

## Critical Questions in Successful IT Outsourcing

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Smart CXOs of organizations are evaluating outsourced relationships in a totally different light by seeking new destinations, including countries that have similar cultures, laws and financial practices such as Europe, Australia and South Africa. A high percentage of mid to larger-sized companies with significant IT processes have long relied on outsourcing as a solution when evaluating asset and process reallocation in terms of property, equipment, labor and management.

CXOs historically engage in a comprehensive process to determine the appropriateness of the outsourcing decision and explore questions such as:

- Is the process core to the organization and can it be outsourced to another organization that will make it their core competence?
- Is a new technology or existing technology needed that is highly specialized, and will acquiring it outright be too costly?
- To cut costs quickly, can outsourcing meet our needs at a lower price point?

### Looking Beyond Cost

Once the decision has been made to outsource, the next step is to identify a partner that is a good fit for the organization's needs, and that can provide the services required to make a strong financial impact on the operational expenses of the company.

Because of the cost and effort of moving these processes, finding a partner to work with on a long-term basis is critical. There also needs to be some consideration for the sensitive nature of the content they will be handling. As each company has specific needs, both for process management and for infrastructure, companies need to clearly define the specific resources their outsourcing partners can provide.

The last and most important question that should be asked examines total cost implications. There are many factors involved in total cost—cost of services or the “invoice” is just one of them. Additional and often larger costs are incurred with the transition, downtime and disruption to current processes. Management must not only ask tough questions, but be ready to look to non-traditional approaches to meet their company's needs. This includes looking to new geographic locations that offer the best compatibility to their organization's specific parameters.

### **New Geographic Alternatives**

Outsourcing IT functions to India has been the de facto choice for several years now. The promise of cheap labor overseas encouraged management to take the leap into the outsourcing pool. Today, the hype has given way to reality and the truth is that outsourcing IT to market leaders like India has not lived up to its promise. To be fair, there are several reasons why outsourcing IT initiatives fail. Most of these reasons can be applied to any outsourcing initiative including quality, communication, culture, legal and overall responsiveness to business change. However, as companies look for a better solution, the issues of cultural differences pose a serious threat to the overall effectiveness of IT outsourcing.

Global events, including acts of terrorism, financial irregularities, global market challenges and the accumulative affect of banking failures have magnified this issue and motivated decision makers to embrace a much greater level of oversight regarding their outsourcing arrangements.

In the past, criteria for choosing an overseas destination for outsourcing were largely driven by technical capabilities, price and strength of the partner. But as companies have been burned by partners in unstable environments the questions are now much broader in scope and cover a much more comprehensive socio-economic context:

- What financial oversight is being applied by regulatory bodies of the home country?
- Do they adhere to general accounting practices (GAAP) that when reviewed correlate to practices understood and agreed to in the United States?
- Is corporate governance well-defined and adhered to by both companies and the ruling political entities so as to avoid potential fraud and abuses?
- What is the current political climate in the operating country? How will acts of terrorism, civil war and cultural, religious or ethnic tension destabilize the ability of the service provider to deliver on their promises?

These and numerous other factors give a clear indication that today the decision of *where* to outsource can no longer hinge around short-sighted pricing. Smart CXOs know that they are best served to shop countries that have similar cultures, laws and financial practices such as Europe, Australia and South Africa. In fact, an October 2008 article from Gartner analyzed 30 locations of outsourcing service and South Africa scored as highly favorable due to its compatibility of language and culture.

Cost should always be the driving factor when deciding to outsource any part of business. The current models used by organizations to evaluate costs have matured as the global business climate has evolved. Those who have made IT outsourcing decisions based on short-term gains have learned their lesson and now must look to new geographic locations like South Africa, for a stable environment and long-term rewards.

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