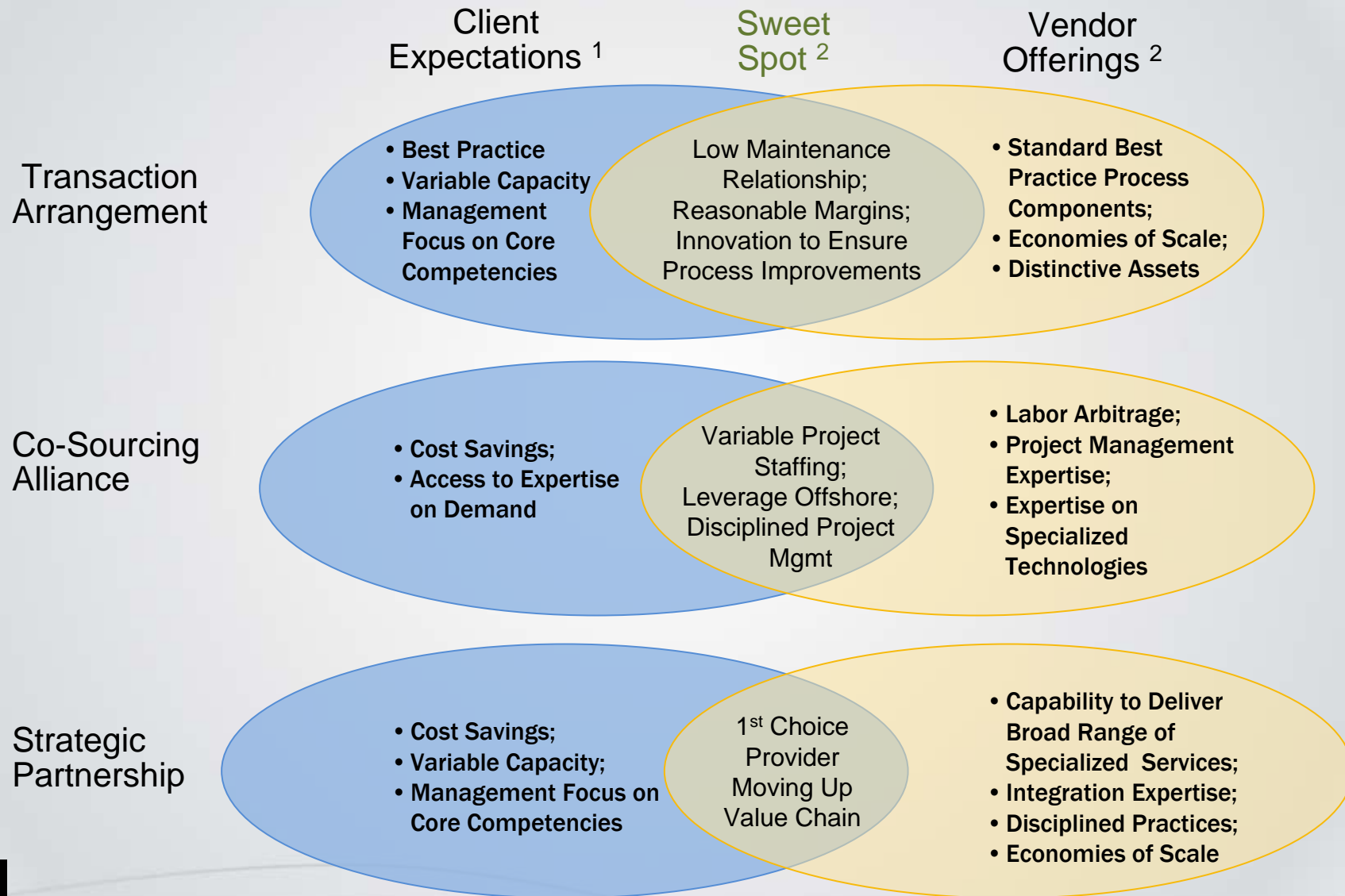
All Outsourcing Arrangements Are Not Equal

Three Mutually Exclusive Models

	Transaction Arrangement	Co-sourcing Alliance	Strategic Partnership
What is Outsourced	Narrowly defined, repeatable process	Project management and implementation	Broad responsibility for operational activities
Key Metrics	Quality and/or cost per transaction	Project success	Bottom-line impact
Client-Vendor Relationship	Arms length	Joint project management	Negotiated accountability
Client Success [1]	90%	63%	50%
Vendor Success	90%	75%	50%

Increasing Risk ➞

[1] Client views based on 80 surveys of outsourcing success. Questions asked: "Within the firm we view this outsourcing agreement as a success" and "The vendor is profiting from the outsourcing arrangement." Percentage is based on number of respondents who rated the statement as a 4 or 5 on a scale of 1 to 5.

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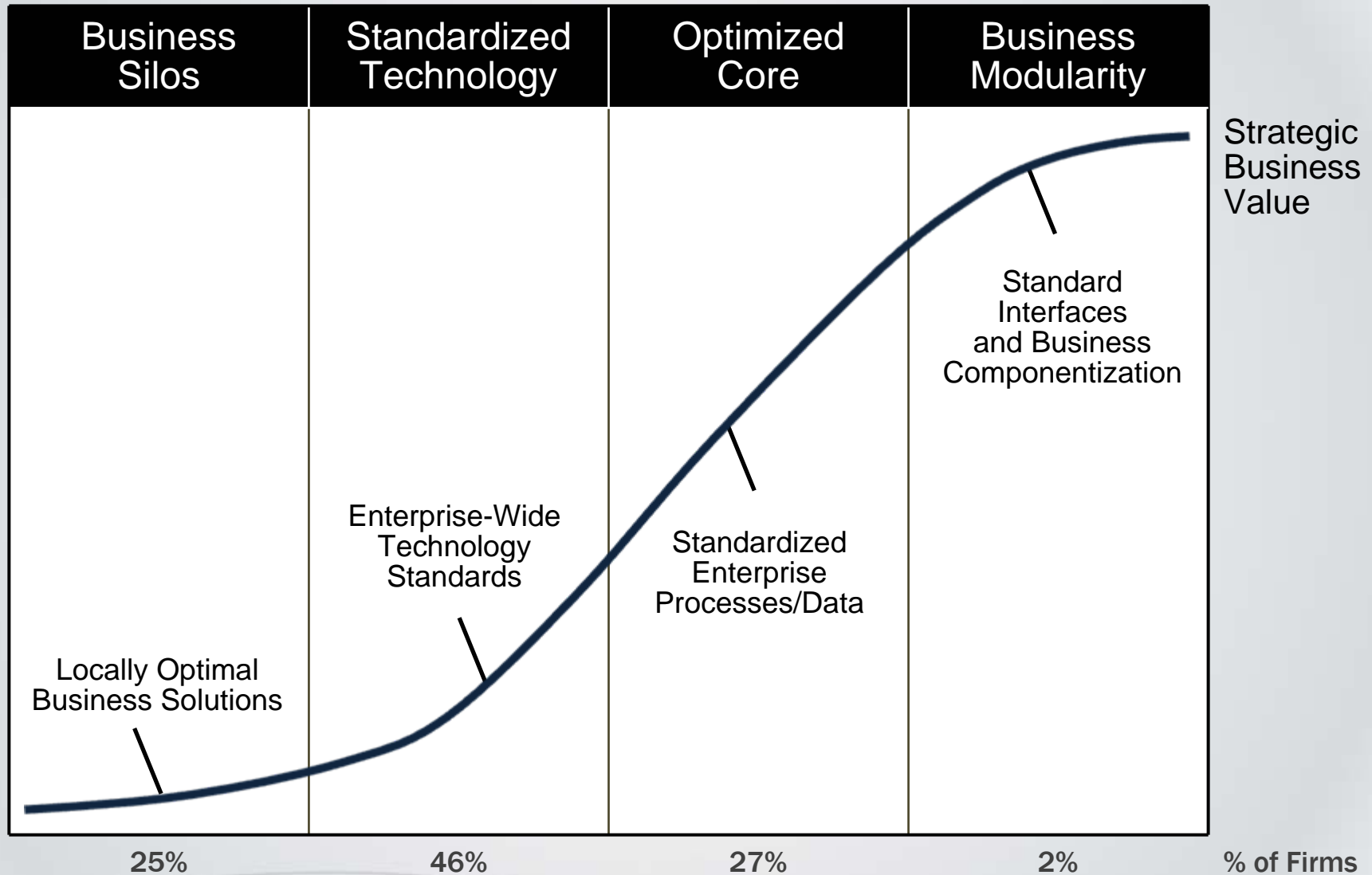
Viable Outsourcing Arrangements Find the Sweet Spot

	Client Expectations [1]	Sweet Spot [2]	Vendor Offerings [2]
Transaction Arrangement	• **Best Practice** • **Variable Capacity** • **Management Focus on Core Competencies**	Low Maintenance Relationship; Reasonable Margins; Innovation to Ensure Process Improvements	• **Standard Best Practice Process Components;** • **Economies of Scale;** • **Distinctive Assets**
Co-Sourcing Alliance	• **Cost Savings;** • **Access to Expertise on Demand**	Variable Project Staffing; Leverage Offshore; Disciplined Project Mgmt	• **Labor Arbitrage;** • **Project Management Expertise;** • **Expertise on Specialized Technologies**
Strategic Partnership	• **Cost Savings;** • **Variable Capacity;** • **Management Focus on Core Competencies**	1st Choice Provider Moving Up Value Chain	• **Capability to Deliver Broad Range of Specialized Services;** • **Integration Expertise;** • **Disciplined Practices;** • **Economies of Scale**

[1] Based on surveys of 80 IT managers.
[2] Based on eight case studies.

Different Arrangements Require Different Management

Key Management Practices		
Transaction Arrangement	**Co-sourcing Alliance**	**Strategic Partnership**
▪ **Transaction is a core competency of the vendor** ▪ **Desirable outcomes clearly specified** ▪ **Simple hand-offs—most often electronic data exchange** ▪ **Low management overhead** ▪ **Client is able to "let go" (doesn't micromanage)**	▪ **Rigorous processes— disciplined project management** ▪ **Shared management—joint accountability** ▪ **Metrics focused on joint accomplishments: time to market; budget limits (Don't attempt to measure individual contributions of vendor)**	▪ **Regular renegotiation of the deal—as business and technology change** ▪ **First-choice provider status: client finds additional services to outsource to compensate vendor for lowering costs** ▪ **Vendor committed to client success** ▪ **Client accepts vendor-imposed process discipline** ▪ **Strong relationship leaders on both client and vendor side**

Enterprise Architecture Matures Over Time

Business Silos	Standardized Technology	Optimized Core	Business Modularity

Strategic Business Value

Standard Interfaces and Business Componentization

Enterprise-Wide Technology Standards

Standardized Enterprise Processes/Data

Locally Optimal Business Solutions

| 25% | 46% | 27% | 2% | % of Firms |

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Outsourcing Can Accelerate Architecture Maturity

	Business Silo	Standardized Technology	Optimized Core	Business Modularity
What to Outsource	Easily isolated processes →→→→→→→→→→→→→	IT infrastructure management →→→→→→→→	Project management of major systems implementations →→→	Process design and operation with supporting technology
Ideal Relationship	Narrowly focused transaction outsourcing →→→→→→→→→→	Strategic partnership →→→→→→→→	Co-sourcing alliance →→→	Transaction outsourcing
Achievable Outsourcing Objectives	Cost savings	IT management discipline; Cost savings; Risk reduction; Management focus	Technology/expertise transfer; Process discipline and reengineering; Management focus; Cost effectiveness; Variable capacity; Risk sharing	Strategic agility; Leverage IT and process expertise for world class business processes; Variable capacity; Management focus; Cost effectiveness; Risk sharing

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Dow Financial Performance

Year	2008	2007	2006	2005	2004
Net Sales[1]	57,514	53,513	49,124	46,307	40,161
Net Income[1]	579	2,887	3,724	4,515	2,797

Note: In 2008 Dow acquired Rohm & Haas to enhance its portfolio of performance chemicals. The deal was not closed until March 2009.

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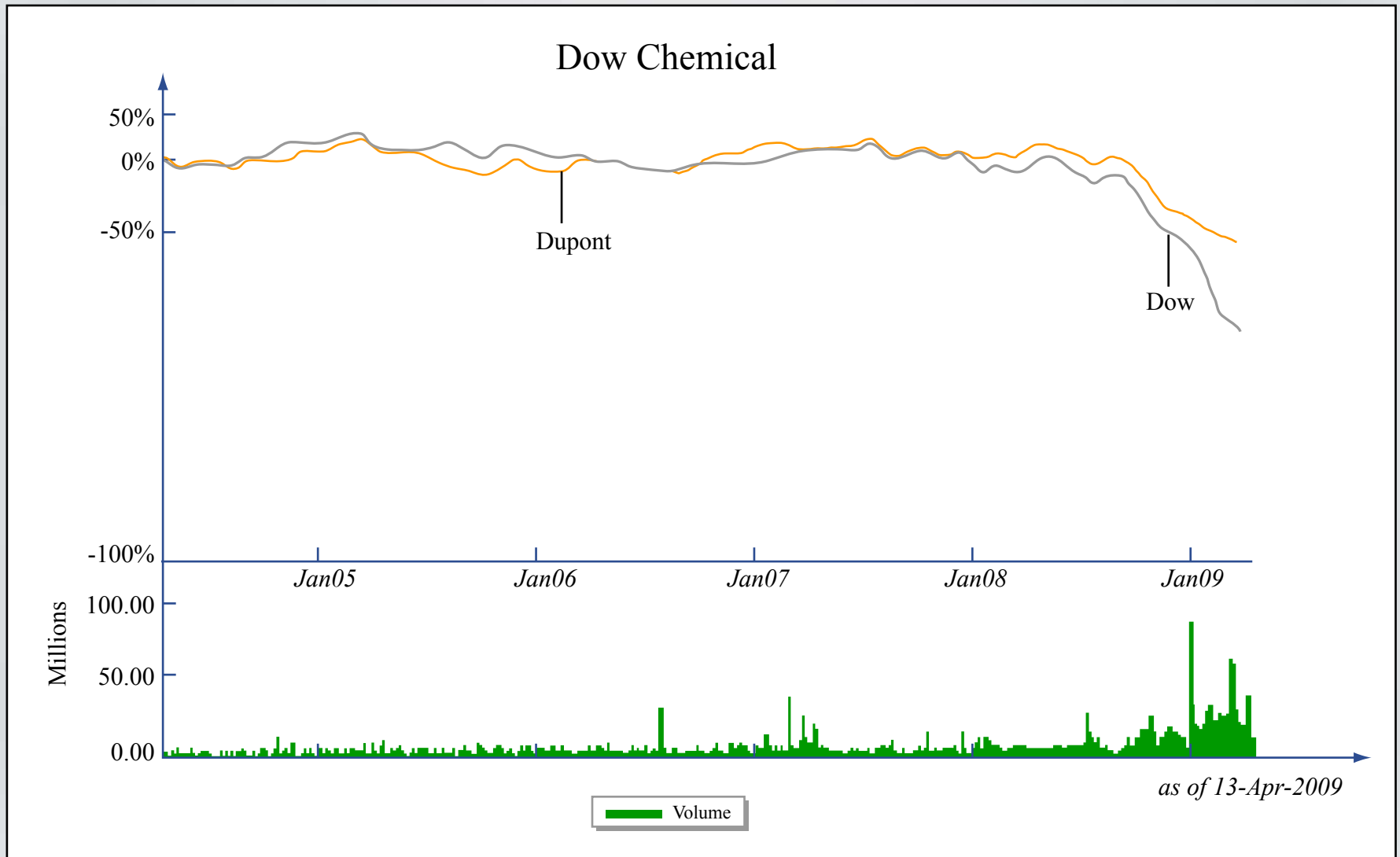# Relative Stock Performance of Dow and DuPont

Figure by MIT OpenCourseWare.

Closing Thoughts on Dow and IT Outsourcing

- IT outsourcing changes, but does not reduce, the skill requirements of the IT unit.

- A strategy of operational excellence does not promote innovation. Profitable growth requires building new businesses around the core.

- Architecture maturity enables **and** constrains strategy by providing a platform for doing business.

- Some processes within a firm are commodities and those processes can—and often should—be outsourced. (Wait for the market to materialize.)

- Some processes are strategic. For those, outsourcing is risky business.

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Key Outsourcing Decisions

- IT outsourcing versus inhouse development and operations
  - IT outsourcing relies on external parties to provide development and/or infrastructure operations support (e.g. Campbell's outsourcing to IBM; Dow's outsourcing to Accenture and IBM)
  - Inhouse sourcing requires technical expertise to develop and run systems
- Business process outsourcing vs. inhouse business processes
  - Business process outsourcing relies on external parties to process transactions associated with business functions (e.g. Qatar Airways outsources revenue accounting; BAE Systems outsources HR)
  - Traditionally, firms have created functions to run all essential functions, whether or not they are strategic.
- Onshore versus offshore outsourcing
  - Offshore outsourcing provides variable capacity and usually results in lower wages
  - Onshore outsourcing provides proximity and avoids time zone issues
- Dedicated processing versus "the cloud"
  - Most firms install their software, then take responsibility for running their systems, which includes installing upgrades and enhancements.
  - Salesforce.com, IBM, Oracle and others are offering to provide software as a service (SaaS), which means they will run the software on their machines and take care of all updates and maintenance.

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IT and Business Process Outsourcing: Promises and Risks

- Beware of the expected cost savings from outsourcing.

- IT outsourcing changes the skill requirements of the IT unit.

- Some processes within a firm are commodities and those processes can—and often should—be outsourced for operational excellence. (But wait for the market to materialize.)

- A strategy of operational excellence can inhibit rather than promote business innovation.

- Some business processes are distinctive. For those, outsourcing is risky.

- Outsourcing can accelerate architecture maturity. Architecture maturity can better position a firm to benefit from outsourcing.

- Offshoring and "cloud" technologies have promise but they do not resolve problems caused by undisciplined business processes. They demand new management skills.