The Outsourcing Force
IT culture and the use of external services

By Jon Collins, May 2008

What does the future of development outsourcing look like? Freeform Dynamics has just completed some research that analyses the level of outsourcing IT managers are prepared to endorse.

There is an overall acceptance of how outsourcing can benefit various aspects of the development process. And when asked about the types of activities that should be kept in-house, IT managers tend to concentrate on strategic areas, such as requirements management and project management.

The key for IT leaders is the perceived importance of IT by the business. Freeform Dynamics has collated various sources of information – and it appears that business generally considers IT organisations to be more important if they operate strategically.

While the significance of this statement might seem palpable, it is also true that not all IT organisations believe themselves to be strategic, and are not regarded by senior managers as a direct source of business advantage.

Outsourcing is often seen as a way of removing costs from the business. But Freeform research suggests there is less of a tendency to outsource development when the IT department sees external service provision in terms of cost.

Such a trend might appear counter-intuitive, but makes more sense if we consider the fact that the more progressive IT organisations will also have a more strategic view of the IT services being provided – and of the crucial areas that should always be kept in-house.

We believe that an awareness of progression and strategy sets the scene for the future of how IT will be outsourced, not just in development but also in terms of operations.

The trick lies in differentiation – that is, identifying which IT activities are important to the business. In fact, establishing differentiation should be the starting point for successful IT delivery in general, not just the sourcing aspect.

IT managers continue to call upon a broad range of sourcing strategies. And Indian service provision has come under a great deal of scrutiny recently, given the context of rising prices, security fears and specific relationship difficulties between clients and providers.

Such issues mean we are at an interesting juncture in the case of offshoring – with the situation similar to when IT managers began to recognise that downsizing is actually "right-sizing", and outsourcing should in fact be about "smart-sourcing".

The bottom line suggests that IT managers are beginning to show a more mature approach to offshoring. In short, offshoring is not some sort of silver bullet and it needs due preparation to mitigate the risks involved.

A consulting contact suggested to me recently that there are many lessons to be learned, not least that the process-driven approach, which is often seen as the de facto approach for many Indian companies, is not always compatible with the ad hoc attitude of some UK-based organisations.

The importance of getting the communication interface right, and sticking to it, cannot be overstated – a concept which will be familiar to many methodologists. Establish a successful interface and you will be in the best shape to approach an offshoring project.

Continuing globalisation means the offshoring market will continue to evolve and encompass more and more countries.

At the moment, we know of organisations that use development resources in Vietnam and Chinese outsourcing firms that are aiming to move up the value chain from manufacturing into design and, indeed, development.

Against such a background of transformation, the crucial issue is how IT managers can take advantage of offshore resources without falling foul of the additional complexities caused by using new locations.

As well as learning the basics of supplier management, organisations will also need to look to their own methodologies and processes – and ensure that the transitions between in-house and outsourced activities are clearly defined, and will pose a minimal overhead to the business.

Such an approach might be easier said than done, but the benefits are there for the organisations that get their processes in good order.

Perhaps not every IT organisation views itself as progressive, but in the case of outsourcing and offshoring there are lessons to be learned from the leaders.

About Freeform Dynamics

Freeform Dynamics is a research and analysis firm. We track and report on the business impact of developments in the IT and communications sectors.

As part of this, we use an innovative research methodology to gather feedback directly from those involved in IT strategy, planning, procurement and implementation. Our output is therefore grounded in real-world practicality for use by mainstream business and IT professionals.

For further information or to subscribe to the Freeform Dynamics free research service, please visit www.freeformdynamics.com or contact us via info@freeformdynamics.com.