IT SERVICES OUTSOURCING

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Abstract: Being competitive in the present market means increasing efficiency and at the same time reducing costs within each department of the company. In this paper we present why a lot of companies all over the world choose to externalize services, as solution which brings considerable advantages.

1. Introduction

Information technology (IT) systems are expected to meet high standards of operation and processing integrity, while offering round-the clock availability, security, and good performance. In today's environment, organizations must deal with rapid and regular changes in IT, the performance demands of the e-economy, and pressure to deliver competitive IT functionality. To meet these challenges, organizations are increasingly considering outsourcing of their information systems activities as an attractive option. In fact, many organizations already use outsourcing in one form or another.

IT outsourcing occurs when an organization contracts a service provider to perform an IT function instead of performing the function itself. The service provider could be a third party or another division or subsidiary of a single corporate entity. Increasingly, organizations are looking offshore for the means to minimize IT service costs and related taxes. Many times, the outsourcing decision results in a transfer or sale of the information processing assets and the people who performed the in-house function to the service provider. Outsourcing is also a common option for start-up operations and for organizations entering new business lines. Rather than devoting time, energy and capital to the creation of IT processing services, organizations feel they can minimize the start-up time required to enter new markets by contracting a third party to provide those services immediately.

2. Challenges of Outsourcing

Outsourcing is more than a simple purchase decision based upon economic or financial criteria. It is a strategic decision that encompasses the transfer of service delivery of selected activities to a third party and the establishment of a long-term relationship that can create new sources of value for an organization. Key to the understanding of outsourcing is that while service delivery has been transferred, accountability has not. Additionally, outsourced service delivery is, or should be, transparent to the users of the service and the customers of the organization [Lacity, 1999].

Outsourcing is subcontracting a process, such as product design or manufacturing, to a third-party company. The decision to outsource is often made in the interest of lowering firm costs, redirecting or conserving energy directed at the competencies of a particular business, or to make more efficient use of labour, capital, technology and resources.

Outsourcing involves the transfer of the management and/or day-to-day execution of an entire business function to an external service provider. The client organization and the supplier enter into a contractual agreement that defines the transferred services. Under the agreement the supplier acquires the means of production in the form of a transfer of people, assets and other resources from the client. The client agrees to procure the services from the supplier for the term of the contract. Business segments typically outsourced include information technology, human resources, facilities and real estate management, and accounting. Many companies also outsource customer support and call centre functions like telemarketing, customer services, market research, manufacturing and engineering.

Outsourcing and offshoring are used interchangeably in public discourse despite important technical differences. Outsourcing involves contracting with a supplier, which may or may not involve some degree of offshoring. Offshoring is the transfer of an organizational function to another country, regardless of whether the work is outsourced or stays within the same corporation. With increasing globalization of outsourcing companies, the distinction between outsourcing and offshoring will become less clear over time. This is evident in the increasing presence of less developed countries outsourcing companies in the developed countries, such as US and UK. The globalization of outsourcing operating models has resulted in new terms such as nearshoring and rightshoring that reflect the changing mix of locations. This is seen in the opening of offices and operations centers by Indian companies in the U.S. and UK [Ten Raa, 2001].

Multisourcing refers to large (predominantly IT) outsourcing agreements. Multisourcing is a framework to enable different parts of the client business to be sourced from different suppliers. This requires a governance model that communicates strategy, clearly defines responsibility and has end-to-end integration.

The decision to outsource is taken at a strategic level and normally requires board approval. Outsourcing is the divestiture of a business function involving the transfer of people and the sale of assets to the supplier. The process begins with the client identifying what is to be outsourced and building a business case to justify the decision. Only once a high level business case has been established for the scope of services will a search begin to choose an outsourcing partner.

Organizations that outsource are seeking to realize benefits or address the following issues:

- *Cost savings*. The lowering of the overall cost of the service to the business. This will involve reducing the scope, defining quality levels, re-pricing, re-negotiation, cost re-structuring.
- *Cost restructuring*. Operating leverage is a measure that compares fixed costs to variable costs. Outsourcing changes the balance of this ratio by offering a move from fixed to variable cost and also by making variable costs more predictable.
- *Improve quality*. Achieve a step change in quality through contracting out the service with a new Service Level Agreement.
- *Knowledge*. Access to intellectual property and wider experience and knowledge.
- *Contract*. Services will be provided to a legally binding contract with financial penalties and legal redress. This is not the case with internal services.
- *Operational expertise*. Access to operational best practice that would be too difficult or time consuming to develop in-house.

- *Staffing issues*. Access to a larger talent pool and a sustainable source of skills.
- *Capacity management*. An improved method of capacity management of services and technology where the risk in providing the excess capacity is borne by the supplier.
- *Reduce time to market*. The acceleration of the development or production of a product through the additional capability brought by the supplier.
- *Commodification*. The trend of standardizing business processes, IT Services and application services enabling businesses to intelligently buy at the right price. Allows a wide range of businesses access to services previously only available to large corporations.
- *Risk management*. An approach to risk management for some types of risks is to partner with an outsourcer who is better able to provide the mitigation.
- *Customer Pressure*. Customers may see benefits in dealing with your company, but are not happy with the performance of certain elements of the business, which they may not see a solution to except through outsourcing.

There is a strong public opinion regarding outsourcing that outsourcing damages a local labor market. Outsourcing is the transfer of the delivery of services which affects both jobs and individuals. It is difficult to dispute that outsourcing has a detrimental effect on individuals who face job disruption and employment insecurity; however, its supporters believe that outsourcing should bring down prices, providing greater economic benefit to all. There are legal protections in the European Union regulations called the Transfer of Undertakings (Protection of Employment). Labor laws in the United States are not as protective as those in the European Union. A study has attempted to show that public controversies about outsourcing in the U.S. have much more to do with class and ethnic tensions within the U.S. itself, than with actual impacts of outsourcing [Whitten, 2006].

For a publicly listed company it is the responsibility of the board to run the business for the shareholders. This means taking into consideration the views of the shareholders. Shareholders may be interested in return on investment and/or social responsibility. The board may decide that outsourcing is an appropriate strategy for the business. Shareholders have a responsibility to make their views known to the board of directors if they are against outsourcing.

The main business criticism of outsourcing is that it fails to realize the business value that the outsourcer promised the client.

Some argue that the outsourcing of jobs (particularly off-shore) exploits the lower paid workers. A contrary view is that more people are employed and benefit from paid work.

Quality of service is measured through a Service Level Agreement (SLA) in the outsourcing contract. In poorly defined contracts there is no measure of quality or SLA defined. Even when an SLA exists it may not be to the same level as previously enjoyed. This may be due to the process of implementing proper objective measurement and reporting which is being done for the first time. It may also be lower quality through design to match the lower price [Winterton, 2000].

Quality in terms of end-user-experience is best measured through customer satisfaction questionnaires which are professionally designed to capture an unbiased view of quality. Surveys can be one of research. This allows quality to be tracked over time and also for corrective action to be identified and taken.

Outsourcing, or service externalization, is on a high trend all over the world. In Romania, outsourcing is known and used in the most dynamic activities – software development and marketing. Both important and small companies employ law, accounting, IT or transport companies, without considering it necessary to create or develop their own specialized departments.

Numerous enterprises and institutions consider, at a certain moment, that in the future it will be increasingly more difficult to fulfill IT-related tasks based exclusively on internal resources. Limited human resources in this domain, service quality durability or increasing IT expenses can lead management to the conclusion that the adequate solution to these problems can be the partial or total externalization of the IT domain to an external or partly external supplier (branch, division). By externalization, IT becomes an effective service, being supplied based on pre-defined and permanently controlled quality parameters, so that the organization pays a pre-established price, corresponding to the quality of the service provided.

The main stages of the externalization process are as follows:

- Preparing the IT externalization decision:
  - Defining the role and purpose of externalization;
  - Defining domains, processes, services that are to be externalized;
  - Selecting the solution type for externalization;
- Selecting the externalization partner;
- Drawing up internal agreements to establish the users' demands;
- Support in writing the contracts;
- Preparing and establishing Service Level Agreement (SLA, an agreement about service level);
- Establishing ways of collaboration with the supplier of the new services and processes;
- Assistance during the transition period;
- Project management and change management.

Generally speaking, specialized societies offer a series of services:

a. Evaluating and managing IT- related risks;
b. Managing business architecture;
c. Planning business continuity;
d. Developing IT organization;
e. Support for outsourcing – IT services externalization.

a. Evaluating and managing IT-related risks

Customers must be aware of the risks connected to IT, the real extension and their possible consequences in order to ensure data and system safety at a satisfactory level.

Customers are assisted in risk evaluation and risk management connected to IT by the following services:

- *Complete evaluation of IT safety:*
  - Evaluating IT infrastructure (hardware and software);
  - Inspections;
  - Analyzing internal IT documents already existing;
  - Defining risk management strategies and risk detection throughout evaluation.
- *Developing and auditing safety systems:*
  - Elaborating and auditing the IT safety regulation;

- Elaborating systems corresponding to international standards;
- Defining solutions for the problems detected during auditing.

- *Software auditing and unique applications:*

- Examining the fulfillment of conditions for requirements analysis and users' expectations;
- Examining adequate functioning to the applied safety procedures;
- Carrying out controls at technical level.

b. Managing business architecture

At present, complete revision of IT systems in organizations and up-to-date versions of the system architecture is a challenge even for the most experienced system organizers/administrators.

Generally speaking, managing business architecture refers to four architecture strata:

- Technical architecture – including basic elements of IT infrastructure;
- Application architecture – defining the central application system and its connections;
- Information architecture – detailing recorded data and their connections;
- Business architecture – connecting business processes to IT.

c. Planning business continuity

Even in the case of the most careful planning and the most cautious operation management unexpected event can occur that lead to temporary, complete or partial malfunction of the IT system. The purpose of the business continuity plan is to prepare the organization for such cases, so that the critical processes should remain operational and the system should become re-operational as soon as possible.

Elaborating *Business Continuity Plan (BCP)* allows companies to make bake-up copies of the critical processes, capable to ensure operational continuity in the case of events as described previously. During BPC elaboration protection measures are defined to ensure functioning in extreme situations, so that the company can continue its activity even when one or more systems do not work properly.

Within BCP elaboration the following stages are followed:

- Evaluating and categorizing business processes, defining events, types of events that endanger them;
- Establishing in what way must a process be protected from various risks;
- Establishing those tasks which must be performed with IT support in order to prepare them for extreme situations, for the necessary transition in the case of an unusual event, for assistance in extraordinary activities, infrastructure rehabilitation and coming back to normal functioning;
- Elaborating crisis management proceedings and communication principles that apply in critical situations.
- Simulating events to test BCP performance.

d. Developing IT organizing

Defining the role of IT organization, the demands connected to the services provided, respectively creating a functioning model best adapted to this represents important aspects so that IT can contribute as effectively as possible to fulfilling the strategic aims and objectives of the organization.

In elaborating detailed operational IT models that fit the objectives perfectly, several aspects are taken into consideration: their connection to business domains, company strategy, external suppliers and company projects. During organization IT development, the best practices of international methodologies are used. The main services provided are:

- *Operational analysis of the IT organization*: by examining processes, internal functioning of the IT organization one can establish to what extent it corresponds to the internal regulations and demands, respectively, one can compare its functioning to international standards.
- *Developing and establishing IT organization's operations*:
  - Evaluating, directing, developing IT governance system;
  - Elaborating systems in agreement with international standards (BS 1500, ISO 2000)
  - Defining solutions to remove problems detected during the audit.
- *Elaborating internal agreements for Service Level Agreement (SLA)*: the internal agreement between IT and business domains. SLA agreement establishes the obligations of both parties, helping thus to the communication, cooperation between them, preparing, elaborating, stipulating and maintaining these agreements.
- *Elaborating an IT internal agreement*: from the internal agreement users find out quickly and easily what rules, general norms must be followed during IT using, what responsibilities they have regarding information security and IT equipment.
- *Elaborating and implementing the methodology and standards referring to projects*: the project methodology is established in order to ensure a successful standardized and homogeneous implementation of the organization's projects with IT content.
- *Elaborating IT scorecard*: the IT scorecard translates the company's strategy in clear IT defined aims, thus assisting the strategy realization.
- *IT-adapted financial consulting*: financial accounting related to IT supports elaborating, operating IT services with low costs and maintaining within the limits of the budget; support for the following domains: elaborating and introducing defraying of expenses, assistance for IT costs modeling, analyzing IT acquisition costs by using certain models, support for elaborating the IT financial plan, support for elaborating the IT controlling model.

e. Support for outsourcing – IT service externalization

The support provided during the outsourcing process aims at developing an efficient and productive long-term partnership relationship between IT services supplier and clients for such services.

In elaborating recommendations for a certain type of subscription and a certain IT system architecture and the technical characteristics of the equipment, consultants start from the client's necessities, the functions the IT infrastructure must fulfill and develop the most appropriate solution for each case separately.

3. Conclusions

Outsourcing will grow to be an accepted way of doing business as both the private sector and government agencies focus more directly on customer service and cost/budget reductions. As the concept becomes more accepted and outsourcing opportunities expand, the process will be more clearly outlined. Many agencies will accept outsourcing as another tool to improve services and reduce costs. Properly used, along with modular contracting, past performance initiatives, etc., outsourcing will provide agencies with the means to achieve excellence.

IT outsourcing is an attractive option for many organizations. IT outsourcing should be an integral part of an organization's overall business strategy, involving senior executives and key IT staff. The rationale for pursuing outsourcing options involves the strategic, financial and technological benefits to be gained. A number of problems may also be encountered related to the service quality, its costs, or its overall effect on business operations. A thorough risk assessment of the factors involved in these potential problems is a useful tool for avoiding them in the first place. While there are no perfect deals, a number of measures can mitigate the risks of IT outsourcing. A well thought-out IT strategy, due care in the service provider selection, a carefully drafted contract and good monitoring of the services delivered under the IT outsourcing contract will help the organization reap the benefits it expects. When IT outsourcing is already being employed, a review of strategy, existing relationships, and contracts would be beneficial to ensuring they continue to deal with rapid changes in IT governance and controls expectations relevant to regulatory authorities and best practices.

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