

## Empowered Outsourcing

By Ann Drinkwater

Are you among those that believe outsourcing is the holy grail of resolving resource issues? Before you continue reading, you may want to take off the rose coloured glasses and keep an open mind. I've been involved in outsourcing for seven years and am familiar with the realities of making it work and the issues that can be very hard to resolve. I'll pass along my experiences and recommendations in this article.

We've all heard how outsourcing and augmenting staff with experts is an avenue for meeting business needs where the technology, skills, knowledge, staff or time is not internally available. In theory outsourcing provides the ability to develop products and services that are not easily achieved through the organisation's existing structure, by providing operational and strategic benefit. Outsourcing has been hailed as a route for getting results, without the expense and commitment of hiring full-time staff, allowing the internal organisation to focus on core competencies. But, does it really work? On the surface the idea seems viable; however, depending on the type of solution and service being outsourced, these relationships may actually increase the demands on the organisation that is outsourcing its work.

### Considerations for Deciding to Outsource

The following are some of the key considerations when making outsourcing-related decisions:

1. Do our in-house resources have the needed capabilities? First the organisation must identify whether or not its employees have the specialties and technical skills necessary to manage and build the desired product or service offering. (If you don't, of course outsourcing looks like the obvious choice. If you do have the right capabilities, some of the following questions will take on increased importance in deciding whether outsourcing is really the right call after all.)
2. Should in-house capable people be used for this next effort? Assuming the desired skills do exist on staff, the organisation must determine if pulling them from their current duties is worth the risk to previously defined roles and committed projects. Where does the new project fall in the priority scheme, and how critical is it to the company's business goals? High enough to consider pulling people from other endeavours to keep the work close?
3. Is this work something the company should even consider outsourcing? Generally, outsourcing should not be considered for projects that require significant domain knowledge, i.e. knowledge related to industry specific technology, business processes, or organisational culture that would be either difficult or inadvisable to transfer to another company. If the domain knowledge is specifically a key part of the company's or particular product's competitive advantage and differentiation, then the company may not want to transfer that unique knowledge to another organisation. The ability to sign intellectual property protection agreements does not necessarily mean it's a good idea to let an outside organisation do such sensitive work. In addition, the level of understanding necessary for adequate comprehension and outsourcing success may be too deep to make it worthwhile financially.

4. If you outsource the work, what management oversight will it require, and by whom, and will you even come out ahead in terms of true additional resource hours? In my experience, the employees who have the know-how to properly manage an outsourced project are usually the ones already involved in other core activities. While it may initially look like an easy decision to outsource and thereby gain additional resources with no load on your busy internal experts, be sure to look at the strain the new effort will put on existing responsibilities. Will your critical experts have to spend so much time managing the outside resources, writing specs, reviewing their work, attending team meetings, that you haven't gained nearly as much resource for your extra Dollars as you thought? You could even lose two-fold in that not only are your internal resources losing hours to outsourcing oversight; they're also compromising their own project work due to increased task-switching and reduced concentration. The additional oversight demands often add unplanned costs to the project, while also taking the resource away from previously assigned duties and organisational objectives.
5. What is the true cost of the implementation plus management work, including internal review and oversight work? Obviously the cost of contracting the effort versus managing the project in-house should be considered. When looking at the costs of the fully outsourced project, look beyond the total cost on the proposal and make sure internal costs are not being forgotten. In a perfect world, when a project is outsourced, we'd be able to sign the proposal for the defined requirements and walk away until the point of testing and internal sign-off. Unfortunately, all too often this isn't the case. The business needs and internal pains the project is trying to solve may have been communicated and the desired outcome visually depicted; however, many outsourcing outfits view themselves as implementers with a heavy reliance on the outsourcing organisation for oversight and general project management and may not have bid all the work really necessary to perform their own reviews and internal management, up to the oversight and quality requirements your company expects.
6. What can we depend upon our vendor to take full responsibility for and true ownership of? This is where things get interesting as outsourcing arrangements are considered and bid. We all know how the sales cycle works. We identify a few possible suitors, communicate our high level business needs, and then the vendor's sales force tells us how they plan to exceed our expectations, delivering the world on a silver platter. In the best case we want the selected vendor to be fully versed in what is being outsourced, and expect them to serve as a trusted advisor and advocate to our organisation and take responsibility for quality and completeness. In many cases our chosen vendor possesses this good intention and the expertise to deliver. However, good intentions by themselves don't make the grade. The company must be prepared to apply business management, intuition, and analytical skills to select the right vendor, ensuring the right expertise is available on both sides of the project and that the necessary project oversight will happen. For example, although it is almost contradictory to one of the key reasons for these agreements, in most cases, the contracting company will need to provide a resource fully versed in the service or technology being outsourced.

## Considerations for Managing Outsourced Engagements

The last item above brings us to a key success factor of what I've learned about finding the right vendor. Paramount to the success of an outsourced engagement is expectation management - clearly defining who does what and what constitutes project success. There are areas of involvement and oversight that the outsourcing organisation can offer to the vendor and project to help increase the likelihood of success. Below is my list of the top things to keep in mind for a technical outsourcing engagement.

1. Internal resource to oversee the engagement. Ensure the outsourcing organisation has a resource on staff with time dedicated to effectively oversee and manage the relationship. Ongoing negotiation and vendor management functions are inevitable. In the real world, the organisation outsourcing a project must frequently step in and take charge of the entire engagement, all the way down to functional requirements.
2. Overall functional requirements. In focusing on software development projects that require a strong understanding of business operations and strategy, the organisation must dedicate significant time to ensuring requirements are detailed enough that vendors won't miss a specific business flow or mission critical requirement.
3. Migration implications and supporting documentation. In cases where an organisation is migrating from one product to another, it is equally important to analyse the features and functionality of the new system, identifying gaps between the two. This is a frequent point of failure. Many organisations believe the sub-contractor will thoroughly review the current system, documenting what will be migrated and what will not port over. Careful analysis of features and capabilities should be done by the outsourcing organisation long before the contract is signed. Surprisingly, even for repeatable solutions, vendors often don't have comprehensive product documentation, which would definitely assist in this analysis.
4. Cost of ownership and ongoing internal implications for an outsourced service arrangement. Carefully review the total cost of ownership to include anticipated internal support and worst case oversight demands. Be sure to also consider the cost savings realised through improving systems and automating operations as well as any increase in revenue realised from developing systems to better position and market your organisation.
5. Project management methodology. Ensure the chosen vendor has a mature project management methodology and has demonstrated experience in utilising this methodology. This will be especially important during the requirements and design phases. Client references may be able to describe the day-to-day relationship and how projects are delivered.
6. Understanding of business and project goals. Ensure the chosen vendor has a solid understanding of your organisational business and project goals, even if the presented solution appears to meet your needs. Don't assume that they don't need to know certain business rules and organisational nuances.

7. Business process improvement recommendations. For strategic and transformational IT efforts, don't expect a development shop to be able to provide business process improvement recommendations. If this is what you desire, approach the selection process by identifying your needs as business process and application outsourcing.
8. Future look ahead and scalability. For strategic development efforts, In addition to meeting imminent project deliverables, the ideal vendor should be highly skilled in futuristic planning, building a system that is scaleable while keeping the client informed at each bump in the road.

With a carefully selected vendor and realistic expectations, outsourcing can result in a tremendous increase in efficiency and effectiveness. But remember the different potential requirements to make these projects a success. Commodity and tactical services are typically areas that require less oversight, whereas information technology projects often involve many variables, blue-sky ideas, and additional need for collaboration and mutual understanding. As a result, these projects require that the outsourcing organisation still dedicate significant internal expertise to the engagement. Be sure that your outsourcing decisions take all these factors into account, to be sure you are making a sound cost-benefit decision from the standpoint of internal resource usage, true cost savings, protection of technological and competitive advantage, and the possible risks to and ultimately likelihood of achieving your company's business and financial goals.

## About the Author

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Original article posted on [www.projectsart.co.uk](http://www.projectsart.co.uk)

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