

ICA International Council for Information Technology in Government Administration

PROCEEDINGS

27th Conference

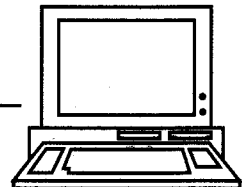
Issue No. 52

25-29 October 1993

VERSAILLES

FRANCE

"IT IN PUBLIC ADMINISTRATION"
COMPETING FOR QUALITY



ICA INFORMATION

An International Journal on Information Technology in Government

Published by the International Council for Information Technology in Government
Administration

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CHAIRMAN'S INTRODUCTION

BIRGITTA NELSON

Sweden

'Outsourcing – What, When and Where'. Of course we have been talking about outsourcing all day but, to start this session, Mr Pavillet will answer those particular questions: what? when? and where?

Mr Pavillet is Chief Information Officer at the French Ministry of Industry. He was an Assistant Military Attaché at the French Embassy in Washington for a number of years, which gives something of his background – a military man and an engineer. Please, Mr Pavillet.

OUTSOURCING – A VIEW FROM THE FRENCH MINISTRY OF INDUSTRY

Axel Pavillet
Head of IT
Ministry of Industry
France



Ladies and Gentlemen,

It is a pleasure to be here today to share with you some ideas on outsourcing from the customer's point of view, although I should also have a supplier point of view, because our National Representative has outsourced this job upon me!

What

What, What, When and Where, I stutter on the first word, because as I was unable to find a stable definition of outsourcing, I think it was useful to give you my own guess. I will do it by comparing with subcontracting on which we should all agree.

The first two points are obvious. First, outsourcing is subcontracting a whole field

or a whole function of your IS, and second, it is a long term contract. The third point is not as clear: outsourcing is subcontracting with a manpower yield of nearly 100%; when you outsource, you don't need the IT executives you usually employ to drive a contractor for a specific IS application. The final point may be specific to the French Administration: outsourcing is doing budgetary alchemy transforming investment money in overhead. I think the annual vote on the Budget in all countries uses basically the same principles distinguishing between investment and overhead; but in France these two kinds of funding are so different that it is very difficult to move funds from one side to the other, outsourcing is a way to do it.

What?

Let's start now with what could be outsourced. As you look around, you know that there are plenty of supplies, and you are never at a loss for a supplier, so you could theoretically outsource any function of your information system. All usual administrative tasks and functions, as in industry, can and may be outsourced. But an Administration is not an industry and has some tasks to perform which we call in France "Sovereign tasks", like taxes, justice, which are the expression of statehood and therefore do not seem at first glance susceptible to be totally or partially outsourced. However, as we are in Versailles, let me remind you that the French Kings had outsourced tax gathering to the so-called "Farmer General". Of course it ended with a revolution, but it was done. Today the UK is outsourcing its jails; therefore, though it may look like a renunciation of sovereignty, I don't see why a function of an Administration IS which contributes to a sovereign task could not be outsourced, though carefully, in the coming years.

Another field where outsourcing has to be

carefully weighted is strategic IS. Generally there is no clear cut between a strategic task and a sovereign task; for instance, ADP for tax gathering is a sovereign task but not very strategic by itself, on the contrary cost control of our social security spending is not as sovereign but much more strategic for our Government today. If you had to outsource one of these two, which one would you choose?

Moreover, we know that with the EC integration, how slow it may be, European Administrations will more and more compete between themselves, eg in the certification area. With less sovereignty and more competition a wide new field of investigations will be opened to the supporters of Michael Porter's and Charles Wiseman's theories. It would be a safe bet to say that an Administration that wants to make it in one of these fields should not outsource this part of its IS. It should not do it at least today, because the fact is that what is strategic evolves with time; ADP of tax gathering was strategic when it was first introduced. Being able to find out what becomes non-strategic, and when, is as important as defining what is or will be strategic in order to know what you can outsource and where to use best your own resources.

When?

This timing of the transition strategic —> non-strategic gives us a first answer to the question *when?*

But we can give many more answers to that question. Here are some of them.

From the contracting point of view, outsourcing needs a lot of know-how, the traps are numerous and any mistake could be very costly (it is a long-term contract and it covers a whole field of activities). So it

would be safe to outsource only when you have the contracting know-how. Of course you have to start somewhere, and your expertise will increase, but you may well be learning the hard way. It is not a field for on-the-job training.

From the technical point of view, things are a bit different. The most frequent case is when an Administration outsources tasks it already does. Technical expertise will be very useful to negotiate on an equal basis with the contractor but there will be no incentive to keep this technical know-how after signing the first contract (the manpower yield is 100%). So even if it is better to outsource when you have this technical know-how, it is not easy to do it more than once in each field.

On the other hand, you may be tempted to outsource a function where you have no technical knowledge because the field, wide area networking for example, is new for your Administration. Therefore it would be better to create a minimum level of expertise by subcontracting on a small scale before outsourcing: you will learn by watching because the yield of subcontracting is not 100%. My conclusion on that is not what you could expect: outsource when you know, not when you do not!

The situation of the market is also something to consider for the timing of any outsourcing operation. Nowadays with the combination of technological progress and economic crisis, IT market is a buyer's market, this may explain the thrust suppliers put on outsourcing. Whatever argument they give you, and sometimes above you, about the advantages of outsourcing, you cannot forget that once the contract is signed you are not a buyer anymore.

A similar argument can be given about technology. Today the market is customer-driven, and the thrust for open systems

comes from here. Can you imagine such an evolution in a world dominated by outsourcing?

These arguments may help to put some perspectives on the siren songs (mermaids) of outsourcing which seems to be a competitive strategy, and a very offensive one, from IT industry in order to regain the edge they lost to the bargaining power of their customers. Obviously this is not the best time to decide for outsourcing in full objectivity.

Where?

Now, let's turn to the question, where to outsource? The first answer is obviously where there is fierce competition, for outsourcing is a one-way street. It is very hard to turn back in the industry, it would be much harder in an Administration where the hiring of manpower is so difficult. It is also better to turn toward the service industry rather than to a manufacturer or a Telecom operator disguised in an IS service company. Of course they have the know-how, and that is their main marketing argument, but they may also have a conflict of interests between the interests of their customers and their own. And it is good not to be fooled by the price of the first contract, because whatever the term, some companies may be affluent enough to break even for some years before cashing in. As reversibility of outsourcing is out of reach, transferability to another contractor is a minimum.

Another specific problem for an Administration is that even if you agree to outsource some parts of your sovereignty through ADP or IT, you may not easily agree to outsource abroad, even at home to a foreign-owned company, for political reasons or simply national pride. We all know that in our business more than anywhere else the distinction between

foreign and national is blurred, but I assume such a decision would be a difficult one. Therefore the problem for small countries, which in some cases may mean every country but the USA, is that you may not have enough domestic competition to outsource cheaply.

Does that preclude outsourcing? No, but it makes it more difficult than in industry. Now, let me emphasise that we have a solution that industry cannot envision: we can outsource to other Administrations. There you can have the advantage of outsourcing: economy of scale, expertise... without the above mentioned inconveniences. The problems of this solution are more psychological, because in the same country administrations are not competing between themselves, it is only people within Administrations who may be competing between themselves, and which may prefer, when they have to outsource, to do it with industry rather than with another Administration. So maybe it is not an easy idea from a narrow administrative point of view but from the state point of view it makes lots of sense.

* * *

When I read the conference theme on the ICA leaflet, I saw that outsourcing was considered as a normal way of doing business in Government Administration. I am sorry that my briefing may not be that positive on outsourcing and this is not because I am a civil servant clinging to the state sovereign tasks but because I see more risks than benefits in it.

It is a one-way street and if IT industry can evolve and react faster than Administrations, it remains to be seen if IT industry and Administrations together will evolve and react quicker than Administrations alone.

Moreover, IT in Administration is not a usual logistic or support task: “never has, never will”. Administrations will or should follow the path described by R Reich for corporations: from high volume to high value: outsourcing could take away high volume from Administrations, which is OK, but also high value, which is not. So let’s take outsourcing as it is, a kind of necessary trouble, and let’s suggest a theme for the 34th ICA Conference in the year 2000, seven years from now, the length of some outsourcing contracts: “**Out outsourcing**”.

I thank you for your attention.

Questions

Birgitta Nelson: Any questions for Mr Pavillet?

Ilmari Pietarinen, Finland: I don’t necessarily want to hog the floor, but perhaps being less shy than some of the others I would volunteer a comment.

Mr Denizot this morning called for more imaginative solutions from the administration and I think that you have provided quite a number of interesting and very imaginative ideas in this context.

One thought that occurred to me – this is not a question but just a reflection and indeed a half-baked one, because it has just occurred to me – is that in Finland we started with outsourcing and the computers were big. In the beginning, they were expensive, so a National Data Centre, like in some other countries, was established to handle just about all government computing work. In the early sixties it handled perhaps 70% of all computing, now it is down to 10%.

Now this of course reflects mainly growth of volume everywhere else but it also reflects

quite a strong trend towards insourcing in the meantime. Many agencies were dissatisfied, for one reason or another, with the service they were getting from this outsourced facility and established their own computer operations.

I can’t develop this thought any further than that, because I haven’t really got into thinking about it, but it certainly might be helpful to consider what happened in the process and why this was done, to help us understand the pitfalls and perhaps advantages of outsourcing. Thank you.

Birgitta Nelson: Thank you for your comment. Anybody else who wants to ask a question or to comment on this presentation? OK. Thank you, Mr Pavillet.