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Stefan P. Burkart
Setas Consulting GmbH

Outsourcing of IT in large multinational enterprises

Large corporations have for some time been outsourcing their IT departments to a greater or lesser degree. The apparent and communicated objectives where of course cost savings, better service, more flexibility and agility.

On inspection of the numerous outsourcing projects of large enterprises one does however have to ask questions, since many of them have failed to produce the promised or desired objectives.

Problems of Organization

Many of the multinational enterprise IT departments have grown to large entities within the enterprise itself. The costs for IT exploded and with the ever-increasing competitiveness of the world markets companies have sought to reduce running costs of their IT departments.

Analysis of many of these IT departments however showed that the primary reasons for running up costs are organizational problems. Analysis of failed IT projects show that the root of the problems where organizational not technical. The technical problems where almost always secondary, only in a very very few cases the solution provider had outright lied to the customer on his technical promises.

The IT departments had grown literally to bureaucratic monsters. Incomprehensible workflows, inability to align and sequence processes, large dissent of strategies, lack of analysis of what business needs and mere incompetence are the sad facts that caused costs to run up endlessly. Essentially working for these organizations one sometimes wondered that anything was running at all. Naturally in all these organizations you find these exceptional human beings that make things work despite everything, play fireman all the time and pick up all the irresponsibility of their fellow colleagues and managers.

So many of the CFO's and CIO's came to the conclusion to get rid of IT by simply outsourcing their IT problem to a third party.

First, this way the costs would be to some degree predictable and due to competition between outsourcing vendors could be lowered over the period of the negotiated outsourcing contract. Second, hopes were that the outsourcing vendor would organise the issue better, bring a better running of IT into the company and therefore more flexibility and agility.

Now in realty you will find several booby traps on that road of outsourcing

- There is no outsourcing vendor to whom you can outsource your IT completely and world-wide. That type of Multi-Vendor company does not exist. And even if it did exist, legal, security, compliance and other issues might prevent you from doing so.
- Outsourcing vendor often do their business out of low-cost wage countries like Eastern Europe, India etc. this again brings security, compliance and legal issues, your supporting vendors act out of different time zones, you have language and communications issues, etc.
- In many instances outsourcing is merely a form of body leasing.
- Outsourcing contracts run normally between 3 and 5 years. Getting out of such a contract can be extremely expensive and difficult
- Loss of internal IT know-how and competence

A few words to the last point above, the loss of internal IT know-how and competence.

Core Competence

Especially in the last 20 years since the inception of the term "Core Competence" around 1990, the term has been misunderstood, misused and misapplied.

Core Competence does not mean its ok to be ignorant of anything but what I am good at.

Many where hiding behind the term Core Competence to outsource their IT problem. Many have justified their ignorance and their lack of understanding on the subject of IT by saying IT is not my or our Core Competence.
Information Technology can be compared with the nervous system of the body. If it fails the body fails and dies.

No business today will survive if it has not an excellent command on IT. As every business has to understand finance, you do not get around to understand IT. You cannot outsource responsibility for running a company.
The planning, the general concept, the strategy of how you want to put Information Technology to use is widely guided by your business concept and goals.
The broad knowledge and the control of IT has to be very close to your company. You have to be flexible and agile in adapting your IT to your business needs.

Do not get mislead by the term core competence or its apparent use today.

Let's look at the outsourcing issues more closely and this is best done with an example.

A multinational financial institution with locations all over the world decides to outsource.

It has three choices

1. It fires all IT staff and hires them back through an outsourcing vendor (body leasing)
2. It outsources the complete datacenter, all end user support, all business analysis and IT strategy
3. It makes a mixture of the above

Usually companies are forced to go down road No 3.

You will find that at present time no one can offer you a Multi-Vendor service for all IT.

Example Maintenance Hardware

The enterprise has in its datacenters world-wide 30'000 server, storage systems and various hardware appliances (excluding network equipment). The hardware comes from various IT companies like Oracle, HPE, IBM, Dell, Hitachi, EMC, etc. You won't find a Multi-Vendor who can maintain or singly manage these. Simply because many of the manufacturers don't allow third party maintenance of their hardware.

So, the company starts outsourcing the above issues to multiple companies at the various locations and ends up with 20 and more outsourcing contracts with different vendors all over the planet.

The company now has the task to organise and integrate 20 and more companies. The companies to integrate often run themselves with different policies, have different working methods and adhere to various standards, while additionally bring their own organizational problems to your company.

So, the initial problem of organising your IT hasn't been solved at all. Quite on the contrary you now have to set up an organization to organise, integrate and coordinate the various contractors.

Example project flexibility

Your contracts with outsourcing vendors are usually defined by an SOW (Statement of Work)[1]. Any tasks outside of an SOW will incur immediately additional costs. Now your business side calls for a project which needs to be completed outside of the normal standard defined scope. You call up your partners (all pertaining outsourcing vendors) and say: "I need to have this development completed by such and such a date!" The partners now tell you that in order to do so they need to have certain staff to put in overtime, add additional hardware capacity, etc. Additionally, all these contract agreements vary between each other. On vendor works on Sundays, on doesn't, one is onsite, one isn't etc. etc.

The essence of it all whether you have outsourced, partly outsourced you should remain in control and organised.

Organization the culprit

Whatever one does obviously, organization is the key factor, and there it all falls down. IT organizations for some reason are some of the worst organizations I have ever seen. I think only construction tops those frequently.

There are a number of reasons organization fails, I like to give just a few them here in this short essay the most obvious ones one should think.

Out of sequence

Organizing actions means putting them in sequence.

You stand at a production line of car; your job is to mount the wheels. This product arrives at your work step and you find no suspension, impossible to mount the wheels. You immediately ask the next guy close to you, "He Joe where is the suspension?" Joe shrugs his shoulders and tells you "No idea I am putting in the engine, maybe ask Bill over there", so you walk over to Bill and explain to him that the suspension step was somehow missed. Bill informs you, that he thinks Carl is responsible for suspension. So, you put this issue to Carl, only Carl now growls at you "Why do you come to me, what do I have to do with suspensions? I have heard they outsourced suspensions anyway!" You finally had enough and you go over to the warehouse get a suspension and mount it yourself. (Of course you have to sign all kinds of forms, it takes you 5min to mount the suspension but 2 hours to sign forms) so you can then finally get the job done

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[1] Often contract agreements between outsourcer and outsourcing vendor are made through so called Statements of Work. The SOW lists the tasks the outsourcing vendor is responsible for. This very often creates considerable discussions as it is almost impossible to list all doingness's (tasks). It is actually nonsense to define a statement of work. It should be called a statement of product. You define the product, you define what you want to have, the end result of what the vendor is supposed to deliver, not what the vendor is supposed to do.

to mount the wheels. But probably now you are stuck with the job you also mount suspensions from here on out.

In IT departments I am always amazed how many actions are completely out of sequence.

Missing functions

Even more fundamental to putting actions in sequence is defining them in the first place. Elementary one would think, obvious but apparently, it's not. Every function necessary to produce a product (deliver a service) needs to be plotted somewhere. So, one does not get around to identify and specify each function no matter how small the function may be. Whenever you hear in a company somebody asking: "who does it? who is responsible" and can't get an immediate and precise answer, you know the state of the organization is in disarray. The function is either not occupied, its occupied but hidden[2].

Epilogue

The above are just two examples of organizational issues. The essence, the ability to organise is superior to mere outsourcing. Successful outsourcing demands well organised IT departments in the first place. Many companies have cut costs and outsourced, upon closer inspection however serious liabilities have been the consequence. For example, costs where cut in system administration, licensing costs and hardware investments, with the result that servers are either badly or not at all administered, systems are constantly run at their limits, high percentage of hardware exceed their life cycle expectancies. Savings where done in security (cyber security, Business continuity, Disaster Recovery, etc.) with the result that many of these companies literally walk on a tight rope.

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Setas Consulting GmbH

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[2] a person executes the function on his own or a senior's initiative. This is very common in large corporations and creates more problems than a not occupied functions. First nobody is really aware that somebody holds this post, except maybe the very immediate environment, therefore chances are that the post is held also somewhere else aswell resulting in staff fighting for who does what. When the person holding the post leaves the company, is sick or on holidays, the function becomes unoccupied without notice or awareness of the rest of the company. Second such a function cannot be budgeted for, as it is generally unknown.