



Outsourcing Information Technology Functions: When is it Appropriate?



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Outsourcing Information

Technology Functions:

When is it Appropriate?

"The whole issue arose over a decade ago, when Nobel Prize winning economist, Robert Solow, famously remarked, "You can see the computer age everywhere but in the productivity statistics." This offhand comment became the Quip that Launched a Thousand Production Functions, as researchers were driven to solve the apparent contradiction to economic theory. For if Solow was right, it meant that businesses were investing billions of dollars on technology with no apparent payoff. Such a massive, widespread phenomenon would certainly call into question the fundamental economic principle that investors and managers are not systematically irrational."

(Dedrick)

Corporations must strive to build competitive advantages within their IT operations as well as every aspect of their business in an attempt to successfully compete for market-share. In so doing they will typically adopt a customized strategy that will involve in-house dedicated resources with the intent to enhance productivity over the long-term as well as outsourced solutions to as temporary or short term fixes.

Today arguably every company has some form of IT infrastructure they leverage towards the integration between internal data sharing, customer relationship management, financial management, operations management, and marketing. They are often faced with the responsibility of deciding which components of said infrastructure will be outsourced or developed by dedicated in-house employees.

"Cost saving has often been cited as the main reason for outsourcing IS. Another driving force is management's perception that, by surrendering control of its IT to an external supplier, it can focus better on its core business. A third motivating factor relates to the perception of IS in the organization - companies consider outsourcing when the internal IS function is perceived to be inefficient, ineffective, or technically incompetent." (King)

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There are many reasons a company would decide to outsource portions of its IT system, development and maintenance. Sometimes a company has an immediate or temporary need and do not see it practical to hire a dedicated full-time or part-time employee to fulfill it. At times a company may want to accomplish something in the IT realm but need to avail of a proven team of experts who can advise them about opportunities and their likely impact if pursued. Sometimes if there is too much political fragmentation within a large Fortune 500 company towards solving a particular problem then the outsourcing provider may be attractive because by hiring them they will provide an artificial political consensus.

Outsourcing providers may be consultants a' la KPMG. They typically work on a customer's site 4 days a week and assist in the deployment, maintenance, and training regarding a variety of IT solutions. Sometimes an outsourcing provider can be ASP (Application Service Provider) like a GoDaddy or Microsoft Bcentral which leverages economies of scale by focusing on hosting a variety of software applications that are leased out to a variety of customers.

"Users must have time to learn the underlying logical sequence within their information architecture, interactive elements, and visual design. When this happens overall usability is much higher as a result. Re-designs are not necessarily bad but once you have initiated a logical pattern to interaction and usability try to keep some continuity. This is one of the reasons why companies that slowly materialize on a clear long term vision usually end up being more fortunate than their counterparts who do not. " **(Donovan)**

Although outsourced solutions have a great appeal there are a lot of reasons larger companies prefer to have a consistent staff of dedicated IT people. Although this is very expensive it allows them to develop an IT system which over the long-term will be greatly customized according to the needs of the company. This can bring continuity and a logical sequence to the system which both employees and customers will learn over time. Although hiring and developing a seasoned team of IT professionals is very expensive, it usually yields higher productivity returns due to the greater potential for customization and continuity.

Depending on its current growth cycle a corporation may be more incentivated to outsource IT development. Bootstrap startups are known to outsource the majority of its IT applications to include web hosting, web development, email marketing, and utilize for the most part uncustomized third party software. They do so in order to be able to focus on developing and marketing an untested product or service.

Medium size companies who are successful in profitably marketing a product or a service are more inclined than their bootstrap counterparts towards focusing on building a reliable in-house IT infrastructure to include ERP (Enterprise Relationship Planning) and CRM (Customer Relationship Management) systems which require the constant attention of an in-house staff for administration and customization tasks.

Large multinationals may outsource certain functions related to IT development to “Big 5” firms like KPMG, Andersen Consulting, or CAP Gemini in an attempt to avoid the bureaucratic political infighting it would take to coordinate a massive project internally



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