

Outsourcing— What Everyone Should Know

A well-planned and executed procurement and relationship management structure gives contract management professionals a great vehicle for looking beyond the legal details of a static contract.

BY AMY SCHAEFER

Facing ongoing budget struggles and limited resources, executives are continually finding themselves hard-pressed to continue business in the same ways they used to. Managing a diverse group of team members, tracking progress, and achieving projected goals are tough enough. Combine that with the headaches of a shrinking budget, lack of internal resources, and the pressures of increasing profits and times can get rough. Increasingly, managers facing these challenges are

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turning to outsourcing to alleviate some of the pressure. However, those that are new to the process may be at a loss as to where to begin. The key to a successful outsourcing engagement is knowing *how* and *when*.

Outsourcing has matured over the years by allowing organizations to save costs, increase competitive advantage, and accelerate growth. The Outsourcing Institute, a neutral professional association dedicated solely to outsourcing, estimates that 36 percent of all companies with sales of more than \$50 million outsource today. Outsourcing is no longer about saving money. It is now about doing things quicker, getting into the market faster than competitors, having maximum flexibility with your workforce, and gaining access to high-quality employees you otherwise could not afford.¹ For contract management professionals, this means taking existing procedures and learning how to apply them to a new way of doing business. As a key team player in the outsourcing process, contract management professionals should know how they can enhance the process and even steer it at times. Here are several tips for successfully managing the outsourcing process from the *when* to the *how*.

Knowing When You Should Outsource

Starting an entirely new business process such as outsourcing within a company can meet with some resistance and will surely require careful monitoring to result in success. So, before your company jumps into hiring new staff or decides to align itself with a new partner, consider whether outsourcing is a viable option. Knowing *when* to outsource is the first major step in an overall successful outcome of a project. Using the following consideration factors, contract management professionals can help the executive team make an educated decision:

(1) *Cost Savings*. Cost savings should not be your sole reason for outsourcing, but a desired outcome. Many companies make the mistake of only focusing on the cost

basis for outsourcing without examining the process itself. The ultimate benefit of outsourcing should be measured in business terms. Ask yourself how this process will benefit your company, and the end result will invariably be cost-efficient.

(2) *Best of the Best*. Your company was started for a reason, either because of a stellar product or service. Keeping your company focused on this strength frees you to seek out those professionals that are the best in their fields to supplement your business. Outsourcing gives you the opportunity to use the best in the business.

(3) *Deciding What Gets Outsourced*. An easy way to look at the distinction of what should be outsourced, or if a company should even consider outsourcing, goes back to a company's core competencies. Are you stretching internal resources to their max in order to complete projects? Are staff members taking on responsibilities that do not fall under their job descriptions? If the company's core competency is hindered because resources have to be allocated elsewhere, chances

are you need to outsource these extraneous items.

(4) *Flexibility*. Outsourcing does require a certain flexibility and openness to new processes. Make sure your organization can handle outsourcing. Small companies tend to have the agility to adapt to new processes and are typically great candidates for the outsourcing process. If you work for a larger company, make sure the management structure is set up to handle outsourcing from the top down. Evaluate your organization's communication structure, workload delegation, and staff participation.

Post-Decision: First Steps Toward Success

After making the initial decision to outsource, many companies jump right into contract negotiation, skipping an important step: process development. This is really the first stage of the *how* in outsourcing. By establishing an outsourcing policy early in the process, there are fewer questions and opportunities for unnecessary extras down the line. For example, establishing an outsourcing policy allows for a company to maintain consistency on personnel

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issues and contract structure, as well as to ensure compliance with federal, state, and local laws. All of these items make the contract management process much easier down the line.

As a contract management professional, you may believe this is not a place in the process where you would have much to contribute. On the contrary, it is vital that you step in and help build the process development. Many items from the initial process will go into negotiation and, subsequently, play a large part in the resulting contract management. Voicing your opinions and recommendations in the early process development stage will make your job much easier in the long run. According to The Outsourcing Institute, policy considerations should be:

- (1) Principles and criteria to be applied when identifying outsourcing candidates;
- (2) Process for evaluating outsourcing alternatives;
- (3) Procedures for implementation; and
- (4) Analysis of options to attain the optimal balance among savings, quality, and employee interests.²

Importance of Human Relations

Traditionally, managers have used face-to-face internal meetings to build camaraderie, establish trust, and communicate project goals. Faced with managing consultants outside the office, managers may wonder, “How do I effectively manage the outsourcing process?” This is another major part of the how in outsourcing. According to the American Productivity & Quality Center (APQC), many organizations are realizing that they are only as good as their people, despite having the latest technology, the most efficient information systems, and the “leanest and meanest” organizational structure. In order for an organization to be truly successful, it must align its most valuable asset, human capital, with company goals.³

Technology, such as e-mail, instant messaging, and voice conferencing, enables companies to efficiently and successfully outsource key business projects. A different strategy has to be implemented into outsourcing when it comes to human relations. Essentially, you are bringing in an outside vendor who needs to know your corporate culture, processes, and motivations.

Additionally, the traditional way in which your company has monitored staff has to change. In a recent study conducted by The Gallup Organization on employee engagement, Gallup consultants and researchers observed that organizations with high performance levels also had high levels of employee engagement. According to the study, “Engaged employees were more productive, made more money for the company, and stayed longer.”⁴ Outsourcing service providers are not always on the premises, creating some new challenges for status observation. Bringing together internal staff with an outside team can cause tension because of apprehension of the unknown. Keeping everyone apprised of the project status will greatly increase chances of a successful project. Following these tips will get your company on the right path in working with your new service provider.

- (1) **Focus on results.** Forget about trying to monitor how and when team members get the work done. Keep focused on the deliverables; that is what ultimately counts.
- (2) **Build trust.** Use technology, such as e-mail and voice conferencing, to build relationships. Encourage face-to-face meetings whenever possible. Managers must rely on trust far more than on control in an outsourcing relationship.
- (3) **Clearly define expectations.** Establish guidelines for outsourcing partners. Do you want them to respond to e-mails within 24 hours? Are they required to send an e-mail to the entire team when

a task is complete? Set the rules and communicate them.

- (4) **Show team members the bigger picture.** Giving individuals a sense of how their tasks fit in to the whole project goes a long way towards building a sense of cohesion and teamwork. Conversely, make sure you are keeping internal staffers in the loop as well. This avoids animosity and keeps the teamwork flowing.
- (5) **Use the strengths of an outsourcing partner to your advantage.** When you are selecting your partners, seek providers that are familiar with outsourcing. Those that are experienced will be more sensitive to common issues and will help you through the process. A better understanding of the strengths of your selected service provider will go a long way towards the success of your project.

Post Procurement

A good contract is only a starting point. Solid procurement and relationship management are absolutely imperative to achieving the full benefits of an outsourcing partnership. All too often, as the process of establishing an outsourcing arrangement seems complete, companies think that letting the arrangement run by itself will warrant a successful outcome. Wrong! Procurement is only the first step. Managing the outsourcing relationship is just as important to see the results you want from your project.

As a natural extension of the procurement process, the contract management professional can ensure that effective relationship management takes place by continually monitoring both parties. Also, referring back to a solid outsourcing policy will help clear up any questions or gray areas (remember to get in on the process development early!) The following are key components that should be addressed:

- (1) Set up a steering committee.

(2) Monitor performance and measure processes.

(3) Identify problems and employ resolution mechanisms.⁵

Similar to developing the human relations aspect of the relationship, close, constant communication is also a fundamental part of the ongoing management relationship. Much of this can be handled in the day-to-day interactions of front-line managers from both organizations. But the relationship management plan should also set up regularly scheduled formal meetings at several levels. The Outsourcing Institute recommends:

(1) Monthly meetings—project managers should review how well the relationship is performing, where it is falling short, and where to head off issues before they become big problems.

(2) Quarterly meetings—involving department and functional heads, to not only review performance, but also explore any future needs or opportunities.

(3) Annual meetings—in which senior executives from both organizations look backward and forward and consider broad adjustments in service levels and possibly renegotiating the specific contract items.⁶ A well-planned and executed procurement and relationship management structure gives contract management professionals a great vehicle for looking beyond the legal details of a static contract.

Final Thoughts

As outsourcing becomes more and more commonplace in companies, contract management professionals are learning new ways to work, and though it may seem like taking on additional responsibilities, you already have the tools to achieve great outsourcing. In fact, the outsourcing process may be more inherent to the contract management professional than many others within a company. You are aware of the

importance of well-thought processes, a strong contract, and constant relationship management. Simply apply what you already know. Outsourcing opens new doors for the contract management professional that with careful planning and management will produce great results for your company. **CM**

Endnotes

1. The Outsourcing Institute, "It's No Longer About Saving Money," *Fifth Annual Outsourcing Index*: 6.
2. Howard Lackow, *The Outsourcing*

Institute, *Setting a Corporate Outsourcing Policy*, p.8.

3. American Productivity & Quality Center (APQC), www.apqc.org.
4. The Gallup Organization, "Employee Engagement," *Creating a Highly Engaged and Productive Workplace Culture*, www.gallup.com/management/Q12_system.asp.
5. The Outsourcing Institute, "Life After Outsourcing," *The Outsourcing Institute's Buyer's Guide*: 24.
6. Ibid.



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