Executive

CUTTER CONSORTIUM

Offshore Outsourcing:
Trends, Pitfalls, and Practices
(Part I in a Series)

by Dr. Wendell Jones,
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The allure of offshore outsourcing is just too enticing for companies to ignore. Organizations are drawn by short-term cost reductions and the long-term promise of greater staffing flexibility and overall business agility. But because outsourcing involves several potential pitfalls and a number of critical success factors, the decision to outsource should not be made lightly. This is the first of two *Executive Reports* on offshore and nearshore outsourcing. Part I focuses on the origins and trends, traces the evolution of IT and business process outsourcing from their origins to the dominating global model, examines the forces driving global sourcing, and discusses the factors critical for offshoring success.
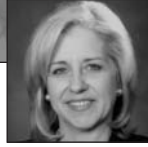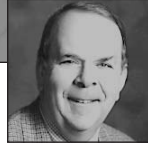
Report

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Over the past decade, IT outsourcing (ITO) and business process outsourcing (BPO) have experienced consistent growth, with offshore ITO and BPO increasing at an accelerated pace. Offshore outsourcing began with Y2K and applications software work with Indian companies and, during the past three years, has expanded beyond IT to include BPO and IT-enabled services such as contact centers and related customer support services.

Today, most outsourcing advisors and analysts view offshore outsourcing as an irreversible trend attracting more and more customers for both short- and long-term economic benefits. In the short run, cost reductions as high as 30%-40% are just too attractive to ignore in today's highly competitive global markets. And for almost any

company, the promise of staffing flexibility, access to additional skills, business agility, and reduction of fixed costs is compelling over the long term.

Over the past decade, India, Ireland, and Israel have been the major beneficiaries of offshore contracts, but lately a new form of cross-border outsourcing has gained a foothold: "nearshore" outsourcing, defined as sending work to nearby neighbors, such as Mexico and Canada for the US outsourcing buyer and central or Eastern Europe for Western European companies.

This *Executive Report* is Part I of a two-part series on "offshoring," which is the term used here to encompass both offshore and nearshore outsourcing. This report

focuses on offshoring's origins and trends, traces ITO and BPO evolution to the offshore and global models, examines the forces driving global sourcing, and discusses the critical success factors for offshoring. The second report in this series will describe the process to follow for effectively evaluating, selecting, and integrating operations and implementing an offshore relationship, including cross-cultural considerations. It will also review the market in India (the dominant offshore outsourcing country) and will contrast India with China and Mexico, two examples of emerging offshore and nearshore competitors for the US buyer.

Over the past decade, software maintenance and development fueled the growth of India's software industry, which grew to

US $8 billion. Today, developed countries are taking all types of back-office functions offshore, including accounting, call centers, Web design, animation, and other functions. During the past two years, India has installed reliable high-capacity telephone lines in most major cities, making it possible for call center operators to communicate with US customers by phone or on the Internet with no discernible difference from a call center's performance in, say, Nebraska. In India, a call center job is viewed as a career option for college graduates.

THE SHIFT IN THINKING THAT STIMULATED OUTSOURCING AND OFFSHORING

In their insightful and influential *Harvard Business Review* article published more than a decade ago, James Brian Quinn, Thomas Doorley, and Penny Paquette changed the thinking about nonvalue-added activities, paved the way for outsourcing, and set the stage for offshoring [16]. The authors contended that management should treat an organization as a collection of services that provide value. Even in manufacturing firms, most workers are in service and support functions, such as research, logistics, maintenance, design, accounting, law, information services, and the like. In US

industries, for example, services account for about 75% of total company costs. To think in terms of services involves concentrating on the activities that create the most value. Value is added in style, image, durability, after-sales maintenance, etc., just as much as in the actual production of a product.

The major motivations for outsourcing and other cooperative supplier relationships are the intense competitiveness of the global economy as well as technological and organizational drivers.

Quinn, Doorley, and Paquette also argued that technological change in services offers strategic opportunities. Service companies employ the most advanced technologies and industry-standard practices, and these suppliers offer their services at lower cost and with quality that is often superior to the same services inside the firm. ADP, for example, acts as a routine bank accounting and tax filings service for payroll. The authors advocated the leverage that comes from analyzing all the services that comprise the company, discovering which could give the firm an edge over competitors, concentrating on doing a world-class job in delivering these strategic services internally, and acting

to "eliminate, limit, or outsource" the rest. Rather than analyzing market share, they urged managers to analyze the strength of the service components of their business relative to competitors.

Along with this shift in thinking about nonstrategic value-chain activities, a number of business forces converged and drove the growth of outsourcing around the world.

DRIVING FORCES OF OFFSHORING

The major motivations for outsourcing and other cooperative supplier relationships are the intense competitiveness of the global economy as well as technological and organizational drivers. The 1980s and 1990s were decades of pivotal change in management thought among developed countries because of the intense pressure created by global competition. Consider the US as an example: As it rose to superpower status during and after World War II, its manufacturing prowess, like other developed countries', was built through mass production of standard goods. Low-cost production was achieved using long production runs of standardized products and integration. In the industrial age, integration ran backward to sources of inputs and raw materials and forward into

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distribution and marketing. The bulk of manufacturing output was consumed in internal markets. Foreign markets did not influence major design, manufacturing, or marketing decisions in the developed world.

These managerial mindsets shaped by World War II and the war's aftermath were turned upside down with the steep rise in global competition in the 1970s and 1980s. Competition became a factor: companies in countries that previously posed no threat now could enter worldwide markets with higher-quality products, a greater variety of products closely attuned to the tastes of affluent and discriminating consumers, and less expensive products based on more efficient technology and cheap labor. Shoe and apparel manufacturing went to Asia; Japanese autos almost ran other vehicles off the road; and the US steel industry was in tatters. Some pundits forecast the demise of manufacturing in developed countries and the rise to dominance of service industries. But just the opposite happened.

The tide turned because of major changes in management thinking that, from one end of the value chain to the other, led to completely new ways of doing business. Management learned about quality, product diversity, flexible manufacturing, just-in-time supply, and outsourcing.

Today, new technologies and their applications are developed so

quickly that most customer companies cannot keep pace. Instead of spending months developing plans and investing in potentially short-lived assets, enterprises must move fast, creating solutions as they go. In every industry, companies must reexamine and change their businesses to keep pace with increasingly shorter business cycles.

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Cooperative relationships such as alliances, partnerships, and outsourcing are not new strategies. IT outsourcing, for example, has been around for decades but has taken a dominant position only in the past 10 years or so. What is new is the rapid growth of BPO; it is presently growing at a faster pace than ITO. In their book *Global Information Technology*, Mary Lacity and Leslie Willcocks argue that by 2001 BPO had become an emerging field for which only preliminary evidence of success existed [11]. Now, two years later, BPO is more than a proven practice; it is a worldwide growth industry.

According to Marty McCaffrey, a Cutter Consortium Senior Consultant and the executive director of Software Outsourcing Research, the fastest-growing BPO segment is offshore IT-enabled contact center

services, including customer inquiries, telemarketing, order processing, cross-selling, benefits administration, claims processing, and help desk services. He estimates that the IT-enabled BPO segment contributes 25% of all IT services from India, with a growth rate of 59% and $2.3 billion in revenues in the US market alone. He further predicts that this segment will grow 54% to revenues of $3.6 billion in 2004 [12].

General Electric (GE) is one example of an offshore BPO user. GE Capital uses offshore BPO for customer management, accounting, and transaction processing. Throughout all business units, GE uses offshore services for help desk, call center, debt collection, and remote troubleshooting. And for engineering and design, GE uses an India and China technology center for R&D and an engineering analysis center. In comparing the growth of third-party arrangements with that of "captive centers" (companies that have established their own offshore centers), the latter grew 90%. In addition to GE, organizations that use captive centers include American Express, HSBC, AOL, and Dell [12].

POTENTIAL OFFSHORING PITFALLS

One potential pitfall of offshoring is the difficulty of face-to-face interaction and communication with business analysts and end users. Accordingly, projects with clearly defined requirements that can use

modular and structured methodologies and that are amenable to remote testing are typically the best suited for offshore development. Likewise, applications that are relatively stable enable the offshore project team to focus on the process and methodology rather than on "firefighting."

In contrast, projects that require considerable end-user interaction and iteration during the lifecycle are not well suited for offshore delivery. Similarly, pilot applications with complex procedures, considerable integration requirements with other systems, and high business criticality are usually inappropriate for offshore delivery.

A second potential pitfall is that of overestimating the cost savings accrued from offshoring by assuming that all work should be done offshore. Although offshore providers have substantially lower labor rates, it is important to quantify this advantage in the context of the total costs. For a US corporation, the hourly labor rate for a Java developer working at an offshore location ranges from $20 to $50, compared to $100-$150 for a "fully loaded" (including benefits) US service provider employee and an internal IT employee. The hourly rate for an offshore developer working in the US ranges from $55 to $90, which is not significantly less than the cost of inhouse staff [13]. The basic rule of thumb for offshore software projects is that no more than 30% of the work should be done on-site to achieve the

requisite savings, and no less than 20% should be done on-site to achieve the required management control. A significant cost savings accrues only when more than 70% of the work is performed offshore.

A third possible pitfall is a cultural mismatch. Even with domestic outsourcing, differences in organizational cultures can be an issue. An offshore outsourcer comes to the table with organizational differences as well as religious and societal beliefs and standards of behavior that may be difficult to understand. Introducing a conflict-avoiding, consensus-oriented culture into a hard-driving, individualistic culture is but one example of potential organizational conflicts. Different religions and languages can introduce other complications and possible misunderstandings. Cross-cultural training is important for both parties.

A fourth problem is the potential effect of offshoring on the organization's staff not directly involved in the outsourcing arrangement. It is typical for remaining staff to worry that outsourcing of additional departments is soon to come. Dysfunctional and disruptive behavior can be lessened with frequent communications with company staff.

A fifth pitfall is the adverse publicity that may stem from misunderstandings of offshoring motives and the benefits of globalization. A story recently making the rounds tells of the leaking of a company's

outsourcing plans to a senator, who was told that illegal aliens were being imported to replace US workers. In such situations (although these particular allegations proved untrue), the organization's image may be damaged, even in the face of an unfounded rumor.

A sixth possible pitfall is the failure to develop a detailed plan approved by both the steering committee and senior management. In addition to reducing the negative effects of the pitfalls outlined above, a good plan includes early and continuous involvement of HR professionals as well as outsourcing, legal, and public relations experts. HR can reassure and keep the staff informed; attorneys can help navigate the complexities of employment and contract laws; outsourcing advisors can advise, assist, and/or manage the outsourcing evaluation, negotiation, and implementation process; and public relations specialists can deal with internal and external critics and constituents.

Other potential pitfalls include failure to do the following: retain certain critical skills inhouse; locate 20%-30% of the offshore supplier's development staff on-site; create a joint team consisting of supplier and internal staff in which all members are treated equally in terms of deliverables, schedules, accountability, results, and recognition; and take good care of the remaining inhouse staff with interesting work, explicit career opportunities, recognition, and other perks.

TYPES OF OUTSOURCING

The outsourcing market normally performs well regardless of the economic cycle. Companies are motivated to outsource in bad times to reduce IT and business process costs and in good times to access new global markets and increase revenues.

BPO

Based on most estimates, BPO is currently the fastest-growing area of outsourcing. HR, accounting and finance, facilities management, and other support functions and business processes are being outsourced at a rapid pace. According to one estimate, between 1997 and 2003, this market's value has grown from $6 billion to about $16 billion. The fastest-growing subset of BPO, particularly in India during recent years, is IT-enabled BPO [12]. Examples include call centers, help desks, and similar customer support functions. BPO is covered in greater detail in the last section of this report.

Value-Added and Performance-Based Outsourcing

Value-added outsourcing strives to combine supplier and customer strengths to jointly market products and/or services. This approach is complicated by efforts required to manage the relationship while still attempting to add value. Another complication is the difficulty of converting a homegrown system into a commercially viable product.

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In performance-based outsourcing, the client rewards the supplier for improving the client's business performance. The typical problem with this approach is that the supplier may have limited expertise in the client's core business. Additionally, there are many factors that influence business performance, and generally it is not the supplier with the most influence, but rather the business unit, that performs the business processes.

Equity-Holding and Joint-Venture Outsourcing

Equity-holding and joint-venture relationships allow the client and supplier to take part ownership in each other's company and/or form a joint venture. Examples are Perot Systems–Swiss Bank, IBM–Lend Lease, and Commonwealth Bank of Australia–EDS Australia. One difficulty encountered in equity-holding relationships is that the supplier may become less focused on service to the client and more focused on acquiring new business. As a major stockholder, the board of the client company may also encourage business expansion. As

a result, these types of relationships have not necessarily encouraged improved performance at the operational level. A similar type is a joint venture, in which the two companies create an independent entity, jointly owned, to provide the services [11].

Selective and Total Outsourcing

Rather than outsourcing an entire business process such as HR or finance and accounting, selective BPO uses an outside supplier or suppliers to provide one or a few selected services or processes such as accounts payable, payroll, and benefits administration. Similarly, instead of sending the entire IT function outside, you can outsource just the help desk — an example of selective ITO. The principle that supports selective sourcing is the emphasis on contracting with the best supplier for specific services. This mitigates the risk of using a single supplier but increases the difficulties and costs of managing multiple suppliers across interfaces [10].

Although the major outsourcing deals make the headlines, research studies reported by Lacity and Willcocks have consistently shown that selective outsourcing of IT is the most common and most satisfying practice. With selective outsourcing, IT is viewed as a portfolio of services and resources, some of which are provided internally and some externally [11]. A February 2003 Cutter Consortium study substantiates the earlier work by Lacity and Willcocks. This study found that

66% of respondents outsource to multiple suppliers, while only 34% rely on just one supplier.

Total outsourcing transfers most (usually defined as more than 80%) of the equipment, staff, and responsibility for delivery of services to an outside supplier. Total sourcing is more complex and risky because of the scope of the endeavor and the consequences of failure. The supplier must make acceptable profit margins from improving efficiency, achieving economies of scale, replacing resources in the future at less-than-current costs, and/or making a combination of efficiency and effectiveness improvements. Therefore, total sourcing usually yields acceptable margins only over longer periods of time. Other potential difficulties with total solutions include the major technological and business changes occurring after the contract is signed; it is difficult to predict the frequency and magnitude of change and set contract provisions that allow for large changes in scope. Failure can be a more costly consequence of total sourcing as well. If the relationship with the supplier does not succeed, there are two difficult options: repeat the entire process and negotiate a contract with another supplier, or bring the functions back inside the organization with the attendant costs and problems [7].

Lacity and Willcocks found that among 61 relationships, 85% of selective outsourcing relationships met customer expectations, while only 29% of total relationships met expectations [11]. According to the February 2003 Cutter survey [8] cited earlier, 15% of responding companies are moderately to completely dissatisfied with their results. Although no conclusion can be drawn from the Cutter survey data to support a position one way or the other, it would be interesting to know how many of the 15% are outsourcing totally and how many selectively. If the historical data is relatively constant, say Lacity and Willcocks, a large proportion of dissatisfied customers are those customers that outsource completely [11].

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Multisourcing

Multisourcing is a variation of the selective versus total alternatives. Just as in total sourcing arrangements, in multisourcing the customer outsources all functions, but to more than one supplier. Classic examples of multisourcing are BP Exploration (BPX), J.P. Morgan, DuPont, and Chevron. In 1995, rather than going with just one supplier, BPX entered into relationships with three under an umbrella contract, all of which were obligated to work together. In 1996, J.P. Morgan signed a seven-year, $2.1-billion contract with three suppliers. In 1997, DuPont signed a series of 10-year contracts worth $4 billion with two major suppliers, and a year later, Chevron outsourced to EDS, Sprint, and GTE. As Lacity and Willcocks explain, multisourcing mitigates the risk of choosing a single supplier, but additional resources and time are required to manage multiple suppliers [11]. As noted above, a large majority in the Cutter survey outsource to multiple suppliers; we do not know, however, the number of multisourcing agreements. Since these major deals of a few years ago, few multisourcing relationships have been announced involving domestic or offshore outsourcers.

Early contracts focused almost exclusively on cost reductions. Now organizations in their second or third generation of outsourcing are seeking cost savings as well as other business objectives. If one objective is to convert value chain support functions into lean and agile groups, contracting with one prime supplier and then contracting with a relatively small number of subcontractors accountable to the prime contractor may be the best approach rather than a situation in which the customer tries to coordinate the efforts of multiple suppliers. Complex control situations and multiple demands for management's attention rarely enhance organizational agility [7].

GLOBAL MODEL

A combination of offshore, nearshore, and on-site delivery is emerging as the dominant model for global companies. The global

model combines on-site, off-site, nearshore, and offshore delivery. Moving outward from on-site in the organization to nearshore and offshore outside the organization, a number of factors change: the client interface and communications requirements become less direct, physical proximity moves farther from the client, and the potential savings improve as the services are moved to lower-cost nearshore and offshore labor markets [12]. In addition to account management, functions performed on-site typically include program/project management, requirements definition, prototyping, high-level design, usability testing, acceptance testing, user training, and implementation/cutover. To achieve the targeted cost savings, a rule of thumb is to locate no more than 30% of offshore supplier's staff on-site.

Some of the functions performed on-site might be performed off-site but still onshore. To facilitate spontaneous communications and relationship building, however, it is advisable to locate the client and service provider relationship managers in close proximity to one another.

Activities performed nearshore might include quick-turnaround development, emergency fixes, interactive development, prime-time support, testing, risk diversification, and a possible alternative location to on-site for high-level design.

Functions typically performed offshore include detailed design, coding, unit testing, documentation, ongoing maintenance, and project management of offshore staff.

Despite the repeated advice of outsourcing experts against basing outsourcing decisions on cost alone, the reality in today's economy is that cost savings is the prime motive for offshoring.

Consider a hypothetical example of a company with its main operations in Dallas, Texas. It might outsource nearshore some of its applications development in Mexico. Nearshore outsourcing offers the advantages of easier travel without long distances and jet lag, closer physical proximity encourages more teamwork, and collaborative and concurrent work is easier when all parties work in the same time zone.

Work moved offshore to India, for instance, would likely offer the Dallas company lower costs than would moving work to Mexico. Other advantages of sourcing to India include that work could be performed around the clock, work quality would likely be high, and ample skills and other resources are available in India.

Citigroup is one example of the global model: Citigroup performs analysis, architecture, and product management in Los Angeles; it performs IT project management in London; coding and testing functions are located in India; data center operations are in Singapore; and business requirements responsibilities are located in Poland [12].

RECENT OFFSHORE TRENDS

The offshoring process has become more complex than merely using Indian programmers to fix code. Now new players and new ways of using the services exist. One new pattern, for example, is the use of multiple service providers in different countries rather than just one supplier in a particular country. As some outsourcing buyers have matured to the point of shopping around for the best skills for the best price from multiple sources, use of multiple providers is becoming more commonplace.

A second trend is the growing realization that despite the repeated advice of outsourcing experts against basing outsourcing decisions on cost alone, the reality in today's economy is that cost savings is the prime motive for offshoring. In a *Computerworld* survey of 252 corporate IT managers conducted in spring 2003, more than 40% ranked cost control and reduction as the main reason for outsourcing to non-US locations [9].

There are large disparities between the wages paid in the US and those paid in developing countries such as India and China. For example, the equivalent of a software developer who costs $60 an hour in the

US costs only $6 an hour in India; and a data entry worker who costs $20 an hour in the US costs only $2 an hour in India. In addition to lower wage costs, another economic benefit is that workers in underdeveloped countries usually view offshore jobs as prestigious and desirable. Consequently, offshore workers often have higher motivation and outperform their counterparts in developed countries in terms of number of transactions, number of errors, required rework, and other performance measures. Although substantial, the difference in wages alone exaggerates the savings, as there are additional costs incurred for telecommunications, travel, and management of offshore work. But according to McKinsey Global Institute, when these costs are factored into the cost base, there is still a 45%-55% savings [13].

Offshore cost savings are no longer confined to India. Other countries with growing outsourcing markets and improving skills include China, Malaysia, Mexico, Singapore, Russia, and the Philippines; and the list grows as costs in India increase relative to labor markets in other Third World countries. Other newcomers include Nepal, the Dominican Republic, Grenada, Bulgaria, Romania, and Egypt. The *Computerworld* survey found that 38% of its respondents are outsourcing work to India; 6% to China; 5% each to Mexico, Ireland, and Canada; and 4% each to Malaysia, the Philippines, Russia, and Singapore [9].

In addition to cost savings, some companies are using offshoring as an opportunity to drive revenue growth (see Table 1). Examples include airlines and computer manufacturers. By leveraging cheap labor, the airlines can afford to chase delinquent receivables, and computer manufacturers are able to offer more customer services by using offshore labor.

THE OFFSHORE CONTROVERSY

Fearful observers might view globalization as a crisis — resulting in jobs lost to overseas workers, declining competence of domestic workers, and so on. Meanwhile, the hopeful see opportunities: increased domestic productivity,

Table 1 — Considerations in Offshore Applications Outsourcing

1. Qualify the suppliers.	Do the vendors have domain knowledge, and are they financially viable? Are contractual safeguards in place to protect intellectual property?
2. Assign a top program/ project manager (PM).	Just as with the supplier's PM, an internal PM and relationship manager are essential to manage the relationship, control handoffs, ensure accountability, etc.
3. Train the service provider's staff.	The service provider's staff must know how the product or application will work and understand the business context in which it is intended to work.
4. Establish an effective change management process.	With work taking place on-site and offshore, it is essential that a clear and well-controlled change process ensures that only desired changes are made.
5. Use a disciplined and structured process, and focus on systems that are less complex.	Documented requirements, nonvolatile requirements, minimal user interaction and iteration, and systems without multiple interfaces to other systems are all good candidates for offshore work.
6. Plan for each project to take longer and cost more.	Just as with internal projects, the first one or two will invariably exceed estimates. A good guideline is to increase the estimation for the first project by 25%-30%.
7. Insist that the same people remain with the project, and verify that the people scheduled to work on the project are those actually working on the project.	The time spent on training is wasted, the rework will increase, and the project schedule will suffer if project staff are permitted to come and go.
8. Ensure that tools, processes, and methodologies are in place to support the project.	The offshore developers and on-site developers must have access to source code, a defect tracking system, platform applications, structured tools, etc.

declining value chain costs, and expanding global markets. Interestingly, the Chinese symbol for "crisis" means both "danger" and "opportunity." Outsourcing is a danger when done for the wrong reasons or if poorly negotiated and implemented. It is an opportunity for improved value chain effectiveness and reduced costs if properly planned, evaluated, implemented, and managed.

Federal Reserve Board Chairman Alan Greenspan offers the following explanation for why globalization became an emotional and contentious issue:

> Our exceptionally complex system for the international distribution of goods, services, and finance is not universally recognized as successfully enhancing standards of living and promoting civil values worldwide. … Globalization … needs to be seen as offering opportunities. … If we fail to make that case, renewed barriers to commerce could fill the void. … Should that occur, a few might be better off. Surely, the world will not. [5]

In recent months, offshoring has created a flurry of controversy, with both the media and politicians characterizing the situation as one of "India stealing jobs" (see "Recommended Reading" on page 27 for examples).There appears to be less controversy in other developed countries thus far, and the national backlash in the US is still somewhat muted. One possible negative reaction could be state prohibitions of outsourcing. Reports

Recent interviews conducted by Computerworld *with 20 CIOs indicate that the negative publicity of offshoring is having limited effect. Most IT leaders interviewed reported no change in offshoring plans resulting from the controversy of job loss.*

indicate that officials in the states of Maryland, New Jersey, Connecticut, Washington, and Missouri are promoting legislation to prohibit or restrict the state government from contracting with companies that send work offshore. Another could be restrictions at the federal level. For example, at least one major labor union, Communications Workers of America, has been active in lobbying Congress. At the time of this writing, there are no known actions underway in other countries to restrict offshoring.

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Thus far, it appears that the potential short- and long-term gains of offshoring outweigh concerns. Offshoring is another way to innovate, reduce costs, and become more competitive. The more companies innovate, the more competitive they become, and the value is passed on to consumers.

When wealth is created for companies and consumers, the economy improves and society benefits. So long as the benefits exceed the risks, we can expect that offshoring will continue, but it is still realistic to expect that offshoring and globalization will remain contentious and emotional issues for the foreseeable future.

Cutter Consortium Senior Consultant E.M. Bennatan has summarized the controversy this way: "While the prophets of doom lurk on the sidelines, technology continues to advance, global networks continue to expand, and we continue to find ways to improve the way we manage our global projects. So all is not bad, just as all is not good" [1].

In his *Wall Street Journal* article "With Software Jobs Migrating to India, Think Long Term," Bob Davis cites Ed Yourdon, Cutter Business Technology Council Fellow and international software guru, as the first to recognize that software work would migrate to India, and Davis notes that Indian firms have recently branched out into call centers, business processes, and in conducting clinical trials for pharmaceutical companies. Under these circumstances, Davis argues:

> The smart plan for the US is not to protect jobs that can be done more cheaply elsewhere but to do things that stimulate the creation of new jobs. … If competition from India and other developing nations adds more long term to innovation than it

subtracts in jobs short term, then US workers should wind up big winners [3].

We can expect that the debate will continue indefinitely, while the opportunities of globalization and offshoring will continue to outweigh the deep and legitimate concerns of opponents.

EVOLUTION OF ITO AND BPO

This section surveys ITO and BPO to set the stage and increase understanding of the indicated directions in which ITO and BPO appear to be moving as the global model blurs the differences between onshore, nearshore, and offshore. While most of the books and research about ITO have come out in the past 10 years, ITO has actually been around in some form or another for decades. When mainframes ruled the earth, the services of these expensive behemoths were available through time-sharing. Hiring contract programmers is also a 30-year-old phenomenon. Service bureaus, such as ADP, have been in the payroll business for decades and have recently expanded into accounting. Similarly, facilities management has been available for data centers for decades; EDS and the big four accounting firms entered the systems planning, design, and turnkey software businesses more than 30 years ago; and network sharing is also decades old. From the birth of business data processing in the 1950s and 1960s, companies with specialized skills have offered computer-based information systems support

and services. While multinational companies have used suppliers from different parts of the world for many years, offshore and nearshore ITO as we know it today is about a decade old [10].

Similarly, BPO is not just a management fad or recent introduction; it has been in development for years. In some ways, the beginnings of BPO can be traced back to World War II, when the Allies used engineering and quantitative analysis tools to improve the manufacture and distribution of war materials. These techniques were based on the notion that scientific methods could be used to measure, analyze, and improve any process.

After the war, management began applying these tools more generally in industry, starting in manufacturing, with the aim of increasing quality control and product quality. In the decades since, operations research, systems analysis, quantitative methods, and total quality management techniques have been applied in Japan, Europe, and North America to tackle many types of business problems. During the 1980s, the term "business process reengineering" (BPR) was born as a new way of describing the systems analysis and process redesign techniques of earlier decades. In its simplest form, these techniques recognize that each organization operates on the basis of a set of definable processes. And after defining these processes, it is possible to look within each and find ways of improving the process.

Just as the concept of BPR was taking off, the IT revolution exploded. Companies realized that hiring IT expertise inhouse and paying for continuous upgrades to hardware and software were anything but efficient. Consequently — almost overnight — a huge market for ITO was born.

It was a combination of the success of BPR and a maturing of the approach to ITO that saw BPO as the logical next step. BPR is about improving processes within a single enterprise. In one sense, BPO applies that same logic up and down the value chain or across an entire industry. Consequently, a BPO supplier can harvest economies of scale that a single company within that industry cannot.

For some companies, meanwhile, ITO moved from being simply a way of achieving immediate cost savings to becoming a strategic business tool as well. And as more companies gained experience, more outsourcing occurred and a higher level of understanding about the importance of relationship management came about. At one time, companies believed that they could just hammer out a contract, bargain the supplier down in price, and get the best deal possible. Now the experienced, knowledgeable ITO buyer realizes that instead of immediate cost savings, the objective is to achieve sustained benefits for the life of the agreement. Sustained, long-term benefits come from positive relationships.

In recent years, many enterprises have become a lot smarter about their use of capital, and the suppliers of capital have become much smarter about where they invest. Investors want to put money in companies that focus on what they do best and that outsource the rest. It comes down to the difference between "core" and "context." The first step to achieving a competitive advantage is to focus management attention and energy on what the company does best — its core business — because everything else suddenly becomes context. Capital investors are saying: Concentrate on the core and get someone else to do the context work. If you're not the best — or one of the best — in the world at a process, find someone who is.

Since its introduction in the late 1990s, BPO has been enthusiastically embraced by enterprises worldwide. According to the February 2003 Cutter study, both ITO and BPO are growing worldwide, with BPO experiencing the most rapid growth. Respondents included a wide range of organizations of different sizes from a number of industries representing every region of the world [8].

A 1998 PricewaterhouseCoopers (PwC) study, cited in the previously mentioned book by Lacity and Willcocks, found that the most common processes selected for BPO are payroll (37%), benefits management (33%), real estate management (32%), tax compliance (26%), claims administration (24%), applications processing (21%), HR (19%), internal auditing (19%), procurement (15%), and finance/accounting (12%) [14].

Comparing the findings of the PwC study with those of the Cutter study, Cutter found that the highest areas of BPO are training and payroll, with both exceeding 30%. HR is close behind at 29%. Other business processes exceeding 20% are billing, accounts payable, purchasing, e-mail, and supply chain. E-mail and supply chain were not mentioned in the PwC study. Other interesting similarities and differences include the growth in HR outsourcing from 19% to almost 30%, the increase in finance and accounting functions across the board (accounts payable, billing, etc.), and the continuation of payroll in the 30%-35% range [7].

With the global emphasis on cooperative relationships and cost-effective value chain activities, domestic and offshore BPO is growing for various reasons. One is the effect of the Internet and related technologies. These technologies are lowering the cost of coordination between firms, making it easier and less costly to obtain products and services from external sources. A second reason is that most value chain support services are now commodity-like, making most support functions and related business processes prime candidates for BPO. A third is the general growth in partnerships, alliances, and other cooperative relationships with suppliers in recent years. A fourth stimulus of BPO is the need to reduce costs and increase competitiveness, which motivates companies to outsource their support activities and administrative functions to lower-cost domestic and offshore suppliers. As global competitive pressures intensify, Asian and Latin American nations are providing the latest competitive challenges [7].

Facing continued cost pressures, companies are searching for new and better ways to make the value chain more efficient and to compete more effectively. Along with mergers, acquisitions, partnerships, and alliances, outsourcing in general and offshoring in particular have emerged as major parts of the answer.

The slowing economy has fueled more interest in BPO and ITO, as companies look to increase efficiency and avoid inhouse costs. Both are attractive in good times when companies look to enter new markets and outsource to suppliers that can provide a base of operation and infrastructure in a world region targeted for expansion. China is an example of a country whose government requires a foreign company to provide jobs and/or do business with Chinese companies before allowing that company to do business in the region [7].

While ITO is not new and the origins of BPO date back to World War II, both types of outsourcing have taken on increasing importance in

the thinking and strategies of business leaders around the world largely because of the underlying changes in the global economy and the resulting competitive pressures. Fundamentally, ITO and BPO constitute a new business model, a business megatrend, and, more than likely, the way businesses will be run in the foreseeable future.

Peter Drucker wrote about the "new society of organizations," a world in which knowledge is a factor of production along with land, labor, and capital [4]. He argued that every organization must build the management of change into its very structure, for large size is no longer a necessary advantage to an industrial firm, and neither is small size. Economies of scale no longer confer advantage for the production of products; quality, flexibility, agility, and the ability to meet diverse consumer demands count for more. As Drucker put it, "Whatever advantages bigness by itself used to confer on a business have largely been cancelled by the universal availability of management and information"; and "Whatever advantages smallness by itself conferred have largely been offset by the need to think, if not to act, globally" [4].

CLASSIC, VERTICALLY INTEGRATED COMPANIES AND CENTRALIZED IT

General Motors, DuPont, and other classic companies of the 1920s and 1930s became highly integrated firms that encompassed every function from production of raw

> *Fundamentally, ITO and BPO constitute a new business model, a business megatrend, and, more than likely, the way businesses will be run in the foreseeable future.*

materials through the production process, sales, delivery, and after-sales services. Business success in the classic model was measured, in part, by the extent to which a company was vertically integrated. Whether to function as a highly integrated organization or whether to design a much smaller organization more reliant on suppliers is a function of a firm's technology, strategy, and markets. Global competition now demands rapid response and flexibility: virtues that large, integrated firms find difficult to cultivate.

Mel Stuckey blames the many-layered organization on centralized IT technology. The role of the mainframe in the postwar corporation was as a central repository of information. Computer-based information systems enabled managers to centralize authority and manage large organizations with decisionmaking concentrated at the top [10].

A high degree of centralization, Stuckey argued, is now taken as an indicator of a dysfunctional organization, and it is essential for "demassification" or the pushing down of decisionmaking into many less central "pockets" of power, closer to the customer and closer

to the internal workings of the organization [17]. Today, desktop computers linked through networks to one another and to corporate databases are now an effective enabler of a more decentralized structure.

REENGINEERING AND ALLIANCES

In 1990, Walter Powell made the case that outsourcing, alliances, and reengineering are logical responses to the liabilities of vertical integration and large organizations in the current business environment [14]. Large, vertically integrated firms are unable to respond rapidly to competitive changes; their bureaucracies resist innovation and new products. Hierarchy also reduces motivation. The desire to advance up the promotion job ladder systematically leads those on lower rungs to avoid criticism of those above them. Initiative is stifled, and employee morale and motivation take a hit. Large organizations work well for repetitive and predictable tasks. But repetition leads to formalization with rules and documentation that create dysfunctional information barriers and slowdowns when the need for quick information flow arises. Large organizations are ponderous in response to customer needs when the change sweeps the business environment [10].

With increased competition and a rapidly changing business environment, size becomes a liability. Firms respond by outsourcing, forming strategic alliances, and downsizing work units. When firms

see the need for cost cutting and greater management control over allocation of resources, outsourcing is a rational response. When companies require world-class skills and innovation, they may turn to alliances and collaborative relationships with other firms that have the requisite talent. When internal tasks are too slow and unresponsive, firms turn to reengineering, which entails rethinking and radically reorganizing business processes, often involving reductions in the number of layers of management and substitution of IT for human labor. Heightened competition, therefore, pushes firms to outsource tasks that are standardized; search for alliances in tasks that involve high skill and innovation; and redesign internal processes to obtain flexibility, innovation, and faster response time.

INDIRECT BENEFITS OF ITO AND BPO

The indirect benefits of ITO and BPO may be the most important factor. By sourcing nonstrategic activities, organizations can devote more time and attention to the core activities that provide competitive advantage. ITO and BPO can reduce the size of and the hierarchy within the organization, allowing focus on obtaining, developing, and motivating the remaining employees who create value. ITO and BPO can also allow a shift in management attention toward strategy, coordination, and the skills that promote competitive success.

Success means speed: time to solution, time to market, and time to profit. As competition intensifies, enterprises must reduce the time to solution, time to market, and time to profit.

With the explosion of technology, ITO and BPO suppliers can provide access to technology and new services at significantly less cost and potentially less risk than is typically associated with inhouse delivery. Satisfying customers is a lot tougher than it was even a few years ago, because the requirements of speed and agility as well as raised customer expectations have increased the need for fast access and turnaround and global delivery capabilities. As the pace of the global economy quickens, companies seek innovative ways to rapidly access information, enter new markets, gain new sources of revenue, and increase productivity. Success means speed: time to solution, time to market, and time to profit. As competition intensifies, enterprises must reduce the time to solution, time to market, and time to profit.

Meanwhile, the combination of deregulation in many industries, the impact of new technologies, and the emergence of a global economy have blurred traditional boundaries; new rules and players have emerged; and tried-and-true paradigms for doing business are being tested.

External service suppliers permit customers to do things that they would not be able to do as well if left to their own resources. BPO and ITO suppliers can help customers compete aggressively in a rapidly changing global market, allow customers to gain access to the latest and most appropriate technology, and encourage customer companies to stay focused on what they do best. In short, excellent suppliers offer clients capacity, coverage, and capabilities [7].

The term "capacity" refers to a customer's ability to tap into a service supplier's enabling expertise, technology, and resources. "Coverage" means the ability to provide seamless support locally, regionally, and globally. For many companies, this support must be available as required — 24/7, 365 days a year, anywhere in the world. And "capability" refers to the knowledge and skill sets needed for the evolving technologies and processes.

For many enterprises, the capability to offer services where and when they are needed is critical. Consumers are demanding 100% availability and reliability. These demands affect the fundamentals of scalability, availability, security, data integrity, and manageability. Internet companies that suffer downtime during critical business hours lose revenue, and customers are just a click away from other, more reliable, online companies.

The business environment today is so demanding and changing so

quickly that no one service supplier can provide the entire infrastructure; power has shifted from sellers to customers. With raised expectations, customers are demanding high-quality service with no excuses for failure. Customer loyalty is easily challenged and quickly lost. Consequently, what we see today, and what we will see increasingly in the years to come, are dynamic partnerships among suppliers.

IT and business processes must be integrated within the enterprise. The CIO and CEO must understand the enabling role of IT and must work together to align IT and the business to adapt to the changing needs of the marketplace.

TECHNOLOGY CHANGE

Technological change expands options and enables outsourcing to almost any location on the globe. As computer technology matures, some IT products and services become commodities. A product or service can be considered a commodity when customers and/or clients share functionality, particularly for firms within a specific industry, and when reliable, high-quality performance levels are widely available at competitive prices. The commoditization of IT and systems has fostered economies of scale in their delivery. Suppliers who compete on both price and quality of service can often reach the scale necessary for minimum cost. Technology change also allows the separation of the management, operation, and

delivery of information services, which expands the choices available for outsourcing globally.

Over the past 50 years, IT's increased performance-to-price ratio has led to widespread and innovative uses of IT. The same rapid technological change, however, quickly makes older hardware and software obsolete. Organizations are, therefore, on a constant treadmill with an abundance of equipment and staff skills becoming obsolete and a shortage of critical cutting-edge skills and systems. BPO provides an avenue for reducing the human and equipment resources that do not fit with a company's strategic direction and for meeting the latest needs with up-to-date resources at competitive rates.

The business environment today is so demanding and changing so quickly that no one service supplier can provide the entire infrastructure; power has shifted from sellers to customers.

IT budgets have grown along with the growth in the use of computer equipment and automated systems. It is often difficult to measure the benefit and justify the use of IT. Senior management is attracted to outsourcing as a means of making costs predictable and ensuring that the organization pays the "market price" for IT services [10].

Contemporary CIOs more often have business backgrounds that are just as strong or stronger than their technology background. The current CIO approach appropriately takes a business approach rather than a pure technology view of outsourcing alternatives.

In many organizations, information systems control has been decentralized and dispersed. What remains of the old corporate or centralized IT function often involves excess capacity and resources, which make its functions obvious targets for outsourcing.

Rapid technological change creates overcapacity in certain functions in information-intensive industries, which leads to opportunities for ITO and BPO.

Over the past decade, the number and quality of onshore and offshore suppliers offering price-competitive and high-quality services have increased significantly. Barriers to entry are low, and technological change creates discontinuities in needs that suppliers can exploit. As new suppliers enter the marketplace, competition increases, prices continue to fall, and the quality of service increases.

Suppliers have experienced rapid growth in the demand for their services and can afford to snap up, reward, and promote some of the best technical talent in the industry, further enhancing their potential and the attractiveness of offshoring.

A number of corporate factors favor ITO and BPO. One is the corporate imperative to run lean and mean and to cut costs. Globalization of business in combination with technological change creates new needs for internal capabilities to address problems related to distance, size, and rapid change. Eventually, management concludes that new needs may be better met through reliance on suppliers with the requisite capabilities and reduced prices.

All of the above factors work in interrelated and reinforcing ways to account for the past decade of phenomenal grow in ITO and BPO. The upswing also coincides with a period in which business conditions are stretching the abilities and resources of internal staffs. Internal staff must struggle with ongoing operations while at the same time implementing new processes and systems. It is advisable, therefore, to find outside assistance and expertise from advisors who can help coach and assist during the outsourcing lifecycle. An unbiased advisor guiding an organization keeps the process moving along to a decision rather than costly delays and indecision. In that way, advisors help both the customer and the supplier make mutually beneficial decisions.

SUCCESS FACTORS

More than a decade of experience and research has shown that, taken together, certain attitudes, practices, and rules of thumb are important for successful sourcing.

These span the range, from identifying which functions could be and should not be candidates for outsourcing to developing the what, how, when, and by whom for the entire process from its beginning through to implementation and ongoing management of the relationship.

This section discusses outsourcing success factors in some depth. While these success factors pertain similarly to ITO and BPO as well as to onshore, nearshore, and offshore outsourcing, there are differences in emphasis, risks, and timing that offshoring presents.

Properly crafted and managed, offshoring should increase flexibility, improve performance, and free company management to focus on core competencies, while still permitting the supplier to make an acceptable profit. A poorly planned, evaluated, and implemented relationship is like a bad marriage that typically ends in a painful divorce.

Achieving the full potential of the relationship requires careful attention to what to outsource, why to outsource, with whom to outsource, and how to establish and nurture the relationship in ways that encourage continuous improvement and sustained business benefits.

1. Identify and Analyze What and What Not to Outsource

The first success factor is knowing what should and should not be a

candidate for outsourcing and, of those identified for outsourcing, which, if any, are strong candidates for nearshore and/or offshore work. This analysis and identification can be done in four steps.

The first is identifying which, if any, business functions and processes are contributing least to company performance and/or costing more relative to industry benchmarks. This is the "competency and cost" screen. Next, for each function identified, apply the "core function" screen by answering three fundamental questions with a yes, no, or don't know. Michael Corbett, a leading outsourcing speaker, recommends the following three questions:

1. If starting the business today, would you still build this function or process internally?

2. Is your company so competent at this function that other companies might contract with you to do it for them?

3. Will your future top executives likely come from this functional area?

The strongest outsourcing candidates are those functions for which the answer is no to all three questions. The next-best candidates are those functions for which the answer is no to one or two of the three questions. If the answer is yes to all three questions, the function is probably a company competence and an inappropriate candidate for outsourcing. Using a securities firm as an example, consider the

difference between applications such as HR for running the internal business and the technology for trading and other core business applications. The answer is probably no to all three questions about the internal applications: if starting a new company today, the business would likely use an ERP system for HR; a securities firm is not a firm that others are likely to contract for HR support; and the HR head is not likely to become the next CEO. In contrast to three likely no answers for the corporate HR applications, the trading and compliance systems that actually support the core functions of the business probably would produce a yes answer to two if not all three questions: the chief executives are likely to come from trading, compliance, or other securities backgrounds; smaller firms would delight in having access to the use of a large firm's trading, compliance, and other core applications; and if starting a new firm today, management might opt to acquire or develop its own proprietary systems that differentiate it from the competition.

A third step of analysis is to examine the contribution of a particular function or process along two dimensions. Using IT as an example, deciding which IT functions to shift to an external supplier and which to retain inhouse requires an analysis of IT as a portfolio and on a distinction between what an IT function or process contributes to business operations and what it contributes to competitive

positioning of the company. Each of the four types is discussed below [11].

1. **Useful commodity.** A useful commodity provides incremental benefits to the business but does not distinguish the company from its competitors. Typical examples of systems in this category are payroll, benefits, and accounting systems. Useful commodities are prime candidates for offshoring because the business can make further gains by freeing internal resources to focus on more critical activities. And because the suppliers have likely mastered this activity with lower costs and standardized work processes, the potential savings for the customer are real and attainable. Useful commodities have been and will continue to be prime candidates for ITO and BPO.

2. **Critical commodity.** Critical commodities are functions and activities that are critical to business operations but, like the useful commodity, do not distinguish the company from its competition. Lacity and Willcocks cite the example of an airline's aircraft maintenance system. Like its competitors, the airline must maintain strict maintenance standards set by the manufacturers and the industry regulator, but no benefits accrue from overperformance. Critical commodities are good candidates for offshoring, that is, if an external offshore or nearshore

supplier can meet stringent requirements for quality and responsiveness as well as a low price. Best source, not cheapest source, would be the guiding principle for sourcing a critical commodity offshore, nearshore, or onshore.

3. **Useful differentiator.** These activities differentiate the company from its competition, but in a way not critical to business success. On the surface, these should probably not exist, but Lacity and Willcocks found that they frequently do because the IT staff is relatively isolated from the business and may pursue its own agenda.

4. **Critical differentiator.** These IT activities are both critical to business operations and help differentiate the company from its competition. An example cited by Lacity and Willcocks is the reservation and check-in system of a European ferry company. Its competitive strategy is to differentiate through improved services, speed, and ease with which passengers and their cars complete the boarding. The company continually makes improvements in this process, and while it outsources a number of its IT activities, this system is maintained inhouse. The rationale is that this protects the company's expertise and permits the company to innovate more rapidly. Critical differentiators should rarely be outsourced to an external supplier, domestic

or offshore; although contracted support might be brought in to meet temporary resource needs.

A fourth step is to consider whether it makes sense to consider an off-shore solution. In doing so, it is important to assess the strengths, weaknesses, and risks associated with various countries and off-shoring service providers (see Table 2). McCaffrey cites a study by A.T. Kearney that analyzed 11 countries on five criteria: IT and business process maturity, presence of multinational companies, availability of skilled labor, expected future infrastructure development in the country, and scalability of operations [12]. Based on these criteria, A.T. Kearney ranked the 11 selected countries from one to 11. The countries ranked in the following (descending) order: India, Canada, Brazil, Mexico, the Philippines, Hungary, Ireland, Czech Republic, Australia, Russia, and China. In addition to whether an offshore country and provider have the requisite capabilities and skills, Cutter Consortium Senior Consultant Ian Hayes cites the following important offshore considerations [6]:

- **Project management.** The project and program issues are magnified as work moves from on-site to nearshore and offshore. The most significant project issues are communications between the individuals and teams, team building and relationship management, project and program management, and fulfilling performance

Table 2 — Examples of IT Specialties in Selected Countries

Mexico	Applications development
India	Applications development and maintenance, ITO, contact centers, BPO
Israel	Learning systems, high-end software
China	Product-embedded software, hardware services
The Philippines	Contact centers, animation, BPO, applications development

commitments. Interfaces and handoffs between organizations are particular points of difficulty and risk. Establishing and enforcing the use of strong project/program management and supporting tools and techniques with common standards and metrics are difficult enough on-site; they are particularly vexing, challenging, and critically essential across borders.

- **Infrastructure and business disruption.** While constantly improving over the past few years, the communications, power, and other utility infrastructures in developing countries are prone to disruptions because of terrorists, political unrest, natural disasters, and other catastrophes. Before moving work offshore, evaluate whether the country has uninterruptable power supply, backup generators, and redundant communications facilities. Disaster recovery and backup contingency plans are essential and should include plans to quickly shift work between locations

and designate teams ready to travel on short notice to restore full operation in a new location.

- **Security.** In any situation, physical security of intellectual property and trade secrets are important issues, but they are particularly critical in countries with different legal systems and enforcement mechanisms. While the leading nearshore and offshore suppliers maintain strong security measures and procedures to protect intellectual property, it is wise to limit offshoring to locations that can guarantee security.

- **Data and software integrity.** Sharing data and software among organizations and teams requires strict version control to protect the integrity of the programs and data. Accordingly, it is important to house versions of critical components in more than one location, to apply backup and version control procedures, and to use shared configuration control tools.

Lehman Brothers, for example, assigns Lehman managers to each offshore location. Along with their offshore supplier counterparts, these Lehman country managers are responsible for project/program management, physical security, data, and software integrity, as well as the other factors critical to success [2].

2. Apply the Rules of Thumb for Managing Change

First and foremost, successful offshoring is about managing change across organizations, borders, and cultures. The following rules of thumb are bits of advice as well as things to consider when managing the outsourcing evaluation/ decision/contracting process and the subsequent changes introduced.

■ **Stay alive.** This rule counsels the executive sponsor, program manager, and other champions of change against self-sacrifice on behalf of a cause that could become the last one for the change advocate. Outsourcing domestically is sensitive in its own right; offshoring is a particularly contentious and emotional issue of lost domestic jobs and opposition to globalization. This is not to say that the program manager and executive sponsor should not take a stand or assume risks, but such risks should be taken as part of a purposeful strategy and a set of business goals that are appropriately timed, targeted, and understood by key stakeholders. Risks taken in informed circumstances

usually keep everyone very much alive.

Staying alive is more than a survival skill, however. It also means staying in touch with the reasons for offshoring and with the justification for the change. Rather than leaders being ruled only by their emotions, this rule means that leaders use their skills, emotions, and intellect. It means that managers avoid being trapped by the hidden agendas of others. It means going with the flow while still swimming against the tide. It means living in several places without being the captive of any. It means seeing dilemmas as opportunities and greeting absurdity with laughter, not ridicule. It means seeing the future through the lens of the business reasons for why offshoring is in our organization's best interests.

Sourcing evaluations should begin by diagnosing the real problems and not just the symptoms.

■ **Avoid fighting uphill battles.** In its broadest sense, this rule calls for approaches that are participative rather than autocratic, that are open rather than closed, that build strength and build upon strengths. This rule presents a number of implications that affect the choices management must make about how to manage the change. Some corollaries are (1) build resources and allies, which means not doing

tasks that can't be accomplished more certainly and easily by a team; (2) not arguing if you can't win (that is, win-lose strategies must be avoided); and (3) making the critical value decisions before opponents make them for you.

■ **Work on the most promising first.** Do not try to salvage a hopeless situation with offshoring. A badly operating function is seldom made better by sending it outside a company or offshore. It takes at least two factors to create a bad business function: incompetent management and a misunderstanding of the function in the broader organizational and market context. The offshoring supplier can replace incompetent managers in the outsourced function but not the customer's corporate and business-unit managers who still misunderstand how to leverage the outsourced capabilities. Consequently, a misunderstood and underutilized function may remain in that condition indefinitely after being sent offshore.

■ **Begin with an understanding of the problems to solve and the stakeholders involved.** This rule is so obvious that it should be common sense; but as Voltaire once observed, "Common sense is not so common." In practice, this rule is often violated. The rule implies that sourcing evaluations should begin by diagnosing the real problems and not just the symptoms. But most organizations

do not like to be diagnosed. To communicate effectively, to obtain a basis for building a sound offshoring strategy, management must understand its organizational culture and how members of that culture see their situation and themselves.

- **Build teams and allies.** Not only does a major change program such as offshoring have high visibility (which can invite criticism), it also naturally tends to make various stakeholders and subsystems sense a lack of commitment. It is, therefore, necessary to light many fires with internal teams and allies, because as soon as the change effort turns its back, other forces will press things back toward the status quo. Cultural differences also can be magnified by those not mentally or emotionally committed to the new ways of doing business.

- **Load the program for success.** Build an umbrella over the offshoring evaluation and implementation process. Even poorly conceived experiments can succeed when the participants feel ownership and are committed to the program. When stakeholder groups are brought together to support one another's efforts, the entire system can be motivated to move in the desired direction.

- **Maintain an optimistic attitude.** Do not ignore destructive forces. Be particularly aware of the constructive forces and potential

allies. People have an innate capacity for resentment as well as for joy. Individuals and groups locked in destructive conflict focus on differences, but management must maintain focus on commonalties. An unhappy focus on the past hurts and, in so doing, undermines the present and future.

3. Develop a Plan

During the early part of the process, the most important step is development of a plan that defines the problem and the objectives of offshoring, establishes the project plan and schedule, allocates resources, assigns responsibilities and accountabilities, and prepares everyone for the offshoring process. There is no substitute for clearly articulated and understood objectives approved by the executive team that every stakeholder group understands and shares as objectives. Reaffirming the objectives at various points along the way is also smart. The project plan should define the business objectives and sourcing strategy, specify the functions to be considered for offshoring, designate those responsible for certain deliverables by certain deadlines, and establish the foundation for a successful evaluation and decisionmaking process.

The need to adapt rapidly to compete effectively is stimulating many companies to realign through various cooperative relationships with suppliers. These cooperative supplier relationships include

mergers, acquisitions, alliances, partnerships, and outsourcing relationships. As a consequence, effective sourcing strategies and practices have emerged as important to company success, and relationship management has emerged as a critical management skill for managing alliances, partnerships, and outsourcing.

As with any important decision, offshoring is not risk free. Effective offshoring practices and strategies require management attention from the initial evaluation through the life of the relationship. It is important to understand these challenges and, from the outset, use a logical, planned process to achieve the desired outcomes from the relationship.

Successful offshoring requires that management set explicit goals. Companies that rush into offshoring without understanding why and taking the time to identify specific objectives are setting themselves up for failure. If a company's management does not know what it is trying to achieve, the offshoring relationship is likely moving toward a painful situation in which expectations of the supplier are inflated and unrealistic, the real needs of the customer organization remain unmet, and most stakeholders become dissatisfied and disgruntled. There is no substitute for knowing where you are headed and what it will be like, so it is obvious when you have arrived.

4. Know the Key Stakeholders and Their Expectations

A stakeholder group consists of those with shared or similar expectations, perceptions, and goals. Lacity and Willcocks have identified eight types of IT stakeholders, consisting of both customer and supplier stakeholders [11].

1. **Senior executives of the customer company.** Senior client executives expect to see demonstrated business value for IT expenditures. Their inability to assess IT benefits often causes senior management to focus on IT costs.

2. **Senior IT managers in the customer company.** This group's concerns center on balancing service excellence expectations of users with the cost-containment demands of senior business management.

3. **IT staffs in customer company.** As technical enthusiasts, customer IT staffs focus primarily on service excellence, but within budget and time constraints.

4. **IT users.** IT users expect service excellence. Cost implications are often not apparent to this group or of concern. Ease of use, bell-and-whistle enhancements, latest capabilities, etc., are of the greatest importance.

5. **Supplier senior management.** Supplier senior managers negotiate deals that will satisfy customer management while maximizing profits.

6. **Supplier account managers.** Account managers try to balance demands of customer satisfaction and profitability.

7. **Supplier IT staffs**. As technical enthusiasts, supplier IT staffs focus primarily on service excellence, but within budget and time constraints.

8. **Subcontractors.** Subcontractors are expected to deliver on their contracts, while they seek more direct relationships with end customers.

Senior managers of both companies are often enthusiastic — albeit tentative — when exploring the possibility of a "partnership." There is no commitment. This relationship has been described as a "peacock dance," in which each party is anxious to impress the other with its company's assets and capabilities.

Lacity and Willcocks note that stakeholder relationships are dynamic. The same two people can fight one day and collaborate the next, with the relationship experiencing different points along the relationship continuum. They identify four generic types of relationships [11]:

1. **Tentative relationships.** These relationships are common when stakeholders have no shared history. Stakeholders are unsure whether goals are shared, complementary, or conflicting. Behavior is usually polite caution with a predisposition to enthusiasm. For example, senior managers of both companies are often enthusiastic — albeit tentative — when exploring the possibility of a "partnership." There is no commitment. This relationship has been described as a "peacock dance," in which each party is anxious to impress the other with its company's assets and capabilities.

2. **Collaborative relationships.** These relationships occur when stakeholder goals are shared and fostered because all parties are part of the same organization. Possible collaborations include situations in which customer senior executives and customer IT managers both want the best service at the lowest cost; customer senior executives and IT staff both want the best possible salaries and benefits for employees targeted for transfer; customer senior executives and IT users both want to negotiate best possible service-level agreements with the supplier.

3. **Cooperative relationships.** Cooperative relationships exist when goals are complementary. Each party needs something from the other to succeed. If the supplier suffers, the customer suffers, and so on.

4. **Adversarial relationships.** These relationships occur when stakeholder goals are in conflict. Three activities can be inherently adversarial: (1) negotiating the original contact; (2) establishing

precedents for contract interpretation during transition; and (3) renegotiating or realigning the contract during the term of the contract.

5. Understand and Mitigate the Risks

No IT activity or business process is risk free. Typical IT risks are technical, functional, political, environmental, and systemic. Whether these risks come from an offshoring arrangement or not, they can arise and must be planned for and mitigated. Similarly, the offshoring project is affected and threatened by these same risks [10].

- Technical risks arise when what is to be accomplished requires a change to new, unproven technology or systems.

- Project risks increase when the project is large or complex relative to the resources in time, money, people, and skills available.

- Functionality risk is the risk that the project performs according to specifications but fails nonetheless because the specifications were in error or because what is actually needed exceeds what was specified for the project because of a changing environment.

- Political risks arise when individuals or groups within the organization resist or even act to undermine a new project.

- Environmental risk results from governance, governmental

bodies, or the economy that compromise the success of the project.

- Systemic risk is a large shift in the environment that changes major conditions and assumptions, invalidating the analysis on which a project was originally based.

In addition to the above generic IT project risks, offshoring involves the following potential risks:

- The transition to offshoring is poorly handled, causing alienation on the part of IT users, IT personnel, or both.

- The offshoring contract is incomplete and does not cover all contingencies.

- The relationship with the supplier is not appropriate to the function that is outsourced.

- A bad supplier takes advantage by underperforming, not performing, overcharging, stealing personnel or data, or undermining the relationship in various other ways.

- The relationship sours, and conflict with the supplier ensues, increasing the cost of managing the relationship.

- The relationship falls apart, and the parties wind up in court.

- It's necessary to find another supplier to replace the previous one, or it becomes necessary to bring the function back inhouse.

- Support of business and clinical functions is compromised

because of problems with the supplier.

Managing offshoring risk begins with an understanding of risk exposure. Risk is multiplied in any situation that involves a substantial departure from the past. Risk exposure is highest under the following conditions:

- The technology is new (unless the company's purpose is to shift to a supplier that has the experience with the new technology as a risk-reduction strategy).

- The organization is critically dependent on the information services to be outsourced. Reliance on the outsource function for competitive advantage or mission-critical functioning raises the risk level substantially.

- The function is large or complex. The service required from a large or complex function is likely to be more difficult to specify in a contract, and there is simply more possibility for misunderstanding, miscommunication, and conflict. Total offshoring of the IT function falls in the large and complex category and represents a major challenge for that reason alone.

Risk Identification

For the offshoring arrangement under consideration, take each of the possible areas of risk and brainstorm possible sources of risk. If the environment could have great impact on the success of offshoring, scenario analysis might be effective.

Three scenarios might be developed: the first projects the future if present trends continue; a second projects the environment and its effect on offshoring under an optimistic set of assumptions that favor the offshoring decision; and a third estimates the future under a pessimistic set of assumptions that are unfavorable to offshoring success. Exploring scenarios may result in a more robust and realistic exposure of the risks involved.

Risk Significance

For each risk identified, analyze the sources or the underlying causes of the risk. If employees are likely to be unhappy with offshoring, analyze the causes of this unhappiness. Further analyze the causes, tracing them back in a causal chain until fundamental or root causes are identified.

Breaking down causes into further detail is extremely useful in order to fully understand the risks, estimate risk probability and possible effect, and ultimately to manage risks when the offshoring project goes forward. Try to quantify risk exposure for each risk identified, even if this can only be done in terms of categories such as "high," "medium," and "low." Risk exposure is a combination of the effect of the risk and its probability of occurrence.

Effects can include costs incurred because of the risk, losses that might result from the risk, and

It is important to realize that some risks may be interrelated. A new technology, for example, presents risks in that it may not function correctly, but new technology also may unleash a set of political risks when users are uncomfortable with the new elements or favor an alternative.

delays. In addition, recognize that each risk exposure can have a time profile with little or no exposure at some times during the term of the contract and high exposure at other times. Exposure can increase or decrease with changes in both the probability of occurrence and the size of the possible effect. If exposure varies over time, estimate the time profile as well. Simple diagrams that chart exposure help to understand the risk.

It is important to realize that some risks may be interrelated. A new technology, for example, presents risks in that it may not function correctly, but new technology also may unleash a set of political risks when users are uncomfortable with the new elements or favor an alternative.

Scenario analysis is a technique that can lead to better estimates of exposure to risk — both estimates of the probabilities of the occurrence of unfavorable events and estimates of the magnitude of their effect.

Prioritize the Risks

Finally, prioritize the risks. Discard those judged to be insignificant. Of those remaining, beginning with the most significant, make a reasoned guess as to how successfully each risk can be managed and at what cost. If management can include preventive efforts, adjust the probabilities accordingly and include the management costs in the cost analysis. If monitoring to detect the occurrence of a risk and action to minimize the effect of the risk are feasible, rework the risk analysis and size of exposure to reflect this.

After identifying the risks associated with offshoring, the team should consider ways in which each might be mitigated or minimized. Risk management consists of planning, resolution by elimination or reduction, and followup or monitoring.

For each risk, think of approaches to managing it. Can the risk be avoided or reduced? If it can't be avoided, is it possible to shift the risk to the supplier? Is it a good idea to make such a transfer? How much time and expense is involved? Are the efforts onetime or continuing? How successful are management efforts likely to be?

Determining who should be involved in risk analysis depends on the issues. For an offshoring decision that is noncontroversial and involves a very limited and stable function in a stable environment, minimal risk analysis is needed and can reasonably be undertaken during

a meeting or two. Complexity is lessened somewhat if the project is seemingly noncontroversial, and most key stakeholders favor offshoring. Unfortunately, because such stability is rare, it is important for the team to analyze the risks of offshoring versus the risks of outsourcing domestically or not at all [10].

6. Answer the Key Questions

A company's steering committee as well as its executive sponsor should ensure that several questions are asked, that the answers are agreed upon early in the process, and that questions and answers are revisited as often as necessary. The questions include the following:

1. What are our core competencies?

2. Which services/support functions are not part of our core competencies?

3. For those functions not part of our core competencies, which can an outside supplier best perform?

4. Which suppliers are the best of breed for those services/support functions that are not part of our core?

5. Can and should any of our problems be fixed internally before outsourcing domestically or offshoring?

6. Which problems or opportunities do we hope to solve or achieve with offshoring?

7. Which key stakeholders must take part in the offshoring evaluation/decision process? Which stakeholders must approve the process and decision?

8. Which stakeholders must be informed but need not approve the process and decision?

9. What are our outsourcing and offshoring objectives?

10. For the services under consideration, which offshore providers are the best?

11. How can we best handle HR issues?

12. What is our plan for employee communications along the way?

13. Can the services be delivered on-site, off-site, offshore, or through some combination?

14. Which criteria will we use to evaluate supplier proposals and select the finalists?

15. Do the expectations of key stakeholders (executive management, the board, influential suppliers, important customers, partners) differ significantly? If so, what is our solution?

16. Are stakeholders supportive of the offshoring objectives and the project schedule?

17. Is the offshoring schedule for the request for proposal preparation, proposal evaluation, contracting, transition, and implementation phases realistic and adequately resourced?

7. Oversee the Evaluation and Selection Process with the Executive Sponsor and Steering Committee

Early in the evaluation process, appointment of an executive sponsor and a steering committee is exceedingly important. For larger offshoring initiatives, top management must play a key role on the steering committee and as executive sponsor/champion. For smaller initiatives, mid-level managers might do the heavy lifting with the support of senior management. In either case, the steering committee must have a mix of managerial and technical talent and representatives from user areas whose services will be directly affected by offshoring. User perspectives and objectives are essential for setting the scope; analyzing risks; understanding stakeholder expectations; and assessing feasibility, establishing appropriate evaluation criteria, and making decisions that can be supported throughout the organization.

8. Establish a Relationship Management Foundation and Structure

Governance, or relationship management, is the key to achieving benefits. The most successful relationships start off by creating a basis for long-term improvement of the relationship; carefully managing the expectations of all parties, including business-unit managers; and, at the outset, defining the metrics, scorecard, and evaluation process to encourage continuous improvement of performance and

of the relationship. Well-managed relationships also start out with a joint management structure in place that facilitates frequent and easy communication at all levels, provides for joint goal-setting meetings as well as regularly scheduled performance reviews; offers training and education programs to better understand respective company cultures; and rewards and recognizes supplier and internal employees personally and directly. Part II of this series will address relationship management in greater detail.

9. Sign a Complete Contract

Suffice it to say that much is involved in developing and negotiating a sound contract that is attractive to both parties. Part II will address offshore contracting in considerable detail.

10. Involve Senior Management in the Process

The 10th key success factor is ensuring that the outsourcing project is on the list of important priorities for all involved, from senior executive to lower management. Senior management must take an active interest in the entire process, from agreeing with the candidate functions for outsourcing evaluation and defining the objectives of offshoring to establishing organization-wide commitment to the analysis and evaluation process and the final decision to outsource offshore or not to outsource at all. As with any important organizational change, the probability of a favorable outcome significantly increases when the senior executive team takes an active role.

In order to achieve the required organizational involvement, senior management should assign capable managers to the project. The evaluation, decisionmaking, and project management responsibilities are substantial with serious potential consequences if poorly planned, managed, and executed. The entire process requires capable people who focus on appropriate stakeholder involvement. Early in the evaluation, identify the team and the executive sponsor who will take project management responsibility.

Given the emotions often involved in offshoring analyses and decisions, an executive sponsor or champion and a project leader are critical. For larger and more controversial initiatives, top management must play a key role. For smaller initiatives, mid-level managers may do the heavy lifting with the support of senior management. Teams usually need a mix of managerial and technical talent as well as representatives from user areas whose services will be directly affected. User perspectives and objectives are essential for setting scope, understanding different stakeholder perspectives, and assessing risks.

Team size depends on the scope and size of the project, but smaller teams are generally more effective. Teams can be quite small in the planning phase and expanded when analysis begins. Teams with full-time members are usually more focused and effective than those composed of part-time workers, although full-time allocation may make sense only for big projects in large organizations. Outside consultants and attorneys with offshore and other outsourcing experience are highly recommended, particularly for companies that are considering outsourcing for the first time.

11. Pay Attention to and Understand the Cross-Cultural Differences

An offshore outsourcer comes to the table with not only organizational differences but also cultural and societal beliefs and standards of behavior that differ from the customer's culture. It is important for both parties to understand the other's organizational and societal cultures. Cross-cultural factors are therefore a major part of the next report in this series.

12. Establish the Right Kind of Supplier Relationship

Relationships with a supplier can take many forms from a pure market relationship at one end of the spectrum to a cooperative relationship (outsourcing, alliance, and partnership) or to an outright acquisition at the other extreme [10]. In Part II, the various types of possible relationships with an offshore supplier will be discussed.

Making the Right Decision

All the key factors covered in this section must be addressed when evaluating, implementing, and managing offshore outsourcing. Making

the right decision and applying an appropriate process depends on actions ranging from deciding which functions should and should not be candidates for outsourcing or offshoring; planning the what, how, when, and by whom for the entire process; gaining the commitment of senior management and the support of various stakeholders; identifying and mitigating the inevitable risks; asking the right questions along the way; and finding the appropriate answers. Poor decisions and failures invariably result from inadequately applying these practices and establishing a sound process and structure from the outset.

A FINAL NOTE

By way of summarizing the main points in this report, the following is a list of do's and don'ts for both buyers and suppliers.

Buyer Do's:

■ Understand the cost dynamics and potential leverage of the onshore-nearshore-offshore model.

■ Be prepared to source services on a global basis and include global delivery as part of the sourcing strategy.

■ Outsource selectively rather than totally.

■ Apply the key considerations summarized in Table 1.

■ Know your business: strengths, weaknesses, strategies, and core competencies.

Buyer Do: Keep an eye on the business value of the decision. Decide whether to outsource on the basis of business case rather than concerns for protecting anyone's turf.

■ Evaluate, negotiate, and manage the relationship with strong teams of highly competent people.

■ Retain well-respected outside offshore outsourcing and legal experts to advise and assist you throughout the offshore outsourcing process.

■ Keep an eye on the business value of the decision. Decide whether to outsource on the basis of business case rather than concerns for protecting anyone's turf.

■ Maintain supplier competition throughout the evaluation-decision-contracting process.

■ Negotiate a sound, win-win contract.

■ Establish an effective process and structure to manage the relationship and measure supplier performance.

■ Encourage continuous improvement of supplier performance and of the relationship. The continued success of any relationship is a result of motivated, well-meaning management on both sides.

■ During the first year or more of the outsourcing effort, prepare

for less-than-expected benefits. The early stages rarely yield significant cost reductions.

■ Retain certain IT capabilities inhouse in order to elicit and deliver on business requirements, manage external suppliers, plan for future technology, and leverage IT for business advantage.

■ Invest in at least annual cross-cultural training of both buyer and supplier staff.

■ Involve stakeholders and senior management in the evaluation, decisionmaking, and implementation process.

Buyer Don'ts:

■ Don't outsource any function that you do not understand well enough to manage efficiently without offshoring. Look to best-of-breed service providers to make it better and less costly.

■ Don't rush into offshoring because others use the practice; every company has different needs.

■ Don't try to keep management and employees uninvolved and uninformed. Secrets cannot be kept for long. When — not if — the word gets out through the rumor mill, the repercussions can be devastating.

■ Don't treat those affected by offshoring as just faceless numbers.

Supplier Do's

■ Help potential and current customers set realistic expectations.

- Ensure that the customer has the proper structure and staff to manage the relationship.

- Encourage the customer to retain the requisite inhouse capabilities.

- Help the customer achieve continuous improvement by always looking for ways to innovate and improve the customer's products, processes, and services.

- Develop a win-win attitude with the customer.

- Invest in and participate in cross-cultural training with the customer.

- Build a solid working relationship with the customer.

- Advise and assist the customer in accomplishing do's and avoiding don'ts.

SUMMARY

Because globalization presents business leaders with an environment of challenges, and outsourcing offers one strategy for meeting the challenges and seizing the opportunities, this report focused on the origins, trends, and motivations for offshoring, the global driving forces, factors critical for success, and how a sourcing strategy that includes offshore delivery can lead to improved value-chain capabilities. Management must be ready to adapt the business to changing markets and the competitive pressures of the global economy. Whether a company seeks to reduce costs, improve time to market, penetrate new markets, gain access to a pool of skilled workers, or some combination of reasons, ITO and BPO on-, off-, and nearshore provide attractive options. Even in the best of economic times, management must keep a watchful eye on costs and remain mindful that a downturn or a major new competitive pressure could be around the corner.

Part II will describe the process to follow for evaluating and deciding whether to send work outside, and once that decision is made, how to transition operations and implement the offshore relationship. The next report also will examine cross-cultural factors and relationship management principles. With the recent rapid growth of cooperative relationships, effective management of external relationships has emerged as a critical management competence, particularly when different cultures are involved. Finally, the next report will describe the market in India, Canada, China, and other established and emerging offshore and nearshore countries.

ABOUT THE AUTHOR

Wendell Jones is a Senior Consultant with Cutter Consortium's Sourcing and Vendor Relationships Practice, a regular contributor to the Sourcing and Vendor Relationships Advisory Service, and a keynoter at Cutter's *Summit.* He is a senior executive with 30 years' management experience in the securities, aerospace, and computer industries, as well as the US military. Most recently, as VP of Worldwide Service Delivery for Compaq Computer Corporation, Dr. Jones managed a worldwide outsourcing service delivery with 2,400 IT professionals and served as interim COO for the UK and Ireland business unit. Prior to joining Compaq, he served as Senior VP of Technology Services at NASD/Nasdaq Stock Market, where he managed selective onshore and offshore outsourcing. Prior to this position, he led the evaluation, negotiation, and management of a 10-year, $3-billion IT outsourcing agreement at McDonnell Douglas. Dr. Jones is the author of several management and IT articles, coauthor of *Outsourcing Information Technology Systems and Services*, and a frequent speaker at executive conferences. He has appeared on a CNBC outsourcing special and is often quoted in business and trade publications, including *BusinessWeek*, *Investors Business Daily*, *Wall Street Journal,* and *CIO*. Dr. Jones serves on the advisory boards of several organizations that promote outsourcing information, exchange, objective research, and best practices for customers and service providers. He can be reached at wjones@cutter.com.

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workshop

Strategic Outsourcing: A Structured Approach to Outsourcing Decisions and Initiatives

Leader:

Dr. Wendell Jones, Senior Consultant, Cutter Consortium

General Overview:

Outsourcing is growing at double-digit rates. Why? A number of forces have converged to change the business environment, including the competitive pressures of a global economy, fast-changing technologies, niche competitors and institutional investors who demand bottom-line results and shareholder value. Similarly, in the government and not-for-profit sectors, there are more sophisticated, vocal constituencies demanding improved service for less taxes or dues.

Workshop Goals:

You'll explore the issues to address in developing an outsourcing initiative, including the seven steps necessary to make a wise outsourcing decision, to negotiate a sound win-win contract and to establish and nourish successful relationships. The workshop combines interactive group discussions, lectures and exercises to ensure take-home value for each participant. You will have the opportunity to ask specific questions and discuss issues related to your own outsourcing initiatives. As a result of this workshop, you will be better able to:

- Select the best project team and outside advisors to evaluate outsourcing
- Plan and implement an outsourcing project
- Understand how outsourcing fits or does not fit with existing vision, strategies and core competencies
- Determine the total costs of the targeted areas for outsourcing
- Determine real performance of the targeted areas for outsourcing
- Draft a request for proposal (RFP) that will encourage provider proposals
- Select the most appropriate provider
- Negotiate terms for a positive relationship
- Draft a contract that covers the important issues
- Transition the factors of production to the provider quickly and effectively
- Monitor the provider's performance after the transition occurs
- Effectively manage the ongoing provider relationship

Workshop Outline:

Overview of Strategic Outsourcing
- › Outsourcing reasons and benefits
- › Strategic versus tactical outsourcing
- › Outsourcing trends
- › Outsourcing methodology: the 7 steps

Planning Initiatives
- › Initiating the project; defining the scope
- › Selecting outsourcing targets
- › Getting management acceptance

Exploring Strategic Implications
- › Impact of size and vertical integration
- › The role of process structures
- › Core competencies: determining; exploiting; examples
- › Restructuring and transformation tools
- › Alternatives to outsourcing
- › Provider relationship and decision rights
- › Contract length
- › Testing prospective outsourcing initiatives

Analyzing Costs and Performance
- › Measuring existing and activity-based costs
- › Measuring current performance levels
- › Performance level comparisons and standards
- › Risk analysis
- › Asset identification and capital budgeting
- › Pricing models and financial engineering

Selecting Providers
- › Service providers and qualifications
- › Evaluation criteria and making a decision
- › Developing the RFP
- › Scope: service specifications
- › Provider qualifications and selection
- › Performance measures and tools
- › Pricing and other terms and conditions
- › Establishing relationship team
- › Due diligence

Negotiating
- › Preparing for negotiations
- › Negotiation levels and contracts
- › Scope of services and performance standards
- › Pricing schedules and production factors
- › Management and control
- › Transition, billing, payment and termination provisions

Transitioning
- › The transition process and roles
- › Communication and HR issues

Managing Relationships
- › Oversight
- › Performance monitoring and measurement

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The subscription-based component of this service addresses issues such as making the outsourcing decision, structuring outsourcing contracts, relationship management, offshore outsourcing, service levels, and other essentials.

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- Carole Edrich
- Michael J. Epner
- Ian Hayes
- David Herron
- Wendell Jones
- Stuart Kliman
- Michael C. Mah
- Marty McCaffrey
- Eugene G. McGuire
- William Ulrich
- William A. Zucker