Maintaining Control in an Outsourced Approach

By Courtney Macavinta

To outsource or not to outsource is no longer the question -- for most enterprises it's just a matter of "when?" From technology to industrial firms, just about every sizable business outsources functions ranging from application development to administration and manufacturing, accounting, human resources, and call centers. Last year alone, 75 percent of U.S. companies outsourced some or all of their information technology activities, according CIO Insight's latest Global Outsourcing Report.

It's no wonder many CIOs' job responsibilities are rapidly shifting from overseeing all IT operations in-house to determining and planning which services and projects will be farmed out. But the one thing that hasn't changed is that every CIO needs to get on-target results. "You're giving the outsource firm the authority to perform a specific function with the best resources possible, but at the end of the day, the responsibility for success or failure still rests with the CIO," says Oliver Houck, senior principal with New York's Outsourcing Institute.

In other words, a CIO needs solid strategies to not only maintain quality control when outsourcing but to make sure that the right vendors for the jobs are picked in the first place. Many experts say that the groundwork done in-house before outsourcing is just as important as the steps taken to maintain oversight once a contract is inked with an outsource company:

> **Get involved** Unfortunately, it's not unheard of these days for top management or business units to decide to outsource without the CIO's input, says Gwen Jolley, whose Atlanta firm Gwen Jolley and Associates specializes in IT consulting at the CIO level. Ideally, CIOs need to be a part of the process from the beginning, including determining which services, processes, or projects to outsource, evaluating and selecting vendors, and overseeing all aspects of the service-level agreements.

> **Make the connection** Once CIOs have a seat at the decision-making table, it's important to work with internal business partners to articulate the exact perimeters and requirements for any outsourcing proposal. Communicate regularly with the heads of other business units, sit down with them and get a firm understanding of how their departments operate, what their needs and concerns are, and how IT can help them. "Most business people aren't terribly comfortable with technology," Jolley says, "so it's up to the CIO to garner the support of the business unit heads by becoming a bridge between business challenges and IT solutions."

> **Develop guidelines and metrics** To successfully outsource, CIOs must set performance and governance standards beforehand so that outsourced contracts include well-thought-out stipulations. "If the CIO is going to be held accountable, then the CIO is responsible for ensuring that outsourcing decisions follow his or her guidelines," says David Schatsky, senior vice president of Research for Jupiter Research.

> For instance, CIOs should establish a process for transferring knowledge to vendors, as well as determining which metrics are used to evaluate vendor performance. In a plan to outsource customer support, CIOs should pinpoint which customer satisfaction metrics will be used to gauge performance. Eugene Goland, chairman of Offshore Outsourcing Best Practices and an expert in offshore outsourcing for small and medium businesses, says when it comes to software development, for example, being clear on the expected results determines the success of the project. "When software development is being outsourced, CIOs need to decide who will be responsible for final outcome -- their company or the vendor." The following steps help to ensure success:

Think about security With outsourcing, there is the chance that a vendor could steal intellectual property, lift proprietary processes, or compromise customer data. If this is a concern, first assess and clarify internal guidelines for protecting intellectual property and ensuring regulatory compliance for data security. "Then the vendor should be forced to use the same guidelines," Goland says. "CIOs should also plan to separate critical aspects of software or hardware development so that no single vendor has full control or access. Also, do not engage with a vendor who has ambitions that might compete with your product or process. Some companies specify in contracts that their vendors can't compete with them."

Invest in vendor selection Outsourcing is just like any other relationship -- it's necessary to know the qualities desired in a partner over the long haul. Depending on the requirements of the project, Goland suggests evaluating the vendor's compatibility with the internal IT team, its responsiveness to requests for proposal, and the qualifications and commitment of its staff. Picking the right-sized vendors is also essential. If a vendor is too small, it might not be able to scale quickly enough in response to changes, but if it's too large, the contract could become a lower priority to higher-dollar clients.

"I recommend putting an emphasis on personal interactions during the evaluation period, such as how well they answer questions," Goland says. "There is no direct way to experience vendors' expertise until you start the project. So think about doing a simple project at first -- a prototype or test run -- to give them the opportunity to be proactive. The time you spend on due diligence is always a good investment."

Document expectations Once a vendor has been selected, it is imperative to communicate pre-established guidelines, requirements, and compliance standards in the agreement. Include a timeline and schedule to keep every deliverable on track. One strategy is to work with vendors on a fixed price to put budget responsibility on the vendor. With standards strongly in place, it is easier to ensure they don't cut corners in the process. "A good, solid relationship can only be built with clear, articulate expectations, metrics, and a comprehensive contract," Goland says.

Establish reporting Not only must CIOs be involved in all aspects of outsourcing decisions, they should also assemble a team of their very best people to manage the outsource firms. The team members should report monthly -- or more frequently - on the status of projects, timelines, and budgets so that you can step in to work with the vendor if issues have arisen. Set up guidelines for reporting as well, including what information or metrics you need to receive from your team.

Monitor compliance If a vendor fails to perform, it is necessary to have a straightforward talk with management about the experience so far and to restate expectations. One approach is to modify the contract to make improvements. Vendors' facilities can also be audited for compliance by outside firms or by your team or you.

Lead by example If business unit heads believe that the CIO is better equipped to evaluate and contract with outsourcers, they are less likely to make choices that might turn into costly mistakes down the line. Bob Butler, CIO at Imagistics Inc., has worked in corporations of all sizes and says he can't imagine outsourcing decisions made without the CIO's input. "I've demonstrated success in my outsourcing projects, so the heads of business units within our organization come to me," he says. "That's the position every CIO needs to be in and if they're not, they need to figure out a way to get there."

Ultimately, the value of outsourcing is in partnering with vendors that enhance the goals of the internal IT operations and that have their own internal controls in place to make sure services are delivered properly. For the CIO, maintaining control in an outsourced approach is really about having the right strategy in place from the outset, so that day-to-day monitoring can be loosened over time.

"You can't outsource and then micromanage the whole process -- that only gives the illusion of control," Goland says. "When you've adequately outlined your final goals, and how the vendor's performance will be measured, then the vendor should go it alone so you can stay focused on your core competency."

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