



Managing outsourcing projects

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Learning objectives

- Understand the scope of IT outsourcing
- Understand the outsourcing environment
- Review different models of IT outsourcing
- Understand the critical success factors in managing IT outsourcing projects



Scope of IT outsourcing

- Technically, everything can be outsourced
- Software development
- Software support and maintenance
- Data centre operations
- IT operations support
- Telecommunications network
- Telecommunication support

Drivers of IT outsourcing

- Changes to IT sourcing strategy are required because:
 - Acquisitions introduce more technology
 - Some expertise are difficult to recruit locally
 - Smaller sites have limited IT budget
 - Difficult to be 'jack of all trades' in one site
 - Some companies do not want to manage IT
 - Cost base too high in many cities



The outsourcing environment

- Changes to IT sourcing strategy are now possible because:
 - Education level high in emerging countries
 - Significant improvement in infrastructure
 - Cheap telecom cost (voice and data)
 - The power of the Internet
 - Acceptance of the onshore/offshore model
 - Government incentives

Different models of IT outsourcing

- There is no single optimal model
- Whatever fits the business objective of the company is the best model
- IT outsourcing can be:
 - Everything is outsourced
 - Nothing is outsourced. All in-house
 - Hybrid (eg. Data centre operations kept in house but operations support is outsourced)

Software development the onshore/offshore model

- Dedicated relationship manager on both sides
- Outsourcer has analysts and designers on-shore(20% , say)
- On-shore team will work with users and internal IT staff on requirements
- Send design/development tasks back to offshore site (80%)
- Joint testing team once product is ready
- Used by many Indian software houses

Types of outsourcers

- Third party service provider. Varied degree of control of management
 - Service bureau (for data centres)
 - Software houses (for software dev/maintenance)
- A subsidiary either on-shore or offshore. Retains complete control of the management
- A joint venture. Varied degree of control of management

Supplier selection process

- Prepare a supplier's brief
- Send out RFI(request for information) with supplier's brief to potential bidders
- Prepare an RFP(request for proposal) document
- Send to selected suppliers for proposal
- Short list responding suppliers
- Arrange presentations for final selection

Supplier selection criteria

- Proposal vs. the requirements of the brief?
- Competency in doing the job
- Experience in similar projects
- Expertise of staff assigned to the project
- Degree of sub-contracting
- A strong project manager
- Deadline commitment
- Cost
- Good reference

Pros and cons of outsourcing

■ Pros

- Access to a larger pool of lower cost IT staff
- Access to expertise not available in home country
- Get a better product than in-house

■ Cons

- Can be a major business risk
- Outsourcer does not know your systems
- Lose control of the outsourcer

Critical success factors for managing IT outsourcing projects

- Be clear on the objectives of outsourcing
- Never lose control of the outsourcer
- Have dedicated team to manage the relationship with the outsourcer and vice versa
- Find a trustworthy outsourcer
- Do it one step at a time
- Think twice before outsourcing core systems
- HR and internal communication

Be clear on the objectives of outsourcing

- Do not outsource because it is 'fashionable' or the consultants told us so
- Are we outsourcing because:
 - More cost effective than in-house?
 - We do not want to/cannot train staff internally?
 - Lack of expertise in managing IT internally?
 - The IT experts in the outsourcer can do it better?
 - We want better control of IT expenditure? (usage based costing)

Never lose control of the outsourcer

- Some shareholding or having a board member helps to influence
- Stress on a partnership and win/win rather than a pure customer/service provider relationship
- Monitor progress and deliverables diligently
- Have a solid service level agreement with penalty clauses



Have a dedicated team for relationship management

- Absolutely essential
- Managing an outsourcer is more difficult than in-house staff
- Have own staff in the outsourcer team and vice versa will improve synergy and cooperation



Find a trustworthy outsourcer

- Have good references
- Find someone that has high product quality and a good service attitude
- Big names do not guarantee success

Do it one step at a time

- Start with small and simple tasks to test out the relationship management process and quality of the outsourcer
- Start small will also minimise the risk in case of problems with the outsourcer

Think twice before outsourcing core systems

- Outsourcing core systems can be highly risky if outsourcer fails
- Must be very vigilant on an ongoing basis to ensure system operates smoothly
- Make sure outsourcer has a backup site and conducts contingency testing regularly
- Regulators may not accept outsourcing core systems, esp to overseas outsourcers



HR and internal communication

- Outsourcing is a major shift in company culture
- Potential job loss
- Must have a comprehensive communication plan to staff
- Must have a well thought out HR plan to ease staff concerns and staff redeployment

OUTSOURCING EXAMPLE 1

■ CHEQUE SIGNATURE VERIFICATION

- Outsourced development of a cheque signature verification project
- Reputable vendor and long time partner
- Result not satisfactory
- Project was late
- Documentation inadequate and did not follow bank standards
- Explanation from vendor.....staff resignation in China software centre

OUTSOURCING EXAMPLE 1

(contd)

■ Corrective action taken

- Send in own project manager
- Inject own staff into project

■ Lessons learnt

- Vendor track record in application software development not solid
- Vendor outsourced to offshore development centre
- Inadequate manpower from vendor
- Vendor did not understand documentation standard required

OUTSOURCING EXAMPLE 2

- Cheque imaging and truncation system (CITS)
- Cheque truncation means physical cheques do not have to be sent for clearing and settlement
- Computer images are sent to the clearing system instead
- CITS project enables low value cheque clearing using imaging technology

OUTSOURCING EXAMPLE 2

(contd)

- Physical cheques are sent to HK Interbank clearing company (HKICL)
- Cheques were captured by MICR (Magnetic ink character recognition) readers
- Software will read the courtesy amount (C.A.R. technology.....courtesy amount recognition)
- Generates computer record for presentment to paying bank
- Community project

OUTSOURCING EXAMPLE 2

(contd)

- Project outsourced to vendor that has expertise in cheque image technology
- Successfully implemented on time
- Key success factors:
 - Strong project manager from the bank
 - Strong project manager from vendor
 - Technical problems resolved promptly by engineers on site during project
 - User community cooperation in testing



Summary

- IT is critical to the banking industry
- Service delivery is totally dependent on IT
- Project failure can have grave impact to the business
- Good project management is crucial to ensure success in implementing banking IT projects