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From The Sunday Times

May 18, 2008

Who pulls the trigger for the 'silver bullet'?

Managers who look to outsourcing to provide magical solutions could cost you dear



“Beware the politician who reaches for religious phraseology”
Alice Miles

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As information technology becomes more central to business survival, getting an IT outsourcing contract right has never been more critical. "Outsourcing your IT is like outsourcing your central nervous system," says Martyn Hart, chairman of the National Outsourcing Association (NOA), the UK's trade association. "The risks are high. Many of the things that go wrong with these deals come down to who runs the project and how."

One man who knows all about outsourcing, the potential rewards and the importance of strong project teams is Mark Sedwill, head of UKvisas, the joint Home and Foreign Office directorate that has been responsible for the introduction of biometric fingerprinting for all overseas visa applicants to the UK.

The visa project was initiated by former prime minister Tony Blair in 2005, giving the civil service less than three years to test and introduce biometric hardware and software at embassies and consulates all over the world. With such a short timescale, UKvisas decided to outsource as much of the complex IT-intensive process as possible to specialists.

"We were pretty ruthless about the quality of the team we picked to run the procurement," says Sedwill. "We put together a mix of civil servants, expert contractors and consultants who provided expertise in areas such as biometric technology."

The project team and the IT outsourcing suppliers chosen — CSC and VFS Global — delivered the service ahead of time and under cost, having spent only £40m of the £70m assigned to the scheme.

Ensuring his team had the right mix of skills and expertise at different stages of the project was another factor in its success, says Sedwill. "We mixed things up as the contract changed and got rid of people if they were not performing. We did not take any prisoners. Creating a strong team ethos was also critical in terms not just of creating belief that the programme would be a success, but also in creating a team that believed the work it was doing was worthwhile."

Having strong leaders who could command respect and who had knowledge of the existing processes and what was needed to improve them was also vital. "We looked for people who

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understood the front end of the business well and who were also good at managing stakeholder relationships,” says Sedwill.

His advice to others planning and executing large-scale IT and business process outsourcing contracts is to have “the best people possible” run the project. “Don’t be too picky about where you get them from; be prepared to look outside your own organisation. And get the basics right. Make sure you understand all the business processes — work though the detail. We made sure we understood the minutiae of the technology we were buying.”

UKvisas’ experience confirms research by Leslie Willcocks, professor of information systems at the London School of Economics. A study carried out in 2007 by Willcocks for LogicaCMG, the Anglo-Dutch IT services group, found that one of the most common reasons why IT outsourcing deals fail is because the team managing the project lacks the right skills and experience. Willcocks found that teams often tend to possess strong technical expertise but are weaker when it comes to business and interpersonal skills.

The message is clear, he says: “High performers are needed in these roles. Senior managers must identify and retain key skills and core competencies in their in-house teams if they want to benefit from the relationship with their outsourcing supplier.”

These core competencies include the ability to define the business requirements of the project, getting the design of the technology platform right, being able to manage external suppliers, appointing good leaders and introducing good governance rules.

Fail to invest internally in these core competencies, says Willcocks, and you risk suffering high contract costs, losing control over the outsourced functions and being given inadequate service by your suppliers. You may even have to renegotiate contracts and service level agreements.

If you don’t think your team has the required strength and depth for extensive outsourcing, outsource piecemeal those functions they are capable of managing well, he says.

Some firms are now devoting extensive resources to developing such teams and processes. “It’s a big human resources challenge

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for many organisations, which need to be prepared to upskill and recruit to provide the right resources and support to create a successful in-house team,” says Willcocks. “DuPont \ adopted our model and it now has a long-term plan with an internal university to make sure its retained capabilities are up to spec across the globe.”

Such examples remain the exception rather than the rule, however. “Too many organisations have still not matured in their ability to manage suppliers. The organisation that fails is the one that thinks outsourcing is a silver bullet, that the suppliers are going to do everything and that it doesn't have to do any work itself.”

Consulting and involving all stakeholders from the start is vital, says the NOA's Hart. The department writing the outsourcing specification should not exclude other departments from its creation.

“There should be representation from all end-users, from the technology side, from procurement, from the legal and financial departments,” Hart says.

Giving overall responsibility to the wrong department is a common mistake, he says. “Procurement often get lumbered with IT outsourcing but often has no vested interest in the outcome. If there's a problem with it weeks or even years down the line, it's no longer procurement's issue.”

An outsourcing project will be set for failure without support at the highest levels, making board-level supervision vital to success, according to Norman Pitman, vice-president of European outsourcing business development for CSC, one of the suppliers involved in the UKvisas project. “Politics can be a problem, too,” he says. “There will be people whose jobs are on the line or who will lose out in some way who take against outsourcing, so it's important to think about this issue early.”

A capable project manager is another decisive factor. “A good heavyweight project manager is vital,” Pitman says. “Someone capable of managing multifaceted programmes with a lot of stakeholders and suppliers and who makes sure it stays on course.”

Hart agrees that it is vital to cultivate and train good project



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managers. "Ideal project managers are old hands from inside the company, who know the organisation and its people, but who have outsourced before. They will also have a wide range of skills and knowledge across a range of functions, as well as good communication and relationship skills. It's a difficult combination to find."

Jargon buster

Multisourcing: using more than one supplier to cover different areas of IT, such as the helpdesk function and the management of applications. A designated systems integrator must ensure that all parties work together, however.

Escalation provisions: if problems in the bought-in service emerge, customers need to know that they can reach senior people at the supplier's firm. They do this by writing escalation provisions into the contract.

Transactional pricing: a means of encouraging high performance by offering the supplier financial incentives if certain standards or revenue targets are met.

Retained organisation: in-house staff who liaise with suppliers and manage outsourcing contracts.

Notable UK deals

AXA and IBM: a four-year deal between insurer and global IT supplier, which renews a £500m deal signed in 2003 for on-demand mainframe, server, storage and consulting services.

Prudential and Capita: a £750m, 15-year deal, with the Pru buying Capita's sales and admin services.

KPMG and BT: a five-year, £62m deal providing KPMG with data networks and communications.

Shell and AT&T, EDS and T-Systems: the petroleum group has just outsourced three streams of work in separate five-year deals: AT&T has won an £800m contract to handle network services; EDS has signed a £500m deal to provide computing services and integration; T-Systems will handle Shell's data centres for £500m.



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Information security

THERE is no such thing as 100% security, says Dave Martin, managing business security consultant for IT service supplier LogicaCMG. He says that if a potential supplier tells you they have a 100% security record, the firm is either lying or does not understand the issues. Look at the action it has taken after incidents: does the organisation have robust measures in place to learn from and prevent security breaches?

Barry Matthews, head of IT advisory services for Alsbridge, a global consultancy, says: "Security performance should be built into service level agreements and, if possible, linked to financial rewards. If someone really wants to do something with your data, there's little you can do to stop them, but certain measures can limit their ability to abuse their position. Be clear about which data is sensitive and which isn't. Your supplier can then grant access on a need-to-know basis."

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