Outsourcing - a marriage made in heaven?

When times are hard and businesses need to make cuts, many are forced to decide between outsourcing or out-tasking their IT department. Philip Garnar, managing director of consulting firm Lamberhurst Corporation, investigates the positives and the perils of the two approaches.

When an organisation makes the decision to concentrate on its core business, reduce its headcount and minimise overheads, the IT department is often a prime contender for rationalisation. And once a decision has been made to opt for the out-of-house approach there's still a key question to answer. Is it better to outsource or out-task? To answer that question you need to know what the difference is between them, the differing effect they have on a business, and the pitfalls for each option.

Firstly, the term outsourcing tends to be applied to the hand over of a complete function to a third party - the staff, the infrastructure and responsibility - indeed often the complete IT infrastructure of a business. The business only retains a few managers to manage the service provider and the third-party provider owns the staff and the IT assets. Out-tasking, on the other hand, refers to the provision of discrete elements of service delivery by another party. There is a fundamental difference to these two approaches. A key factor is how the business views IT. Is IT implemented to provide efficient processes throughout the business or to gain strategic advantage? If it's the latter customers should give careful consideration to the way they proceed and with which partners they team up. Similarly, outsourcing companies should be choosy about the long-term customer relationships they commit to.

Let's consider the outsourcing scenario. A company has made the decision to outsource its 400 IT staff, and its mainframe, mid-range and desktop computer systems. These are passed to the outsourcing company of choice as part of a partnership agreement, a marriage between two businesses. To give the required returns, to make the investment pay, the outsourcing company needs a long-term agreement to provide the services, to make and to justify the required investment. Not uncommonly these agreements will run for five years or more. Five years or more is a long time in business, in the supplier's business and in the client's business. If one in three marriages end in divorce, should we expect any better with marriages between businesses?

Just like partners in a marriage, the objectives of an outsourcing company are compromised by those of its customers. Prior to outsourcing, the customer's IT staff were part of that company's business, caught up in its direction, its plans for its future and its culture. Now they are part of a different company, with different goals, different objectives and a different culture. Over the period of the outsource agreement, both businesses will experience pulls from the markets in which they operate, one company is in the IT sector, the other could be in manufacturing, retail or leisure. If IT is a strategic business tool, it is vital these differing market pressures are reconciled. The outsourcer might not be able to recognise the pressures being applied to a customer in a different market sector. Is it able to respond and yet still meet the demands from its market? Customers need to think carefully about selecting an outsourcing partner, particularly when it comes to the strategic management of the contract. Outsourcing companies need to expect and anticipate change in their client's business environment, change they will be expected to support, changes they will be expected to drive. Outsourcing contracts run for long periods of time and no-one can accurately predict the shape, the pressures or the market for their business five years hence.

Too many contracts are written in stone and are consequently prone to becoming inadequate to the needs of both customer and supplier. The solution is a flexible contract - something I discussed in detail in my last column. If outsourcing is a compromise too far, out-tasking is the compromise solution. It may not meet all the strategic objectives of the customer: headcount reduction will not be as great and capital assets will still be owned. However, it may be important that greater responsibility is retained in-house. There are certainly companies in the market that can provide specialist expert efficient support to discrete service deliverables such as help desk, wide area network support, and distributed maintenance.

So can a correct balance be struck between gaining operating efficiencies offered by a third-party provider and retaining sufficient control to ensure IT is always aligned with and possibly even leading the business strategy? Service deliverables are made up of separate tasks: outsource too few of these tasks and the efficiencies are lost; outsource too many and the strategic support can be compromised. It's a careful balance that brings efficiencies, but preserves strategic direction. This is probably something that will not be perfect at first attempt, but the modular approach of out-tasking means the customer can keep an eye on the bigger picture while achieving its targets for cost reduction in IT.

Like marriage, the decision is based on compromise. Making the right compromises requires considerable thought and careful planning: the better the match at the beginning of a relationship, the less need there will be for compromise in the future.