

## **Outsourcing as a Strategic Tool: 12 Dec 04**

Outsourcing has often been associated with cost efficiencies and to allow an organisation to focus on strategic activities as opposed to performing non-core activities that distract the organisation from its business goals. So when do outsourcing become a strategic management tool?

In many aspects, outsourcing serves as a strategic tool when it:

- provides a clear linkage to the organisation's mission and objectives;
- serves strategic functions in growing the organisation's business in terms of market share, competitive advantage, and increased shareholders' value
- provides as a basis for the business decision process

In technical outsourcing, the outsourcing of IT infrastructure, application development and processes should be evaluated as part of the organisation's overall strategic objectives rather than as a means of hiring an external agency to make an IT problem go away – which is “out-tasking”. In recent years, the traditional outsourcing models are evolving to become partnership arrangement on a collaborative basis. Organisations who planned to outsource must understand their internal organisation processes well enough and the end game that it intends to achieve before selecting the partner that they can trust with the part of their business processes. Reproduced below are extracts from Gartner on some of the myths and realities on outsourcing as a strategic management tool:

**Myth:** Outsourcing is all about cost savings.

**Reality:** Outsourcing is all about enabling corporate strategy and achieving business goals.

**Myth:** The same skills and processes that run a well-managed internal IT operation can be applied to managing outsourced relationships.

**Reality:** Outsourcing management requires a complex set of disciplines and competencies different from those used internally.

**Myth:** The right service provider and a detailed statement of work will ensure a successful deal.

**Reality:** Successful outsourcing depends on a holistic, life-cycle approach linking business strategies to service provider selection, contract development and operations management.

**Myth:** Tough controls deliver a good deal.

**Reality:** The right balance of trust and control delivers real value.

*Source: Gartner Inc.*

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