

## **Finding lost value in offshore outsourcing**

By Paul Thompson – Senior Advisor, Metagyre Inc

A funny thing happened to me on the way to my next high-tech consulting engagement. It was no longer where I left it, conveniently located down the road from the last company I supported. It seems that while I was focused on one client, an offshore company came in and moved my future client's information technology (IT) work to another country and that made my job much easier.

Companies choose outsourcing strategies for a number of reasons and regardless of the country or outsourcing provider, every option has its own advantages, limitations and risks. When a company decides to outsource software development, IT services or business processes offshore it must accept that a major transformation will occur. This is the point when I often get called to advise companies on how to better manage the activities they have sent offshore.

Step one in working with clients engaged in offshore outsourcing; review all contracts and validate how they support the company's strategic goals. Originally, those client goals may not have been articulated well, so now is the time to define success from my client's perspective and architect the desired transformation. Contracts are filled with legal terms and conditions. Negotiating an additional partnering agreement and service level agreement (SLA) is a way to augment the legal contract with plain business terms and specific targets against which performance can be evaluated. Each item in the agreements should have a clear description, a statement of purpose, methods for measurement, time tables and associated incentives.

A good SLA focuses on desired results with minimal attention to how the provider will actually achieve success. This leverages the provider's experience and brings their best practices to the table. Any number of items can be put into the SLA, however, there is a cost for measuring, managing and tracking each item. A few key SLA items that I suggest my clients consider include:

- Defect density and removal rates
- Timeliness of deliverables
- Response times
- Staff control
- Operational improvements
- Average recovery times
- End-user satisfaction

In the practical sense, managing an outsourcing arrangement comes down to the client-vendor relationship. Both parties need to consider and agree on how they will build trust, share risk, agree on accountability, and share success. There has to be continual conversations focused on reasonableness. How will success be demonstrated and compromise achieved without the burden of an overly taxing bureaucracy?

Once the contractual issues are addressed, I face changing my client's understanding of their outsourcing responsibilities. Initially I concentrate my efforts on bringing together executive sponsorship from IT, HR, finance and other key business functions. These executives form the strategic guidance team which focuses on the outsourcing relationship. As you would expect, executive members set the tone for the offshore effort and its acceptance throughout the enterprise. The strategic guidance team will address existing performance issues, leverage new offshore services across the enterprise, and drive future outsourcing toward a shared risk-reward partnership.

Offshore governance is a discipline. It takes more than a good offshore provider to have a positive outcome. The client's offshore governance program is responsible for commissioning, accepting, managing and facilitating offshore processes and projects throughout their enterprise. It is important to recognize that this governance is an evolving body of offshore and project management knowledge coupled with the appropriate tools. To facilitate the governance role, I work with clients to set up a number of processes and tools covering operational issue management, training, project management methodology, process tools and support as well as human resource management.

One often overlooked bonus of working with an offshore provider is the opportunity to learn about a new culture first-hand. Culture influences all aspects of our lives. Everything from the work ethics that drive business to courtship and marriage are affected by culture. As a result, undocumented assumptions can easily lead to costly mistakes. Working with the governance board, I help them to reduce this risk by building their processes and tools to include cultural influences and ensuring that this knowledge is disseminated into all projects. When both my client and their providers understand all the cultural influences, they will begin to trust in the process and each other. Without this trust it is impossible to have a truly successful relationship.

In any business, major organizational change cannot possibly be trouble-free and all major changes are in some part a discovery process. Since the governance program addresses the organizational change, I find it essential that my client fill the governance program director's position with an individual who is influential throughout the enterprise. One of the most common mistakes is to have individuals in crucial roles that are not suited to partnering. Most often interpersonal skills are more critical than technical understanding.

As I move my client's focus down to day-to-day activities, we concentrate on the project management processes needed to ensure timely delivery, quality assurance, budget adherence and scope management. Management by walking around is no longer an option. It is replaced by focusing on the planning, controlling, management and close-down phases of individual projects. The processes defined by the governance program together with project management training address the complexities of communication and management. The tools at the heart of the executing phase involve improving communication. The growth of network technologies has made it easier to share documents and communicate directly with individuals around the world. This is one area in which technology has provided advancements for offshore projects. Some of the tools available today include group-ware and collaboration applications, email, Internet chat,

voice over IP and wireless communication.

These same tools which provide improved communication can also lead to problems if not kept in check. For example: emailing requirement changes between staff may seem quick and effective but can leave projects at risk for scope creep and cost overruns when configuration management and change control procedures are not followed. I work with my clients to keep project communication appropriate for the task and the overall project goals in mind when we build and execute the project's plan. Often the required communication includes daily turnover logs, status reviews, issue documentation and review, change control, query resolution logs, quality gates and, yes, even the occasional face to face team building.

By the time I complete my client assignment, managers are running their projects by tracking progress of deliverables, defects, risk reserves, overtime hours, staff turnover, quality gate evaluations and earned value measures. By bringing all this information together in a dash board style presentation, clients at all levels see the information that supports their area of responsibility.

At the beginning my client thought their role was mostly administrative and had no experience with offshore. Now when I look around at their organization, I see that project management is a core competency, service level agreements support their needs, relationship management is practiced with all providers and there is a solid governance program which extends over all IT and business processes regardless of their location. What was once trail and error is now a sound common sense solution generating high returns and delivering positive transformations.

Now if I can just remember where I left my keys...

### **About the Author**

Paul Thompson is a Senior Advisor with Metagyre, Inc. a company that provides assessment advice and management services for companies choosing to outsource. Metagyre assists clients in finding and managing the right vendors to outsource business processes, software development and infrastructure modernization efforts.