IT OUTSOURCING AND SHARED SERVICES TRENDS

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Ask any practitioner or academic in the business world to identify the most significant transformations of the last two decades, and two items are likely to figure at the top of their list - Increasing adoption of technology by business and the realisation that businesses should stick to their core competencies and outsource non-core services. The confluence of these two phenomena has resulted in the rapid growth of IT-enabled services, IT outsourcing, business process outsourcing and shared services.

IT outsourcing and offshoring is an imperative for organisations due to rapid changes in technology, diverse skill requirements and the scale of teams required to deliver large programmes. The business case for IT outsourcing has moved far beyond just labour arbitrage. Due to the rapid improvements in technology and the increasing dependence of business on IT, businesses can no longer hope to deliver all the required services in-house. They will need to use services from best-in-class vendors.

On the other hand, business process outsourcing is embraced by organisations that have large-scale operational requirements, making it infeasible to hire in-house teams. Improvements in remote connectivity and bandwidth have enabled “work from anywhere” models, and thus process activities have naturally moved to countries that can offer cost and scale advantage.

Even organisations that do not have the high scale of requirements justifying business process outsourcing, have realised that most support services, transaction processing and other administrative tasks are duplicated across their divisions. They see clear benefits in bundling such similar services under the ‘shared services’ model. It is estimated that over 80% of the Fortune 500 companies have implemented some form of shared services in their operations.

So what are the factors that are likely to drive the next wave of adoption of IT outsourcing, business process outsourcing and shared services?

Opportunity in crisis

Typically, the journey to outsourcing and shared services involves some effort in change management and transition. Universally, businesses do not recognise the need for this transformation until they go through economic or business related crisis. Western markets went through two waves of transformation during the Y2K era and during the 2007-08 crisis. The next wave of growth in IT/business process outsourcing and shared services will be driven by a combination of crises and opportunities. Western markets are witnessing a digital transformation, and are looking for new operating models to
leverage the opportunities involved. The Middle East is going through a crisis with oil price at its current level USD 30, and hence businesses are looking for cost optimisation and innovative operating models to sustain their profitability.

**Transformation opportunities in the Middle East**

The nature of services in IT outsourcing, business process outsourcing and shared services is likely to have a distinct flavour for each developing and developed market. Business process outsourcing is likely to stagnate because companies that faced constraints in adopting business process outsourcing are likely to continue experiencing the same constraints (such as local language requirements, regulatory hurdles and the lack of scale). However, IT outsourcing and shared services are likely to experience higher adoption, promising the benefits summarised in the picture below.
Factors favouring IT outsourcing wave

**Technology adoption:** Customers’ expectations on service experience are changing due to the increasing number of channels such as mobile. Businesses are rapidly embracing technology to widen their channels of distribution and enhance customer intimacy. Technology talent is not easily available within the region and hence the region has to source talent from elsewhere.

**Regulations:** In the past, the need for technology talent was met by hiring immigrant talent, but immigration rules are tightening in many regions and have made this more difficult, from both an economic and regulatory perspective.

**Higher awareness:** Services providers are broadening their focus from mature Western markets to relatively new markets such as Middle East and Africa. Their investments in business development within the region has helped improve awareness among businesses.

Factors favouring the shared services wave:

**Regional expansion:** Businesses have realised that a single-country focus is no longer sustainable. They are increasing their regional presence through mergers and acquisitions, which inevitably lead to duplication of process capabilities. Shared services is a key element of the plan to derive cost synergies from M&A.

**Economic co-operation:** Regional economic co-operation in GCC, Euro and Asia-Pac regions makes it easier to set up regional operations units and shared services.

**Cost advantage:** There is a wide variance in labour costs across countries engaged in economic co-operation. Setting up
shared services in low-cost locations enables operational efficiency and helps in development of infrastructure in those locations. For example, in the Middle East region businesses can serve customers from high-cost locations like Dubai, Abu Dhabi or Kuwait through a shared service in Fujairah, thus creating a win-win for both sides.

Embarking on the IT outsourcing and shared services journey

The first step in the journey is to review the current operating model, define the target benefits and the target operating model. Clarity on the target state will help in identifying suitable partners and ensuring a seamless transition to an improved model.