Outsourcing case study example

Business, Company

Outsourcing decision

Outsourcing can be defined as a process of contracting a third party for a specific period of time to perform a given task, operation or job. Companies opting for outsourcing services should carefully conduct a thorough feasibility study to determine its cost effectiveness.

Outsourcing has advantages and disadvantages as well. The IT manager should evaluate each advantage and disadvantage to determine the degree of effect to the company. If advantages outweigh disadvantages then it will be beneficial to outsource services, otherwise the company will make losses in case disadvantages outweigh advantages.

The reasons why managers prefer to outsource services include:

Shortage or lack of resources

If a company does not have skilled staff in a critical area it can consider hiring staff in that area or outsourcing services. It is important to determine the gain that will be obtained by the company if you hire or outsource the service. If the cost of hiring is more that the benefits that will be gained then the IT manager can consider outsourcing services.

Ability to concentrate on the core task or business

Sometimes when services are outsourced, the manager is able to concentrate on key company issues that enable better service delivery and profitability in those areas. The IT manager should evaluate the importance of the service to be outsourced to the company. If the service will foster profits and increase the share value without paying great attention to it, then it is prudent to outsource the service and give the IT manager an opportunity of concentrating on other company issues.

Outsourcing can save operational costs

Sometimes companies can save through outsourcing services. Prices of labor and materials keep rising and competition keeps reducing prices. Existence of outsourcing solutions that can enable save company money and overcome limitations of outsourcing, investigation should be carried out by the IT manager.

Reduced overhead costs

Sometimes overhead costs of doing a particular activity are so high. The IT manager can identify such activities and consider outsourcing them if the company will make profits.

Operational control

Activities whose operational costs are getting out of control may be considered for outsourcing. It is important for the IT manager to identify such activities and advice the management the benefits of outsourcing such tasks. For example if the company discovers that it’s spending more on employing programmers, it can consider outsourcing programming services. Also if the information technology section has a lot of projects, inadequate personnel and budget that is higher than the contribution to the company, a contracted outsourcing agreement will force management to prioritize their needs and control such an area.

Staffing flexibility

The IT manager should identify tasks or operations that are done on a seasonal basis and consider outsourcing services for such tasks. For example operations like auditing are done once in a given financial period. It's cost effective to outsource for such services than hiring an auditor who will be idle and yet will be paid every month.

Continuity and risk management

Seasons of high employee turnover will hinder company operations and contribute to loss of company profits. Outsourcing can provide a level of continuity to the organization and reduce the risk of bringing substandard level of operation to the company.

Developing internal staff

If a large project needs to be done and the staff does not possess the required skills, outsourcing can be done to bring people with skills and staff can be asked to work alongside of them to gain the new skill set. This can lead to development of internal staff hence improving productivity and by extension the share value of shareholders.

The following disadvantages should also be carefully analyzed before considering outsourcing services:

1. Losing managerial control

When outsourcing services to another company you risk losing control of that service to the contracted company. The company from which services are outsources may not be driven by the same standards and mission that drive your organization. Sometimes they can be driven by the profits they will make from the services they will provide. This can lead to use of materials of poor quality for purposes of reducing cost and maximizing profits. It's therefore prudent for an organization to do a careful analysis before considering to outsource services or invest in developing new technologies.

2. Hidden costs

Sometimes some costs may not be factored during contract signing when outsourcing only to be discovered much later. This can lead to loss of company money and by extension loss of share value of the shareholders

3. Danger to security and confidentiality of company data and information

The greatest asset of any company is the information that keeps it running. Outsourcing can lead to exposure of confidential data to competitors. If outsourcing will lead to exposure of confidential information, then the IT manager should strongly consider investing in developing new technologies rather than outsourcing services.

4. Quality problems

The company from which services are outsourced will be motivated by making profits than the quality of work. With this kind of notion the company will be motivated to reduce the cost of service in order to realize maximum profit. The temptation of using low quality materials will be inevitable.

Conclusion

Careful evaluation by the IT manager should be carried out to determine whether it is prudent to outsource services or invest in developing new technologies. Sometimes outsourcing can be beneficial to an organization but it can be risky as well. Feasibility is important for purposes of identify the risks of outsourcing and the degree of the identified risks.

References

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