Overview

Outsourcing is the move by firms to leverage expertise located beyond the boundaries of the firm. It has recently received a lot of attention recently in the press, due to the rapidly increasing interest that American companies have in offshore software and operating services production. Such arrangements usually involve firms relying on suppliers to carry out activities and execute processes, rather than having the firms perform them in-house. Although outsourcing by firms traditionally has occurred in manufacturing and logistics operations, this trend is being adopted more broadly in many knowledge-intensive activities, such as delivering IT services, interpreting medical scans, providing call center support services, and so on. A September 4, 2004 report in the Star Tribune indicated that the outsourcing of IT services and back office or call center operations by Minnesota companies is projected to double by 2008 from the relatively modest levels observed in 2003 and 2004.

There is also significant interest in offshoring, where arrangements are made for outsourcing involves vendors performing their value-added activities in overseas facilities. Offshoring permits companies to take advantage of factors such as lower cost talent pools and differences in time zones that allow round-the-clock activities on projects. Offshoring has rapidly become an important component of firms’ strategies to enhance revenue and efficiency and become more competitive in global markets.

The idea for an Outsourcing Research Roundtable and the Outsourcing Research Project came from preliminary brainstorming meetings, phone calls and one-on-one meetings with managers in Twin Cities firms around issues they would like to see addressed by the MISRC. The inputs of managers in these meetings uniformly stressed the need for greater clarity in their understanding of outsourcing. They initially suggested that it would be very useful to them if we could:

- Go beyond the myths surrounding outsourcing in articles in the business press by obtaining our own data and credible external sources to provide a clearer and more balanced view. There was a general feeling that a white paper interpreting the related issues would be useful.

- To help figure out high an approach to high level managerial risk assessment and to determine how to identify and assess candidate projects for outsourcing in terms of the risks and potential problems that might arise. The managers suggested that helping them develop a broader understanding of this process would be very useful as well.

- Highlighting the firm and managerial competencies needed for outsourcing, particularly in the area of vendor management and project management. Efforts leading to the development of material that could be used by firms for in-house training were also viewed as being useful.
Participants

After the initial discussions we had to establish a general direction, we had further inputs from managers attending two Outsourcing Roundtable meetings, one held over a lunch on September 10 after the Friday seminar on outsourcing, and a second meeting held during the morning of September 17. The participants at those meetings were as follows:

- Participants at September 10 meeting
  - Dave Tsang (General Mills)  dave.tsang@genmills.com  Phone: 763-764-3511
  - Sue Simonett (General Mills)  sue.simonett@genmills.com  Phone: 763-764-7319
  - Mike Grosso (General Mills)  mike.grosso@genmills.com  Phone: 763-293-2239 (Mike was not able to attend)
  - Bill Rohde (Unisys)  William.rohde@unisys.com  Phone: 651-635-3363
  - Chuck Lefebvre (Unisys)  charles.lefebvre@unisys.com  Phone: 651-635-6520
  - Michael Wiest (Unisys)  Michael.wiest@unisys.com  Phone: 651-635-5418
  - Rob Kauffman (MISRC)  rkauffman@csom.umn.edu  Phone: 612-624-8562
  - Mani Subramani (MISRC)  msubramani@csom.umn.edu  Phone: 612-624-3522

- Participants at September 17 meeting
  - Chuck Lefebvre (Unisys)  charles.lefebvre@unisys.com  Phone: 651-635-6520
  - Pat Davitt (Mayo Clinic)  davitt.patrick@mayo.edu  Phone: 1-507-284-7555
  - Besty Eastlund (Mayo Clinic)  eastlund.betsy@mayo.edu  Phone: 1-507-284-0599
  - Al (Jim) Evans (Mayo Clinic)  evans.albert@mayo.edu  Phone: 1-507-284-9140
  - Bruce Johnson (Mayo Clinic)  Johnson.bruce2@mayo.edu  Phone: 1-507-255-4345
  - John Curtin (Hexaware)  johnc@hexaware.com  Phone: 651-245-0367
  - Rob Kauffman (MISRC)  rkauffman@csom.umn.edu  Phone: 612-624-8562
  - Mani Subramani (MISRC)  msubramani@csom.umn.edu  Phone: 612-624-3522
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Research Roundtable Outcomes

As we hoped, in these meetings, the participants worked toward identifying some more specific questions that would enable us to formulate a workable project with a meaningful set of outputs. Two issues stood out in the discussions as being very important in helping firms make informed decisions related to outsourcing and offshoring of IT services and IT-enabled processes:

- Developing the basis for a competency model for outsourcing; and,

- Going beyond the hype to present a clearer picture of the costs and benefits of outsourcing firm activities.

There are significant top management expectations from outsourcing based on the general buzz in the media and from specific claims of large cost savings by vendors. However, the reality is that firm benefits from outsourcing critically depend on the successful management of the complexity involved in transitioning tasks and activities from in-house groups to an external vendor, and then managing them appropriately on an ongoing basis. The experiences of firms
that have outsourced indicate that successful initiatives require significant management and operational focus to ensure success. The considerations involved in preparing a firm to outsource and to manage outsourcing initiatives include:

- Crafting a business strategy to leverage the opportunities offered by external vendors that can direct the development of business cases for outsourcing and offshoring.
- Identifying projects or tasks that can potentially be outsourced.
- Specifying details of important communication processes (e.g., for conveying changes in requirements).
- Evolving criteria for ongoing monitoring of project or task execution.
- Laying out milestones and metrics to assess the level of success of initiatives.

Given the wide range of views and often contradictory opinions on outsourcing, we believe that a systematic view of how firms can initiate and manage outsourcing initiatives can be useful. The inputs from participants in the Outsourcing Research Roundtable confirmed this. In addition, the conversations indicated that evolving a competency model for outsourcing to help managers deal with the complexity of outsourcing decisions would be a valuable deliverable from this project. We also felt that it would be helpful to enable participants to get a clearer view of costs and benefits to firms engaging in outsourcing, another desirable outcome that can help the group.

**Post-Research Roundtable Thinking: A Competency Model for Outsourcing**

Since we concluded the roundtable discussion, we have been discussing the broad elements of a competency model for outsourcing. Our competency model for outsourcing comprises capabilities that can be viewed at three levels. The capabilities at each level are inter-related and can contribute to those at higher levels.

**Organizational Level Competencies.** Some of the activities and capabilities associated with the development of a competency model at the organizational level of analysis include the following:

- Developing a model of costs and benefits for outsourcing activities, and processes and activities that are candidates for outsourcing.
- Leveraging capabilities and resources of the firm to structure and manage outsourcing initiatives across multiple groups within the firm.
- Identifying the lessons learned from outsourcing by different groups within the firm, and evolving best practice standards for outsourcing.
- Effectively structuring and managing contracts.
- Developing metrics for ongoing monitoring of projects.
- Managing intellectual capital effectively.
• Monitoring and influencing legislation with respect to outsourcing, and evolving strategies to ensure compliance.

• Competencies to manage public relations with respect to outsourcing initiatives

Division or Group Level Competencies. Some of the activities and capabilities associated with the development of a competency model at the division or group level of analysis are:

• Identifying specific sets of processes or task requirements that can be candidates for outsourcing.

• Identifying appropriate outsourcing mechanisms to fulfill task and process requirements.

• Identifying and developing potential vendors for outsourcing services.

• Structuring and managing vendor contracts competencies are required at this level also.

• Effectively managing vendor relationships.

• Leveraging division/group level project management capabilities for outsourced projects to ensure they stay on track.

• Developing and managing the employee skill pool at the division/group level, and transitioning employees whose jobs are outsourced.

• Supporting ongoing learning from outsourcing initiatives and development of best practice standards.

Individual Level Competencies. In addition to the organizational and division level competencies that we described above, it is also important to create the basis for competencies at the individual level. Our thinking parallels what we see companies doing with “Six Sigma” quality management initiatives, that involve organizational readiness, sufficient competencies at a division or group level in aggregate based on a set of well-trained people, as well as significant individual competencies. We think the following are some of the requisite capabilities:

• Managing across cultures and recognizing the complexities of cross-cultural organizational processes.

• Building one-to-one relationships with key vendor personnel.

• Assessing overall vendor strengths, as well as the capabilities of individual vendor personnel involved in the management of the relationship.

• Having strong traditional project management capabilities available.

• Building knowledge management capabilities.
• Creating relationship management capabilities on the part of users of outsourcing systems and applications.

**Information-Level Related Competencies.** A critical piece that underlies the set of competencies that we have proposed at the different levels of analysis is being able to rely upon good information about the costs and benefits of outsourcing. We believe that it is important for managers, especially with respect to accurate cost and benefit information. To accomplish this, however, it is necessary to establish a sense of how reliable outsourcing-related cost and benefit information that is provided by sources external to the firm. Thus, one of the baseline competencies upon which everything else rests is the ability to acquire information about other firms’ outsourcing experiences, costs and benefits that have a high level of reliability. In this context, it will be helpful for firms to “go beyond the hype” and develop their own frameworks for assessing outsourcing costs and benefits, or adopt an externally-created framework that is known to have some measure of reliability. An analogy here is “function points” and “function point analysis” in software development, which goes beyond the hype of different and new software development tool-based approaches to identify the labor cost and effort, and the risks of building software applications that have a given level of functionality, complexity and size.

**Project Plan: Execution Details**

**A. Understanding Costs and Benefits of Outsourcing.** The first part of our project involves treating the information-level competency, by developing an MISRC assessment of the quality of information available on the costs and benefits of outsourcing.

- **Resources.** This project will be conducted with the assistance of two students in the Carlson School of Management’s PHD and MBA Programs (one of each is ideal).

- **Tasks.** We envision the following tasks related to this activity:
  
  o Perform a literature survey to compile brief reports and assessments on successful and failed outsourcing initiatives, and the related costs and benefits.
  o Interview a set of managers to get their personal experiences related to outsourcing and managing service providers, and ask them to compare the costs and benefits that they have experienced with information available in the business press.

- **Deliverables.** The primary deliverable is a white paper that will provide the MISRC’s perspective on the costs and benefits of outsourcing, informed by both press reports and practitioner experiences. This will include a description of real-life incidents that highlight importance of specific processes and competencies.

  Another deliverable that will be useful to members is a set of online resources on outsourcing and offshoring linked to the Research Roundtable Homepage at the MISRC. We will keep this updated with the latest thinking on outsourcing and offshoring issues. The URL for this page is: misrc.csom.umn.edu/projects/outsourcing/resources/.

- **Timeline.** A preliminary report will be provided for discussion during the March 2005 Outsourcing Research Roundtable. Activities for each month are described below:
  
  o August-September 2004: Engagement, initiation and brainstorming phase.
  o October-November 2004: More detailed formulation and planning phase.

March 2005: Reporting phase

April-May 2005: Refinement phase

B. Developing a Competency Model

• **Resources.** To accomplish the work that is required to develop a competency model for outsourcing, we expect to use the following resources:

  - Scheduled phone-based or in-person interviews by the faculty and PHD student participants with Research Roundtable participants, and others at their firms. Participants are asked to identify two or three persons from their firms as target interview candidates. We also hope to find an external faculty member who may be interested in assisting. Efforts to find such a person are underway.
  - Additional literature-based research by a PHD student, external faculty member and faculty project leader.
  - PHD student assistance on the creation of presentation deck for March 2005 on preliminary findings.
  - Project leader and MISRC director involvement, with help of PHD and external faculty participant, to draft final project white paper.

• **Specific Tasks.** The tasks for this segment of the project are fairly straightforward, and will lay out across the coming months leading up to the March 2005 Outsourcing Research Roundtable. The specific activities that we expect to work on are:

  - Enrich the list of capabilities at different levels by conducting in-person and phone-based interviews, and by evaluating the available literature.
  - Identify processes to develop and deploy each of the capabilities, through brainstorming and post-interview discussions among members of the research team.
  - Articulate linkages between processes and capabilities at each level and across levels through further analysis of the outcomes of the interviews and literature reviews. This will also be done by the research team, with an opportunity for feedback on the general findings coming in the March 2005 Outsourcing Research Roundtable.

• **Deliverables.** A white paper that describes the competency model for outsourcing for project participants. Longer term (outside the project timeframe and after May 2005) and pending the success of our effort to identify the elements of the competency model, we will also be constructing a proposal for the Carlson School of Management’s Executive Development Center to create a “Strategy and Leadership in Offshoring and Outsourcing Management” program—an executive education programs. We look forward to having participating companies’ input on the program’s contents.

• **Project Timeline.** The project timeline for the related activities is roughly as follows:

  - August-September 2004: Engagement, initiation and brainstorming phase.
  - October-November 2004: More detailed formulation and planning phase.
    - December 2004-February 2005: Assessments from background literature
  - March 2005: Preliminary report in Powerpoint (not white paper) describing the findings up to that time. Discussion with MISRC Outsourcing Roundtable participants and requests for feedback and reactions.
  - April-May 2005: Refinement phase.
  - May 2005, last MISRC meeting: Final report and white paper release.

We invite input and suggestions from the members of the MISRC Outsourcing Research Roundtable. Thank you very much for all of your help up until now.