Six Key Success Factors for Outsourcing

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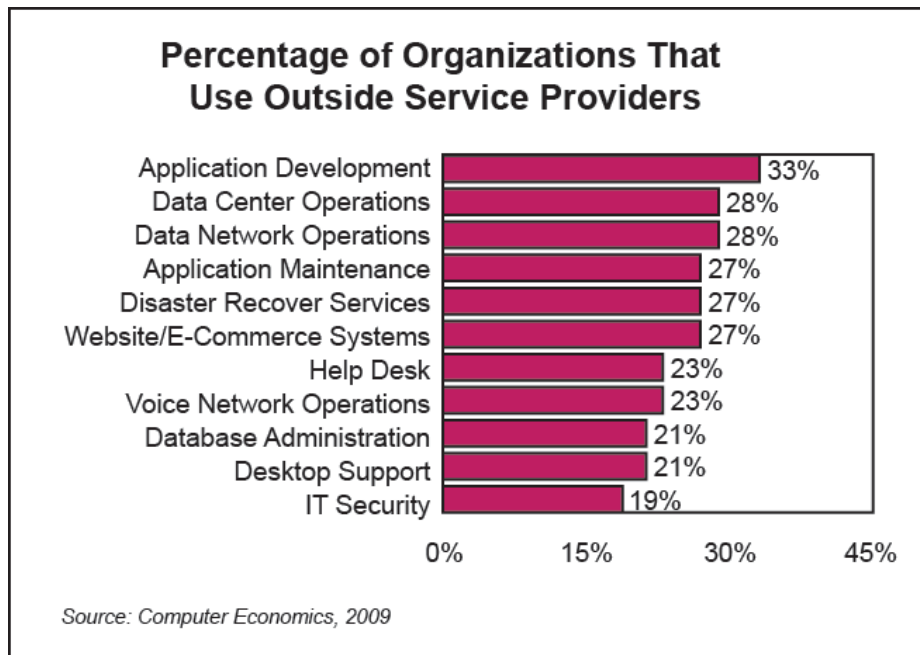
think beyond boundaries

ITBusinessEdge

Six Key Success Factors for Outsourcing

2010 may turn out to be a pivotal year in the IT outsourcing marketplace. The continuing economic crisis has forced companies worldwide to revisit, with greater urgency, basic questions regarding which IT functions must remain internal and which can be externalized to glean savings and efficiencies. New capabilities, like cloud computing, software-as-a-service, mobile device web access, and data center virtualization and consolidation, are significantly changing both the possibilities and the complexities of outsourcing IT functions.

Analysts predict radical change in the shape of IT "factory" functions like end-user support and help-desk services. Gartner Group, in its 2010 IT predictions report, forecasts that, by 2012, 20% of businesses will own no IT assets. Gartner predicts that the rise of cloud computing, virtualization, and mobile devices not only will drive many firms to relinquish the commodity support functions that consume many IT resources, but also will force them to migrate to a model in which external providers own and support the entire infrastructure. The CIO Executive Board goes a step further in its predictions for these factory IT functions; in its report "The Future of Corporate IT," it predicts that when the wave of outsourcing, cloud computing, and virtualization has achieved its full potential, fewer than 25% of the current IT workforce will remain in their present roles! Clearly, CIOs and other IT decision makers who wish to remain competitive must consider the implications of these profound changes to their IT support model.

One big difference between today's outsourcing market and that of, say, ten years ago, is that outsourcing is no longer an innovative and risky undertaking; it's a mainstream strategy that has been adopted across the corporate universe. According to Computer Economics, the typical IT organization spends about 5-6% of its total IT budget on contracted services with an external provider. 23% of IT organizations outsource help-desk functions, 21% outsource desktop support, and 27% contract with an external provider to maintain existing applications. Although new capabilities like cloud computing and software-as-a service are getting all the hype, it's still the factory IT functions such as help desk, end-user computing support and data center operations that are experiencing steady growth.

Percentage of Organizations That Use Outside Service Providers

Function	Percentage
Application Development	33%
Data Center Operations	28%
Data Network Operations	28%
Application Maintenance	27%
Disaster Recover Services	27%
Website/E-Commerce Systems	27%
Help Desk	23%
Voice Network Operations	23%
Database Administration	21%
Desktop Support	21%
IT Security	19%

Source: Computer Economics, 2009

Strong adoption rates can be deceiving, however. The *InformationWeek Analytics* 2010 Business of Outsourcing Survey, which shows that 6 of 10 IT shops outsource some critical function, also notes that almost 30% of those surveyed have fired an outsourcing partner in the last year. Outsourcing specialist boutique TPI also notes that the average value of an outsourcing deal has dropped from $360M in 2000 to around $100M today. And a whopping 59% of respondents say that outsourced end-user support delivers lower quality than internal support, with 13% of those believing it's more expensive as well, when all management and oversight costs are included.

These contrasting statistics of growth and discontent illustrate a few things. Under the current economic conditions, most CIOs clearly believe that it's their duty to the organization to seek savings by finding external service providers who can offer help desk, desktop, and other specialized IT services at lower costs. At the same time, they recognize that they must be judicious about the provider they select, the size and scope of the functions they outsource, and the skill set and cultural fit of the potential partner.

What Drives Outsourcing Success?

Each year, the Outsourcing Center selects a group of clients and providers for its Outsourcing Excellence Awards and then surveys those award winners to gather and analyze best practices for the edification of potential clients and providers. According to one of the recent studies in Outsourcing Center's Best Practices Series ("Study Reveals How Buyers Really Determine Success in Outsourcing Arrangements" © *Outsourcing Center 2009*), the following are some key examples of how successful outsourcing clients define success in their relationship:

"Achieving the projected cost reduction

Delivering best-in-class services

Achieving the SLAs and KPIs

Decreasing cycle times and time to market

Achieving initial process improvements

Achieving continual process improvements

Achieving successful implementation

Achieving increased business agility

Increasing innovation

Working together seamlessly despite ongoing change

Achieving approved customer satisfaction" ("Study Reveals…" page 5)

The search for additional benefits from an outsourcing relationship is evident in the success criteria cited by these successful outsourcing clients and providers. Not surprisingly, achievement of the savings promised is at the top of the list, with SLA compliance close behind. Perhaps more interesting are some of the other entries, such as continual process improvement enhanced business agility, and innovation. Although these benefits have often been tacitly acknowledged, only recently have outsourcing vendors been measured and held accountable for performance in these areas. Obviously, this raises the bar for both the selection and measurement processes. How does a prospective outsourcing client measure a partner firm's ability to deliver innovation,

process efficiency, or agility? How does an IT executive determine whether their outsourcing provider can bring these attributes to the table? These questions demonstrate the need for new thinking about the outsourcing decision, from the selection of a partner to the measurement of the results. Outsourcing providers are also attracting customers with new ideas, such as Outsourcing Contract Scorecards and periodic stakeholder satisfaction reviews.

Many IT executives view outsourcing as an opportunity to implement cultural change, quickly add mature capabilities, introduce new disciplines or best practices, and shed some of the accumulated bad habits of the past. Internal help-desk and support organizations can breed loose process discipline, according to Practice Manager Cherie Moulin of Allied Digital Services (ADSL), a global managed services provider and a subsidiary of Allied Digital India. Moulin, who manages the transition to outsourcing for her firm's clients, notes, "End users will go to the help desk and 'shoulder tap,' or they'll stop engineers at the coffee pot, and circumvent the process. Those issues can fall through the cracks, and the organization loses the ability to track the costs of support for the technology they're selecting. These folks are basically cutting in line." The cost of this unsanctioned support is often unmeasured, and the cost in morale and satisfaction, as end users see peers getting service based on personal relationship rather than a structured process, is literally immeasurable. It's clear that although cost reduction is still the central driver of the outsourcing decision, ancillary benefits like process enhancement and culture change can add significant value.

Analysts agree on some fundamental practices that can set outsourcing relationships on the right path. A few simple preparatory practices, plus the application of a structured transition process, can help clients select vendors with the capacity to bring innovation, optimize processes, and fit culturally and so avoid the pain of poor organizational alignment.

1. Set Clear Goals

The first practice that draws universal consensus among outsourcing advisors is clarity of goals and objectives on the client side. There are many reasons why firms decide to partner with external providers, but each situation is different. Companies should understand their own drivers and priorities, and should rank and rate their criteria. It's critical that this determination be an inclusive process, with plenty of stakeholder communication and participation. Just as lack of stakeholder involvement is often cited by project experts as a key reason for project failure, lack of inclusion creates unacceptable risks for outsourcing programs. Unlike most typical IT projects, outsourcing not only changes processes and implements new technology but also affects the livelihood, prospects, and daily operational activities of many employees. In addition to unleashing the typical change resistance associated with any project, it also risks inflaming emotions and internal politics as job responsibilities, and jobs themselves, are on the line.

Rob Aalders, Director at Transformation Analytics and the author of *The IT Outsourcing Guide*, advises firms considering outsourcing to think through their motives at four levels:

1. Goals: the macro-level business results we hope to achieve

2. Objectives: the granular outcomes we expect

3. Critical success factors: the elements that have the most leverage and that we intend to focus on in our measurement of outsourced outcomes

4. Criteria: the attributes we expect our outsourced partner to bring to the relationship

This approach to the outsourcing decision can help organizations build consensus internally on the business reasons for outsourcing and can ensure that expectations are properly set for both the client and the provider. It sets the stage for the selection and negotiation process to follow, and enables the client company to unambiguously state its success criteria, which can then be codified contractually.

2. Know Your Strengths and Weaknesses

Another key success factor is an internal discovery process, so that firms come to the negotiating table with an accurate assessment of their IT assets, talents and deficiencies, vendor relationships, and current operating policies and procedures. Many firms make the error of waiting for the vendor to perform due diligence, and discover that their IT asset base is much more disorganized and unmanageable than expected, creating internal tension and starting the relationship on the wrong foot. As in any IT project, a realistic knowledge of the as-is state enables partners to enter into pragmatic outsourced relationships and avoid delays, disappointments, and unforeseen expenses when the vendor performs its own due diligence and finds under-the-desk servers or undocumented software.

Just as it's important to perform your own internal audit, it's critical for the potential vendor to perform due diligence, to ensure that they aren't allowing the client to throw a problem function over the wall. Providers that perform robust due diligence demonstrate that they take their responsibilities and commitments seriously, that they don't intend to dilute the ongoing relationship with ad hoc behaviors and contract exceptions, that they understand risk management, and that they intend to support the entirety of the function that the client company has selected to outsource.

3. Evangelize the Change

Socialization and marketing of the decision to outsource is another key best practice and is especially important due to the impact that outsourcing can have on employees' livelihoods and daily work life. Companies are more likely to be successful when they market and communicate the rationale for outsourcing, using the opportunity to generate enthusiasm rather than fear and resentment for the outsourcing decision. These internal marketing efforts are more likely to be successful when senior managers clearly demonstrate their belief in, and commitment to, the outsourcing efforts. Many outsourcing providers go so far as to insist on an internal executive champion to clearly emphasize to the stakeholder community that the decision is strategic.

It's critical that this outreach program be a participative process and not just a one-way broadcast. This is important not only to head off sniping and resistance but also because both client and outsourcing partner need the cooperation of the entire stakeholder community to be successful. Front-line employees know how processes actually work, know where the hidden servers and unsanctioned software are, and understand the shadow support structures that may not be visible in the CIO's office. Experienced outsourcing partners can often assist clients in developing an elegant, persuasive campaign that reinforces corporate strategies and encourages enthusiasm and cooperation from end users.

4. Consider the Intangible Benefits

Many analysts now advise client companies to look beyond cost savings to some of the subsidiary benefits of outsourcing. In its 2009 predictions paper for the IT outsourcing market,

Gartner noted that "inflexibility caused by an excessive cost reduction focus results in business disruption in 30% of outsourcing deals." Outsourcing factory IT functions such as help desk and desktop support enables CIOs and technology experts to focus on innovation and competitive differentiation, rather than on keeping the lights on for utility IT functions. Contracting with an external service provider can give customers access to expertise, tools, methodologies, and disciplines that they wouldn't have access to otherwise. How many small or midsized IT shops can afford to implement expensive incident-management tools, implement ITIL transformations, or hire full-time virtualization experts? Outsourcing, through the use of structured contracts with clear metrics and performance incentives, can help surface the real cost of IT service and support—costs that are often hidden in shadow support and under-the-desk servers and applications.

As we've seen, there are a host of reasons for firms to consider external services. Firms considering outsourcing are more likely to achieve success when their search process clearly outlines their expectations with regard to technical, financial, and procedural issues. The goals and objectives, critical success factors, and discovery processes that precede the search process are the input; a successful relationship governed by an SLA-driven, mutually beneficial contract is the outcome. Although it may be obvious that a checklist of benefits and expectations for the relationship is a key element of the selection process, a [recent paper](#) from the Outsourcing Center ("Outsourcing Decision Perspectives: Service Provider Selection Criteria," © *Outsourcing Center 2010)* puts selection of a partner in a unique perspective; rather than suggesting that potential clients focus solely on expected benefits, the paper suggests that IT executives also look at more intangible attributes that the paper terms *passion* and *balance*. In the realm of passion, some of the factors that the Outsourcing Center advises that clients seek to discover, through references and interviews, are whether the potential partner

- Has a passion for excellence, rather than just satisfaction

- Has a strong commitment to the relationship's success

- Takes ownership of the work

- Brings brainstorming and creativity to the table

- Goes above and beyond contractual expectations

The Outsourcing Center's paper defines balance to include a number of attributes including

- Seeking a level of give and take

- Seeking a happy medium in disputes or challenges

- Facilitating compromise

- Implementing joint ownership of issues and a win-win approach to solutions

Any IT professional with experience in outsourced project work would agree that these characteristics, although a bit challenging to articulate and uncover, go a long way toward ensuring that inevitable challenges and misunderstandings will be resolved in an atmosphere of collegiality.

5. Manage the Relationship

As noted earlier, 13% of survey respondents believe that outsourced relationships deliver reduced service quality and also cost more when management and oversight are considered. This highlights the importance of relationship management as a key success factor. Client firms must realistically assume that management of their partner relationships will require specialized skills, strategic understanding of IT goals, and sophisticated relationship, negotiation, and mediation capabilities. Moving beyond simple SLA compliance reports to Scorecard-based measurements does require additional management overhead. IT shops that expect to gain subsidiary benefits from outsourcing, such as creativity and enhanced agility, must invest the management time to define those benefits and to huddle with their provider periodically to ensure that these expected benefits are being delivered.

Outsourcing relationship management can require an entirely new set of skills from managers. Managers who are accustomed to managing resources under their direct control may need to develop their influencing and facilitation skills. They also need to consider strategies for integrating outsourced staff into their existing teams, ensuring that resentments and conflicts are addressed and resolved, and maintaining team spirit. The discipline of outsourcing relationship management has become such a critical success factor that large advisory firms like [Gartner](#) and Everest Group as well as companies such as [Outsourcing Center](#) that provide decision-making information about successful outsourcing have developed specific practices to assist executives in developing outsourcing governance structures that go far beyond the typical Service Level Agreement process.

New, non-SLA-based metrics are gaining traction in monitoring the performance of external providers. As the levels of discontent and dissatisfaction mentioned earlier indicate, compliance with SLAs is not a guarantee of cost reduction or enhanced service. In her book *[The Contract Scorecard](#)*, Sara Cullen, an outsourcing consultant, recommends a variant of the popular Balanced Scorecard approach, modified for outsourced engagements. Ms. Cullen's scorecard includes Quality, Financial, Relationship, and Strategic quadrants. The Contract Scorecard then drills deeper into each quadrant area, offering Key Performance Indicators (KPIs) such as "delivery accuracy" and "compliance with contract" for the Quality area, and "baseline cost reductions" for the Financial quadrant. By including KPIs for performance in the Relationship, Strategic, and Quality areas, Cullen's scorecard enables outsourcing clients to put their expectations on the table and, rather than simply hope for qualitative benefits like innovation and process improvement, turn those expectations into critical success factors that can be measured and incentivized. Many outsourcers, in addition to the SLA compliance reviews that are a regular part of relationship management, now also perform non-SLA reviews that get deeper into these qualitative performance indicators.

6. Apply a Structured Transition

In a 2009 paper entitled "[Best Practices for Risk Mitigation in Outsourcing Transitions](#)," (© *Outsourcing Center 2009)* the Outsourcing Center surveyed 56 the recipients of its 2009 Outsourcing Excellence Awards. These buyers of outsourced services, who were deemed by the Outsourcing Center to have been successful in their sourcing strategies, all agreed that "their transition phase was the point that either threatened to derail their relationship or that allowed for long-term success." They also agreed that it was a key indicator of the direction of the relationship "because of how the parties worked through the challenges together either up-front in the planning stages or as the challenges occurred." Each outsourcing engagement is a custom

relationship, and the outsourcer's willingness and ability to offer a specific set of culturally appropriate services, rather than a one-size-fits-all engagement model, tells much about their willingness to be flexible throughout the life of the relationship. The Outsourcing Center paper went on to offer many best practices for outsourcing transitions, which include the following:

- The use of a well-defined transition methodology

- The development of a series of milestones and success criteria, or *phase gates*, that determine whether the transition team can move forward

- The establishment of a backup plan from the beginning

- The creation of a joint transition team

- Sensitivity to the cultural elements of transition,

Outsourcing is ultimately a people-centric business. Many client and provider companies make the error of assuming that it's a process-centric event or a simple business transaction. Successful transition of the contracted responsibilities to the outsource provider is essential but not sufficient: the best outsource providers focus on morale, resistance, retention, and cultural evolution as well as strict adherence to SLAs and KPIs.

Summary

The best practices revealed in surveys of successful outsourcing clients demonstrate that judicious planning, disciplined vendor selection, and a commitment to collaborative relationship management are key success factors in outsourcing. The ability to outsource IT functions across the spectrum, from end-user support functions to the IT infrastructure itself, has created a new world of possibilities for competitive advantage and leveled the playing field for both start-ups and established global corporations. Ignoring the opportunities for cost savings, enhanced expertise, and flexible sourcing puts CIOs at risk of falling behind financially and of stumbling into a competitive situation in which their competitors, by successfully sourcing externally, have additional capital to invest in new markets and advanced technologies.

Rushing into the outsourcing decision without clear goals can result in misaligned expectations, increased management overhead, and end-user satisfaction issues, putting the entire project at risk. By employing a structured strategic planning process, documenting their goals and objectives, and including all stakeholders in the outsourcing process, CIOs can set themselves up for success rather than resistance and disappointment. Firms that look beyond SLA-driven performance measurement and employ a scorecard-based measurement scheme are more likely to achieve the intangible benefits they seek, such as creativity and agility. By engaging with an outsourcing partner that applies a flexible, consultative approach, and that brings passion and balance as well as technical competence to the relationship, IT executives can position their firms to achieve the full range of benefits that a well-structured outsourcing relationship can deliver.

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