OUTSOURCING AND LOCAL GOVERNMENT

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ABSTRACT

Outsourcing involves the transfer of an organization's regular business activities to an outside service provider that provides some services back to the organization. Outsourcing can offer certain advantages, but only if you do it right. Simply stated, it is the "make or buy" decision as applied to the information systems and technology functions.
The key question is if you should hire your own systems staff, acquire your facilities, develop your systems, maintain your hardware, develop your documentation, contract for your telecommunications network, or should contract such services to an outside specialist organization. This paper aims at local government and their learning about technology outsourcing and the key steps for evaluation and implementation. Although each government has its unique situation, exist some basic fazes that enable local government to understand the drivers behind outsourcing, implementation considerations, and important steps to take. The first part of this paper intends to offer an overview of outsourcing, in general, and especially, of outsourcing in the public area and the factors that drive public organizations to outsource especially IT services. The second part strives to provide a picture of the current situation in the Shkodra local government and next evaluate the IT functions that need outsourcing, to create a communication plan.

Keywords: Outsourcing, local government, information technology.

INTRODUCTION

Outsourcing is used in a variety of different ways depending on the organization and the functions outsourced. The following definition is commonly used as purchasing an item or a service from an outside vendor to replace the performance of the task with an organization's internal operations. Another definition is "the transfer of components or large segments of an organization's internal IT infrastructure, staff, processes or application to an external resource" (Robinett, C. et. Al, 2006).
The term outsourcing is used inconsistently but usually involves the contracting out of a business function - commonly one previously performed in-house - to an external provider ((Overby, S., 2007). In this logic, two organizations may enter into a contractual agreement involving an exchange of services and payments. Simply put, outsourcing is the contracting of a third party to manage a business process more effectively and efficiently than can be done in-house (Aalders, R., 2002).
Outsourcing offers numerous advantages; however, there is also evidence that outsourcing often fails (Lacity, M. C. & Willcocks, L., 1997). The potential benefits include cost savings, efficiency gains, improved flexibility, access to world-class expertise, and focus on core competencies. However, outsourcing also poses numerous risks that must be managed for outsourcing to be successful (Kremic, T., 2006).
Outsourcing consists of two types of services (Robinett, C. et. Al, 2006):
•ITO: IT outsourcing, involves a third party who is contracted to manage a particular application, including all related servers, networks, and software upgrades.
•BPO: Business process outsourcing, which features a third party that manages the entire business process, such as accounting, procurement, or human resources.
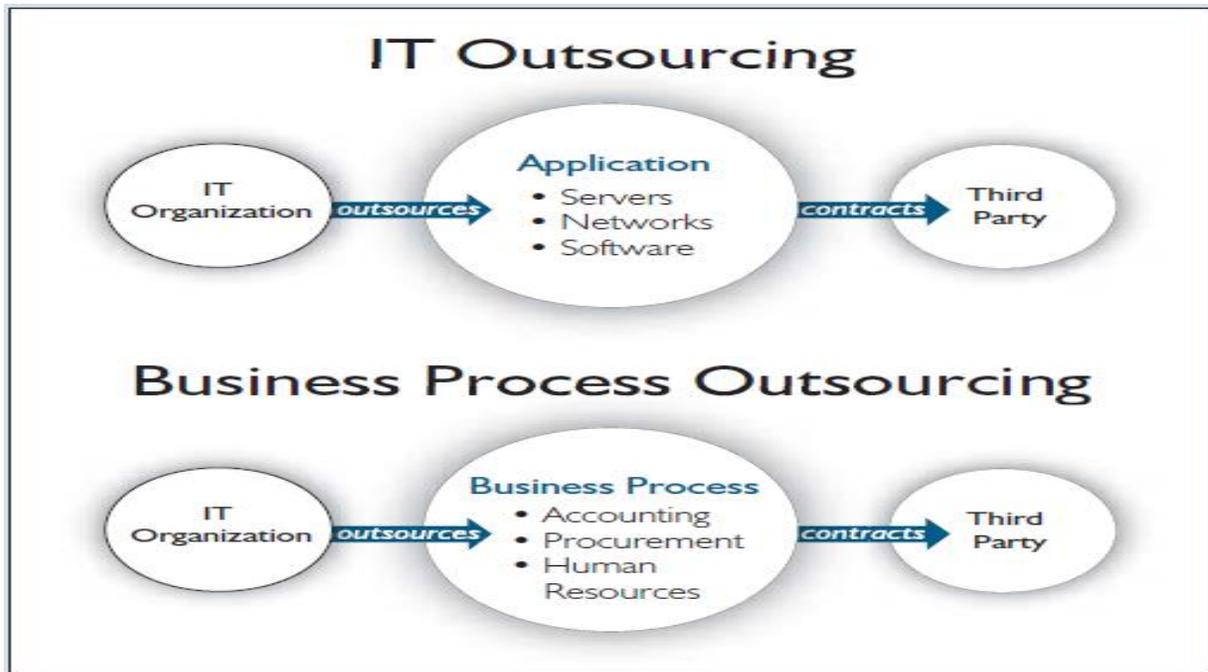
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WHAT IS IT OUTSOURCING

Outsourcing is used IT outsourcing is defined as "a decision taken by an organization to contract out or sell the organization IT assets, people and/or activities to a 3rd party supplier, who in exchange provides and manages assets and services for monetary returns over an agreed period" (Kern T., & Willcocks L., 2000). ITO allows government entities to focus on their core mission, which is to serve citizens instead of managing technology. By outsourcing components of a business process to an outside vendor, management spends more time on its primary mission instead of managing the IT infrastructure. Traditional outsourcing objectives include reducing operational costs, improving IT flexibility, focusing on core competencies, and increasing operational efficiency (Robinett, C. et. Al, 2006). The most commonly outsourced IT functions for government entities include help desk support, desktop support, wide area network (WAN)/local area network (LAN) support, data operations and maintenance of servers, application services and development, and training. Three main outsourcing models are listed below (Kober, C., 2008.):

Complete outsourcing (including business process outsourcing, BPO):

- A company outsources all of its IT operations or entire business processes to external service providers.
- Partial outsourcing (out-tasking/managed services, application outsourcing/hosting, software as a service): A company outsources only individual IT services.
- Internal outsourcing (shared services)

Reasons for IT Outsourcing in the Local Government

Governments have used outsourcing for years especially in garbage waste collection. Well-managed outsourcing programs help the government reduce costs and increase effectiveness. Outsourcing helps government agencies build an image of a modernized organization which puts paramount importance on technological advances for effective governance (Mutiangpili, J., 2010). The literature shows that there are numerous potential benefits from outsourcing, in general:

- Increasing focus on core competencies.
- Saving money
- Increasing specialized skills to improve IT flexibility

- Obtaining predictability/reliability
- Improving service and operational efficiency
- Eliminating out-of-control functions or unnecessary resources

Increasing focus on core competencies. A good IT provider will help you to specify your needs and by adding their experience you can really focus on the real core of the solution, by the way, also your costs might be reduced[1]. The public sector outsources to focus on the planning and monitoring of services and not to be distracted by routine activities. This, however, does suggest that IT is simply a support function that requires little management after it has been outsourced (Cox, M., et. Al 2011). Outsourcing allows government organizations to focus on their core mission activities for their citizens and deliver higher overall value and service levels.

Saving money. Cost reduction is considered the main advantage of outsourcing. It is expected a cost reduction of up to 60% but sometimes is difficult to reach this level[2]. Outsourcing offers "significant, often immediate cost savings" (Child, J., 2005). Outsourcing helps organizations control costs. Contracting out has proven its capability to significantly improve service delivery and increase savings on public spending (Mutiangpili, J., 2010). Most leaders realize that savings is a long-term result and understand that outsourcing limits the costs to a set amount (Robinett, C. et. Al, 2006). In some cases, governments need aggressive modernization of hardware, software, and mission-critical applications and this can often lead to short-term needs to significantly increase investment in IT. The expertise of high-quality firms will help organizations invest efficiently and target spending where it will have the greatest impact. Outsourcing should not approach as a tactical cost-cutting solution; it must be a strategic decision (Aalders, R., 2002). Unless outsourcing is correctly selected and properly managed, there's considerable potential for failure…(Bushell S., 2001).

Increasing specialized skills to improve IT flexibility. Governments can reduce overall IT risk by using suppliers with a reputation for delivering services and capabilities (Robinett, C. et. Al, 2006). Top-quality suppliers provide access to a wider and deeper set of skills and services. IT companies could assemble efficient specialists, with a lot of experience in the field and that can offer better solutions. Training your employees is a big cost and takes time to grow up, so, IT outsourcing can offer access to the latest knowledge (Robinett, C. et. Al, 2006). The most common IT specialized skills and services that local governments need to include are (Robinett, C. et. Al, 2006):

- Help Desk Support
- Desktop Support
- Maintenance/Repair
- Data Operations (Servers)
- Server Maintenance
- •WAN/LAN Services
- Training
- Application Services and Development
- Consulting and Reengineering

Obtaining predictability/reliability. IT outsourcing offers more flexibility, by extending your development team with outsourced resources you will be more flexible; offering more reliability and stability, more productivity, because IT specialists are fully focused on the project (Aalder, R.,2002). Predictability of cost and service is another driver. Many contracts use a fixed-price contract in which the outsourcer provides negotiated levels of service for a fixed price[3]. Through outsourcing specific functions, local governments may get access to high-performing infrastructures but reliability is fundamental to ensure that citizens and the public receive the services they need.

Improving service and operational efficiency. Outsourcers make it easier for the business to manage IT effectively. They provide appropriate information and reports that ensure expenditure, progress and issues are visible and controllable (Robinett, C. et. Al, 2006). The service provider will also provide quality in output, partly from implementing the improved definitions of outputs, requirements, and change control, and partly from having staff with a higher level of skill and education than is found in many IT departments (Aalders, R., 2002). Improving service to the end-users is another driver of organizations considering outsourcing (Robinett, C. et. Al, 2006). The

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[1] http://itonews.eu/10-reasons-you-should-consider-it-outsourcing/
[2] http://itonews.eu/10-reasons-you-should-consider-it-outsourcing/

outsourcer using industry best practices may bring innovative technology to allow for immediate features, storage and retrieval of data, and excellent customer relations management. Outsourcing allows for a quicker response to the needs of the public sector because third-party providers already have these experts and their previous industry experience to carry out such a project (Mutiangpili, J., 2010).

Eliminating out-of-control functions or unnecessary resources. Outsourcing can be used to impose discipline on "out-of-control" functions. The organization needs to understand its processes to communicate them to the outsourcer.

Government Concerns about Outsourcing

While local governments are realizing the benefits of outsourcing, they worry about eliminating jobs, the desire to avoid costly moves, and the fear of losing control of data (Robinett, C. et. Al, 2006).

Worrying About Eliminating Jobs. One of the reasons that organizations choose to outsource is to contain unwanted costs, but at the same time, the reason not to outsource is the fear of eliminating jobs.

The Fear of Incurring High Costs. Fear of high costs impedes some organizations from moving to outsourcing. The opposite is generally the reality. Many agencies have found that even if the cost is the same as running the function in-house, the ability to fix future expenditures has value.

The Concern of Losing Control of Data. Another reason for avoiding outsourcing is because local governments don't want to move the public information and data off-site. Data integration is very important for governments, especially with the rising demand for a unified database for citizens' records (Mutiangpili, J., 2010). Outsourcing firms should be able to describe and demonstrate the skills and processes used to assure data security.

PHASES OF IMPLEMENTATION

Given that organizations vary in size, functional departments, business processes, organizational hierarchies, systems architecture, and applications, and more, the following phases provide leaders with a roadmap to a successful outsourcing implementation. The implementation consists of four key stages (Robinett, C. et. Al, 2006):

Launch, Mobilization, Implementation/Transition, and Operations.
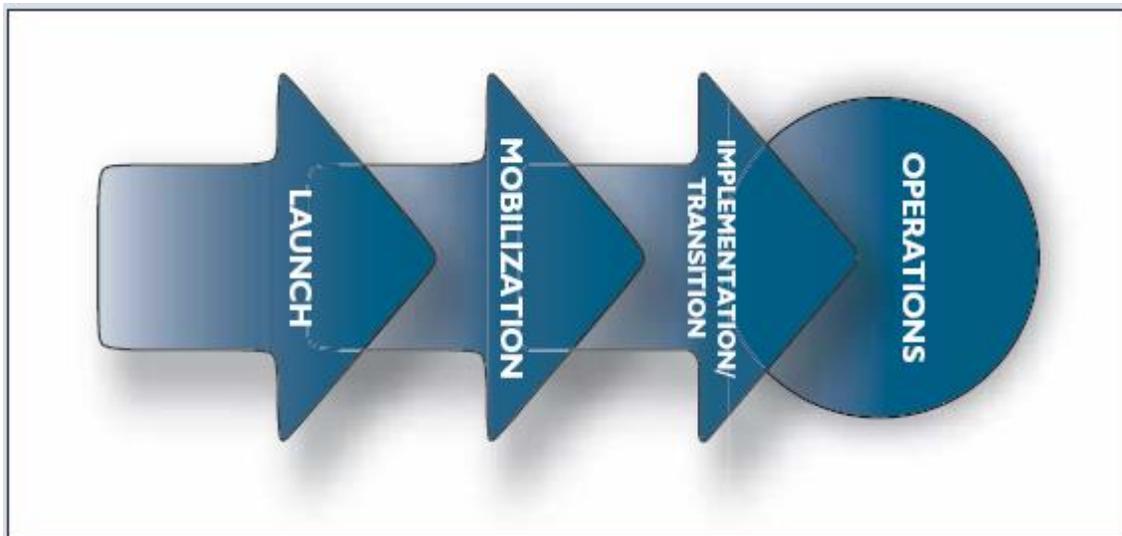
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- Launch phase focuses on evaluating whether an organization should outsource. If the organization decides to move forward, this phase also includes building the right teams, creating communication and project management plans, and analyzing the system environment.

- Mobilization is when the teams develop the contract scope, service level agreements, and the statement of work to guide the project to achieve stated goals and results.

- In the Implementation/Transition phase, organizations transition the operations to the outsourcer while focusing on knowledge transfer, managing the vendor relationship, and managing the project to customer satisfaction.

- Operations sets the stage for maintenance and support to ensure outsourcing will be sustained in the future. This phase also looks at how to evaluate the process to ensure the end-user is satisfied with the results.

AN OVERVIEW ON IT OUTSOURCING IN SHKODRA LOCAL GOVERNMENT

Local government portals are designed and developed by a third-party service provider, but the maintenance and management are realized by internal IT staff.

Two networks have servers: the first one is the tax network that has two servers. The first server administrates the network and the connected PC; in the second server is installed the local tax program, which manages the tax collection in this institution.

The tax software is built by DATECH financed by USAID. It is a national software but adjusted for the local Shkodra government. It helps to collect information about small business taxes and different family bill payments.

The second network, the Civil Status Department has configured the national registration program of civil status. The software of the Civil Status Department is built by an Austrian company financed by the Albanian government. It covers services for birth and marriage certificates, registrations, etc.

The development of the above-explained networks required initially a fixed expense and then after the development and installation of those particular IT systems, the local government felt it most appropriate to manage everything by itself. They felt that was no longer a need for the deployment of an integrated team to remain contracted by the government agency. The networks nowadays are operated, managed, and maintained by local government internal IT staff. This kind of management has some problems because the systems need more up-to-date and more specialized operations.

The local government might outsource its IT management because it is cheaper by contracting a third party than it would be to build its own in-house IT management team. IT outsourcing could be used for all kinds of functions, ranging from maintenance, infrastructure, and IT support. Outsourced IT support can be a time and cost-effective solution to the digital needs of the local government. An alternative solution is to choose the option of partial outsourcing thus to outsource partially IT support. This might involve hiring a single specialist or a small team while also employing a professional IT support service. Partial outsourcing can also take the form of distributing IT duties thus in-house teams are given responsibility for certain aspects of system maintenance while other tasks are allocated to the IT support service. On the other hand, a small municipality local government could gain the most from fully outsourcing their IT support and this usually involves hiring an external agency to manage their IT systems, ensuring that all updates are made, security measures are implemented and all data is stored and backed up safely.

The local government must focus on its long-term development goals and it would be more appropriate to use outsourcing as a way to manage and operate its systems. To improve the situation in our local government, we suggest as follows. Some services that local governments may contract out are data management; infrastructure management; customer support (Mutiangpili, J., 2010):

- Data Management; functions that fall under data management include data entry, maintenance of databases, data back-up/recovery, and data protection. Handling them manually occur numerous incidences of human error. The only way to minimize these inconveniences is through the use of advanced technology and automation.

- Infrastructure Management; government agencies can outsource infrastructure management functions to third-party IT services providers. Service providers must be contracted to maintain and manage multiple networks, security systems, standardized emails infrastructures, storage systems, and data centers, etc.

- Customer Support; a delivery center may be used to receive and respond to inbound queries, either through calls or electronic forms filled up online, regarding a specific problem about local government.

In conclusion, we suggest to Shkodra local government to sign a contract that provides a full IT managed service that included desktops, servers, infrastructure, applications support and management, 24x7 services monitoring, and helpdesk.

The benefits to the local government from this kind of outsourcing will be efficiency in the performance of public

service and the strengthening of this institution politically; because outsourcing can improve services which people directly interface with; the people will be able to appreciate the improvements of local government implements. Outsourcing provides a wider avenue for governments to gain public approval and citizens' satisfaction – factors that are fundamental in strengthening government institutions (Mutiangpili, J., 2010).

CONCLUSIONS AND RECOMMENDATIONS

- The common reasons for outsourcing include reducing operational costs, improving IT flexibility, focusing on core competencies, and increasing operational efficiency.

- Outsourcing in the public sector is now being used as a means of delivering value rather than simply reducing costs (Daly, G., 2001).

- The local government can focus on new application areas that drive better constituent services, increase use of the Internet, and leverage IT capabilities to better serve the city.

- The local government must choose to outsource its IT infrastructure to focus on improved service delivery, not on installing software and networks.

- IT may focus on applying technology to business needs instead of asset management. By outsourcing the local government will gain data protection and 24-hour service.

- Outsourcing helps centralize IT infrastructure, brings consolidation and standardization which increases efficiency.

- Building and maintaining a collaborative environment between the government and the outsourcer is the largest factor for long-term success.

- Because outsourcing can improve services that people directly interface with, the people are better able to appreciate the improvements that government agencies implement. In this sense, outsourcing provides a wider avenue for governments to gain public approval and citizens' satisfaction – factors that are fundamental in strengthening government institutions (Mutiangpili, J., 2010).

- What public sector outsourcing essentially offers is an opportunity to streamline government functions and ultimately enhance its capabilities in achieving the government's bottom-line – efficiently and effectively serving the country's people.

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