

Case Study: University of Canberra Achieves a Step Change With Offshore Outsourcing

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The University of Canberra (UC), Australia, is possibly the first university in the world to undertake such a comprehensive combined business process and IT outsourcing initiative with an offshore service provider. The results of centralizing and outsourcing have contributed to a dramatic turnaround – from UC’s worst-ever financial deficit in 2007, to its best-ever surplus in 2010.

Key Findings

- A significant budget deficit served as a “burning platform” to catalyze the magnitude of change required.
- Engaged leadership and support by senior business and IT executives were critical to helping UC commit to and follow through on the path to significant change.
- A direct line of accountability (from vice chancellor to registrar to IT) helped to focus on a common goal, enabled change and optimized engagement with the outsourcer.
- The university realized that the cost and skill requirements for the needed “step change” could only be met by using outside help.
- Higher-education-specific processes, such as admissions, do not necessarily need higher education experts in order to improve. Strong generic process optimization skills can go a long way.
- At the operational level, without the distraction of “firefighting” activities, the 40 remaining IT staff are now able to spend about 50% of their time on “new project” work (compared to only 15% of their time before outsourcing).

Recommendations

Higher education CIOs considering significant outsourcing should:

- Combine strong executive support with effective change management to ensure a smooth outsourcing transition and successful benefit realization.
- Take the necessary steps to develop strong vendor management skills, and maintain constant focus to ensure high-quality communication and delivery.

- Take a collaborative partnership approach to vendor management to better leverage the respective skills and services of both parties.
- Embrace a “big bucket” approach that includes all support processes to identify and realize larger savings than would be possible within each administrative silo.

WHAT YOU NEED TO KNOW

In 2007, UC faced a A\$16 million budget deficit. To quickly cut costs, the university centralized and restructured administrative and IT functions. However, greater savings were needed, leading to major offshore outsourcing for selected IT functions and administrative business processes. Now, almost two years into the outsourcing contract, the results represent a step change that combines cost savings and improved outcomes. The student application-to-offer business process has been cut from two weeks to three days. The ratio of general to academic staff costs declined by 19% from 2006 to 2010, with the majority of A\$8 million forecast savings coming from reducing staff numbers.

CASE STUDY

Introduction

The University of Canberra (UC) plays in a fiercely competitive market. Higher education is the third-largest export industry in Australia, and many universities have come to depend on attracting 20% or more of full-fee paying international students as a sizable source of income. That income was increasingly under threat as the result of more stringent student visa rules, an increasing number of institutions competing for the same overseas (mostly Asian) student candidates, and the rapidly improving quality and number of Asian tertiary institutions in students’ home countries. In addition, the Australian government’s support of higher education was being changed to link funding to performance. In this context, the ability to focus more resources on the core institutional mission is a competitive advantage for any university.

At UC, the vice chancellor saw this focus as the difference between a positive spiral and a negative one. It became a matter of survival. But how do you change an organization set in its ways, with limited resources for ongoing business? University executives eventually concluded that UC could not achieve enough change from within. The needed step change required help from outside the university. This Case Study explains how such change came about at UC, and details the risks and possibilities entailed in offshore IT and business process outsourcing. It gives senior management teams of higher education institutions insight into the possible outcomes of following through on a simple thought: “A dollar less spent on administration is a dollar more spent on education and research.”

The Challenge

UC is a relatively young and small university. Founded in 1967 as a college of advanced education, it became a university in 1990. With 11,000 students and 800 staff, it is only the 33rd largest of the approximately 40 universities in Australia, yet it offers most major subjects. The broad coverage and a decentralized approach to administrative support contributed to UC’s comparatively high ratio of general to academic staff. These issues, combined with lowering student demand, culminated in UC’s worst financial year ever in 2007 (A\$16 million). The pending change in the government’s funding, with its accent on rewarding performance, would have further hurt the university and likely result in a negative spiral of resources and quality. The goal was clear. UC had to focus on mission-critical metrics to stay in the game. A new vice chancellor with a clear change mandate was appointed in March 2007. He set two simple goals as part of “the 39 steps” in the new strategic plan:

- Perform in the top third of universities on standard educational metrics.
- Perform in the top half of universities on per capita research measures.

A key step in the strategic plan was a challenge to the registrar and the CIO to “streamline our procedures and cost structures, making full use of IT” (see Note 1).

Note 1. The University of Canberra Strategic Plan 2008-2012

See www.canberra.edu.au/planning-quality/quality/attachments/pdf/Strategic-Plan-2008-2012-Re-Vision-2011.pdf.

Approach

The immediate (and traditional) response to the challenge was to centralize most business and IT functions. Approximately 104 IT staff previously spread across UC were brought into the central IT group. Standardization of work and related redundancies reduced the total number of IT staff to 73.

However, it was soon clear that centralization alone could not achieve the desired savings. If anything, it reduced, rather than increased, quality in the eyes of the faculty and students. An external consultancy was engaged to provide recommendations for process improvement. The objectives of the Process Simplification Project were to “review administrative processes to identify wasteful processes that can be readily improved to reduce cost and increase administrative effectiveness.” A key consideration was that, even after the 2007 administrative restructure, the university still faced a recurring structural deficit of A\$5 million. The Process Simplification Project was designed to investigate the university’s cost structure further and look for additional savings through business process re-engineering and establishing a professional procurement function.

The project team did not set out to implement an outsourcing strategy. However, analysis suggested that the university suffered from a lack of scale economies when compared with a self-selected benchmark group of somewhat larger peer institutions. Although the university’s general-to-academic staff ratios had improved from 2006 to 2008 as a result of its internal restructuring efforts, it still had some way to go to match other larger institutions with which the university compared itself.

Additionally, while the university’s processes were, in some cases, inefficient and fragmented, the university’s administration had also become very lean following the 2007 administrative restructuring. Significant effort could have gone into reforming individual processes, with little direct cost saving resulting from the work. The findings led the project team to consider outsourcing as an option.

In July 2008, a request for proposal (RFP) was released to a number of potential outsourcing vendors. Three major vendors were selected for further evaluation.

A thorough due diligence process ensued, involving an initial scouting trip and a supplier selection trip to India. More importantly, UC’s management was strongly engaged in the process. The Vice Chancellor’s Group, Deans and Directors Group, Services Committee of Academic Board, Finance Committee of Council, and University Council all considered the proposal. A key factor in convincing the faculty to accept outsourcing was the reassurance that UC would continue operating its own on-campus data center to host corporate applications and data, with access by offshore service delivery teams via a secure (VPN) link.

In June 2009, UC engaged Wipro Technologies as a strategic partner in a five-year, A\$16.6 million deal. The contract was expected to produce an estimated saving of A\$8 million, made up of A\$3 million in direct savings (in 2009 present-value terms) and A\$5 million in revenue generation based on improved admission application processing.

The functions and corresponding applications that were outsourced are listed in Table 1 and 2.

Table 1. Outsourced Business and IT Functions and Corresponding Applications at the University of Canberra, Part 1

Area	Function
Information Communications and Technology (ICT)	<ul style="list-style-type: none"> • Desktop Support • Server Operations • Network and Communications • Application Integration and Support • Service Desk • Database Support
Finance	<ul style="list-style-type: none"> • Reconciliation • UCC Accounting • Accounts Payable • Accounts Receivable • Procedure to Pay
Student Administration Services	<ul style="list-style-type: none"> • DEEWR Reporting • Admissions
Human Resources	<ul style="list-style-type: none"> • Payroll
DEEWR = Department of Education, Employment and Workplace Relations, UCC = University of Canberra College, which specializes in preparing Australian and International students for study at the University of Canberra	
Source: University of Canberra (June 2011)	

Table 2. Outsourced Business and IT Functions and Corresponding Applications at the University of Canberra, Part 2

Applications
Callista (Student Administration)
Finance One (Finance System)
Alesco (HR System)
Syllabus+ (Timetable System)
ILM Provisioning (Identity Management)
Moodle (Learning Management System)
MyUC (Staff Portal/Student Portal)
Cardax (Door Access)
Millennium (Library Catalog)
Courses and Unit Database System
Source: University of Canberra (June 2011)

The “transition period” lasted seven months, from August 2009 to February 2010. By March 2010, the relationship had reached a “business as usual” situation; Wipro now has full responsibility for delivery of the outsourced services. It should be noted that only the service desk was fully outsourced. In the case of other functions, UC retained some in-house, high-level technical or managerial role.

Results

The university perceives that it has gained significant benefits in quality, as well as real cost reduction. The cost savings are mostly due to a staff reduction of 51 full-time equivalents (FTEs), 33 of which were from the IT organization.

From a more intangible point of view, there has been a significant decline in the amount of resources going into “business as usual” in the case of IT, and a corresponding growth in the amount of resources going into new projects that will increase the university’s competitiveness. In business process areas, there has been

no discernible staff creep in outsourced functions. FTE growth has been in new areas, such as procurement, with a focus on increasing university efficiencies.

This has made real inroads in reducing the university’s general staff to academic staff ratios, as Table 3 demonstrates.

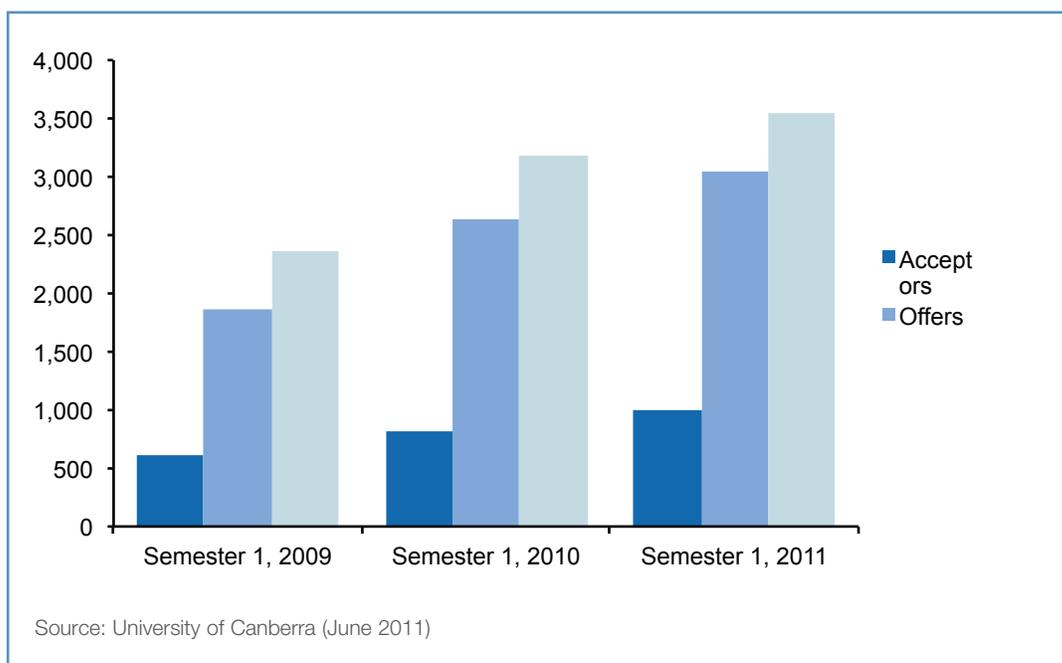
In budget terms, a ratio of academic to nonacademic resources allocation was set in 2010 to 55-to-45. In 2011, this will improve to 56-to-44. Thus, at least 56% of the university’s resources will be allocated to academic core and academic support units in 2011. This trend contrasts with the period before 2008, when the balance of the university’s resources was directed to administration.

While there is clear evidence that target cost savings have been achieved, the university has also achieved its revenue generation goal, although this is not as easy to quantify. Over the past few years, the number of international student applications submitted to the university has grown substantially.

Table 3. Academic to General Staff Cost Ratios, 2006-2010

	UC Group (UC, UC Union, UC College, NATSEM)				
	2006	2007	2008	2009	2010
Academic Salaries	A\$40,291	A\$41,046	A\$48,138	A\$56,023	A\$64,608
General Salaries	A\$42,158	A\$48,681	A\$44,471	A\$50,036	A\$54,688
Ratio of General to Academic	1.05	1.18*	0.92	0.89	0.85
*In 2007, A\$5.1 million was spent on general staff redundancies. If this amount is excluded, the ratio was 1.06. NATSEM = National Centre for Social and Economic Modelling.					
Source: University of Canberra (June 2011)					

Figure 1. International Student Applicants, Offers, Acceptors: Semester 1, 2009 to Semester 1, 2011



Despite this increase in application volume, in 2011, the UC-Wipro admission team was able to meet key performer indicator (KPI) target turnaround times (72 hours turnaround on a standard offer), for the first time in many years, as a recent Wipro service-level agreement (SLA) report indicates.

An analysis of application data reveals that, while the total number of applicants has increased, so too has the conversion rate of applications to offers; at the same time, the conversion rate of acceptances to offers has remained steady.

Table 4. International Student Conversion Rates – Semester 1, 2009 to Semester 1, 2011

	Applicants to Offers	Offers to Acceptances
Semester 1, 2009	79%	33%
Semester 1, 2010	83%	31%
Semester 1, 2011	86%	33%

Source: University of Canberra (June 2011)

The university believes application-to-offer conversion rates have improved as a result of changes in the external environment, such as the increasing value of the Australian dollar, deterring some applicants from submitting applications. Offer-to-acceptance rates have been maintained, despite the large increases in application volume over the period as a result of better application processing through the university's outsourcing arrangement.

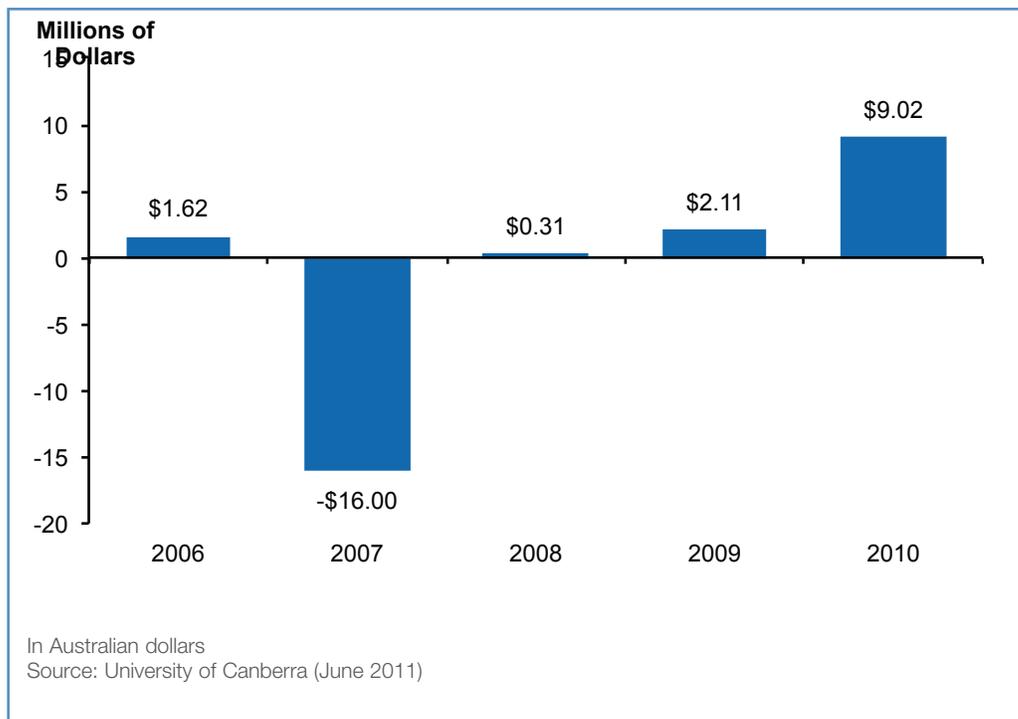
While there are many reasons why the university's financial position has improved since 2007, the university's senior management

firmly believes that centralization and outsourcing have been major drivers. Figure 2 plots the dramatic turnaround.

The university's 2010 surplus is the largest in its history.

At the operational level, without the distraction of firefighting activities, the 40 remaining IT staff are now able to spend about 50% of their time on "new project" work (compared to only 15% of their time before outsourcing).

Figure 2. Overview of UC Group Income Statements, 2006-2010



New projects include:

- Improved Information management capability through business intelligence, enterprise content management, and records and document management
- Information personalization through an improved identity management system focused on roles
- Improved infrastructure agility through server virtualization

At the same time, the quality of service of the service desk has increased; it now operates 16 hours a day on weekdays and four hours each day on the weekends. Formerly, it was open 9 a.m. to 5 p.m. on workdays. As a result, there is an overall trend toward measurable increased user satisfaction, yet room for much improvement that will require better expectation management and UC-Wipro alignment.

Wipro's Contributions

Wipro brought economies of scale and process skills to the engagement, supported by two key tools: a professional grade ticket tool for the help desk and a Wipro proprietary workflow tool for the business processes. These tools enabled a new level of accountability for tasks, as well as an ability to analyze and optimize workflows. The result is improved user satisfaction and an optimization of resources. These contributions represent investments that would have been prohibitive for the University of Canberra acting alone, and which clearly have contributed to the needed step change.

Critical Success Factors

- *Change is pain, but pain and a clear purpose are needed for change.* The most important success factor was UC's dire financial situation. It created a clear burning platform that played a significant role in helping the institution initiate change. UC selected its new vice chancellor as a change agent with a clear mandate and vision. Engaged leadership and strong support by the vice chancellor, senior business and IT executives over time helped UC to commit and follow through on the path of significant change.
- *Walk before you run.* Several of the steps that the institution went through before entering the BPO arrangement contributed to setting it up for success rather than failure. First, UC consolidated a decentralized organization, ensuring fewer points of change. Then it conducted a thorough process review, deepening its understanding of the need for standardization and economies of scale where possible. Only at this stage could the university successfully outsource what was now a centrally controlled and prepared set of support functions.
- *Big savings need big buckets.* The traditional path of centralization and siloed cost cuts was not going to achieve UC's goal of competitive advantage. The savings were simply too small. A more comprehensive look at both business and IT support functions unlocked new synergies. Going beyond cost savings to thinking about yield enabled targeted investment in change. This approach has enabled UC to apply business-level agreements rather than SLAs, encouraging a sense of partnership and enabling all parties to focus on the impact at the university level.

- *Create clear accountability and alignment.* A simple and direct line of accountability (from vice chancellor to the registrar to the CIO) helped maximize alignment, enabled change, and minimized the number of interfaces with Wipro. This approach has had the added benefit of encouraging the development of strong personal relationships, which have been important in keeping change on track and delivering benefits.
- *Accept leapfrogging as a tool to overcome the cost and ability to change within.* UC realized the difficulty and potential cost of achieving change from within. At that point, it accepted the need to buy certain “preassembled” skills and tools from a vendor such as Wipro. Telling the story of why outsourcing was a logical step for achieving the institution goal was a difficult but necessary task that required a lot of effort.
- *Give people a way out.* Outsourcing creates uncertainty and emotional turmoil for staff, particularly in an academic community that has limited experience with it. UC understood both the staff concerns and the political sensitivity of the project by proactively consulting with the unions and the Australian Department of Education, Employment and Workplace Relations. UC reported passionate debate at all levels, including within the University Council, which eventually approved the contract in February 2009. Included in the change process were voluntary separation packages and processes for internal transfers.
- *Secure data and a way out.* A key factor in convincing faculty to accept outsourcing was to retain all data on campus and only allow secure (VPN) communication to offshore service locations. Keeping the data center and key people for all outsourced areas except the service desk has allowed UC to have better vendor management while retaining the ability to rebuild services locally, should worse comes to worst. Even if this has restrained UC from achieving higher savings, it was an important psychological factor at the time of the decision.

Lessons Learned

- *Vendor management is a crucial skill.* Most universities lack professional vendor management experience (at this scale), and UC was no exception. The engagement with Wipro forced UC to quickly come up to speed with this important skill. The role of customer service delivery manager was created to engage at a vendor management level, with services provided by the Wipro service desk. There is also a concern that, because the University of Canberra is a relatively small Wipro client, it has less-experienced staff working on its project, further underlining
- the need for vendor management. With growing experience, UC understands that it needs to increase its vendor management focus and capability to ensure the desired quality of service delivery. UC is now looking at four key vendor management roles: relationship management, performance management, contract management and demand management. In practice, these roles exist but are spread across a number of people (or isolated in functional silos), and sometimes there has been inadequate coordination among staff.
- *Vendor management is a constant need.* The “transition” period was handled with intense focus from both sides. For example, Wipro initially planned to station two of the Indian-based service desk teams at the UC campus for six weeks. It actually required 12 weeks for this staff to become sufficiently familiar with the cultural and technical complexities of the UC infrastructure environment. However, this on-site local experience was crucial in overcoming language barriers and initial resistance. Senior university management involvement, including trips to India, secured the successful outcome of the sometimes rocky transition period. But even after the transition period, the lesson learned is that constant attention is needed to keep the service expectations aligned. Experience showed that a collaborative rather than combative approach was more effective, even though it can be time-consuming. Informal discussions have proved helpful in getting things done and to “test the water” in terms of what might work.
 - *Cultures can clash in more than one way.* Cultural differences in the approach to, or maturity of, service delivery practices proved to be even more troublesome than language barriers. Wipro’s cost-effective service delivery was based on strong process skills. In contrast, the university culture tends to shun standardized processes, with the culture of academic freedom often spilling over into individual administrative freedom. An initial problem was the amount of work and persuasion needed to collect needed environmental data for the Wipro support systems. Over time, these cultural differences led to further refinement of responsibilities. For example, UC finds it more effective to use its own business analysts, who hand over requirements specifications to Wipro in the cases where processes are less defined.

Bottom Line

The combination of business process and IT outsourcing has enabled UC to achieve the step change it needed. Data indicates that the university will achieve its intended goals. But UC is still learning and realizes that much work must be done to stay on track toward success.