IT outsourcing revisited

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Outsourcing is generally understood to imply the contracting out of a business function to an external or third party service provider. Within the context of this broad understanding every business makes use of outsourcing, in some way, in order to derive benefits in a cost-effective manner – clearly the costs of complete self-sufficiency are prohibitive.

IT outsourcing has many benefits

Although there are a number of variations in the models used in outsourcing, the concept of outsourcing has natural appeal within the Information Technology function where the following benefits, inter alia, have been identified:

- **Cost reduction**: The provider of the outsourced service should be able to leverage economies of scale, taking advantage of providing a specialised solution to a range of organizations and thereby driving down the charges to their clients.
- **Access to expertise**: Through specialisation the outsource service provider should apply greater experience and knowledge in the delivery of the solution, resulting in a better range and quality of functionality to that which could be provided inhouse. Importantly this may include exposure to industry best practice and innovation which may be beyond the initial requirements of the company, but provide for their future.
- **Scalability**: By outsourcing the organisation should obtain greater flexibility in its ability to use the products or services as its requirements change, as the fixed cost infrastructure is absorbed and managed by the outsource partner.
- **Optimised resource allocation**: All organisations have limited resource and the challenge is to prioritise the allocation to those activities which provide the greatest return, given the company's primary business and core competencies. Outsourcing should provide the opportunity to do this, but without compromising on the secondary outsourced IT operations required to support the business.

Conscious decision still required

The above are certainly attractive attributes, given the increasing complexity of the IT landscape, and as a result the practice of IT outsourcing is commonplace.

A consequence of this, however, is that it is not addressed with the same degree of conscious attention as it was 10 to 20 years ago. As with all management decisions, it makes sense to regularly critically examine the position to determine the appropriateness of any specific outsourced product or service within a particular organisation. In any such exercise it is important to distinguish between the provision and the operation of the IT products or services required, either infrastructure (including hardware and communications), software applications or other services, as illustrated in Figure 1.

		IT Products & Services		
		Infrastructure	**Application Software**	**Other Services**
Outsourced Function	**Provide**	Network Infrastructure	Warehouse Management	Contract Staff
	Operate	Hosting Facility	Bureau Processing Service	Project Management

Figure 1: IT outsourcing matrix (including examples)

I would suggest that as you move from left to right across the matrix and from the provision of the facility to actual operation of thereof there is increasing risk of loss of control by management and hence the decision on whether to outsource or not requires greater attention.

"Infrastructure", although essential, can increasingly be viewed as a commodity which can be replaced whereas "Other Services" would probably include those elements an organisation would use to create competitive advantage, are more strategic to the business and hence should require greater management involvement. In considering the outsource decision determination of the strategic importance of the function, the reliability and trustworthiness of the outsource partner, quality of the outsourced product or service, and the consequence of a breakdown in the service is vital.

Distinguish between outsourcing and abdication

Outsourcing is sensible and unavoidable, for any commercial enterprise to be self-sufficient in all aspects of their IT requirements will never be cost-effective. Notwithstanding, responsible management should not use the outsource option as a means to abdicate responsibility but as a tool to optimise their business. ◆