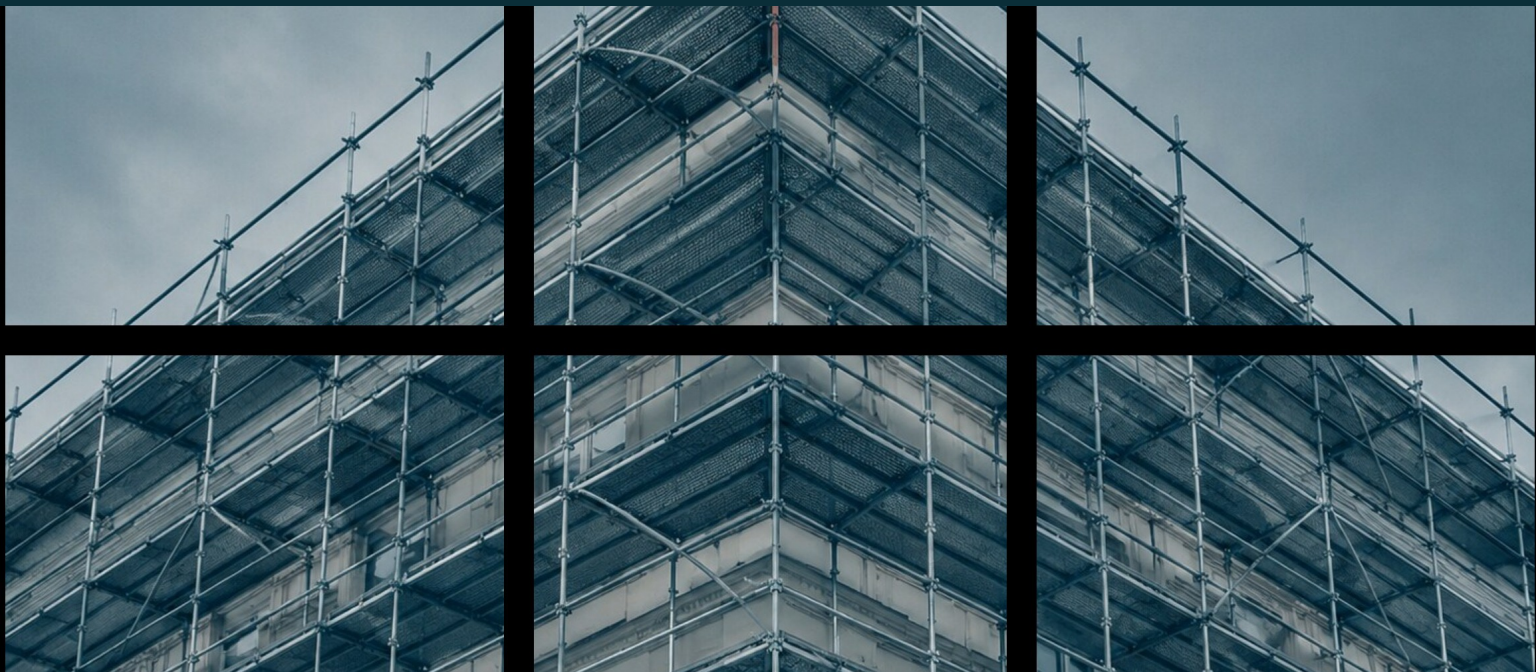


BEYOND THE COST CASE

BPO Beyond IT — When Business Processes Followed Technology Offshore

A Practitioner's Perspective on Outsourcing Scope Creep and the Erosion of Organisational Capability



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1. The Logic That Made It Inevitable

The story of business process outsourcing in the mid-2000s is not, at its core, a story about technology. It is a story about a logic – a particular way of thinking about organisational capability – that began with IT infrastructure and then, finding no natural boundary, extended into territory that nobody had originally intended it to reach.

The logic was simple and, on the surface, difficult to argue with. If an external provider could run a data centre more cheaply and reliably than an internal team, then the rational course was to outsource it. This much had been established through the late 1990s, and by 2003 the IT outsourcing market was mature enough that few organisations questioned the basic proposition. The providers were experienced, the contracts were well-understood, and the cost savings – while often less dramatic than the initial business cases had promised – were real enough to sustain the model.

What happened next was not a deliberate strategic decision in most organisations. It was a drift. Once the logic of "if someone can do it cheaper, let them" had been accepted for IT infrastructure, it proved remarkably difficult to confine. If a provider could run a data centre, why not a help desk? If a help desk, why not the entire service management function? If service management, why not the back-office processes that the technology supported – accounts payable, claims processing, payroll administration, customer correspondence?

Each step in this progression had its own business case, its own projected savings, its own executive sponsor. Each step, taken individually, appeared rational. The pattern I have observed across sectors – financial services, telecommunications, utilities, public sector – is that very few organisations made a conscious decision to outsource business processes. They made a series of incremental decisions, each of which extended the boundary of outsourcing slightly further, and each of which was justified by reference to the success of the previous step.

2. Why the Boundary Did Not Hold

The failure of the boundary between IT outsourcing and business process outsourcing is worth understanding in detail, because it reveals something important about how organisations actually make decisions under conditions of cost pressure.

The formal answer – the one that appeared in strategy documents and board papers – was that the boundary held. IT outsourcing was a mature, well-governed practice. Business process outsourcing was a separate decision, requiring separate analysis, separate governance, and separate risk assessment. In theory, an organisation could

outsource its technology operations while retaining full control of the business processes that depended on them.

In practice, the boundary eroded through three mechanisms that were individually unremarkable but collectively transformative.

The first was contractual creep. IT outsourcing contracts, particularly the large managed-service agreements that dominated the early 2000s, were structured around service levels rather than activities. The provider committed to a certain level of system availability, a certain response time for incidents, a certain throughput for batch processing. As the relationship matured, it became natural – and often contractually logical – for the provider to take on activities that sat on the boundary between technology operation and business process. Monitoring a batch job was clearly IT. But what about resolving the data exceptions that the batch job generated? What about the manual workarounds that kept the process running when the system was unavailable? These boundary activities migrated to the provider not through strategic decision but through operational convenience.

The second was cost benchmarking. Once an organisation had an outsourcing relationship in place, the provider's labour costs – particularly in offshore locations – became a visible benchmark against which internal costs were measured. A back-office process that cost forty pounds per transaction internally looked expensive when the provider was delivering comparable IT services at twelve pounds per transaction. The comparison was often misleading – it ignored differences in complexity, regulatory requirements, and the cost of knowledge transfer – but it was powerful in budget discussions. The existence of a cheaper alternative created its own momentum.

The third was provider ambition. The major IT outsourcing providers of the early 2000s – the large system integrators and the rapidly growing Indian service companies – were not content to remain IT infrastructure operators. Their growth strategies depended on expanding the scope of their engagements, and business process outsourcing represented the next frontier. They invested heavily in BPO capabilities, and they used their existing IT relationships as a channel to market. An IT provider already embedded in an organisation's operations was uniquely positioned to identify business processes that could be migrated offshore, and to present the migration as a natural extension of an existing, successful relationship.

3. The Gap Between Intent and Reality

The result of these three forces was a pattern that recurred with remarkable consistency across organisations and sectors. An IT outsourcing arrangement that had been conceived as a bounded, well-governed cost reduction initiative gradually expanded to encompass business processes that the original decision-makers had never intended to outsource. The expansion happened not through a single decision but through a series of small, individually rational steps – each of which moved the boundary slightly, and none of which triggered the governance mechanisms that had been designed to control it.

This matters because business process outsourcing is fundamentally different from IT outsourcing in ways that the incremental logic obscured.

When an organisation outsources an IT function, it transfers an activity. When it outsources a business process, it transfers a capability — and capabilities, once transferred, are extraordinarily difficult to recover.

IT infrastructure is, by its nature, relatively standardised. A data centre in Bangalore operates on the same principles as a data centre in Birmingham. The technology is the same, the operational procedures are transferable, and the skills required are broadly interchangeable. An organisation that outsources its data centre operations retains the ability to bring them back in-house — at a cost, certainly, but without fundamental loss of capability.

Business processes are different. They encode organisational knowledge — the accumulated understanding of how this particular organisation serves its customers, manages its risks, and complies with its regulatory obligations. Much of this knowledge is tacit: it exists in the heads of the people who perform the process, not in the process documentation. When these people are made redundant and their work is transferred to an offshore team working from a process manual, the tacit knowledge is lost. The process continues to function, but the organisation's understanding of why it functions — and its ability to adapt it when circumstances change — is diminished.

4. What the Business Cases Consistently Missed

The business cases for BPO extensions followed a remarkably consistent template. They projected labour cost savings of forty to sixty per cent, typically based on the difference between onshore and offshore salary costs. They included transition costs — usually underestimated — and a stabilisation period of six to twelve months during which service levels might dip before recovering.

What they consistently failed to account for was the cost of lost adaptability. Business processes are not static. They change in response to regulatory requirements, competitive pressures, customer expectations, and internal strategic shifts. An in-house team that understands the business context can adapt a process incrementally, often without formal change requests or project governance. An outsourced team working to a defined process specification can only change the process through a formal change management mechanism — which means a commercial negotiation, a cost estimate, a lead time, and a testing cycle.

The practical consequence is that organisations that outsourced business processes found themselves progressively less able to respond to change. Not because the outsourced processes were badly run — in many cases they were run more consistently and at lower cost than their in-house predecessors — but because every adaptation required a formal change that took weeks or months rather than days.

This rigidity was particularly damaging in regulated industries. Financial services organisations that outsourced compliance-adjacent processes discovered that when regulators changed their requirements — as they did frequently in the mid-2000s — the cost and lead time of adapting outsourced processes was dramatically higher than adapting in-house ones. The savings on steady-state operations were genuine, but they were eroded by the cost of change.

5. The Cultural Dimension Nobody Planned For

Beyond the operational and commercial challenges, the extension of outsourcing into business processes exposed a cultural gap that the IT outsourcing model had not prepared organisations to manage.

IT outsourcing relationships, at their best, are technical partnerships. The shared language is systems, platforms, and service levels. Cultural differences between onshore and offshore teams — while real and sometimes significant — are mediated by the relative objectivity of technology: a system either meets its performance specification or it does not.

Business process relationships require a different kind of cultural alignment. The offshore team needs to understand not just what the process does but what the organisation values, how it communicates with its customers, what its risk appetite is, and how it makes trade-offs between competing priorities. These are deeply cultural questions, and they are not easily codified in a process manual or a service level agreement.

The pattern I have observed is that organisations consistently underestimated the cultural investment required to make business process outsourcing work. They applied the IT outsourcing governance model — detailed specifications, service level monitoring, regular operational reviews — and found that it was necessary but profoundly insufficient. The processes ran to specification, but the outcomes felt wrong: customer correspondence that was technically correct but tonally inappropriate, risk assessments that followed the methodology but missed the context, exception handling that escalated by the book but failed to exercise judgement.

6. The Structural Forces That Sustained the Pattern

Understanding why BPO scope creep persisted despite these difficulties requires looking at the structural forces that sustained it, because they were powerful enough to override the operational evidence.

Cost pressure was relentless and unidirectional. The post-dot-com environment created sustained pressure to reduce operating costs, and labour arbitrage remained the most visible and easily quantified source of savings. Even when the total cost of outsourcing — including transition, governance, change management, and quality remediation — approached or exceeded the cost of in-house delivery, the headline savings on labour were politically compelling. They appeared on the right line of the profit-and-loss statement, in a way that the hidden costs did not.

Competitive dynamics created a ratchet effect. Once one major organisation in a sector outsourced a particular process, its competitors faced pressure to follow — not because the business case was compelling on its own merits, but because failing to outsource meant carrying a cost base that the market would eventually penalise. This was particularly acute in financial services, where analyst expectations for cost-to-income ratios created a powerful incentive to match competitors' outsourcing moves regardless of the operational risks.

Provider capabilities genuinely improved. It would be inaccurate to suggest that BPO was always a mistake. The major providers invested substantially in process excellence, quality frameworks, and domain expertise. By 2004, the best BPO providers could deliver genuine improvements in process consistency and error rates, particularly for high-volume, rule-based processes. The problem was not that BPO could never work — it was that the

logic of expansion pushed it into processes where its strengths were less relevant and its weaknesses more exposed.

7. What This Tells Us About Transformation

The BPO expansion of the mid-2000s is, in one sense, a specific story about outsourcing. But it illustrates a pattern that recurs across transformation programmes more broadly: the gap between transformation intent and transformation reality.

The intent was bounded and rational: outsource IT infrastructure to reduce cost and improve reliability. The reality was expansive and largely uncontrolled: a progressive transfer of organisational capability that was driven not by strategy but by a combination of contractual mechanics, cost benchmarking, and provider ambition.

“The most consequential decisions in transformation are often the ones that nobody recognises as decisions at all — the incremental extensions that feel like operational housekeeping but accumulate into strategic commitments.”

This is a pattern worth watching for, not just in outsourcing but in any transformation that begins with a bounded scope and a clear rationale. The forces that extend scope — contractual logic, cost comparison, provider or vendor ambition — are structural, not accidental. They operate regardless of the governance mechanisms that are supposed to contain them, because they work at a level below formal decision-making: the level of operational convenience, budget pressure, and incremental precedent.

The organisations that managed this dynamic most effectively were not those with the strongest governance frameworks, though governance helped. They were those that maintained a clear and actively defended distinction between activities that were suitable for outsourcing and capabilities that the organisation needed to retain. The distinction was not technical — it was strategic, rooted in a clear-eyed assessment of what the organisation needed to be able to do for itself, regardless of whether an external provider could do it more cheaply.

That clarity was rare in the mid-2000s. It remains rare now.