

Outsourcing - Project Management Role by Ed Naughton, Director General

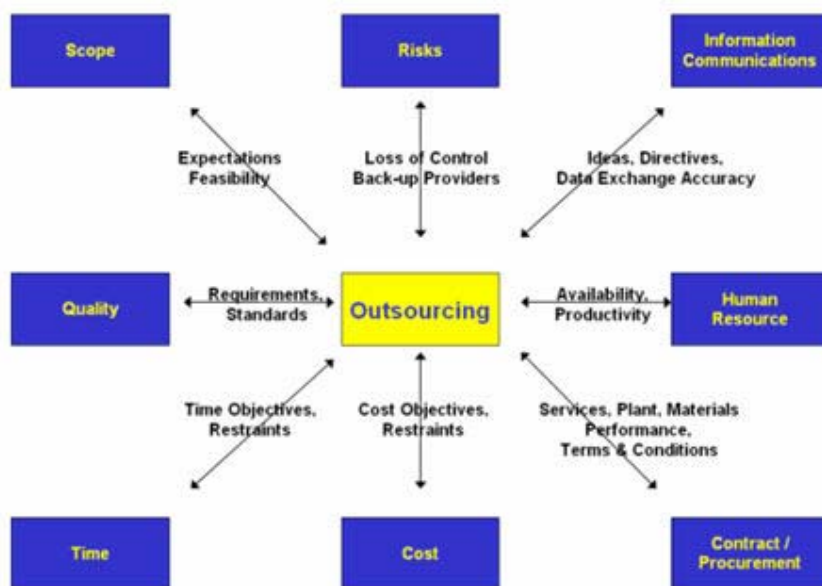


Love it or hate it, outsourcing is a trend that isn't going away. In today's world, outsourcing is now encompassing manufacturing, customer sales and support, engineering services, human resources, financial functions, and the largest area of all, information technology. Offshore outsourcing is emerging as a major employment threat in many countries.

Outsourcing is no longer just about savings but also represents a long-term, results-oriented relationship between two companies.

As I look back at my experiences on the application of project and programme management in the business world, I have seen the growth and acceptance of outsourcing. My first major experience with the changing face of outsourcing was as a project manager in the construction sector. In the late 1970s/early 1980s, there was a severe economic downturn in Ireland. Until that point in time, large, well-known construction companies such as Sisks, Hegartys, Walls, etc. would have traditionally employed, on a permanent basis, all craftsmen (carpenters, plumbers, electricians, plasterers etc.).

With the advent of the recession, the vast majority of these individuals were laid off. These companies converted to construction management organizations with much-reduced cost bases. When they successfully bid and won contracts, most of the required resources were brought to the project in the form of subcontractors. Outsourcing is a nicer name than subcontracting, but in essence it is the same. Like many traits of modern project management being currently deployed in business organizations, the prototype/models initially were developed in the construction sector.



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.

A recent survey polled 1,000 project professionals and senior-level executives in industries including manufacturing, healthcare, and information technology. More than half of the responding companies use consultants for project management, primarily for managing projects (66 percent) and augmented staffing (61 percent). In addition, the study found that the most common functions currently outsourced are project delivery, project management training, and complete project management.

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.

For IT departments, outsourcing brings new issues. Most IT control ends at company borders but companies now must adapt to working with outsiders who have different infrastructures, networks, tools, and business processes.

Businesses seek a secure, effective, and affordable means to communicate project information and collaborate with outsourced partners throughout the product development lifecycle. IT faces pressures in trying to steer the company toward a unified solution. While more than 35% of senior management complains that IT responds too slowly to business needs, business managers still want to closely couple IT spending and processes with support of business development processes.

IT must respond to these demands with less money for new projects than ever. While IT spending prospects for 2004 have improved over the 2003 figures, they will not return to the generous levels of years past. It is estimated that currently only 35% of IT budgets are available for new projects, while 65% must go to manage and support existing company infrastructure.

Correctly applied, outsourcing is a positive response to navigating the changing seas of business and technology. However, as with most opportunities it also carries risks.

The real-world constraints that compel organizations to outsource more than they would like to include outsourcing virtually all IT functions. Project work, which is variable by nature, goes to contractors, while internal people end up doing only support work. Since project work is generally the best work, in terms of strategic impact and creativity, employees who value this work will leave. Those who remain will do a good job running the day-to-day tasks but will be unable to lead a major change.

Beware when consultants are running the show. When the interests of the company and the service providers diverge, the company pays the price. Some elements of the dark side of outsourcing are as follows:

The Dark Side of Outsourcing

Most of your employees are performing maintenance and support work.

Strategic, risky and large projects are consultant-led.

Your employees are being managed by consultants.

Consultants are driving one or more of the critical governance processes-strategy, architecture planning and investments.

Your customers are interacting with consultants more often than with employees.

There are many ways to outsource safely. If you are missing important technical expertise, ensure that your people work side by side with the consultancy's technical gurus. If your group lacks management expertise, partner the contract project manager with the employee whom you want to lead the function in the future. Be sure to explicitly identify skills transfer as a key objective of the relationship with your outsourcer.

While there continues to be some apprehension with regards 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.

Managing the outsourcing relationship is of critical importance for the project manager. In essence, it is a contract between the two parties. This means that the project manager should have a sound knowledge and understanding of contract management. The contract is a risk-mitigation tool to protect both parties (buyer and seller) in the relationship. The contract's scope, schedule, costs and quality criteria must be proactively managed by both parties' project managers. Both sides need to be inherently aware of how changes to the contract are to be controlled and managed. It is not sufficient to believe that the procurement department will look after such issues. Ultimately, these changes are reflected in monetary terms. The project manager needs to be able to manage both the technical and business components of the relationship.

One cannot ignore either the behavioural demands required to manage the outsourced relationship. What we have are two different organizations with different cultural background interacting with each other. This places heavy demand on the project manager to have strong people and communications management skills.

The overriding principle is that outsourcing is not abdicating but 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. Both buyer and seller organizations need to deploy competent and professional project management capabilities to make it work successfully.