OUTSOURCING MYTH BUSTED

By Gloria Seltzer

Outsourcing has become a popular solution for North American CEOs and CIOs who dream of saving big bucks by outsourcing their operations to third world countries, where labour resources are cheap and living standards are low. The following outlines the common outsourcing models.

Model 1: Workload/ Resource Management

Organizations contract local resources to address peaks in workload which are seasonal or temporary, e.g. data entry during RSP season. In addition, external resources can help set strategic goals for the organization to compete and succeed in a global turbulent economy, and undertake complex projects utilizing new technology and expertise not yet mastered by in-house staff (e.g. Web development.)

These represent best management practices, since the external resources speak the same language as the customer, adapt easily to the customer's culture/dynamics/politics, and can easily adopt the customers' guidelines, discipline, methodology, policies, and procedures.

Model 2: Outsourcing Defined Functions Locally/ Nationally

Organizations contract other organizations to deliver specialized services because they have the expertise and the economy of scale to do it better and cheaper. For example, many airlines and hospitals outsource their food services to a caterer; and HR departments often outsource their payroll function to a vendor.

These represent best management practices, since the operations are relatively simple with defined processes and procedures, output and results are visible and easily measurable, and corrective action if/when required is timely by switching to another vendor.

Model 3: Outsourcing Semi-Defined Functions Globally

Organizations contract other organizations to manufacture their products in economically depressed or developing countries. There are many instances of companies in the apparel, food, shoe, toy, and other product manufacturing industries who outsource their operations to China, India, Thailand, Mexico, and other countries.

There are pitfalls however. The manufacturing processes and safety standards may not be fully understood or adhered to by these countries. The end product can be toxic and subject to recall, with disastrous impact on sales revenue and corporate image/reputation which cannot be salvaged in the short-term. Note the recent recall of toys coated with lead paint and children's jewellery made with metals containing lead, as well as pet food which killed thousands of cats and dogs.

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Model 4: Outsourcing IT Functions Locally/Nationally

Organizations contract other organizations to deliver specialized services because they have the expertise and the economy of scale. Examples include IT departments in Toronto outsourcing their call centres/help desks to service bureaus in New Brunswick, and systems development, enhancement, and support functions to service bureaus in other parts of North America.

There can be problems with this model as well. One recent high profile case involved a service bureau that did not understand the complexity of the customer's support

Gloria Seltzer

Léo Lefebvre

infrastructure. This resulted in production data loss for a mission critical system which was not recoverable.

As the number of third parties increases, the coordination/integration effort increases and the time to deliver services also increases. Eventually, the service quality deteriorates, since it is difficult to isolate problems to one service provider in a complex environment, service providers blame each other and do not take responsibility/ ownership of problems, and service providers' priority is to address the general needs of major customers rather than tailor to one customer.

Another challenge is when the contract with a service provider quoting fixed prices over a number of years only covers "high level generic" support functions. The service provider often charges per diem/delivery, claiming that the specific service requested is outside the scope of the contract. A fixed price model evolves into a variable time & material billing model.

Model 5: Outsourcing IT Functions Globally

Organizations also contract with foreign IT providers to deliver specialized services where labour resources are cheap even for highly skilled information workers. Most common is the outsourcing of their call centres/help desks, systems development, and support functions to teams in developing countries.

At first glance there seems to be a significant economic advantage to this model, but the following factors contribute to the challenges of making a positive impact to the bottom line:

Language Barrier

Often, staff based and educated in foreign countries are not proficient in English. Their heavy accent is not easily understood by customers of the call centre/help desk. (This is an inconvenient truth which is politically incorrect but needs to be stated.) In some cases, they do not speak English at all and rely on their team lead to interface with the customer to translate to their native language. In a typical scenario, a team lead talks to his team on the phone in their native language all day. Team members are on coffee breaks most of the time at the customer site, waiting for the lead to understand/translate business/system requirements. (Savings are drastically reduced with the team living and working in North America, as the cost is ultimately charged back to the customer.)

Culture Barrier

Some Eastern cultures promote male chauvinism and discrimination against women, resulting in teams that do not take direction from women project sponsors/managers. Other cultural problems involve the habit saying "yes" to everything requested for the sake of being polite, and covering up problems for fear of "losing face" and being blamed. This can result in teams falsely reporting that the project status is on schedule, on budget, and "everything is under control." They report problems only when they have no choice and it is too late (e.g. failure to deliver on the due date).

Knowledge Barrier

Outsourcing overseas is common in the financial industry, however the learning curve for the financial industry is steep, and the learning curve for foreign teams is even steeper. Since their North American knowledge/experience is limited, they sometimes take a simplistic/superficial approach to complex environments and make strategic errors. The frequency, pace, and magnitude of system requirement changes (especially regulatory compliance changes) cannot be easily assimilated by these teams.

Methodology Barrier

Foreign teams frequently have their own methodology/templates for the Systems Development Life Cycle which is not compatible with North American customers' methodology/templates. This creates problems for system integration/implementation. The customer team is forced into identifying/correcting the problem themselves, with major rework after the fact.

Customer Team Morale

The customer team can be discouraged, demoralized, pressurized, frustrated, distraught, and burnt out when they witness their work being outsourced. This is further exacerbated when they have to clean up the mess and pick up the pieces afterwards. This usually happens after the outsourced team has left the project, citing that the contract is fulfilled. This makes it even more difficult for the customer team to analyze problems and take corrective action.

CONCLUSION

The following are good mottos to heed before embarking on an outsourcing adventure with its potentially huge inherent risks:

- Buyer beware (Ralph Nader).
- Look before you leap.
- There is no free lunch.
- How do you eat an elephant? Bite by bite. (Test the water by awarding smaller contracts first to benchmark performance.)
- If you cannot solve your existing problems, outsourcing them may even compound your problems.
- The devil is in the details. (No contract in the world can cover all of your requirements, but at least have a clause to withhold payment six months to a year after a major system implementation.)
- Make sure the outsourcing opportunity does not turn into an insurmountable problem.
- Make sure you are not penny wise and pound foolish when "cheap" becomes "expensive", and your dream of saving money turns into a nightmare of runaway project schedule and escalating cost overruns, poor product/service quality, and staff disengagement (which can be irreversible). TUG

Gloria Seltzer *holds Bachelor of Science and Master of Business Administration degrees from McGill University, Montreal and has a Certified Management Accountant designation. She has been in IT for over 30 years, as a Business Analyst and Project Manager. Gloria can be reached at gloria.seltzer@bmo.com.*