PROBLEMS ADDRESSED
Outsourcing has grown to become a primary force shaping business, especially in the information technology (IT) arena. Owing to high costs, service that is often viewed as unresponsive and frustrating, and a willingness to see IT as an easily substitutable commodity, many organizations have targeted the IT function as a prime outsourcing candidate. Many IT executives have realized too late that their efforts to optimize internal technology have been eclipsed by the pressing need to deal with external communications and service effectiveness issues.

Many outsourcers have reduced costs and improved service levels. Others have found that their strategic focus has been sharpened by eliminating an IT function that was not central to their core technology. Still others have achieved improved access to information technology and expertise as a result of their outsourcing move.

For some organizations, however, the shift to outsourcing their IT function has been much less positive. Horror stories have resulted from the lack of flexibility and control that accompanies this shift.1 Old problems and complaints that should have disappeared with the introduction of a

PAYOFF IDEA
Investing time and energy in turning around the performance of an internal IT unit can help avoid a disappointing outsourcing endeavor based on misguided drivers. Following the turnaround plan presented here helps identify and confront fundamental service problems, results in a sounder basis for evaluating outsourcing options, and can create a healthy internal IT unit that provides better and cheaper services than available from an outsider.
new IT supplier remained. New limitations on control and flexibility have hampered strategic actions, and some have awakened to rude shocks as unanticipated parts of their agreement forced sudden and unpleasant lessons about the contracting process. For these companies, the promise of IT outsourcing is severely tarnished.

Symptoms of Poor IT Performance
Many disappointed volunteers in the outsourcing movement share a common original motivation and entry process. They were propelled into outsourcing primarily as a flight from a poorly performing internal IT unit (the more satisfied outsourcing companies are more likely to have had an original motivation rooted in broader strategic concerns). Frustration with cost and service quality in the existing IT unit and with repeated unsuccessful attempts to fix the problem have often precipitated a headlong rush to an outsourcing option. With no existing positive model of a well-functioning IT unit available, these organizations have been much more likely to jump into outsourcing for inappropriate reasons or negotiated much less favorable contracts and conditions. In addition, a quick move directly into outsourcing often means that fundamental factors that helped create the initial unsatisfactory IT performance remain unidentified and unaddressed — a neglect that sows the seeds of future discontent, even in an outsourcing mode. The following six symptoms of serious internal performance problems can help determine the level of concern about existing internal service performance within an IT organization:

1. Conflict. A high state of conflict and disagreement between IT and customer units is a continuing and dominant feature of the ongoing relationship.
2. Complaints. Customer units complain loudly and insistently about poor IT service or high IT costs.
3. Duplicating service. Customer units attempt to build their own internal duplicates of IT-provided services to gain better control.
4. Executive frustration. Senior corporate executives are frustrated with seemingly uncontrolled IT costs and the continuing need to referee conflicts between IT and its customer units.
5. Organizational energy. Considerable executive and managerial time, energy, and effort are being expended in dealing with interdepartmental conflict issues or in positioning for future conflicts.
6. Customer impact. The internal conflicts over IT costs or service quality are beginning to have an impact on the interface with external customers.

IT PERFORMANCE TURNAROUND
The risk and uncertainty surrounding outsourcing can be significantly reduced by achieving a performance turnaround in the existing IT unit be-
fore the formal consideration of outsourcing. Effecting such a turnaround requires commitment of substantial resources and effort, but yields three important organizational payoffs:

- Confrontation of key performance-limiting issues
- Creation of a solid comparative basis for outsourcing
- Achievement of greater cost and service benefits than outsiders can offer

Confronting Key Performance-Limiting Issues

If an existing IT unit is performing poorly, it is doing so for specific reasons. These reasons frequently have to do with fundamental structural factors that seriously impede the unit’s ability to yield solid, cost-effective service. For example, a major source of difficulty for many internal IT units is unclear or conflicting service expectations. Lack of specific articulation and agreement between supplier and user of IT services breeds violation of unstated (but strongly held) expectations. In addition, senior management may want low cost, while line customer units want premium service. In such cases, the IT function is caught in the middle and can satisfy neither.

If these conflicts have not been addressed and resolved, moving to outsourcing only exacerbates problems. When an IT activity is poorly managed, the managers will probably not be any better at managing an external service provider. The question to ask is why executive management would want to bestow the benefits of improving an inefficient operation to an external market. Two responses have been suggested for this scenario. The first is to hire better IT managers, and the second is to improve the performance of the IT function before making the decision to outsource. When fundamental problems such as poor performance or inefficiency are left unresolved, they are much more difficult to improve within the outsourcing arrangement.

Creating a Solid, Comparative Basis for Outsourcing

When moving directly from a poorly performing internal IT unit to outsourcing, a company has a very ill-formed basis for structuring and negotiating a contract. Significant evidence is emerging that shows that IT performance gains have much more to do with the adoption of effective management practices than with economies of scale. Can the organization afford to give away an unknown (but probably large) premium to an outsider, based simply on the ability to bring in effective management?

Without the existence of a well-functioning internal IT unit that is operating within the unique variables and constraints of a particular company, the company has little basis for structuring the contract. The outsourcing contractor is much more experienced and knowledgeable
about the factors that will determine final cost and performance — a rather one-sided basis for negotiations.

Achieving Greater Cost and Service Benefits

A well-known research study carefully examined six firms with IT units that were judged by their own company to be performing unsatisfactorily. Each firm placed its IT function out to bid in an outsourcing mode but, after considering both external bids and a bid from their own internal IT unit, elected to grant a contract to their internal unit (a practice known as insourcing). The performance of each unit was then monitored as changes were made — changes that were more extensive than were possible in the old mode of a totally captive unit.

The results were impressive. Costs were reduced from 20% to 54% and, in many cases, service improved as well. It was concluded that internal IS departments, given the freedom and capability to change, often possess strong cost advantages over any outsider and offer greater insight into the unique organizational service needs as well.

The emerging success stories in insourcing are causing new questioning as to why an external agent, using essentially the same people and equipment as the internal unit, should be able to deliver more cost-effective service and produce a profit as well. In fact, once internal IT units start to see the overall problem from this perspective, the challenge to use their own resources to exceed what an outsider could offer can become a positive and motivational vision. They already have the basic resources that would become available to an outside supplier — why not work on the revised perspective, practices, and processes that will provide the same cost and service benefits?

Each of these benefits can be substantial, but the combination of all three provides a commanding reason to seriously consider the turnaround option. Many companies have avoided the turnaround option because of the difficulty in designing and executing such a complex organizational change. However, the change technology and experience base are available to help structure an IT performance turnaround that will most likely succeed (even in cases with low reform success in the past).

Determining the Appropriateness of a Turnaround

Individual organizational characteristics determine whether a turnaround attempt should be made prior to outsourcing. While no simple answer exists, affirmative responses to the following questions should bias the IS manager's thinking toward investing in a turnaround effort:

1. Is IT central to the core business and strategy? IT is often viewed as a substitutable and replaceable commodity, particularly if historical performance has been poor. However, a more in-depth analysis may
reveal that IT is more central to effectiveness of strategic actions than is apparent on the surface. If the overall strategy of the business depends on IT functioning and performance to any substantial degree, outsourcing could mean loss of control and flexibility in a key area — actions that could seriously blunt the overall strategic impact.

2. Could IT become a source of competitive advantage? For many companies, IT is more than just crucial to strategic action — it is a fundamental source of external competitive advantage. American Airlines, Otis Elevator, USAA insurance, FedEx, and Frito Lay all gain primary competitive advantage from their IT competence. Envisioning how IT could move to a role of providing a basic competitive advantage may be extremely difficult if present IT issues center on adequacy of basic functioning.

3. Are IT needs complex, relatively unique, and/or dynamic? An outsourcing contract can be most effective with fairly straightforward service needs and a moderately steady-state situation. The loss of flexibility as conditions change (i.e., either organizational needs or technology changes) can become a substantial limitation with a rigid contract.

4. Is frustration with the present IT function a primary outsourcing motivator? Successful outsourcing arrangements tend to be grounded in strategic analysis rather than based on a flight from a frustrating existing internal unit. Identification of, and assault on the fundamental issues creating the present performance problems is necessary, even in an outsourcing mode.

SETTING UP THE TURNAROUND

Once it has been determined that a turnaround is an appropriate endeavor, the following actions should be taken to help ensure a successful effort. These include:5

• Situational assessment. IS managers should assess the initial situation to determine the need for change, the general extent of changes needed, and the capability of the parties involved to manage and embrace the change. Asking pointed questions about the general need, the IT unit, and the customer units can help focus thinking about the need to change and make this need more salient to all.

• Enrollment of stakeholders. It is important to ensure the continued understanding and support of senior managers, customer managers, and IT leadership in the organizational change process. Top managers and customer unit leaders must have specific information on the need for change, the benefits of a successful effort, required resources, impact on others, and scheduling. IT leaders needs to grapple with the significant issues involved with a major change process.

• Final commitment. All of the setup work should be committed to a specific and written document that serves as a public agreement on
such issues as the need for the change, the goals of the turnaround, and the general process to be used. Top management, customer unit leaders, and IT leadership all need to have a shared understanding and agreement about the important organizational change ahead. The team that will actually manage the change process will need to organize itself to ensure effective project management.

BUILDING THE INFORMATION BASE
Any successful organizational change effort must be grounded in firm information and analysis. An IT turnaround effort requires a clear vision of the existing problem situation and its causation, detailed insights into the real service needs to customer units, and a deep understanding of their own internal processes and procedures. An effective change plan must be founded on this solid information base.

The process of constructing the needed information base can serve as the launch pad to a new IT culture centered on internal customers — units with service needs that must be identified and filled if IT is to be successful. Extracting the views of these internal customers and other stakeholders regarding the following questions is essential to the construction of an effective IT change plan.

• How do they view present IT service?
• What is their perception of the present IT function?
• What are the service needs?
• What specific topics are causing the most difficulty within the units?
• What is the desired balance between cost and service responsiveness?
• How strongly do the units feel a need for basic change?

Surveys and interviews can provide important insights into the causal forces that shape today's problem situation. Focused exploration of customer unit service expectations can reveal the nature and form of their service beliefs (and provide an opportunity to identify those that may be unreasonable or excessively costly).

DESIGNING THE TURNAROUND PLAN
Once the information base regarding the existing problem, customer service expectations, and existing processes is understood in depth, a plan to direct the IT turnaround effort can be constructed. The plan must set specific and measurable goals, define the needed changes, and identify the required processes for change.

Defining IT Performance Standards
Many of the goals of the plan will be derived from newly defined IT performance standards. Considerable work needs to be expended on work-
ing directly with customer units to define these standards. They will reflect both the specific service expectations of the customer units and the practical and professional pragmatics of the IT unit. The standards need to be as specific and measurable as possible and explicitly agreed upon by all as the definition of excellent service. This definition of excellence will serve as the guide for the efforts of the IT unit, as well as the standard used by the customer units to judge service.

The process of negotiating and defining these standards may be one of the most difficult tasks of the entire turnaround, but it is also one of the most important. One survey of IT departments in a variety of industries searched for factors that contribute to high internal customer satisfaction. The IT units that ranked high on service satisfaction had significantly better and more precise specifications regarding the service to be performed than did their less-well-rated counterparts. For these IT units, the considerable investment in defining expectations and clarifying standards paid off strongly in service satisfaction.

FROM PLANNING TO IMPLEMENTATION SUCCESS
Three supporting elements are key to converting a turnaround plan from an abstract concept to an implementation success. They are discussed in the sections that follow.

Aligning the IT Culture
Customer-centeredness must become the driving force of the IT culture. Most poorly performing IT units have an internal culture centered around the enhancement of their own technology or processes. The conversion of this well-established culture to an entirely new focus that targets the service needs of customer units is a prodigious task, unlikely to respond to gentle prodding. Gaining an explicit understanding of the functioning of the present internal IT culture and producing a specific articulation of the desired culture are necessary but difficult and foreign processes for most IT units. Designing the actual cultural changes and reinforcements may be even more foreign.

Developing Service-Oriented IT People
Building the skills and attitudes needed to produce service-oriented people in the IT unit is also a necessary support step for the change plan. Being skillfully solicitous of, and receptive to, customer feedback (particularly negative feedback) is a trainable skill. This skill escapes even many external service companies, but is no less crucial to an IT unit dealing with internal customers. IT agents must provide respectful and responsive service interactions with internal customer units and be able and willing to gain feedback on service rendered — an invaluable element in improving future service.
Ensuring Capability for Service Recovery

Many IT units deliver service adequately but destroy their relationship with customer units when they face service recovery situations. Because the best of service will sometimes fail, the skill that the IT unit has built to recover positively from these unanticipated shortfalls will heavily shape the customer’s view of the service they have received. Recovery situations are particularly difficult because of the higher interpersonal skill level and service commitment needed to handle disgruntled and emotionally charged customers who have just received service that violates their expectations.

RECOMMENDED COURSE OF ACTION

At the completion of a successful IT performance turnaround, the company has a greatly expanded range of alternatives. When a cost-effective and service-sensitive IT unit is in place, the motivation for outsourcing erodes. The loss of flexibility and control associated with outsourcing is just too great a cost without the negative prod of poor and costly existing service. The process of creating a truly effective internal IT unit causes fundamental problems to be addressed and, at a minimum, establishes an excellent basis for negotiating an outsourcing contract.

If outsourcing is still a consideration, the outsourcing options themselves become richer as new performance experience is gained. A more sophisticated view moves from asking a simple “outsource or not” question and looks at the effectiveness of selective outsourcing of specific functions. Assessing IT performance and achieving a performance turnaround is thus a practical alternative to outsourcing.

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Notes

4. Lacity and Hirschheim, p. 36.