: What are benefits and risks of outsourcing enterprise-wide DSS?

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Some companies outsource major Information Technology (IT) activities like Internet
and Intranet operations, data storage and backup, and enterprise applications like
accounting or enterprise resource planning. Outsourcing IT means activities and tasks involved in
developing and/or operating an IT system are performed by a vendor.
Outsourcing DSS may involve contracting with consultants,
software houses or service bureaus to perform analysis and design, programming or other
DSS development, delivery and systems management activities. Outsourcing enterprise-wide DSS definitely
has risks. Managers need to determine if traditional benefits from IT outsourcing like more predictable costs, increased innovation
and increased flexibility can outweigh the risks of outsourcing an enterprise-wide DSS.

An enterprise-wide DSS is usually a data-driven decision support system that supports a large group of managers
in a networked client-server environment with a specialized data warehouse as part of the DSS architecture.
Outsourcing this type of decision support system involves developing a formal agreement with a third party to perform a
major part of an organization's decision support function. Outsourcing a DSS involves delegating responsibility for building a mission critical
information systems application and/or its operation to an outside firm. The outside firm has a financial reason to do
a good job, but that may be insufficient. Managers are transfering a function previously performed in-house to an
outside provider.

For DSS outsourcing to work, the outsourcing provider should be evaluated as a long-term asset and as a source of
ongoing value to the company. Time and resources need to be dedicated to managing the relationship and maximizing
its value. The customer organization needs a project manager to manage the outsourcing relationship. The intent should be to keep
the relationship for as long as it brings value to the customer organization. Over time new technology alliances may need to be
formed as technology and vendors change. Therefore, a customer organization should evaluate long-term relationships and
should try to align an outsourcer's motivation with its own goals by developing appropriate incentives

and penalties.

Some of the benefits of outsourcing DSS include potentially lower cost development and deployment; more predictable
operations costs; access to expertise about new technologies; and increased flexibility. Also, outsourcing can
free up resources within the firm for other projects. Wikipedia lists 14 general reasons for outsourcing, including
reducing expenses and cost savings, restructuring fixed expenses, improving quality, accessing new knowledge, creating a more predictable service contract,
gaining operational expertise, reducing staff, improving capacity management, stimulating change, reducing
time to market for products, standardizing business processes, mitigating risks, exploiting time zones, and responding to customer needs and pressure.
In some situations, each of these reasons could be applied to outsourcing various DSS.

Outsourcing a DSS project however has a number of risks. First, a company relinquishes control of an important capability
to an outside organization. Second, contracts for a DSS may be long term and may lock a company into a
particular service provider. Finally, a reliance on external sources for new systems development can lead to low
technical knowledge among the in-house IS/IT staff.

These three major risks often lead to in-house DSS development and operation rather than to outsourcing. When does outsourcing
seem to work? Outsourcing can be successful when managers need to improve decision support activities and systems quickly
and in-house IS/IT staff seem unable to build innovative DSS.

In general, enterprise-wide DSS targeted to managers should be built in-house and managed as a strategic capability. If a DSS
is intended to support key business decisions, then managers should want to reduce any risk that the system will be compromised or that
unauthorized individuals will be able to gain access or even tamper with the DSS and its data. In general, in-house development and operation of an
enterprise-wide DSS should enhance the security, credibility and value of the system.

Outsourcing is essentially a "make-or-buy decision". Should we perform the service or hire

someone else to do it? Managers need

to thoughtfully assess whether any cost savings are worth the risk associated with outsourcing strategic decision support systems.

Decision support systems are central to the success of many organizations and hence are core business capabilities that should

not be outsourced. Outsourcing a strategic DSS can be a major mistake!

As always your comments, suggestions and feedback are welcomed.

References

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