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# intelligent IT outsourcing

eight building blocks to success

sara cullen  
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# **Intelligent IT Outsourcing: Eight Building Blocks to Success**

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Sara Cullen  
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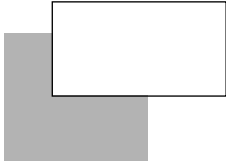
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# *Computer Weekly* Professional Series

There are few professions which require as much continuous updating as that of the IS executive. Not only does the hardware and software scene change relentlessly, but also ideas about the actual management of the IS function are being continuously modified, updated and changed. Thus keeping abreast of what is going on is really a major task.

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A handwritten signature in black ink, reading 'Dan Remenyi'. The signature is fluid and cursive, with the first letters of 'Dan' and 'Remenyi' being capitalized and prominent.

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# About the authors

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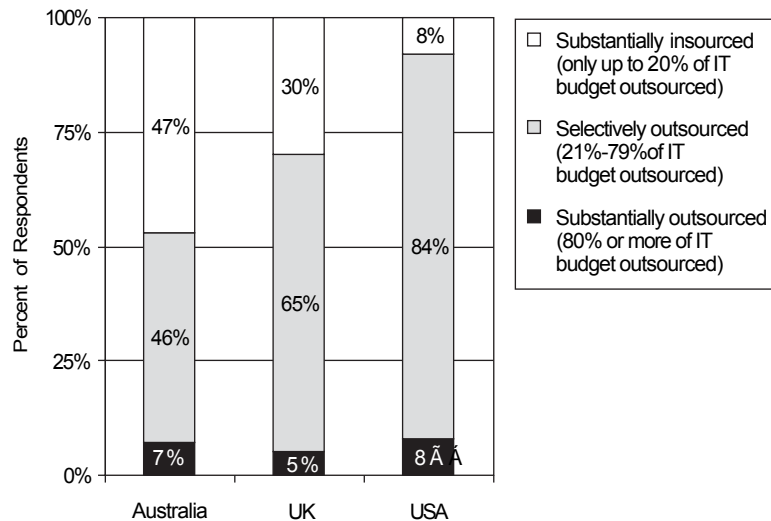
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# Introduction

Information technology outsourcing (ITO), or the plethora of names under which it is also known (including contracting out, partnering, FM, co-sourcing and many others), is handing over IT activities and assets to third party management for monitored outcomes. ITO has outlived the five-year period typical of a management fad and is now regarded as a standard IT management tool. As such, global market revenues have increased from \$US9 billion in 1990 to \$US154 billion by 2004 and a projected \$US190+ billion by 2006 (Kern *et al.*, 2002a). This compares with research company IDC's estimates for all outsourced services of £1200 billion by 2006.

Some more figures. Looking at the IT budget of the average corporation or government agency, Willcocks *et al.* (2002) reckoned that by the end of 2001 some 72% was still being spent on in-house IT, the rest on IT outsourcing, including 3% on business process outsourcing (BPO) and 3% on offshore outsourcing. Extrapolating global trends, it is likely by 2005 for IT outsourcing to represent 33% of the average IT budget, with offshore outsourcing taking up another 10%, and BPO a further 15%. Other sources, as shown in Figure 0.1, reveal over half of organizations across the globe are outsourcing at least 20% of their IT budgets.

Thus the vast majority of organizations outsource some aspect of their IT services – this includes public and private sector organizations of all sizes across all industries (Cullen *et al.*, 2001). And this has been a rising trend. Some economies, like those of the UK and USA, have averaged a 15% plus increase per annum in supplier revenues across the 1995–2002 period. Outsourcing has enabled organizations to survive the pace of change in the new economy at a time when business activities need to be focused on the right activities and resources need to be kept lean and aligned with the core business. From late 2000, as economies moved into a more recessionary climate, a renewed emphasis on cost savings followed, with increased interest not just in ITO, but also in offshore and business process outsourcing as new sources of cost reduction. Indeed, in the storm-tossed IT years of 2001 and



**Figure 0.1**  
Global comparison of  
outsourcing

Sources: Australian data from Cullen, et al (2001), 231 respondents;

UK and USA data from Lacity and Willcocks (2000a), 63 and 38 respondents respectively

2002, both authors were wont to remark that it was a pleasure to be in one of the few growth areas of the IT industry.

Accordingly, in the face of these developments and the unpredictable challenges ahead, managing ITO arrangements and conducting the ITO lifecycle have become one of the essential competencies for IT managers. On our conservative figures alone, it becomes very clear that, when a majority of an organization's IT spend is with the market, the average corporation has to be very good at its ability to manage outsourcing information technologies.

The IT industry has added an air of mystique to describe outsourcing by establishing its own, sometimes controversial, vernacular. Thus phrases such as strategic partnering, strategic alliances, co-sourcing, value-added outsourcing have been coined to suggest greater depth to the prospective relationship between client and supplier organization than often actually materializes. More recently, we have seen the somewhat false start of what we have called 'netsourcing' – renting applications, services and infrastructure over a network – an idea that nevertheless we see as having profound applicability in the medium term to 2010. In general, however, the concept of using external organizations is considered an efficient and logical way to get things done in IT, and is indeed widely accepted in many other sectors of the economy. The question frequently heard in boardrooms in the early 1990s: 'Why not outsource IT?' always

was, but is now clearly an inadequate base from which to make and manage outsourcing decisions. The real question has become: 'How do we exploit the ever-maturing external IT services market to achieve significant business leverage?' In this book we seek to provide the fundamental building blocks to help managers answer this question.

## About this book

We have developed this book for personnel involved in IT outsourcing decisions, processes and management to arm such individuals with tactical knowledge of the activities, tricks, traps, and ways of working that we have gleaned in our research and consulting activities. Together, we have been given privileged access to the practices and hindsight of many hundreds of organizations that have gone through the outsourcing journey. A particularly pertinent point here is that we have also painstakingly tracked outsourcing arrangements over time, rather than restricted analysis to declarations of intent and success before the ink on the contract is dry. This means that for over a decade in most of the developed economies, we have been privileged watchers, and often insiders, to how outsourcing contracts are arrived at, managed, the sort of problems that arise, and how they can be dealt with.

One of our profound frustrations has been to watch organizations repeat mistakes that others have made; another has been to watch organizations go through painstakingly long learning experiences that could easily be circumvented, given the already existing state of knowledge on outsourcing management. In this book, therefore, we provide a structured way of looking at and managing outsourcing from pre-contract to contract end, remembering one of our constant findings that failure and omissions at an earlier stage will inevitably have severe repercussions at later stages. For example, Feeny and Willcocks (1998) identified nine core in-house capabilities that need to be in place before any large-scale outsourcing contract is operationalized. In our advisory work, we have regularly found real problems setting in when any of these are missing, running the danger of the client organization gradually losing control over its IT destiny.

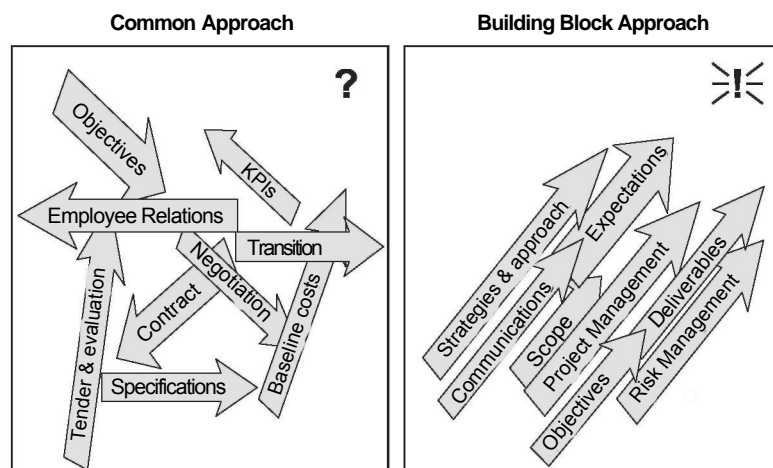
While this book has been prepared for ITO, it nonetheless provides a framework readily applicable to all outsourcing and has been designed for wide application. In effect, while the examples are IT-related, the framework is general to any service.

We provide concepts and options, but do not provide detailed step-by-step ‘instructions’. It is not a detailed procedure manual; rather it provides checklists, outlines, traps to avoid, and a structured way forward. In this book, there are different examples of how the tools and techniques are applied in practice. These different methods are intended, as there is no ‘right’ way to go through the outsourcing lifecycle, just general principles to apply and a general precedence and sequencing of activities.

Look at this framework as optional strategies and techniques that the organization can decide whether or not to adopt within outsourcing projects. Furthermore, although the information is presented sequentially in accordance with the lifecycle, the reality of the outsourcing process is that many activities are done in parallel and many are not necessarily conducted in the order presented due to the circumstances facing the organization. In effect, use what is appropriate when it is appropriate for the situation. However, to give the reader confidence, what we can say is that everything we have provided in this book has been tried and tested, and has been found to work effectively in numerous actual outsourcing deals – large and small, complex and simple.

## Why the need for a building block approach?

Unfortunately, for organizations and suppliers alike, outsourcing initiatives are too often done in a disjointed manner, with different individuals or teams carrying out, independently, what in fact are, and need to be made, interrelated activities (Figure 0.2).



**Figure 0.2**  
Streamlining the  
approach

For example, the CIO may determine the services to be outsourced, a legal team prepare the contract, an operational team prepare the SLAs, a separate team from all the above select the supplier, and a different team altogether formed to manage the supplier and so on.

We have observed that, in many cases, these teams have not fully understood the outcomes of the other teams' outputs and more importantly have not been privy to the debates and issue resolutions that took place to get there – thus lack a thorough understanding of the basis for the final arrangement. Furthermore, we have often seen that the outputs of the various teams overlap, at a minimum, and in the worst case can contradict each other.

### **Case Study: a utility**

A state-base utility conducted what they believed to be a very cost effective tendering process that was slated to save the organization millions of dollars over a three-year period. Once the supplier selection was made, the individuals involved returned to their normal roles and the contract management team was formed from the previous in-house service delivery individuals who were, for various reasons, remaining within the organization. This team had no previous experience in tenders, contracts or supplier management. They needed to implement a rapid transition and ensure no disruptions to operations, so began working side-by-side with the supplier to ensure this occurred. Along the way, understandings, procedures and protocols were arranged between personnel in both parties that had little to do with the signed agreement. In fact, the field personnel in both parties had not read the agreement, although they had intended to once 'things quieted down'.

What resulted was a very different arrangement in practice than had been agreed, driven by the viewpoint of the contract management team as to what they believed worked best. As a result, services in scope were delivered by the organization rather than the supplier although they were included in the fee, new services included in the fee were never delivered, activities included in the monthly fee were also charged as out of scope, and only limited Key

Performance Indicators (KPIs) were ever reported. The projected savings were quickly eroded. It was not until the re-tender that the degree of variance was observed, and this was by the team refreshing the agreement for the next wave of outsourcing.

Our structured approach can eliminate these and other easily avoidable faults. Furthermore, it takes no more elapsed time than conducting more error-prone approaches. However, it does require greater planning and consideration of issues – no bad thing when you realize that the cliché ‘a stitch in time saves nine’ applies fundamentally in IT outsourcing. Fundamentally, if the organization does not have an in-depth understanding of what it is outsourcing, why and how, it will cost the organization much more time and money later on, albeit often hidden or unanticipated at the pre-contract stage. Yes, planning and management does cost money and effort. For example, in reviewing over 350 contracts we found the cost of post-contract managing ITO deals falling regularly between 4–8% of the total cost of the deal. As an interesting aside, was this amount factored into the original estimate of cost and of overall cost savings? But more pertinently, if this level of resource and effort are not put into such deals, then an organization runs a high risk of being one of the many who have disappointing experiences, including lower than anticipated, or even nil, cost savings.

## **The outsourcing lifecycle – eight building blocks for success**

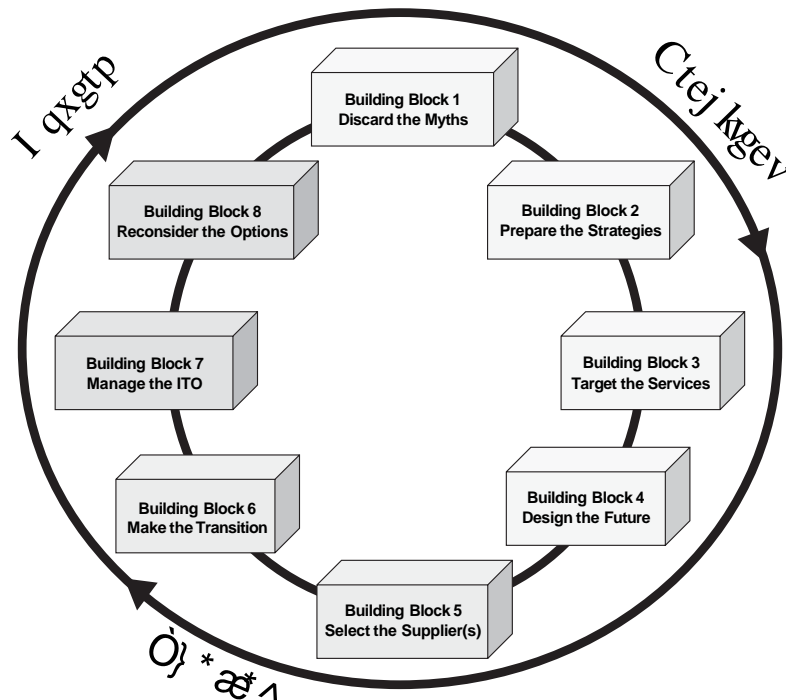
Many ITO initiatives are conducted with inadequate forethought, albeit rarely intentionally. No individual we have encountered among the hundreds with whom we have worked would do ITO exactly the same way again, although many would endorse aspects of their approach, while they and still others learned interesting ways to get round the problems they ran into. We have taken their hindsight and experiences, together with those of suppliers we have worked with, and our own combined four decades of practice, to develop the lifecycle building blocks that will enable an organization considering outsourcing to:

- get the right information to
- pick the right services for

- the right reasons with
- the right supplier(s) and
- get the right deal with
- the right management in place
- in order to maximize business leverage from the outsourcing arrangement.

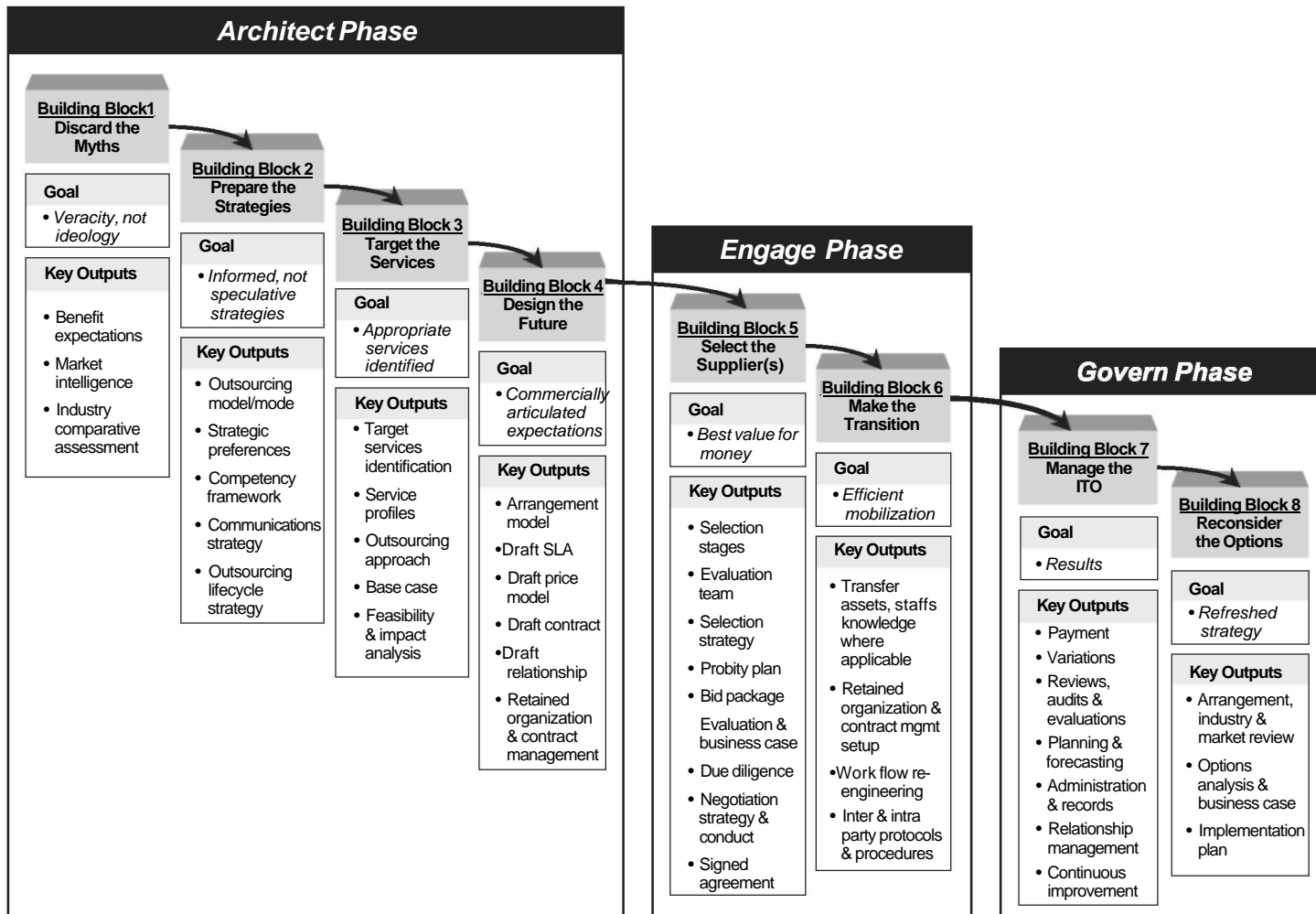
To enable this to take place, we have developed the eight key building blocks of successful outsourcing that incorporate the learnings of organizations that have made mistakes and those that have had success. The concepts are intended to be a comprehensive, high-level guide to what action should take place and when it should best take place throughout the outsourcing lifecycle.

In Figure 0.3 we provide an overview of the eight building blocks we have distilled from our outsourcing research and experiences. Following, in Figure 0.4, we provide in more detail the goals and key outputs of the building blocks. The remainder of the book devotes a chapter to the content and operationalization of each block.



**Figure 0.3**  
The outsourcing building  
block lifecycle





**Figure 0.4** The outsourcing building block outputs