Managing IT Outsourcing

MIS 4133
Software Systems
Outline

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- Forms of Outsourcing
- Outsourcing Characteristics
- Vendor Choices
- Advantages/Disadvantages
- Hidden Costs
- Challenges/Risks
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Determining an Outsourcing Strategy

Outsourcing – hired outside services to perform some of a company’s IS operations

Application service providers (ASPs) – provide total systems to organizations, ranging from competitive intelligence systems to broad ERP applications
Sourcing Options

- Insource
- Outsource
- Selfsource
- Multisource
Forms of Outsourcing

Your Organization

- Purchase existing software.
- Outsource the development of an entirely new and unique system for which no software exists.
- Purchase existing software and pay publisher to make certain modifications.
- Purchase software and pay publisher for the right to make changes yourself.
Outsourcing Characteristics

- Allows an organization to pay only for what it uses
- Trend might relate to the position of the CIO
- Popular, largely due to:
  - Fast pace of technological change
  - Dissatisfaction and costs related to past in-house services
- Must be both a remedy for service failures/costs and a strategic choice
- Should not be used for strategic information systems with security or privacy issues
Key Factors in Selecting an Outsourcing Vendor

- Vendor reputation
- Quality of service
- Flexible pricing
- Vendor knowing company business/industry
- Vendor’s ability to make sound technology decisions
- Vendor’s ability to allow for expansion and growth
- Vendor operates over full geographic area of the company’s operations
Outsourcing Advantages

- Focus on unique core competencies
- Exploit the intellect of other organizations
- Better predict future costs
- Acquire leading-edge technology
- Reduce costs
- Improve performance accountability
Outsourcing Disadvantages

- Reduces technical know-how for future innovations
- Reduces degree of control
- Increases vulnerability of strategic information
- Increases dependency on other organizations
Hidden Costs

- Benchmarking/analysis to determine if outsourcing is right choice
- Investigating/selecting a vendor
- Transitioning knowledge/work to outsourcer
- Layoffs and associated HR issues
- Ongoing staffing/mgmt of outsourcing relationship
Challenges/Risks

- Managing a mixture of people
- Achieving goals/objectives
- Using resources effectively
- Establishing and maintaining communications
- Establishing and maintaining trust
- Maintaining security

Risks: financial, technical, managerial, behavioral, legal
Outsourcing Examples

- Cinergy Corp.
  - Enterprise-wide database administration services outsourced
  - Allowed for technology shift to data warehouse and data mart

- Summit Information Systems
  - Disaster recovery for data center outsourced
  - During hurricane in Florida, data center stayed up

- JM Family Enterprises
  - Mainframe hardware, software and operations outsourced
  - Gained efficiencies and were able to deliver reports faster
Managing Software Projects Using Outsourced Staff

- Helps keep software development costs down
- Uses technical expertise not available in-house
- Can often complete projects more quickly

Off-site outsourcing:
- Onshore – within same country or region
- Offshore – not within same country or region
Guidelines for managing an offsite outsourcer:

- Manage expectations, not staff
- Take explicit actions to integrate the offsite workers
- Communicate frequently
- Focus on formal processes – should result in higher quality of the final product
Managing Software Projects Using Outsourced Staff

- Offshore alternative good option when:
  - System requirements well-defined and remain stable
  - Time is of essence and 24x7 availability of resources a good idea
  - Cost of project important
Key Trends of Offshore Outsourcing

- **Offshore development centers** – permanent offshore presence (could be called “Offshore Insourcing”)

- **Near-shore sourcing** – outsourcing to countries close to home and overlapping time zones

- **Multisourcing** – relying on multiple service providers in a number of companies, based on price and skills
Offshore Outsourcing Benefits

- Cost savings
- Additional skilled IT personnel
- Fixed IT cost reductions
- Time to market improvements
- Expertise not available in own market
Offshore Outsourcing Drawbacks

- Overestimated cost savings
- Loss of strategic control
- Increased security concerns
- Loss of domestic market jobs
Offshore Outsourcing Examples

- **AOL**
  - Philippines
  - 24-hr customer service facility staffed by 500 Filipino employees

- **Microsoft**
  - India
  - Product development and R&D center; $100 million investment

- **Goldman Sachs**
  - India
  - IT, equity research, and administrative operations partially located in India with 250 IT and administrative staff

- **General Atlantic**
  - India
  - $400 million investment in software services; 1700 employees
Outsourcing Trends

- Outcome-based pricing (rather than upfront, one time costs)
- Labor-as-a-service approach (smart robots on the cloud)
- Standardization in outsourcing (as new technologies become the norm)
- Renegotiation of outsourcing contracts (focused on the cloud)
- Use of multiple outside sources
- Data and analytics central to all outsourcing decisions
References


