

Managing IT Outsourcing Projects

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The offshore outsourcing market is expected to be off the charts in 2008. According to some outsourcing analysts, India is likely to spend \$50 billion in software exports. India, however, is just one of many players. More countries will be entering this fiercely competitive marketplace each year. China, for one, is rapidly evolving as a major outsourcing power.

IT outsourcing is a \$30 billion industry today--and still growing, according to Bob Kramwich, vice president of DarwinSuzsoft, an IT outsourcing provider that specializes in the financial services, software, insurance and health care industries.

“With globalization rates soaring to new heights, more companies are realizing the immense potential outsourcing delivers,” says Kramwich. Not aggressively pursuing outsourcing relationships could lead to competitive suicide, he adds.

In managing IT outsourcing projects next year, PMs ought to consider the following five variables, according to Kramwich:

1. The driving factors guiding outsourcing decisions will change drastically. Revenue potential and labor arbitrage will play major roles.
2. Outsourcing providers will carry even more weight. IT outsourcing is no longer simple BPO processes. Outsourcing engagements will be more centrally aligned with key business objectives and involve a great deal of critical functions--such as Java development and QA automation.
3. China will continue to gain steam. More companies will continue to pull out of India and build outsourcing relationships in China, which boasts an intriguing market with massive business benefits. The country’s fast-growing economy, advanced infrastructure, seamless forum for local customer support and growing IT talent pool will be the key selling points.
4. The IT offshoring landscape will be marked by fragmentation. Within China, there are 16,000 IT service providers today. By 2010, a massive roll-up is expected. In evaluating IT outsourcing projects next year, companies will need to evaluate the long-term potential of their outsourcing partner.
5. Services will continue to evolve and mature. The term “core competency” will be redefined. If a company is engaging in an outsourcing relationship, it’s likely to keep its core engineers closer to home while increasingly outsourcing the “non-core” functions.

Russell Pass, a partner of management consulting company Bridge Strategy Group in Chicago, sees the following trends strongly affecting project decisions next year:

- With outsourcing extended to core processes, IT decision-makers will increasingly find themselves playing the role of consultant/systems integrators.
- Outsourced functions will have multiple points of integration at the strategic, process and technology levels, most of which are poorly documented because institutional knowledge has always been available to compensate for a lack of formality in documentation.
- Vendors will generally rely on their own systems in delivering outsourced services, and standards will continue to lag behind integration needs.

- Companies will be disaggregating the IT function and outsourcing parts of it to different vendors to take advantage of greater specialization and the competitive advantages of using a global work force.
- Increased specialization, which will increase performance expectations.
- Sourcing and vendor management process will be more sophisticated.
- As functions are disaggregated, new integration challenges will be created.
- Companies will need to focus on the long term and consider where expertise and sustainable competitive advantage should be built for vendors in different locations.
- There will be a shift away from offshore relationships in favor of pure outsourcing.
- Many companies will discover that turning over operations to an outsourcer rather than running a subsidiary will result in lower costs because of the advantages of scale. And locally owned businesses can benefit from a smoother and more efficient decision-making process.
- There will be an increased transfer of infrastructure and systems to outsourcers.
- Secure workflow systems will be developed to facilitate interaction with third-party outsourcers.
- There will be increased management of IT providers for third parties (procedures and protocols for troubleshooting joint IT issues).

Rafael Pabon, a partner at New York City IT consulting firm Stratex, says that companies lacking domain expertise will be bringing in experts to work with the internal project management office to help run projects. "There are several issues that will have to be dealt with," Pabon explains. "As outsiders have more external and internal resources at their disposal, there's not likely to be any coercive hierarchical power. The challenge for PMs will be figuring out how to use their time and expertise as quickly as possible." When they do, they will have the power and flexibility to accomplish a great deal.

They may have 300 people reporting to them, says Pabon, but the good part is that technically they're not working for the PMs. "When projects are completed in one or two years, the relationship ends and the PMs leave," he says. "The fact that they're not a permanent member of the management team gives them the power and leeway to get things done quickly and efficiently. They're seen as neutral managers by staffers, which translates to a lot of negotiating power. They bring emotional neutrality to the decision-making process, which leads to better outcomes."

Ultimately, PMs have a great deal of control, according to Pabon, because they can freely communicate with all parties in the outsourcing relationship--vendors, stakeholders and top-level decision-makers.

In this context, PMs in outsourcing relationships can bridge barriers and focus on issues that would normally be beyond their span of control. The good part is that if they're working on four or five projects simultaneously, they can concentrate solely on what's in their critical path.

The outsourcing world is only becoming more complex, according to Pabon. In 2008, PMs will have to be masterful puppeteers, agilely pulling all the critical project strings that lead to the successful completion of multiple projects. Even if they can control the purse strings of their vendors, outsourcing relationships will have to be managed very tightly. It's not just about managing money; the real challenge will be managing behaviors, Pabon adds.

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