New Technologies were appearing in the 1990s which would create a new Wave

During the 1990s new technologies were appearing which would fundamentally change the way organisations did business. The growth in computing power continued as it had for the previous 30 years, doubling in power every two to three years. Personal (desktop) computers were becoming very powerful and a new form of computing – the Server – was appearing in organisations. Organisations were also connecting their computers via local and wide area networks to facilitate communication and information sharing. Two new technologies of particular importance were appearing – e-mail and the Internet. Both would have profound effects on organisations.

These new technologies required whole new skills which were not readily available in the marketplace, and created whole new problems in managing the organisation's information technology or IT as it was now being called. Outsourcing, which was already gaining popularity, was looked at as being the way to overcome these problems.

This, together with underlying problems with Outsourcing and a change in attitude towards the benefits of IT, gave birth to the Next Wave of Outsourcing

The underlying problem however was that the outsourcing suppliers were also not well equipped to manage these new technologies. This, together with other problems beginning to surface about outsourcing, meant that the concept of outsourcing as proposed in the 1990s was losing favour as a solution to the problems of managing and using IT in the organisation.

By the mid to late 1990s IT was being considered more as a strategic part of the business. Organisations were now looking at how they could align IT to the goals and objectives of the organisation. The present concept of outsourcing didn't fit this model and so by the beginning of the 21st century the next wave of outsourcing began to appear.

inventions or new ways of thinking. For example, the combustion engine together with the exploitation of oil as a fuel for the engine, spawned whole new industries (not least of which was the airline industry). But there wasn't really a new outsourcing industry. Even the thinking that equipment and services could be sourced externally to the organisation wasn't new. In fact, organisations had been getting third parties to assist with technology-related services since the 1960s (with the early computer bureaux).

What was different about those early deals to the accepted practice of the day

What was different about the outsourcing deals was that both Enron and Kodak (and many organisations after them) passed across or "sold" to the supplier most of the capabilities and resources that the supplier would need in order to provide future services. The impetus for this was the "oil shock" of 1988 which impacted many organisations' cash flows. This method of outsourcing enabled organisations to take all their IT infrastructure off balance sheet and restore much needed capital and cash flow.

The customer released capital tied up in equipment (which after all is not like investing in real estate – equipment decreases in value over time), passed across to the supplier (for a cost) the liabilities inherent in a portion of the work force and gained (hopefully) predictability in future expenses. The customer also gained something else of value – time. Time that wasn't being spent on delivering non-core services could now be spent on enhancing an organisation's delivery of core goods and services to their customers.

It really did look like a classic win-win solution. However, the early contracts were designed for a reasonably stable technological world dominated by mainframe and midrange technology with simplistic networks. The early deals were mainly focused around the operations of the data centre and the big iron that was managed in them. The early deals were essentially *a "please take over our IT department and run our computers for us*" concept. This was perceived to be easy – after all, large IT companies had their own IT departments, they knew how the machines worked and they had the capacity to create, manage and control any number of customers' virtual IT departments. Outsourcing contracts of the time reflected this perception.

Early definition of outsourcing

The early definitions of outsourcing reinforced the model. In 1992 Richard Due defined outsourcing as:

"the transfer of a part or all of an organisation's existing data processing hardware, software, communications network and system personnel to a third party."

That definition may describe what outsourcing was but it in no way describes the intent behind outsourcing, nor the all-important services aspect of outsourcing.

Growing Pains and the wide "adoption" of the market

Every new market offering goes through a period of experimentation before the optimum strategy evolves.

In Australia this experimentation period was to a large extent dictated by Federal and State Government decisions on outsourcing where the decision was made for the market. Both customers and vendors then had to work with a market strategy deficient in both strategic and operational planning. This "adoption" of outsourcing fuelled the growth of outsourcing in Australia with many organisations being pressured into outsourcing deals by their management and boards. Outsourcing deals were struck for all sorts of reasons with little thought to the business benefits.

other organisations. The crest of the wave would thus occur when the technology became available to this next level of adopters.

However as the technology became more diffused through industry it became commonplace and was no longer considered technology but just another part of doing business. The wave came off its crest and dropped into a trough – the technology was no longer considered technology but an appliance. The telephone, fax machine and photocopier are examples of this.

When this technology was overtaken by enhanced versions of the technology, or in some cases replaced by new technology, the wave effect continued with a building up of a new crest. A classic example of this is the computer, with new wave crests occurring every few years. Moore's law (computing power doubles every two to three years) provides us with the rationale for these crests.

Computers have been a classic example of the Wave Effect

When computers first appeared in the commercial world in the late 1950s, only large organisations could afford to have them in-house. Any other organisation who wanted to use the processing power of a computer had to go to a computer bureau where they could buy a portion of computer time as needed.

The externalising and internalising of computing over the last 35 years has also shown a Wave Effect

With the appearance of the first IBM 360 mainframes in the early to mid 1960s, computing moved to the next level of technology. Computing was now far more affordable than before and thousands of organisations were now able to have in-house computing facilities. At the same time that the cost of computing dropped, the power of computing also increased. What this meant was that the total cost of computing was actually increasing.

To overcome this some organisations looked to externalise some of their computing. Some of their computing was carried out externally by data centres, while they carried out the more administrative functions internally. Some organisations also turned to third parties to take over and manage their computing facilities for them. The term – Facilities Management – was coined.

In the 1980s the personal computer was born and by the mid 1980s the mid-range computer was also born. These two computers meant that computing power was within the reach of everyone, not just organisations but also individuals. In fact the CEO of Apple Computer at the time, Steve Jobs, predicted that the personal computer would become an appliance in the home within 10 years.

A New Wave began to form in 1988

The oil shock in 1988 changed all that. The sudden, huge increase in the cost of oil and its associated products focused organisations on their bottom line. The cost of computing was one of the major costs of the day and one of the first items organisations began to examine critically. A new wave was beginning with the re-emergence of an old theme with a new coat of paint – Outsourcing.

And began to grow in 1989 with the first deals in Outsourcing

It all started in America in 1989 when Enron outsourced its IT in a deal worth $750 million. Then Kodak authenticated the concept of outsourcing when it shook hands on a ten year $250 million deal with IBM. This deal was closely contested by Electronic Data Systems Corp (EDS) which saw huge opportunities in what it considered was a new market.

It is important to note that the original thinking was that a <u>new market</u> for <u>existing</u> technology related goods and associated services was being opened up. Not a new industry. New industries don't happen every day. Usually they occur as a result of some sort of discontinuous change generated through new

The Origins of Outsourcing

Outsourcing is not new – its been around for centuries. Its just that we've only called it outsourcing since the late 1980s. At both an organizational level and a personal level we have never performed all our tasks internally. Even in Egyptian times people provided goods and services to others, and during the Middle Ages the village market was a place where people came together to buy and sell goods and services.

As society moved from an Agricultural basis to an Industrial basis, more goods and services were being sourced externally. Whole communities moved away from rural areas into villages, transforming them into towns and eventually into cities. Less people grew their own produce, raised their own livestock, or performed tasks themselves. In particular those tasks that required a high level of skill were always performed by third parties, e.g. building, wheel-making, carpentry, etc.

Externalising of work was typically carried out for one of four reasons

This externalisation was typically carried out for one of four reasons. Cost was the most usual reason – it was cheaper for someone else to perform the task, especially where economies of scale were concerned e.g. growing produce, raising livestock. Time was another reason. In early times work was very labour intensive and people only had so many hours in the day to perform the task they had to do. As such they had to prioritise their work and perform the tasks that were the most important, or most urgent, and leave the less important tasks. These tasks would then only get done when there was time, or they would be passed on to a third party to be performed.

Another important reason was the lack of sufficient and / or skilled resources. Similar to time, there were only so many people to carry out the work, and if the work needed to be done then additional people were brought in to do it. Some work required specific skills which in many cases took several years to learn. These skills included building construction, carpentry, the making of iron and steel implements, clothing manufacture, etc. It made sense to have these tasks performed by expert craftsmen and women rather than try to perform the tasks internally.

The fourth reason was attitudinal. Some tasks were considered of low importance in the overall scheme of things. Although the tasks were needed to be done it was considered menial work and thus was passed off to someone else to do. Such tasks included cooking, cleaning, baking, laundry, etc.

This approach carried over into industry

This externalisation mentality extended into industry. Although many of the tasks needed to be performed by an organisation were in fact carried out internally, even in the early days of industrialisation some tasks were carried out by third parties. The same four reasons for externalising were applied in industry – time, cost, lack of skilled resources and attitude towards the work.

A Wave Effect began to appear

During the late 19th century and through the entire 20th century a wave effect began to appear as industry adopted each new form of technology in its quest for productivity. This wave effect appeared with each new form of technology and went through one or more cycles before being overtaken by the next form of technology.

The wave effect would begin with the early adopters of the technology. As the new technology emerged the early adopters were always the large organisations, as they were the only ones who could afford it. Anyone else who wanted to use the technology had to go to those who had the technology and pay to use a part of it.

As the new technology became more widespread and as the technology matured, the cost of that technology lowered, making it more affordable for

The Origins of Outsourcing

(Where did outsourcing come from daddy?)