Information Systems Strategy and Management

SOURCING IN BUSINESS INFORMATICS

# Sourcing is a business process whose objective is:

- decision on which services, processes, and resources are to be secured by the business itself, and which are to be secured through external providers,

- selection of the most suitable external service providers,

- drafting contracts with providers on the content and level of services provided,

- checking of provided services and management of relations with external providers.
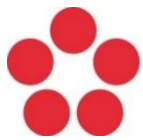
- Outsourcing is a process that assures the transfer of responsibility for a given service/process/resource to an external provider.

- By contrast, insourcing is a process that assures the transfer of responsibility for a given service/process/resource from an external provider to a business.

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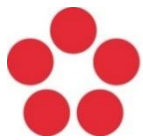
- Cost Reduction and Control
- Concentration on the core business
- Access to world-class capabilities and abilities
- Resources are not Available Internally
- Quick Solution of New Functional Area Requirements
- Increase of Resource Flexibility
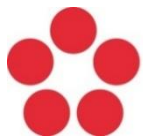
Cost Reduction and Control

- Reducing and easier control of the cost of a particular functional area are the main reasons for outsourcing.

Concentration on the core business

- This reason for outsourcing is linked to the transfer of supporting business activities outside of a business in order to activate its own resources for the core business.

Access to world-class capabilities and abilities

- The substantial advantage of outsourcing is the easier move towards the world level in the functional area and the tendency to remain at the world level.
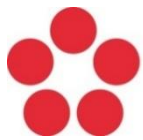
Resources are not Available Internally

- Businesses also transfer their functional area because they do not have access to the required resources within the business.

Quick Solution of New Functional Area Requirements

- The external variant of a newly-created functional area solution is feasible more quickly than an internal one. Outsourcing is; therefore. a by-product of another management tool - business process reengineering (BPR).

Increase of Resource Flexibility

- Major problems are faced by those businesses whose all functional areas or some of them are unevenly exploited due to seasonal fluctuations. If such a functional area is dimensioned to maximum performance,
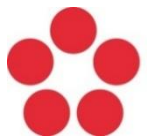
Standardization of the solution to the subject area by securing one provider globally

- If an business transfers a functional area to one, usually a multinational provider, it can easily and efficiently achieve standardization of the solution of the area in question in all of its locations.

- **Organisational Reasons**

Outsourcing of a particular functional area results at some businesses from their organizational reasons, such as:

- business slimming,

- reorganization and flattening of the organizational structure,
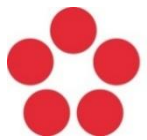
Sharing risk management costs

- There are various risks associated with investments and multiple business operating activities. Through outsourcing contracts, risks are divided into a network of a few businesses. In particular, providers, if they provide their services to multiple businesses, reduce their risks arising from a single business.

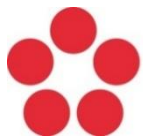## Release of capital funds and spreading of costs in time

- Outsourcing is a way of reducing investment into marginal functional areas. Instead of getting resources through investments, a business has these resources contractually available for their regular use with the use of routine, operating expenses. Capital funds are, therefore,
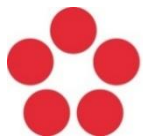
The assessed outsourcing risks should include:

- We will not find a partner on the market that manages the given area better,

- increasing dependence on external partners, their effectiveness, seriousness, and stability,

- increase in the business process time (thanks to the complicated interface between the provider and customer, for example, the extension of the IS/ICT operation incident time)

- leak of sensitive information,

- conflict of various business cultures,

- difficulty/inability to return to the original state,

- not handling another way of managing the transferred area - low maturity of business for this type of business relationship,

- low relationship (contract) responsiveness to changing customer requirements and changes in technology and market,

- loss of specialized knowledge related to a transferred area. In the case of IS/ICT outsourcing, larger businesses try internally to keep at least these very important experts - business architect, IT architect, and project manager.

- 43% outsourcing contracts were terminated prematurely.
- Per the survey authors, the main reasons for terminating outsourcing contracts were:
  - issues in formulating a mutually acceptable contract,
  - not achieving the expected outsourcing benefits,
  - IS/ICT was assessed as a strategic area in the next period, the outsourcing of which through an external provider is not desirable,
  - changes on the ICT market,
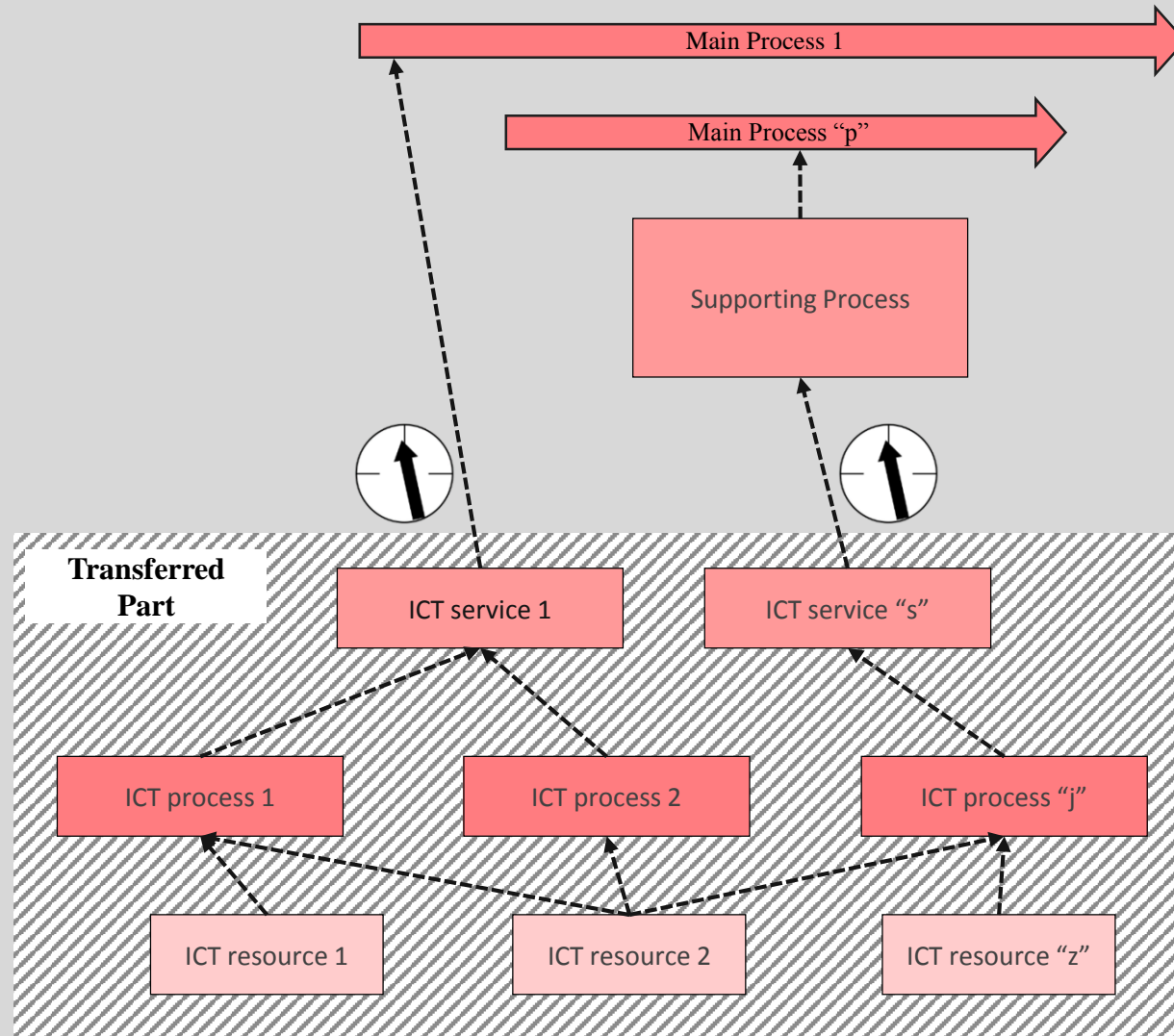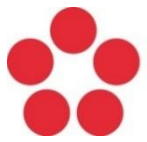 - business management change.

- ## Outsourcing of comprehensive IS/ICT

Figure 12-1 Comprehensive IS/ICT outsourcing -(Voříšek k. , 2015)

- The other variant is the outsourcing of a comprehensive IS/ICT business.

- In this variant, the outsourcing provider transfers its responsibility for the delivery of all the ICT services and responsibility for ICT processes and ICT resources that relate to ICT services