



How to Overcome IT Outsourcing Challenges

Learn how to effectively and successfully overcome the five most common IT outsourcing challenges.

White Paper

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Outsourcing Adoption Continues a Strong Upward Trend

Outsourcing IT and business operations continues to be a fast-growing trend among enterprises large and small. Since 2000, the global market value of IT outsourcing services has steadily grown from \$45B to \$104B.

According to HfS Research, over 80% of enterprises view increasing operational efficiency as the primary motivation to outsource. They expect to achieve this increase through cost reductions, improved resource scalability and business process standardization. Additional strategic benefits, such as access to better technology, talent, innovation and analytics are sought also by a strong majority of enterprises but positive results in these areas have been more difficult to accomplish.

The Disparity Inherent between BPO and IT Outsourcing Benefits

By and large, outsourcing benefits have been harder to achieve for IT than for BPO. In general, this is due to the difficulty of standardizing advanced IT functions compared to those in business and financial operations. That disparity in standardization opportunities is likely to increase.

Recent technology trends, e.g. mobile workforce applications, have changed the perception of IT from necessary evil to a developer of business-critical technology. IT departments are increasingly fulfilling a strategic role within the enterprise beyond maintenance of compute and networking

resources as centers for research and software development. Functions of the latter role are compatible with outsourcing but present special challenges that require careful consideration.

This paper outlines five of the key challenges and their solutions that allow enterprises to continue to increase IT efficiency and effectiveness through outsourcing, especially with regard to software development.

Five Significant Challenges to IT Outsourcing

The outsourcing of more routine IT functions such as documentation, data entry, application maintenance, data center operations, network management and disaster recovery impose less risk on the enterprise due to the well-defined and routine procedures involved. However, when it comes to the development of business apps, managing the interface to a mobile workforce and customers, data mining and other business-specific IT functions, the risks are higher that outsourcing does not achieve the desired outcomes. The challenges outlined below are most relevant to these less outsourced functions.

1 Choosing Capabilities to Outsource

The ability to appropriately partition which functions or activities will be given to an outside vendor and which stay in-house is often a key determinant of IT outsourcing success. Lines may be drawn around whole projects or around specific functions such as architecture, design or coding across several projects. The temptation, often based on unsubstantiated vendor promises, is to over-commit to outsourcing as a complete solution. In these cases, the main risk in that case is that the customer diminishes their own core knowledge and the staff possessing that knowledge.

SOLUTION The most successful strategy to take when evaluating which IT capabilities to outsource is to take a functional approach. Recognize that an outside IT service provider is likely to be strong on expertise but possess only a sparse understanding of the enterprise's business and customers. Business development, marketing and sales expertise related to the outsourced product exist already in-house and should be retained. They are difficult to replicate, especially with an overseas IT services provider.

Unless a project is technologically trivial, it is also unwise to delegate project management duties entirely to an external vendor. It is even possible that additional PM resources must be assigned who are responsible for managing the client-vendor relationship as well. Non-trivial development projects are likely to require in-house technology expertise as well, which require architectural, security or proprietary hardware expertise. The external vendor may not possess these skills or the proprietary knowledge behind such skills may not be readily shareable by the enterprise.

2 Setting Scope, Schedule and Costs

Defining a desired outcome for an outsourced project is typically easier than creating the roadmap that achieves said outcome. Leaving all or a significant portion of this task to the outside vendor is usually a recipe for disaster. Defining the project in-house requires careful communication of the project goals and execution plan to the vendor, which can suffer due to differing sets of competencies.

An often overlooked factor is the possibility that the enterprise has not yet developed the expertise and standards to accurately set scope and provide competent estimations itself, in which case its effort has little value and/or it must depend on the level of expertise provided by the vendor. Both situations bode poorly for the program.

SOLUTION When employing the services of an outside IT vendor, there are upfront costs beyond negotiating and setting up the initial contract. Vendor capabilities and expertise should be carefully evaluated in terms of alignment with in-house expertise. If the vendor is being engaged to provide expertise not currently in-house, this step is even more important and more difficult. Methods and standards for communication including documentation standards and processes, meeting formats and procedures for information exchange must be established, monitored and tuned.

Equally important is ensuring that scheduling, program management and financial tooling lines up between the two companies in order to minimize miscommunication, misunderstanding and translation efforts. These are the key tools the enterprise requires for visibility into the vendor's activities and the meeting of milestones.

Defining project scope, requirements and creating cost and time estimates also requires cross-functional expertise from business developers, architects, technology experts, software developers and not least of all managers. For successful outsourcing, all of these functions must be fulfilled collaboratively by both companies.

Only after the above project infrastructure is in place can meaningful project scope be developed. These components are also necessary to develop reasonably accurate costs and schedules. Unfortunately, it will be an imperfect process with many intangibles on both sides that are difficult to avoid. Fortunately, once the initial effort has been made to bridge the gaps, much can be reused on the next project.

3 Misaligned Expectations

Customers and vendors, especially if they have little or no prior working relationship, are likely to have vastly different expectations regarding new projects plus a low awareness of the breadth and depth of the comprehension gulf existing between them. These expectations typically center on performance, quality, control and visibility. Missed expectations are not

uncommon to software development but can be exacerbated by differences in priorities, culture and language.

SOLUTION The fundamental solution to minimizing the expectation gulf is improving communications. Implement regular meetings, adopt shared documentation and presentation standards and set frequent, well-defined, results-oriented project milestones. These can only go so far, however, when the client and vendor are not working in temporal and physical proximity to one another. Given that many outsourcing vendors are located halfway around the world from the client, this has obvious constraints and costs.

If a long-term relationship is envisioned, however, hosting key vendor personnel, such as program managers or technologists, in-house has tremendous advantages in terms of mutual comprehension of project, product and business goals. The best online collaboration tools, video conferencing apps and email are inadequate compared to face time. In fact, the vendor personnel should become full-fledged team members to maximize the benefits of the working relationship.

4 Balancing the Locus of Control

One of the points of outsourcing is to free up internal resources to be redeployed toward enterprise core competencies or critical, time-dependent projects. To accomplish such projects, superb internal control is required to ensure flawless execution. Projects that are usually outsourced are thus, by definition, less critical and the tendency is to outsource too much, including project management.

The results when this happens are often negative for the enterprise. Furthermore, ceding full control of a project to the vendor rarely means that the customer is completely off the hook for managing the product. If a correct balance of control is not achieved, the customer may in fact expend nearly as much time and effort managing the relationship with the vendor as they would have managing the project directly.

SOLUTION Even with outsourcing vendors with whom the business has a successful track record and with whom projects are well-scoped and backed by well-defined SLAs, the temptation to give over too much management control to the vendor should be resisted. For one thing, the enterprise loses leverage if there is no one in-house in close communication with the vendor who also has a measure of accountability.

Problems on the vendor side are unlikely to be reported in as timely a manner without a dedicated person or persons on the enterprise side who can read the signs that a slip is imminent. The alternative is to be repeatedly surprised and respond in an inefficient and reactionary manner on the enterprise side. Here, again, is an opportunity to benefit from closer collaboration by placing personnel from the client side at the vendor site.

5 Vendor Attrition

Outsourcing companies, especially in India and China, are experiencing an exponential demand for their services in all sectors. One side effect of this is that employees for these companies are benefiting from a surplus of opportunities for career growth. For customers, this has a negative effect on their projects if the expertise within the vendor is unstable.

Repeatedly having to wait for the replacement of key personnel and their subsequent spin-up on the customer's projects obviously leads to delivery delays, diminished quality or both. Furthermore, to keep up with the pace of technology change, it is advantageous to the customer to develop a longer-term relationship with vendors who are able to grow their expertise to match client needs. If they are instead dealing with large turnover and boot camp style training of new contributors, the ability to absorb and apply state-of-the-art techniques is impinged.

SOLUTION The economics of the technology job markets on the other side of the globe may seem beyond the enterprise's sphere of influence, and to a large extent that is true. However, the customer organization does maintain some leverage, especially before signing the contract.

It can require that the IT vendor have in place a strong training and certification program along with incentivized SLAs that motivate the vendor to retain key employees or replace them with other resources who are already qualified. The SLAs should specify that the vendor keep a percentage of off-project, qualified personnel on payroll that can be pulled immediately onto the customer project should a vendor employee depart the program.

Additionally, the customer can buy a measure of loyalty to current and future projects by sponsoring regular social gatherings at either their or the vendor's site that include congratulatory gifts or other incentives for vendor employees. Of course, this works far better when travel time between the two organizations is not onerous, but is worth brainstorming regardless of geographical location.

Spreading the Risk

Except for the process of choosing which capabilities to outsource, the client organization is wise to heed the old adage regarding having all one's eggs in one basket.

Dividing or duplicating a single project among two or more vendors may be useful when comparing vendor strengths and weaknesses, but it is not an efficient ongoing practice. However, the risks outlined above can be mitigated to a great extent

by working with more than one IT service vendor for separate projects.

It is safe to assume that vendors will be less complacent and more compliant if they know they have competition. This alone can be an excellent motivating situation and could result in cost reductions. More importantly, outsourcing to multiple vendors raises the probability of obtaining higher quality work, more innovation and fewer missed deadlines.

| Summary

This report outlines 5 significant challenges for enterprises that are contemplating outsourcing non-trivial, business-critical IT functions:

- Proper partitioning of business, management and technical capabilities between the enterprise and IT services vendor.
- Thoroughly and correctly defining the project scope, producing accurate cost and time estimations and aligning communication and business processes.
- Narrowing the expectations gulf between each entity regarding communication best practices, business goals and project milestones.
- Maintaining a collaborative balance of program control and expertise between client and vendor.
- Ensuring that vendor employees participating in the program are thoroughly qualified and on-board with project goals.

Underlying the solutions to all of these challenges is close attention to putting in place superb, two-way communication.

This, in itself, is challenging when the two organizations are not in geographic proximity or do not share a common culture and language. Even without those hurdles, there is often a gap to bridge in ensuring that the IT services vendor clearly understands not only the technological requirements of the project but also the tactical and strategic business goals related to the program.

About Optimus Information

Headquartered in Vancouver, Canada with delivery centers in Canada and India, we work as a trusted partner to medium and large businesses to solve their software and technology challenges. With a team of 150+ people Optimus Information provides global organizations with scalable, flexible and cost efficient solutions. **Optimus Information provides global reach with a local presence.**

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