



Outsourcing: A Practitioner's view

Introduction to Outsourcing.

thecitysecret are a niche outsourcing technology company, the company has an long established record of working with investment banks and applies the same principals across its diverse client.

In today's global business world where there is an alliance of companies working together thecitysecret has been well placed to see the different models of outsourcing, seen which have been successful and observe where there have been issues.

Drawing from our own experiences ranging from smaller well defined projects to larger teams with looser project specifications there are a number of issues to consider when engaging an outsourcing company.

Onboarding Process.

The first important step in entering a project with a new vendor is the onboarding, unless a project is highly defined where "programmer A" delivers "widget B" with a clear set of results where it is done for a fixed cost.

There is an initial investment in a new supplier in terms of time spent teaching the new team both the technical landscape and the way that business is specifically conducted within the institution. Even where a vendor team has the technical and business knowledge each institution has a different legacy platform and differing degrees of bespoke systems which vary from the way packages are implemented to proprietary programming languages and databases.

The key in the knowledge transfer to the vendor is that the knowledge is retained and where there are any further expansions the existing team at the vendor ensure the knowledge is transferred rather than the emphasis placed on the institution to train each new resource.

Business Knowledge

The most effective way of developing software is by understanding the business environment where the application is to be deployed. By having a firm grasp of the business domain the right questions can be asked at the beginning of the project, the time involved in producing the specifications can be reduced as each step does not need explaining. In addition there is also room for the vendor to make suggestions which enhances the end product.

The vendor should have a thorough programme of continuous professional development that encompasses not just the areas a resource is working on but a broader learning programme so the individual knows how it all fits into the overall business domain.

Technical skills

There is clearly an assumption that the resources have the required technical skills, this begins at the screening and selection of staff at a vendor and continues with the professional development in the relevant technical areas. The continuous development is mainly done with course material developed in-house alongside online learning material and an extensive library of technical books.

Project lifecycle

When embarking on a project there are a number of key considerations that are as important as the headline rate. An attractive rate for a software developer may seem to make huge savings on a project but there are a number of factors to consider in conjunction with the rate that may end up making the project much more expensive than the initial budget.

- Understanding and challenging specifications - asking the right questions.
- How much client support and management is needed to run the project?
- Effective communication.
- Rotating resources.
- Projects/iterations and what happens when it goes wrong?

Understanding specifications.

The importance of challenging the specifications and asking the right questions are fundamental to getting a project right. The modern business environment is high pressured and there are times where specifications can be ambiguous or in some cases they can be wrong where a specification to solve one business problem may cause another issue in a related business area.

By having the business knowledge it gives the vendor's software engineers the confidence to ask probing questions and make suggestions before any software has been written, rather than discovering it during acceptance testing.

One of the other considerations are cultural and how the relationship between vendor and client evolves, is there a spirit of provider and client where the vendor does not feel it is their role to question or is there a cultural tradition of not questioning instructions?

Client Support and Management.

An important factor in the composition of a team is how much day to day guidance and management does a vendor supply? If a team is put together with no team leads or local management this will have to be done by the client, and as such will add overhead to the project. Having a number of remote direct reports can be time consuming to manage and although there maybe a notional account manager at the vendor site are they responsible for the daily management of outsourced staff?



How often does a client need to visit the vendor to ensure the project is going well? There are the obvious travel expenses, but also the time for managers not being in the office when they could be doing other things.

There is clearly a balance between ensuring a project is running smoothly and the need to manage a team.

Effective Communication

One of the hardest aspects of outsourcing is getting the level and the quality of communication working effectively. From a vendor's perspective it is knowing when to use the various channels and how often. The vendor's staff can quickly adopt a mode of issuing emails highlighting problems or issues, whereas the client would prefer the problem outlining with an appropriate solution. If the client has to root around resolving problems then the relationship is not working.

Having a good working knowledge of the client's main business language helps as there are no misunderstandings or miscommunication.

Rotating Resources

A common practice is for the vendors to put a team of experienced staff on the initial project to handle the Onboarding, once this is complete the staff rotate out and the team is replaced with an inexperienced one. This generally leads to a loss of productivity as the learning curve is gone through again.

Project iterations

The best projects are delivered in a number of iterations which arrive on time and to an acceptable quality. If there has been a major misunderstanding of the project the lifecycle may have a number of additional iterations to correct some of the software delivered, again this adds to the cost of the project.

The value of SLAs. To the letter or the spirit of the agreement?

Understanding the scope of the project is very important and there is a temptation to put some stringent Service Level Agreements in place. Some outsource providers pride themselves on a number of quality benchmarks and would adhere to the full set of SLAs agreed. The issue is whether as a client gets the full value from a contract, by having a rigid framework there is no scope for adding value or incentive to look at things from a different angle. There is an additional cost in preparing a full set of detailed specifications and technical requirements.

Some projects where the specification can be tightly specified may benefit from a series of tightly defined agreements.

Cultural issues

These are difficult to quantify, however, it is important to note that they exist and may have an impact on the project. In some countries there is a reluctance to challenge requests or instructions, or perhaps there are issues around humour and the softer skills.

Time zone importance

Most projects need some interaction, and where this is needed it is important to factor in the time zone differences. Even if the vendor agrees to provide resources during the client's normal business hours, this will limit the available resources (not all staff are prepared to work anti-social shifts for longer durations).

Ongoing training and professional development of staff?

The key of all the outsourcing agreements is that the vendors invest in their staff, it is not good enough for a vendor to supply a pool of staff and replace them when the next set of technology skills are required. The ongoing business and technology training is essential for vendors to be able to offer a value added service but introducing innovations in best practice, technology, and design.

Staff retention

The retention of staff is a key element in any outsourcing arrangement, the equation is simple, the longer an individual works on a client account the more "domain" knowledge they acquire and the more value they add.

It is an important factor in choosing an outsourcing partner as higher staff turnover will lead to a continuous investment programme in bringing the new staff on board and ultimately drive up the project costs.

Fixed Price vs Time and Materials

The big paradox in an outsourced relationship is that the client would like to fix the cost of a piece of software to stay in line with budgets, the vendor needs a very precise specification to ensure that the work can be done in the time allocated. The problem with fixed price is that the framework is too rigid, the situation ends up with the software being delivered that doesn't quite match up to what the end user expected or a protracted period of negotiation of "extras". There is also the temptation for the vendor to ensure the project takes the time specified and has no incentive to deliver early, add extra features or question any of the requirements. Conversely the Time and Materials approach allows a greater degree of flexibility and a more collaborative working relationship which ends up with a better product. Clearly this approach only works where there is a longer term relationship where the vendor has a good reason to deliver work early and add value along the way. The issues to watch for a T&M agreement is that the code quality is of high enough standard as the vendor could take the view that they are paid to deliver and to fix bugs afterwards.