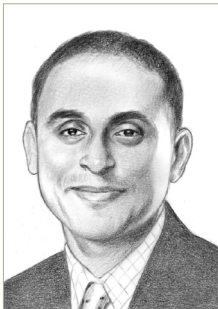


Playing Leapfrog, Baltic Style

In Estonia, lowering transaction costs by investing in infrastructure—the customer’s infrastructure

Estonia seems an unlikely spot for one of the most innovative, democratizing, and successful e-transformations in the world, but that’s what happened in this Baltic nation of 1.4 million after the collapse of the Soviet Union in 1991.

From the moment you land at Estonia’s Tallinn airport, the Internet is omnipresent—visible in its abundant WiFi spots and mobile applications. Even along a potholed dirt road on a remote island, you can find a sign proclaiming, “Internet—100 metres.”



By Soumitra Dutta

There’s little doubt you have entered a modern information society.

Just 15 years ago, Mart Laar, Estonia’s prime minister from 1992 to 2002, proclaimed, “The Internet connects people, not computers.” He spearheaded several initiatives to leverage information and communications technologies (ICT) and help the country leapfrog from poverty to prosperity. The disintegration of the Soviet system left

many gaps in Estonia’s infrastructure, though it also left a legacy of high literacy rates (99.8 percent), advanced electronic and software research labs, and the Institute of Cybernetics. The country was not without cyber expertise. What it lacked was finances.

With its economic back against the wall, Estonia was forced to get creative. Laar notes that Estonia “did not have enough resources to build up e-government. This was good because we had to build public-private partnerships.” The results often surpass those achieved by Western Europe’s older democracies, landing Estonia a spot in the top 20 on the World Economic Forum’s Networked Readiness Index in 2007.

Under the Soviets, policies were implemented from Moscow. Transparency in governance was low, there was little innovation, and entrepreneurship was discouraged. Under the new system, innovation and transparency play a starring role.

■ The Tiger Leap program was launched in 1997 to reshape Estonia’s educational system, providing a modern ICT infrastructure, training, and software to

support the national curriculum. By 2000, Internet-enabled computers were in every school.

■ The Estonian State Web Centre portal was created in 1998, linking all government Web sites and providing access to most official documents.

■ By 2000, the parliament guaranteed Internet access to all citizens at more than 700 free public Internet access points, and government cabinet meetings went paperless, implementing a Web-based document system. Estonian ministers peruse draft bills and regulations, make comments, and vote online.

■ In 2001, the government created a Web page where ministries upload all draft bills and amendments and citizens review them. Today, approximately five percent of all citizen-suggested amendments are incorporated into the final legislation.

■ In 2001, the government announced a public-private partnership, the Look @ the World project, aimed at increasing Internet users in Estonia to 90 percent within three years. Private companies committed investments in the project equal to the government’s annual IT budget.

Estonia’s banks were among those interested in spreading IT knowledge and skills among citizens, donating financial aid and distributing free hardware. Wider ICT awareness benefits banks by significantly reducing transaction costs.

The creation of such strong partnerships, the liberalization of IT, and the early widespread adoption of the Internet by the government created a virtual circle in which the government acts as a market-driving force for the ICT industry and, in turn, the industry supports government.

Estonia’s success brings home a simple lesson in leadership: With a focus on people, technology can help economies leapfrog into the modern knowledge economy. ■

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www.symantec.com/ciodigest/thinktank/dutta

Soumitra Dutta is the Roland Berger Chaired Professor of Business and Technology and Dean of External Relations at INSEAD.

Under Pressure: Outsourcing IT

Tough times call for tough decisions, not poorly considered ones

“**W**e have to simplify and get back to our core business” is a mantra heard from top management during periods of corporate duress. Long-term studies show that when a turnaround in performance is necessary, executives under pressure tend to simplify otherwise complex decisions and frequently “lock in” on a preferred alternative early in the evaluation process.

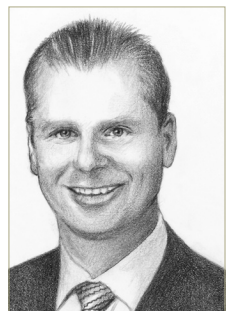
When the turnaround committee interviews the CIO, inevitably the question arises: “Since IT really isn’t our core business, why don’t we simplify our lives and outsource the whole thing?” The CIO’s response is key. Poorly considered sourcing decisions have long-lasting consequences. Post-outsourcing dissonance can take the form of disturbing questions: Have we lost control over some elements of our competitive advantage? Have we merely changed problems from managing familiar costs to unfamiliar ones? Why are we charged for every little thing? Are we getting market value services from the partner?

Before you answer that committee, consider these three fundamental aspects of your shared sourcing strategy: First, determine which functions to outsource. The economics of IT are always shifting. Leveraging economies of scale, many service providers are now often able to outperform internal IT departments on cost and quality dimensions for a growing span of services. The key to success is determining the relative proximity of the IT function to organizational mission delivery or competitive advantage. A careful evaluation is needed to determine if proprietary control over certain IT functions is essential to compete. Think strategic contribution before market economics when defining functions that might be outsourced.

Next, determine how to compare the cost of existing internal service levels against those being purchased. This may be challenging, especially if you haven’t monitored the internal effort required to support specific IT functions. If you cannot describe in quantitative detail the inputs, service level outputs, and internal effort required to manage an IT function, you are not yet in a responsible position to outsource that function. A poorly described internal scope of work is

probably the greatest risk associated with outsourcing, resulting in apples-to-oranges comparisons with the services being offered by vendors. A common error is to understate the internal service offering, in particular the number and variety of ad hoc service requests.

Finally, determine the level of oversight and administration needed to manage the outsourcing relationship. This includes all the incremental personnel time and material expenses required to manage the outsource relationship versus managing the internal IT hierarchy. It includes procurement activities, contract management activities, performance reviews, administering rewards and penalties,



By Warren Ritchie

A poorly described internal scope of work is probably the greatest risk associated with outsourcing.

and change control activities, among other things. If these transaction costs are not realistically budgeted in the sourcing analysis and then reasonably controlled, any potential productivity gains offered by using an external partner quickly erode.

If the CIO takes control of the process and ensures that these three considerations are addressed, the outsourcing evaluation process can be productive. Are these considerations unique to times of duress? No, not at all, they apply to any sourcing situation anytime— it’s just that in times of duress, the likelihood of overlooking them may be greater. ■



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Dr. Warren Ritchie is director of IT governance for Volkswagen of America.