

# Surviving outsourcing



Erik Beulen



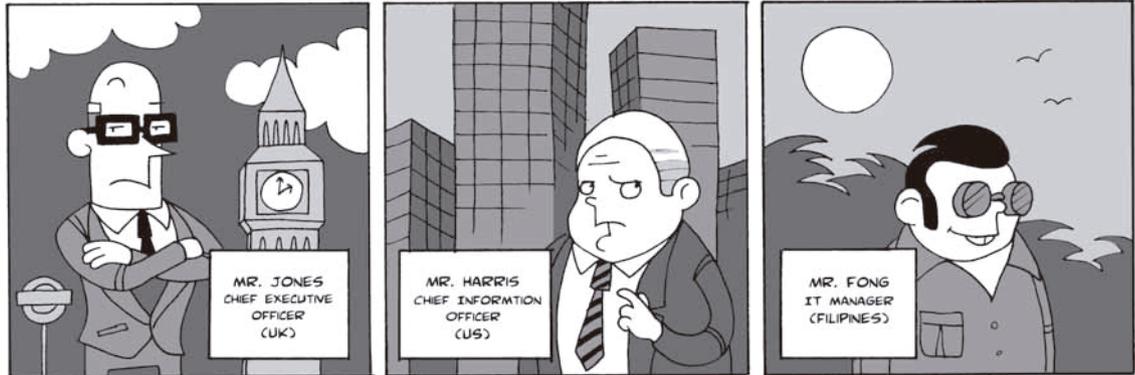
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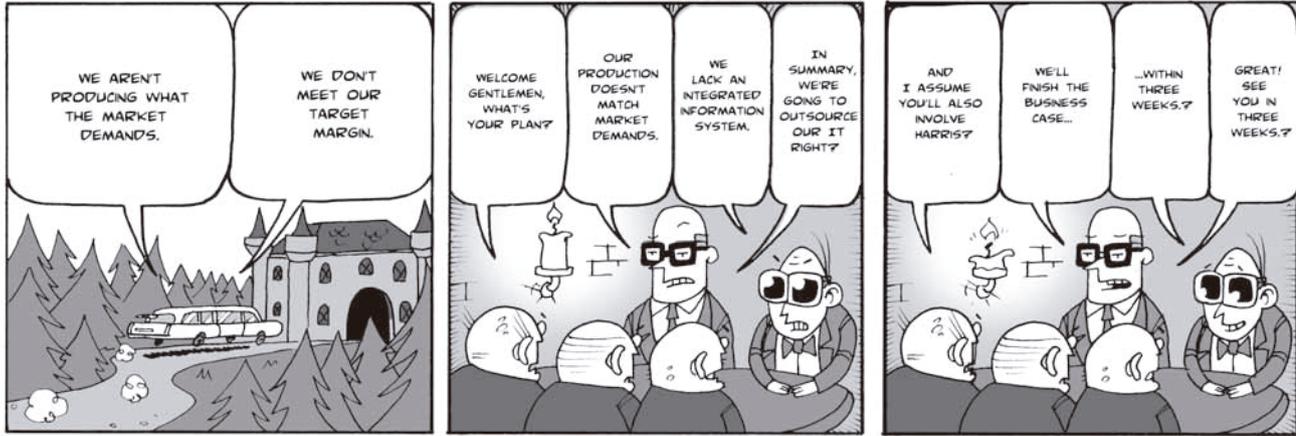
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Relations between Mr. Jones and Mr. Jackson are based on mutual trust. Both were appointed by the company's supervisory board to improve Schreuder's profit position. They find themselves supported by the ambitious IT manager Mr. Fong. The company's CIO, on the other hand, is rather old-fashioned and a fierce opponent of IT outsourcing. He is somewhat suspicious of Jones and Jackson and finds it hard to deal with Fong's ambitions.





The Board of Directors has summoned Jones and Jackson to the 600-year old castle Maurick in Vught, in the Netherlands, to unfold their plans for the future. Streamlining the processes of the business is at the core of their plans. Information technology will have to make a significant contribution. The men arrive at the castle in a hurry. Like many companies, Schreuder are having to contend with an inefficient information system. The internal automation department is not able to provide the necessary information. Also the costs

of information technology are increasing every year. Both men hold Harris, as Chief Information Officer, responsible. Up to now, they have kept him out of the discussions. However, there is now no alternative but to involve him as well. Harris is strongly against IT outsourcing, and he will fight against this proposed solution. Jones and Jackson have to consider how they will present this option to Harris. Perhaps they can involve Fong, the young IT manager.



For many companies, IT outsourcing is still a delicate subject. Particularly for CIOs, who derive their positions of power from the size of their own department. The question is, however, can the internal automation department make the required changes and provide the services that the business units need? Improved quality at lower costs. Perhaps a service provider is better positioned to do the job. The most important benefits of IT outsourcing are a decreasing total cost of ownership, a shortening of time to market for new IT services, increased flexibility of IT services and achieving innovation in IT services. These are precisely the things that Schreuder requires.

The most important question still to be answered is whether the organization is capable of managing an IT outsourcing

relationship. Does Schreuder have a retained organization

that can control the service providers who, in the case of outsourcing, will provide the services? In addition, Jones and Jackson are insecure. Possibly Jensen&Cutter, an independent sourcing consultancy bureau contracted by Schreuder, can support the retained organization. Jones and Harris also envisage a role for Fong in the future, as he has previously worked for a global service provider. This experience makes him ideally suited for a leading role in the retained organization. Schreuder should start to neutralize the potential disadvantages of outsourcing, such as increased dependency on service providers and risks of breaching information confidentiality. Moreover, the selection of the right service provider is not easy. Fortunately, Jensen&Cutter will support Schreuder in the selection process.



For many internal automation departments it is difficult to make a step change. Many of their own staff are involved in the maintenance of legacy applications, while there is large-scale contracting with service providers in order to develop new services. This means that their own staff increasingly lag behind. It is becoming more difficult to find qualified resources for the internal automation department. In many automation departments, just as at Schreuder, more than 60% of the positions are filled by externally hired staff. This poses a huge threat for both the effectiveness and the efficiency of the IT service delivery.

Outsourcing transforms the time and material contracting into output-based contracting, which makes it an attractive option. In choosing the preferred outsourcing solution, the

central issue is whether Schreuder should opt for one or several service providers. Managing a single service provider is easier than managing several. However, the scope of the work at Schreuder is sufficient to share out the cake. In the story line, the choice is made to sign an outsourcing contract with only one service provider. Schreuder must also consider the questions of what part of the services they wish to outsource and how innovation can be anchored into an outsourcing contract. The latter is no sinecure. The most effective way to anchor innovation is by explicitly establishing an annual budget for innovation and obliging the service provider to develop innovation proposals and the associated business cases. Schreuder can then decide which innovation proposal(s) it wishes to invest in.



Jackson is in a difficult position. Harris has been the CIO for years but is not able get things under control. Jones and Jackson have to wonder if he will be able to do this in the coming 18 months. Furthermore, it is not certain that the Board of Directors will give them 18 months. Both are looking unlikely. What would be the smart thing to do? Perhaps Fong has a solution. Agreements need to be made with a service

provider in relation to the transition project and the service levels after completion of the transition project. This is a phased approach that does not give carte blanche to the service providers and will lead to a guaranteed improvement in the IT services. Jensen&Cutter is also fully engaged in working out this scenario.