

EXPERT SERIES

The "Expert Series" is a collection of articles, papers and writings by PM Solutions' associates and other industry experts that provides insight into the practice and value of project management.

Will Outsourcing Relationships Rule the New Millenium?

by Debbie Bigelow

THE RULES AND REALITIES OF BUSINESS HAVE CHANGED. Organizations don't need to own all of their products, services, and infrastructures, they simply need to be able to access these capabilities and achieve their business goals.

Outsourcing represents a long-term, results-oriented relationship between two companies. It is often viewed as a tool to pave the way for future adoption of technologies and new business models. In the past, organizations outsourced basic support services (mailroom, cleaning, fulfillment). In today's world, outsourcing is now encompassing customer sales and support, human resources, financial functions, and the largest area of all, information technology. As organizations' IT and business strategies have become more steadily intertwined during the past decade, outsourcing has moved from a cost-focused approach to one of business value. Outsourcing is no longer just about savings. In a recent survey, computer industry analysts at London-based Xephon polled 90 IS managers across the globe and discovered a growing interest in outsourcing. "Few of the largest organizations in our research view cost savings as a major reason for outsourcing," says Xephon research director Mark Lillycrop. "With internal efficiencies and the declining cost of hardware and software, it is getting more and more difficult to make a case for outsourcing based on cost alone. The need to take advantage of rare e-skills is a much more compelling reason to make the move."

As I look back at my experience in the business world, I have seen the growth, acceptance, and value of outsourcing. My first experience with outsourcing was actually with PMI nearly ten years ago, as we ventured to "outsource" our annual Seminars & Symposium registration process. Outsourcing of information fulfillment followed, and now PMI outsources the majority of its publishing and publications area.

Outsourcing Project Management is now becoming an option for companies as well. When project failures and ineffective project management practices are impairing business performance, organizations are looking for solutions. Taking this business process out of the organization and giving to an outside service provider enables the organization to manage the enterprise portfolio of projects, bring in priority projects within budget, and help get products to market faster - all of which add tremendous business value to organizations.

Some of the problems with outsourcing - poor services, unmet expectations, cost overruns - often gain a high profile. The reality is that on the whole, organizations are pleased with the results of outsourcing. At the 1998 Outsourcing World Summit, 70% of the attendees reported that the results of their company's outsourcing efforts had met, exceeded, or significantly exceeded their expectations.

Managing the outsourcing relationship is of critical importance. For a successful strategic relationship, it must be defined, managed and properly led. The joint goals of the relationship and a balanced, objective scorecard for measuring success must be defined. Typically, the business objectives for an outsourcing relationship align with the elements of shareholder value - costs, assets, and revenue. Overall, the customer's performance needs are met on a consistent basis at cost points at or below what they

would have spent internally, and at or close to best-in-class cost levels. Most importantly, and as mentioned previously, continuous improvement and innovation occur, increasing business value.

There continues to be some apprehension with regards to outsourcing. The loss of control of strategic systems, risks of costs that are hidden during contract negotiations, and loss of morale of working side-by-side with third party staff with higher salaries could be drawbacks to outsourcing. There are a number of very sound, very basic management principles that can be applied to improve the results of an organization's outsourcing efforts. In many ways, they reflect a maturing view of outsourcing and how it contributes to improved business performance.

The overriding principle is that outsourcing is not abdicating, it is leveraging. Organizations are outsourcing because they want to leverage the unique skills and resources of the other organization to the benefit of their company and their company's customers. Yes, the rules and realities of business have changed. The traditional economy rules of "ownership"; "brick and mortar", "customized environments" have changed. New rules of "accessability"; "clicks and mortars"; and "mass-customized environments" will dictate through the millennium... and outsourcing appears to be one of the new drivers of optimized business performance. It is an exciting time for all industries!

¹Downey, Geoffrey Volume: 26 Number: 7 ISSN: 03190161 Publication Date: 03-31-2000.

Reprinted from *PM Network*, May 2002, Volume 16, Number 5