

## SUMMARY

- Firms typically face a range of sourcing decisions. The Sourcing Decision Cycle Framework highlights decisions about where the work will be performed. Decisions include insourcing versus outsourcing; onshoring versus cloud computing versus offshoring; and selecting among offshoring options (nearshoring versus farshoring). The cycle involves an assessment of the adequacy of the IS service/product delivery. The assessment can trigger a new cycle.
- Cost savings or filling the gaps in the client company's IT skills are powerful reasons for outsourcing. Other reasons include the ability of the company to adopt a more strategic focus, manage IS staff better, better handle peaks, or consolidate data centers. The numerous risks involved in outsourcing arrangements must be carefully assessed by IS and general managers alike.
- Full or selective outsourcing offers client companies an alternative to keeping top-performing IS services in house. These firms can meet their outsourcing needs by using single-vendor or multiple-vendor models (multisourcing).
- Cloud computing allows client firms to buy the exact amount of storage, computing power, security, or other IT functions that they need, when they need it. It includes infrastructure as a service (IaaS), platforms as a service (PaaS), and software as a service (SaaS).
- Offshoring may be performed in a country that is proximate along one or a number of dimensions (nearshoring) or that is distant (farshoring). Offshoring must be managed carefully and take into consideration functional differences.
- As business becomes more complex, outsourcing should be considered in the broader context of strategic networks and business ecosystems.

## KEY TERMS

back sourcing (p. 223)

business ecosystem (p. 224)

captive center (p. 210)

cloud computing (p. 216)

community cloud (p. 218)

crowdsourcing (p. 214)

farshoring (p. 220)

full outsourcing (p. 215)

hybrid cloud (p. 218)

insourcing (p. 210)

IT multisourcing (p. 215)

nearshoring (p. 220)

offshoring (p. 219)

onshoring (p. 218)

outsourcing (p. 211)

private clouds (p. 218)

public cloud (p. 218)

selective outsourcing (p. 215)

service level agreements

(SLA) (p. 215)

strategic network (p. 224)

## DISCUSSION QUESTIONS

1. The make-versus-buy decision is important every time a new application is requested of the IS group. What, in your opinion, are the key reasons an IS organization should make its own systems? What are the key reasons it should buy an application?
2. Is offshoring a problem to your country? To the global economy? Please explain.
3. When does cloud computing make sense for a large corporation that already has an IS organization? Give an example of cloud computing that might make sense for a start-up company.
4. Does a captive center resolve the concerns managers have about outsourcing to a third party vendor? Why or why not?

### ■ CASE STUDY 10-1 Crowdsourcing at AOL

Where would you go if you needed to find hundreds of people each willing to take on a tiny portion of a large task for minimal pay? Projects like these include filling out surveys, verifying or entering data, writing articles, and transcribing audio files. They are increasingly common in the digital age, so you might turn to an online marketplace such as Crowdsourcing.com, CrowdFlower, or Amazon's Mechanical Turk where people around the globe go to find work.

Daniel Maloney, an AOL executive, recently turned to crowdsourcing for help inventorying AOL's vast video library. (Note: This definition of crowdsourcing differs from the one used in Chapter 5 as a way to spur innovation.) He broke the

large job into microtasks and described the tasks that he needed to be done on Mechanical Turk. In particular, each worker was asked to find Web pages containing a video and identify the video's source and location on those pages. The over one-half million workers that were registered at Mechanical Turk could read about the tasks and decide if they wanted to perform them.

Using the crowdsourcing service, the AOL project took less than a week to get up and running and only a couple of months to reach completion. The total cost was about as much as it would have been to hire two temp workers for the same period.

Maloney was pleased with the cost savings and added, "We had a very high number of pages we needed to process. Being able to tap into a scaled work force was massively helpful."<sup>48</sup> However, he really did not know very much about the workers who did the work for AOL, and he likely had to make sure that their work was done correctly.

Critics of crowdsourcing feel it can lead to "digital sweatshops," where workers, many of whom may be underage, put in long hours to generate very little pay and no benefits. Some also believe that crowdsourcing will eliminate full-time jobs. The crowdsourcing marketplace services counter that they are trying to register stay-at-home parents or college students with spare time.

#### *Discussion Questions*

1. Is crowdsourcing as used by AOL a form of outsourcing? Why or why not?
2. What steps do you think Maloney might have taken to ensure that the crowdsourcing would be a success for the inventory project?
3. What factors should be considered when deciding whether to crowdsource a particular part of a business?
4. Describe the advantages and disadvantages of crowdsourcing.

Sources: <http://aws.amazon.com/mturk> (accessed April 17, 2012); Haydn Shaughnessy, "How to Cut Consulting Costs by 90% and Keep Your Talent Happy!" [www.forbes.com](http://www.forbes.com) (accessed April 16, 2012); Scott Kirsner, "My Life as a Micro-Laborer," [www.boston.com](http://www.boston.com) (accessed April 1, 2012); R. E. Silverman, "Big Firms Try Crowdsourcing," [http://online.wsj.com/article/SB10001424052970204409004577157493201863200.html?mod=djem\\_jiewr\\_IT\\_domainid](http://online.wsj.com/article/SB10001424052970204409004577157493201863200.html?mod=djem_jiewr_IT_domainid) (accessed November 2, 2011) (accessed January 17, 2012).

## ■ CASE STUDY 10-2 Altia Business Park

The road to Altia Business Park in San Pedro Sula, Honduras, is quite memorable. On one side of the road are gated communities with small but neatly maintained stucco houses. On the other side of the road is a small river with clear running water. One bank of the river is covered with tightly cramped shanties. Further down the road towers a 13-story monolith in black glass. This is the home of Altia Business Park, a technological park developed by Grupo Karims, a multinational corporation with core businesses in textiles and real estate and operations in Asia, North America, Central America, and the Caribbean. The building is antiseismic and Leed Certified, which means that it follows green building practices. It is energy self-sufficient and connected to North and South America through three fiber optic submarine cables. The building is the first of two that will comprise the Business Park.

On a recent visit, Corporate Marketing Director Barbara Rivera guided an American student group through the marbled halls of the building. She introduced Marcus, who was a manager in the call center in the building. Marcus explained that call center business, especially to North America, was picking up. He was born and raised in the United States and graduated from the University of Maryland. Because he could not find work in the United States upon graduation, he moved to Honduras where he has family. Rivera also introduced Lena, a 20-something professional, who spoke to the visiting group in perfect English, complete with current idioms. Lena had recently graduated from a university in Honduras with a master's degree in graphical design. She said this degree was very helpful in managing the room full of graphic designers working for the company that maintains the Web site for Sandal Resorts. Rivera told the visitors that the average salary of the workers in

<sup>48</sup> R. E. Silverman, "Big Firms Try Crowdsourcing" (January 17, 2012), [http://online.wsj.com/article/SB10001424052970204409004577157493201863200.html?mod=djem\\_jiewr\\_IT\\_domainid](http://online.wsj.com/article/SB10001424052970204409004577157493201863200.html?mod=djem_jiewr_IT_domainid) (accessed November 2, 2011).