IT Outsourcing

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Outsourcing has been around for a years. The topic of IT outsourcing sends IT management into a frenzied tirade on the evils that it brings. There have been many variations of outsourcing over the years as well. IT executives view any discussion about IT outsourcing as an attack on their ability to manage and provide services to their clients. But dealing with IT outsourcing in higher education is more critical today than it ever was. And many campuses may already be doing some of this without even realizing it. Recently new twists of outsourcing have arisen. Institutions can now “Net-source” or “E-Source”, “Co-source”, and “Cooperatively outsource”. Some institutions have even outsourced some IT functions to different parts of the institution itself, sometimes referred to as internal outsourcing. To make it more complex and politically charged is you have to determine if the outsourcing is being done to other countries. All of this has made it harder and harder to determine what the correct direction for any institution should be. Higher education has been dealing with outsourcing in various ways and with mixed success. This paper will deal with the outsourcing of IT functions only.

Outsourcing of your institutions entire ERP is the scariest and most complicated decision that you may be asked to consider. The emerging part of this issue is the different flavors of outsourcing that are now available. Colleges that are financially pressed to streamline operations and generate revenue from other sources besides tuition are looking increasingly at outsourcing. Considering outsourcing of some services may well make sense at your institution, but only if a long, thoughtful examination shows that the monetary and other benefits far outweigh the costs. If saving costs is the only reason that outsourcing is being considered, then the institution will create resentment and in fact probably not save any costs.

There is no definition in the dictionary of the word outsourcing. If you do a search on the internet you get many different definitions. As many definitions as there are, you will also see even more opinions on what part of IT can be outsourced. Many parts of your institution may already be outsourcing some of their functions. Examples are vending machines, food services, laundry services, bookstores, concessions, travel services, and printing. Outsourcing of Information Technology functions consists of the same basic components that other parts of your institution may have dealt with when those other functions were outsourced. One thing that is constant in considering outsourcing is that the responsibility for the function still remains with the institution and is not transferred to the outsourcer. The reasons to outsource a function are also varied. This paper will address some of those reasons as well as some of the things to look out for. The arguments and recommendations that address the outsourcing of IT functions may be applied to outsourcing in general.
You might ask why an institution should consider outsourcing any of the IT functions. The changing playing field of higher education is one reason that IT outsourcing is important. With students now having more options to gain a higher education, they are demanding distance courses and distance services. More access to information via the Web is being demanded by students, faculty, and staff. Technologies are advancing too fast for the IT department to keep pace. Every facet of teaching is becoming dependent on technology. Institutions can no longer provide the computing capacity needed to perform the complex and high-computing-demand functions that research faculty are requiring. CIOs are being pressured to reduce their budgets. Finding highly skilled IT staff is becoming harder and harder. And vendors are aggressively marketing these services and filling the gap. These are the pressures that are challenging campus IT departments. Because CIOs are being asked to find ways to reduce their budgets, the question will be not whether an institution should consider outsourcing IT functions but rather when will all or some of the IT functions be outsourced.

As a warning, the appeal of outsourcing, with all the perceived benefits can also be the cause of more costs and sometimes more problems. One perceived benefit is an end to complaints from your students, faculty and staff members, visitors, or parents about the services offered by your IT department -- if they have gripes, just refer them to the contractor. The personnel and quality problems become a distant memory. Outsourcing promises to increase profit for your institution and provide income for that costly project the President has been asking for. Turn over the IT function to the selected new vendor, and walk away smiling. All of these are great things that any higher education executive would like to see.

Maybe that would be true in Fantasy Land. Reality suggests that selecting the right vendor takes time, and if you don't do your homework you'll pay dearly later on. The first step you need to take is identifying what you want to outsource and especially why do you want to outsource that function. There are lots of vendors that can provide the services you need. If you ask them, they will tell you that you could outsource everything to them. Without looking at which functions you would benefit from outsourcing, you will be making that vendor very rich and happy and not helping your institutions costs at all. And not improving customer service to your students, faculty and staff. You will probably increase the costs to you institution and alienate your customers.

One of the outsourcing options available is to outsource the entire IT function. This option is often considered when there is no existing management of the IT department or staffing is not adequate to provide all of the services needed by the institution. Outsourcing the entire IT department would require that the selected vendor staff the department. The outsource vendor might propose acquiring all of the equipment for a bargain price. The institution would then only have to pay the ongoing cost for the entire function being managed by the outsource vendor. When looking at the yearly cost for this it may appear to be a reduction in cost, because there are no capital costs that have to be budgeted for. And the institution would be paid money for the equipment. One caution in handing over all of the equipment to the outsource vendor is what happens if you want to
switch vendors or bring the IT department back in house. The institution no longer owns the equipment; the vendor does. The capital costs would be significant. Another area to consider before making the decision to outsource the entire IT department, is all of the institutions knowledge of the applications that support the institution would be owned by the outsource vendor. Reacquiring that knowledge would also be costly and may not be possible at all.

When considering the options of outsourcing IT functions, there are certain functions that might make better sense to outsource than the entire department. Hard to find technical skills would be an ideal limited IT function for outsourcing. An example would be data base administration. There are many vendors who will provide that service remotely, thereby reducing the institutions costs for a full time DBA and recruiting costs for the DBA. The institution would be able to turn over the recruiting, staffing, and management of this hard to find skill to the vendor. It may not be a cost savings for the short period, but could save costs over a long period, especially if turn over is high.

Now let’s look at some of the new variations of outsourcing IT functions. Net-sourcing involves paying licensing fees to application service providers or ASP’s. This allows an institution to access browser based applications without the institution having to acquire equipment to run the application or install the software. This could be a cost savings for an application that a small percentage of the institutions students use. Therefore the cost of the system could be kept low compared to buying it for the entire student body and only minimally using it. The key to success with this type of outsourcing is to select a stable vendor, negotiate a contract that allows the institution to terminate the agreement with 60 days notice, and ensure that all the data is owned by the institution and not the vendor. Having backups of the institutions data in a readable format stored at the institution is one way to ensure data will be available to the institution at any time. A variation of this is called E-Sourcing. This is an Internet-based outsourcing that takes advantage of the application service provider (ASP) delivery model. This approach enables the delivery of business process outsourcing over the Internet.

Co-sourcing is where a business function is performed by both internal staff and external resources, such as consultants or outsourcing vendors, with specialized knowledge of the business function. IT departments for years have been turning to third-party providers for supplemental assistance in grappling with issues of language, geography, technology, and peak personnel requirements. Such needs continue today and co-sourcing remains a valuable tool in enhancing the efficacy of the IT department. IT departments often use co-sourcing when they need assistance with a specific project. In a co-sourcing environment, the IT executive maintains control of the internal function but uses specialized outside service provider’s (OSP) talents and resources to enhance efficiency and economy within the organization. An OSP may be a professional services firm or a specialized consulting firm. In a recent survey respondents listed expertise, specialized knowledge, technical skills, staffing flexibility, and best practices, respectively, as the top five benefits that can be obtained through a co-sourcing arrangement. The primary benefit of using an OSP is the availability of immediate staffing resources. They provide needed niche skills that might not be cost effective to maintain in-house.
The newest variation to outsourcing IT functions is cooperative outsourcing. This involves one institution already having the equipment, software and staffing to maintain a function. Another institution does not have the hardware and software and the staff to maintain that function. These institutions would enter into a cooperative outsourcing arrangement where the one institution would license the use of that function from the institution that already has it. The costs would be limited to the licensing fees. And the licensing institution would have to make sure adequate hardware and staffing were included to support the other institutions usage of that function. Agreements would have to be written to protect both sides of the arrangement and if the institution did not own the function it would have to make sure the actual owner of the product or function allows for this kind of arrangement. This option requires some upfront work, but the cost savings could be significant. This type of outsourcing is just beginning to take seed and some success has been achieved, because it benefits both sides of the arrangement.

Another option to IT outsourcing occurs when one part of the institution needs functions provided by another part of the institution. Businesses are being created at institutions for research and technology, resulting in technology parks. Some of these parks are for biotechnology and others are for medical research. North Dakota State University (NDSU) established its NDSU Research & Technology Park – hence called the Park – in 1999. In 2002, The Center for High Performance Computing (CHCP) was established to serve only the research sector of the university: faculty researchers, their graduate students, and their government and private sector partners. The CHCP decided to outsource its systems administration and its networking services requirements to the University’s central IT organization because it had well qualified and well established staff. The effort of duplicating those services and staff would have been an unnecessary expense. The CHPC entered into a Service Level Agreement (SLA) that clearly states each unit’s responsibilities. The SLA is reviewed every 6 months to check on progress and address adjustments that might be needed. The CHPC and the University’s central IT organization will soon enter their third year of operation. This is an example of a successful IT outsourcing arrangement.

One thing to remember when considering outsourcing IT functions is that there is not a single solution for every institution. Each institution needs to ask is what is being considered for outsourcing and why. And then make sure that all costs are considered, what are the true cost savings, institutional knowledge retention be taken into account, and what improvement will there be to customer service for the institutions students, faculty and staff.