CIO Best Practices: So You’re Considering Outsourcing?

By

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Successful strategies flow like water; they are shaped by the circumstances of the conflict. When water flows, it avoids the high ground and seeks the low ground. Successful strategies likewise avoid difficult methods and find easy ones.

- Donald G. Krause

Chief Information Officers are expected to be comfortable with information technology, business, and human resources. And, they are expected to bring a set of basic technical skills to their employer. Two of the key technical skills are outsourcing and insourcing. For companies of all size, a combination of outsourcing and in-house development (insourcing) applies. In this paper, we will take a brief look at the expected basic technical fundamentals expected of today’s CIOs and then we will focus in on a brief introduction to outsourcing and insourcing.

Basic Technical Fundamentals

The baseline fundamental skills are a set of entry-level requirements for any CIO position. These entry-level requirements are what everyone around you will expect you to know. Of course, you are not expected to be the worldwide expert in each of these skills, but you are expected to be conversant in all and expert in several. The key basic technical fundamentals are:

- Computer systems architectures, implementations, and vendors
- Computer networking architectures, implementations, and vendors
- Application solution designs, implementations, and vendors
- Outsourcing and insourcing viability

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Help Desk and problem management designs, implementations, and vendors

Translating technobabble to something meaningful to the listener

Outsourcing and Insourcing viability

As technology evolves and the profession matures, the CIO is expected to know what can be outsourced, what should be outsourced, and when it should be outsourced. The converse is also true: the CIO is expected to know when it’s right to bring something that has been outsourced back in-house. Bringing something back in-house does not necessarily mean that the outsourcing relationship was unsuccessful or a bad decision. Rather, it signals that the economics or the rationale for the outsourcing has changed and therefore bringing it back in-house now makes more sense. No such decision is permanent; it is important to maintain the flexibility to adapt to the needs of the business and to the market economy. Outsourcing has become such an important subject for companies and CIOs that there have been entire issues of CIO magazine focused on different options. Similarly, CIO magazine devotes an entire section of its web site to the topic of outsourcing. There are entire web sites devoted to outsourcing, forums for discussions for those who are or who are thinking about outsourcing, and forums for those who want to outsource to find those who will do it for them. Just how prevalent is outsourcing? A survey by CIO Insight magazine found that more than 75% of the CIOs surveyed had outsourced functions or applications in the previous twelve months, and they were considering outsourcing for both operations management and network installation and management in the future. When asked what they were most likely to outsource next year, the CIOs surveyed put business-to-business e-commerce at the top of their list. In the same survey, CIOs were even considering outsourcing those functions that have been slow to be outsourced: those that directly face the customer and those that are directly connected to revenue production.

The what-to-outsource question seems to be tied to CIO motivations for outsourcing. In a major outsourcing survey by CIO Insight the most common reason CIOs cited for outsourcing was to reduce costs, but focus on core competencies, lack of internal expertise, and lack of internal staff were other

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common reasons. However, in the same survey, the most commonly outsourced IT functions were application development (54% of respondents), web site hosting (44% of respondents), and web site development (39%) followed by application hosting, network management, network design, and the Help Desk. As the CIO, the choice of what to outsource will be dependent on both your motivations and your specific environment.

Even armed with all these data, the CIO’s choices of what and when to outsource are going to be influenced by situational and financial, cultural, risk, and personnel factors. Success factors in outsourcing are many and varied. For a CIO with no experience in outsourcing, the most common recommendation is to communicate with industry peers to learn of their experiences – both positive and negative – and perhaps find an industry mentor who can advise and coach step-by-step along the way. In looking through the experiential and anecdotal evidence there are several common themes to being successful at outsourcing partnerships.

- **Understand each other’s business.** Strive toward a shared understanding of important goals and policies.
- **Set short- and long-term goals.** Prioritize to accomplish intermediate goals without losing the long-term focus.
- **Define realistic expectations clearly.** Set reasonable expectations and anticipate a learning curve. No partnership is perfect on the first day.
- **Share benefits and risks.** Establish explicit articulation and agreement upon the benefits and risks. Good performance should be rewarded, while a bad situation should be addressed together.
- **Develop performance standards.** Define, agree, and communicate clear and measurable standards of performance.
- **Expect changes and revisions.** Improvement and growth come from revision and refinement.
- **Prepare for the unexpected.** Try to identify potential problems by playing out what-if scenarios and discussing options.
• *Nurture the relationship.* Like any relationship, a successful partnership requires continual maintenance to increase its value.

The inverse of outsourcing is becoming to be known as *insourcing.* Research has found that the focus on *insourcing* has been wanting in terms of ensuring there is a good business balance in the decision making process for outsourcing.

The current IT sourcing research covers the motivations and consequences of outsourcing and has neglected another important option—insourcing. Insourcing is the practice of evaluating the outsourcing option, but confirming the continued use of internal IT resources to achieve the same objectives of outsourcing. We believe that insourcing must be fully explored to complement the growing body of outsourcing research. Only by understanding the processes and outcomes of both outsourcing and insourcing can a comprehensive understanding of IT sourcing result.6

The research showed that the success or failure of outsourcing or insourcing was in the eyes of the beholder:

• Senior management’s expectations of IT performance is *minimizing costs*
• Users’ view of IT performance is *service excellence*
• IT managers’ view is being *caught in the middle*

The researchers said it very succinctly:

…senior executives were demanding cost cuts while users were demanding service excellence. IT managers were expected to perform the near impossible: provide a Rolls Royce service at a Chevrolet price in order to be superstars. IT managers could not simultaneously satisfy both stakeholder groups because the best practices associated with one objective are in direct conflict with the best practices prescribed for the other objective. In general, the differentiator quadrant calls for decentralization, customization, and encouraged user demand. The commodity quadrant calls for centralization, standardization, and curtailed user demand. The result: neither stakeholder group was satisfied and began to perceive that IT provided poor service that cost too much. IT was a Black Hole.7
In today’s world, CIOs spend a significant amount of time deciding exactly what and when to outsource. So, it is clear that outsourcing will be a consideration and this is part of the knowledge base for today’s CIOs.

Footnotes

7. See footnote 6, page 106.


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