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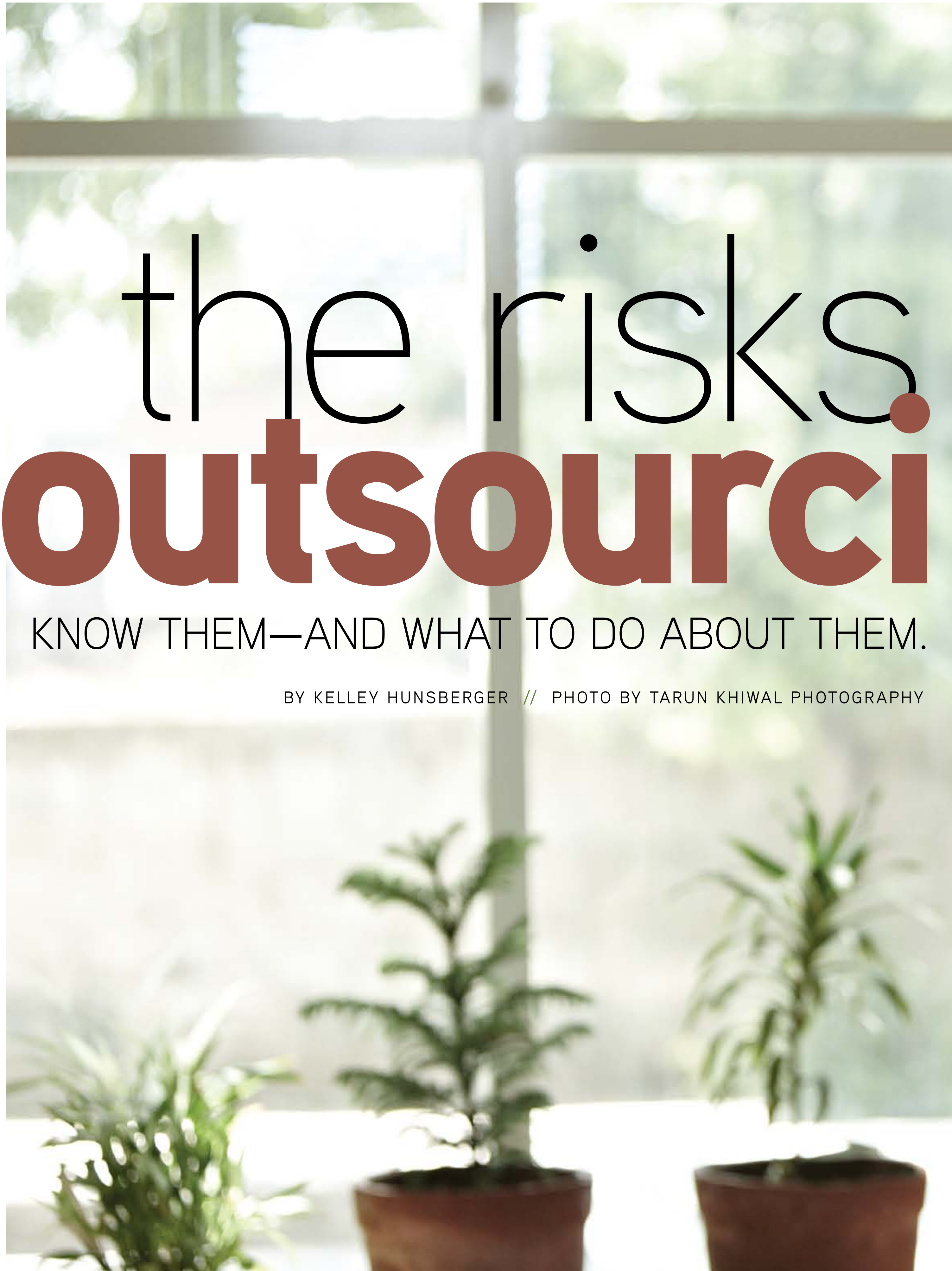
KNOW THEM—AND WHAT TO DO ABOUT THEM.

BY KELLEY HUNSBERGER // PHOTO BY TARUN KHIWAL PHOTOGRAPHY



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Vimal Kumar Khanna, mCalibre Technologies, New Delhi, India

Although the benefits of outsourcing can be substantial, some high-profile debacles are showing all too clearly how risky the process can be.

When the first 787 Dreamliner aircraft was finally ready for takeoff in September, executives and project leaders at Boeing surely let out a very large collective sigh of relief.

In January, the company had announced the project's seventh delay, pushing delivery off-schedule by nearly three years and over-budget by 120 percent, or US$12 billion.

What ailed this high-profile project? According to many critics, outsourcing was to blame.

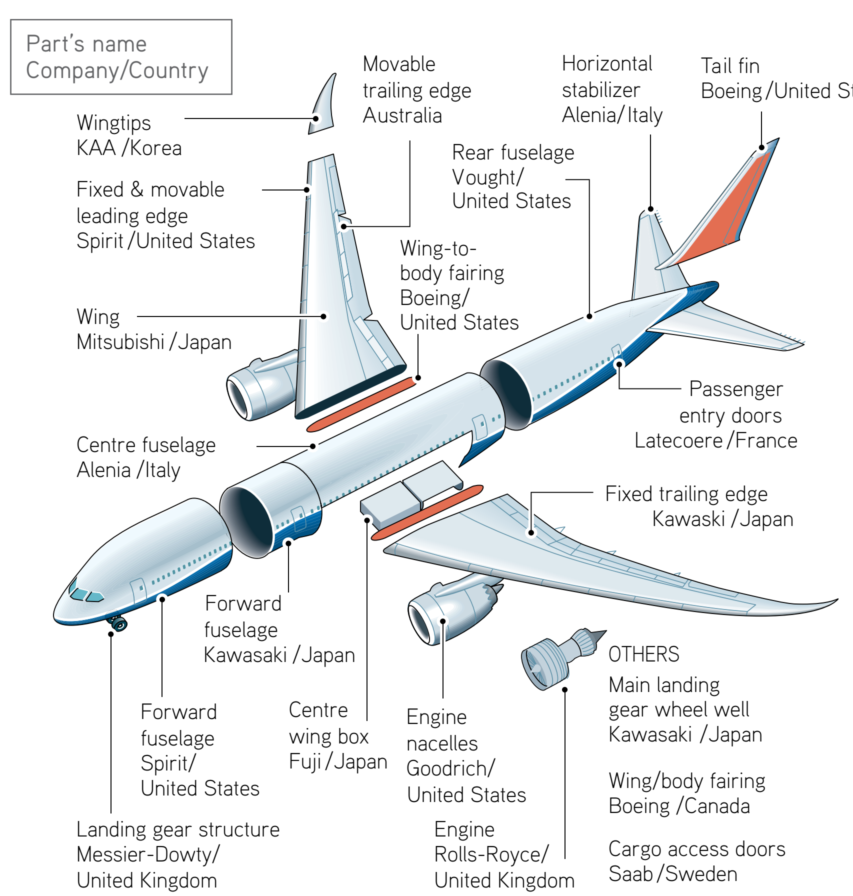
The supply chain for the Dreamliner megaproject spanned the globe from the United States to Japan, South Korea, England and Italy. And it marked the first time in the company's history that Boeing outsourced wing design and manufacturing.

"We made too many changes at the same time—new technology, new design tools and a change in the supply chain—and thus outran our ability to manage it effectively for a period of time," the company told Reuters. "In short, we have learned and we are applying our learning."

To try and regain control over some of the outsourcing turbulence, Boeing went so far as to buy up some of its partners to prevent them from going out of business. It paid US$580 million for the Charleston, North Carolina, USA operations of Triumph Aerostructures's Vought Aircraft Divi-

DREAMLINER DEFERRED

Outsourcing has been blamed for the Boeing project's three-year delay and US$12 billion cost overrun.



GRAPHIC COURTESY OF THOMSON REUTERS

sion, which made the plane's fuselage production line. Even as far back as 2009, project leaders had planned to scale back outsourcing on future versions of the Dreamliner, according to *Bloomberg Businessweek*.

Despite these efforts to correct the project's course, much of the damage was irreversible.

"It would be an understatement to say we are frustrated and disappointed," Air New Zealand CFO Rob McDonald said of the delays.

OUT OF CONTROL?

Plenty of organizations have reaped benefits from outsourcing, though, leaving others eager to follow suit.

"Unfortunately, the successful stories of outsourcing have made some clients become complacent," says Vimal Kumar Khanna, founder and managing director of mCalibre Technologies, a knowledge processing software company in New Delhi, India. "The clients must realize that the risks of outsourcing are real and can occur not only with unreliable vendors, but even while working with reputed and trusted vendors."

What organizations also must understand, says Jagdish Dalal, president of JDalal Associates LLC, an Avon, Connecticut, USA-based outsourcing consulting firm, is that "the biggest project management role is managing the risks: identifying them, mitigating them, avoiding them. That's where it all begins. If that level of risk doesn't get managed through a risk-management plan, outsourcing is the wrong thing to do. It will only increase the risk, not reduce it."

Only 40 percent of global organizations say their outsourcing teams put risk-mitigation strategies and plans in place after assessing project risks, according to a global survey of contractor managers, subcontractor buyers, project managers, senior executives and key decision-makers released last year by ESI International.

NEAR, FAR, WHEREVER YOU ARE

Organizations looking to farm out project work but still keep efforts close to their headquarters are turning to nearshoring as an alternative to outsourcing. In fact, half of supply chain executives expect nearshoring to the United States to increase in the next two years, according to a survey by the global supply chain business magazine *World Trade 100* and the University of Tennessee.

The reasons for this shift? The increase in transportation costs was by far the most common reason cited. Also high on the list: late deliveries and political instability.

When it comes to managing risk, however, the actual distance doesn't play a part, says Jagdish Dalal, JDalal Associates LLC, Avon, Connecticut, USA. "If a company cannot manage across distance, it can't manage risk near or far," he says.

The success of a project, according to Vimal Kumar Khanna, mCalibre Technologies, New Delhi, India, is based on these factors:

- The vendor's project management capability
- Availability of talent
- The processes followed between the vendor and client, such as communication, documentation formats and status reporting mechanisms.

"A project nearshored to a local vendor with weak project execution processes and an incapable team is surely going to be a disaster, irrespective of the number of client-vendor face-to-face interactions, tight controls and excellent communication processes being in place," Mr. Khanna adds.

Here are five tips to help you mitigate the risks and reap the rewards of outsourcing on your next project.

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1. Make sure you and the vendor understand each other.

Sometimes major issues stem from problems that are seemingly simple to correct, such as vendors not fully grasping a project's requirements. That's why organizations need to prepare a well-defined requirements document before the project is launched, and then spend the extra money organizing a visit with the vendor to discuss the requirements, Mr. Khanna says.

"The client must realize that leaving any part of the requirements as a work in progress is the biggest risk for any outsourced project and can lead to schedule overruns, client-vendor contentions and more," he explains.

Mr. Khanna recommends sending the requirements document to vendors, and allowing them time to review it in detail and come up with a list of

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When selecting an outsourcing partner, the most important factor is a commitment to quality (86 percent of the respondents consider this very or extremely important). After quality comes price as the next most important consideration.

Source: *World Trade 100* and the University of Tennessee

40 percent of global organizations say their outsourcing teams put risk-mitigation strategies and plans in place after assessing project risks

Source: ESI International

questions and concerns. Then vendor managers should be invited to your organization to meet and interview the client team members who will be contributing to different parts of the requirements document.

"The vendor gets responses on all its doubts and queries, and also gets the client insight into the core reasons for deciding each component of the requirements," he explains.

2. Manage your knowledge.

One of the biggest issues Mr. Dalal sees with the Dreamliner project—based on information available to the public—is poor governance of knowledge management.

"Their problems emanated from having different components not quite fit correctly," he says. "That indicates a problem in exchange of information and specs—not that the outsourcer was the wrong company or that outsourcing was the wrong strategy. There are many successful examples of outsourcing of complex products, such as an airplane, cars and computer components, that have successfully integrated piece parts."

A lack of an effective knowledge management process is something many organizations encounter when outsourcing, Mr. Dalal says. When projects are performed in-house, there is often no real incentive to document knowledge management.

"So when you outsource projects, that knowledge is gone because you never documented it or even had a process in place to document it. How are you going to know what you need in the future if you don't document it?" he asks.

3. Strategically condense your efforts.

Outsourcing has changed during the past five to 10 years, according to Peter Bendor-Samuel, founder and CEO of Everest Group, a global services advisory firm in Dallas, Texas, USA. "Today most large organizations have a lot of experience with outsourcing. It's a pretty mature space."

Much of the growth, however, happened spontaneously, without much oversight. It left many organizations looking to trim down their portfolio of providers, which can number in the hundreds. That many moving parts can be difficult to manage, Mr. Bendor-Samuel says.

Condensing your list of providers can also help with costs.

"The idea in general is that if I am doing a lot of work with one provider, I can get some sort of price concession," he explains.

When eliminating outsourcing partners, it's important to coordinate across vendors. For example, never assign all of your tasks in one location, Mr. Bendor-Samuel advises. "If all of your work is concentrated in one place, what happens if something bad happens, such as a terrorist attack, or a flood or other natural disaster?"

4. Assert some control, but don't be controlling.

The biggest risk an organization can take when outsourcing projects is to find a vendor and assume that aspect of the project will take care of itself, says Dejan Curcic, managing director of the Eastern European offshore unit at HintTech, an e-business technology and IT project management organization in Novi Sad, Serbia. Attention

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—Dejan Curcic, HintTech, Novi Sad, Serbia

and communication must be priorities on both sides throughout the project life cycle.

"Our experience shows that minimizing risks in outsource models requires full project management control with customer-driven processes and tooling in place," he says.

Client managers should exert sufficient control over the ongoing project through appropriate client-vendor communication processes, granular milestone-based status reporting and monitoring, and a detailed documentation process.

The level of control organizations should exert over an outsourcing vendor should vary based on the project. For example, when outsourcing server hosting services, an organization might cede control to preserve guarantee levels, response time or other basic service parameters.

But the hands-off approach fails most often in development projects, where the nature of the work requires participation on the customer and vendor side, Mr. Curcic warns.

Staying in the loop is one thing, but client managers must also learn to provide some freedom to vendor managers to execute the project, Mr. Khanna says. The client manager should be involved in interviewing the vendor manager and key project personnel. But the vendor manager should be allowed to recruit the rest of the team members and decide internal processes and mechanisms on the project, he adds.

"The vendor manager knows the most efficient methods to execute the project that allow him or her to deliver results," Mr. Khanna says. "Some clients try to force their internal processes on the vendors, which is incorrect. Further, if the vendor manager is allowed to handle most of the activities independently, it significantly reduces the client's communication and travel costs, which is a major factor for project cost overruns."

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5. As always, mind the schedule.

One aspect of outsourcing that frequently trips up project professionals is schedule overruns.

There are plenty of reasons this risk comes to the forefront, Mr. Khanna says:

- An overcommitment by a vendor when responding to a request for proposals just to win the project
- An incomplete understanding of the requirements
- A weak project execution team
- Poor client-vendor communication processes

To keep projects on schedule, put in place strict contract terms with financial penalties for missing deadlines, Mr. Khanna suggests.

"Some clients have penalties only for missing the overall project delivery schedule," he says. "Instead, they should also include penalties for missing major intermediate deadlines so that the project is always on track."

On the flip side, by instituting financial rewards for a vendor that delivers early, organizations offer a powerful incentive to limit the possibility of schedule overruns, Mr. Khanna adds.

Managing scope creep is essential to keeping on schedule as well.

"Client teams generally have the tendency to change or add requirements at different stages of the project and informally convince the vendor to implement them," he says. "All these changes finally end up significantly increasing the execution time of the project."

All alterations to requirements at any stage of the project must always be formally approved by the designated client manager, with appropriate analysis of impact to the schedule, Mr. Khanna says.

Boeing's blunders have placed outsourcing's potential pitfalls in the spotlight. To prevent similar mishaps, project professionals must achieve the fine balance between risk and reward. PM