

Chapter 8

Insourcing vs. Outsourcing: Critical IT HR Considerations

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ABSTRACT

Most discussions of IT outsourcing focus on cost reductions and meeting skills requirements. This chapter focuses on the people considerations and the important role that HR must play to ensure success, especially as it pertains to evaluating the resources and managing the transition. HR must be engaged in monitoring the cost of talent, identifying the required skills, being sensitive to the timing of the requirements, and mitigating the strain on work balance.

INTRODUCTION

When pundits and business experts debate outsourcing versus insourcing, they are often speaking in broad, bottom-line, big-picture strokes. They speak of costs to be saved, skills to be attained, intellectual capital to be protected and standards to be maintained. Many times there is a lot of emotion and judgment in their considerations but sometimes not enough real-world fact. When a business considers whether to outsource or insource an IT project, one of the roles of HR is

to help deliver critical workforce facts that help business leaders make the best possible IT sourcing decisions.

Once the decision — insourcing or outsourcing — is made, HR plays a central role throughout the transition by helping to adapt workforce processes to the solution. HR is also responsible for helping internal technology teams transfer knowledge and support the project. The sourcing model selected, as this chapter will show, determines HR's course as each approach requires a different talent support structure. However, the first role HR must embrace in any IT project is that of a strategic

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advisor who helps IT and business leaders as they work to make the right sourcing decisions.

HR'S ROLE IN SOURCING DECISIONS: STRATEGIC ADVISOR

HR has a unique window into the IT organization. The HR team not only has a detailed understanding of the costs associated with internal teams, but also a clear map of the skills and experience across the IT organization. This knowledge is essential in building the best possible business case for project sourcing — be it outsourcing or insourcing. The challenge for HR is to ensure its insights are heard during the sourcing analysis process.

Too many times, IT leaders and managers come to HR for very specific IT workforce data, such as cost to hire, cost to train, and on boarding and recruiting timeframes, but they leave HR out of the rigorous examination to follow. To become a partner in sourcing decisions and elevate the role of HR in organizational planning and operations to a more strategic one, HR teams must be ready to provide rich human capital data, in four core areas:

- Talent Costs
- Skill Roster & Skill Needs
- Timing
- Workload Balance & Strain

However, the goal is not to merely rattle off data or provide a clean report. To become a trusted workforce advisor to the IT organization, HR must deliver substantive data and thoughtful insights across each of these four core areas that give IT and business leaders better visibility into their teams, spending and workforce needs.

Talent Costs

The decision to insource or outsource an IT project or process can sometimes, mistakenly, be seen as merely a financial one. “Is it cheaper to have an

expert provider take on the project or process, or can we do it internally for less?” While there are many essential factors that go into an outsourcing decision besides costs (such as resource availability, skill needs and management time), they still remain pivotal to any outsourcing discussion. What will HR be asked to provide in a cost analysis? In most cases, a simple breakdown of team member rates and employment costs (what it costs to pay your team) is required. These costs will be directly compared to the costs coming in from outsourcing and IT services vendors (what it costs to recruit, pay and retain their workers).

To truly provide strong cost information to support business and IT leaders, HR needs to ask questions. What skills and what experience are required? A cost analysis assumes that both teams (internal, contract-based or outsourced) come to the table with equal skills. That, however, is never the case. In some instances, the outsourcing team may need to train its teams to understand the company’s internal processes and operation. In an insourcing solution, internal teams may be less skilled in the task at hand, which could mean more time and would likely mean added training costs.

A strong HR partner will also carefully analyze the talent cost breakdowns offered by outsourcing providers. Many times providers may leave off associated costs from their calculation, such as training. When analyzing potential outsourcing firms, it can be helpful to create a cost comparison chart to improve and accelerate the evaluation process.

Skills Needs: Where are They?

The question of skills is not just one of finding out who has the skills. It’s also a question of how the business can acquire them. If a business does not have in-house IT talent with the skills needed to execute a project, outsourcing is not automatically the answer. A business can still insource through recruitment, IT staffing or by training internal talent, if timeframes allow. The more important

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