

The outsourcing challenge

[Business](#), [Work](#)



Outsourcing has become increasingly attractive for many organizations. In such relationship, a company contracts with a vendor that rents its skills, knowledge, technology, service and manpower for an agreed-upon price and period to perform functions the client no longer wants to do. Much attention has focused recently on the outsourcing of IS/IT services to countries such as India and the Philippines. Indeed outsourcing any business activity creates potential risks as well as benefits.

Companies can find themselves overly dependent on suppliers, and they can lose strength in strategically core competencies. Interestingly, given the importance of the outsourcing decision and the amount of academic and practitioner literature on it, there is surprisingly little consensus about the topic, probably because of the multiplicity and complexity of the factors involved. In this section, the authors identified six key factors that companies should consider when making outsourcing decisions. The framework, which helps assess the pros and cons of outsourcing, can be applied specifically to IS/IT functions.

Changes in the broader business environment are affecting nearly every aspect of how companies manage their human resources, altering the balance of pros and cons for outsourcing IS/IT business process. First, conflicting pressures in the labor market have brought the role of human resources to the fore. On the one hand, the 1990s brought the so-called war for talent for IT professionals. On the other hand, intensifying competitive pressures have forced companies to be more aggressive in cutting costs, often by reducing head count.

Human resources have had to manage such downsizing, while also trying to be innovative in attracting and retaining valuable employees. Second, IS/IT themselves have become the target for belt-tightening efforts, and they must now find ways to provide more value at lower cost. Many have argued that the key is to focus on activities that are essential and outsource the rest. Third, the growing complexity and increasing regulatory changes in the legal environment for human resource management, in particular in the areas of healthcare, stock-related compensation, overtime-pay calculations, pension reform, and eligibility for contingent workers.

This has driven demand for outsourced IS/IT activities from vendors that are subject-matter experts. Globalization poses a comparable challenge, requiring IS/IT departments to address the needs of the business and moving between different countries and markets. Lastly, mergers and acquisition have become increasingly frequent, creating huge IS/IT integration challenges. Often, IS/IT is charged with the simultaneous tasks of integrating and managing the technologies and business processes in the face of continuous change.

Problem Statement

The primary objectives of this dissertation will be to investigate the issues involved in factors affecting the success or failure of outsourcing IS/IT activities. Before doing this however there will have to be a thorough examination of the current state of global IT outsourcing services. The main task of the research is to find out what actually makes outsourcing work for Welsh Water. Challenges of having multiple suppliers and the steps Welsh Water undertakes to make outsourcing success. The following is a list of objectives which the author aspires to accomplish in the dissertation:

- To analyse the objectives for outsourced services, selecting outsourcing suppliers, benchmarking.
 - To research contractual aspects of 'multiple suppliers' outsourcing, problems and risks associated with it. Assessment of contracts/SLAs: structures, similarities and differences between contracts/SLAs
 - What steps Welsh Waters undertakes to make outsourcing success (outsourcing program management, contract management, building outsourcing relationships, partnership, mutual benefits, communications, change control, how performance is measured, what constitutes for success/failure, etc)
 - To investigate if any proven/best practices have been adopted by Welsh Waters to mitigate the risks and manage the suppliers effectively.
 - To look at the 'uneasy' relations between the Welsh Waters IT management and some of the suppliers
 - To research relations between suppliers themselves (possible hostile behavior towards each other, rivalry, hidden conflicts, etc).
- The Overview of the Study
- The remainder of this study is as following statement: Chapter 2, Literature Review, will provide first a concise concept and explanation of IT outsourcing.

We will examine the competitive landscape within the IT outsourcing industry. We will also define critical success factors and key trends for IT companies operating in this market. We also look different related literature on supplier management and sourcing decision framework for clients. Chapter 3, Methodology, will describe the research design of this study. The research design of this study is empirical research method using secondary data for quantitative analysis. The researchers administered a case

studyframework to understand the factors affecting the IT sourcing decisions of clients.

Chapter 4, Results, will demonstrate the results of this study. The authors will provide a brief description of the company under study, highlighting IT sourcing decision of the company. The research also will employ statistical data such as frequency distribution, mean and standard deviation on the different factors that affect the success and failure of IS/IT outsourcing. These data will be tabulated and analyzed to examine the effect of the various variables. The findings will then be generated from these analyses will be presented and interpreted.

Chapter 5, Summary, Conclusion and Recommendations, the “ Summary” section will first provide a comprehensive summary of the major findings of this study. The “ Conclusion” section will highlight the implications of the research findings. Finally, “ Recommendations” will be proposed to help companies improve IT implementation with partner suppliers and avoid pitfalls and traps. In next chapter, we will discuss the environmental analysis on Global outsourcing highlighting process management services, IT management, and data processing. REVIEW OF RELATED LITERATURE

The literature review will first define nature of business process outsourcing. This section will offer a concise definition of IT outsourcing and its ability to thrive in a globalized economy. Then, the review will consist of three parts: (1) Environmental Analysis of the Outsourcing Industry and competitive landscape in the industry, (2) define the common IS/IT activities that are outsourced, (3) identify the key success factor of IT outsourcing and define

the maturity stage of the company, and (4) the importance of customer-vendor relationship in providing innovative solutions to the clients.

Defining of Business Process Outsourcing Given the potential headaches of managing IT, it is tempting to hand the job over to someone else. Indeed, outsourcing once appeared to be a simple solution to management frustrations, and senior management teams at many companies negotiated contracts with large service providers to run their entire IT functions. At a minimum, these providers were often able to provide IT capabilities for a lower cost and with fewer hassles than the companies had been able to themselves.

But many of these outsourcing arrangements resulted in dissatisfaction, particularly as a company's business needs changed. Service providers, with their standard offerings and detailed contracts, provided IT capabilities that were not flexible enough to meet changing requirements, and they often seemed slow to respond to problems. Furthermore, a relationship with a supplier often required substantial investments of money and time, which entrenched that supplier in the company's strategic planning and business processes.

The company then became particularly vulnerable if the supplier failed to meet its contractual obligations (Ross and Weill, 2002). Problems arose because senior managers, in choosing to outsource the IT function, were also outsourcing responsibility for one or more of the crucial decisions they should have been making themselves. Companies often hired outside providers because they were dissatisfied with the performance of their own IT

departments—but that dissatisfaction was primarily the result of their own lack of involvement.

In light of this track record, most larger companies, at least, are deciding to keep their main IT capabilities in-house. But many engage in selective outsourcing. Good candidates for this are commodity services, such as telecommunications, in which there are several competing suppliers and specifications are easy to set, and services involving technologies with which the company lacks expertise. Unlike decisions to outsource the entire IT function, selective outsourcing decisions are usually best left to the IT unit, assuming that senior management has taken responsibility for overall strategy.

Beaumont and Costa (2002) studied IT outsourcing in Australia. They found that almost 40% of Australian organizations outsource one or more IT applications. Large organizations tended to outsource more than small ones. The three most important reasons for outsourcing were access to skills, improved quality and focus on core business. Four factors contributed to successful outsourcing: a tight contract, a partnership, a change process, and the IT manager's role changing from managing projects and operations to acquiring and managing the internal and external resources required to do the organization's IT work.

Successful IT outsourcing relationships enable participants to achieve organizational objectives and to build a competitive advantage that each organization could not easily attain by itself. Outsourcing success can be viewed as the level of fitness between the customer's requirements and the outsourcing outcomes. Outsourcing success can be measured in terms of

both business and user perspectives. From a business perspective, outsourcing is motivated by the promise of strategic, economic, and technological benefits.

The success of outsourcing, then, should be assessed in terms of attainment of these benefits. From a user perspective, outsourcing success is the quality level of services offered. A decision to outsource on the basis of saving costs without analysis of the quality of services frequently leads to higher costs and lower user satisfaction. Therefore, it is imperative to conduct a proper analysis of the service quality before building a relationship with a service provider for a successful outsourcing arrangement (Lee & Kim, 1999).

In this paper, we define outsourcing as the process of turning over an organization's computer center operations, telecommunications networks, and/or applications development to external vendors is called outsourcing (Laudon & Laudon, 2005). Loh and Venkatraman (1992a) define IT outsourcing as the significant contribution by external vendors in the physical and/or human resources associated with the entire or specific components of the IT infrastructure in the user organization. Vendors may contribute computer assets for the user from outside the organization.

Alternatively, the ownership of certain computer assets of the user may be transferred to the vendor. Similarly, vendors may utilize their personnel to provide the required services, or the vendor may employ existing staff of the user. In their research, they attempted to explain the degree of IT outsourcing by using cost structures and economic performance. They found that the degree of IT outsourcing is positively related to both business and IT cost structures, and negatively related to IT performance.

IT outsourcing was framed as a make-versus-buy decision, where contractual modes differ in the domain of influence within the corporation (Loh & Venkatraman, 1992a, 1992b). Environmental Analysis of Outsourcing Market In the global front, the increasing trend towards outsourcing is evident from the high year-on-year growth of the global market for data processing and outsourcing, a sector, which consists of the provision of commercial electronic data processing and/or business process outsourcing services.

Since 2001, the market has expanded by almost 50%. The global data processing and outsourced services market reached a value of \$265. 5 billion in 2005, recording a compound annual growth rate (CAGR) of 9. 7% in the 2001-2005 period. The rise in credit card use and Internet banking/payment has created new types of problems for operators in this area; firms in this market are engaged in developing and refining data protection techniques to fight against money laundering and fraud.