UNSW AUSTRALIA

GSOE9820 – Engineering Project Management

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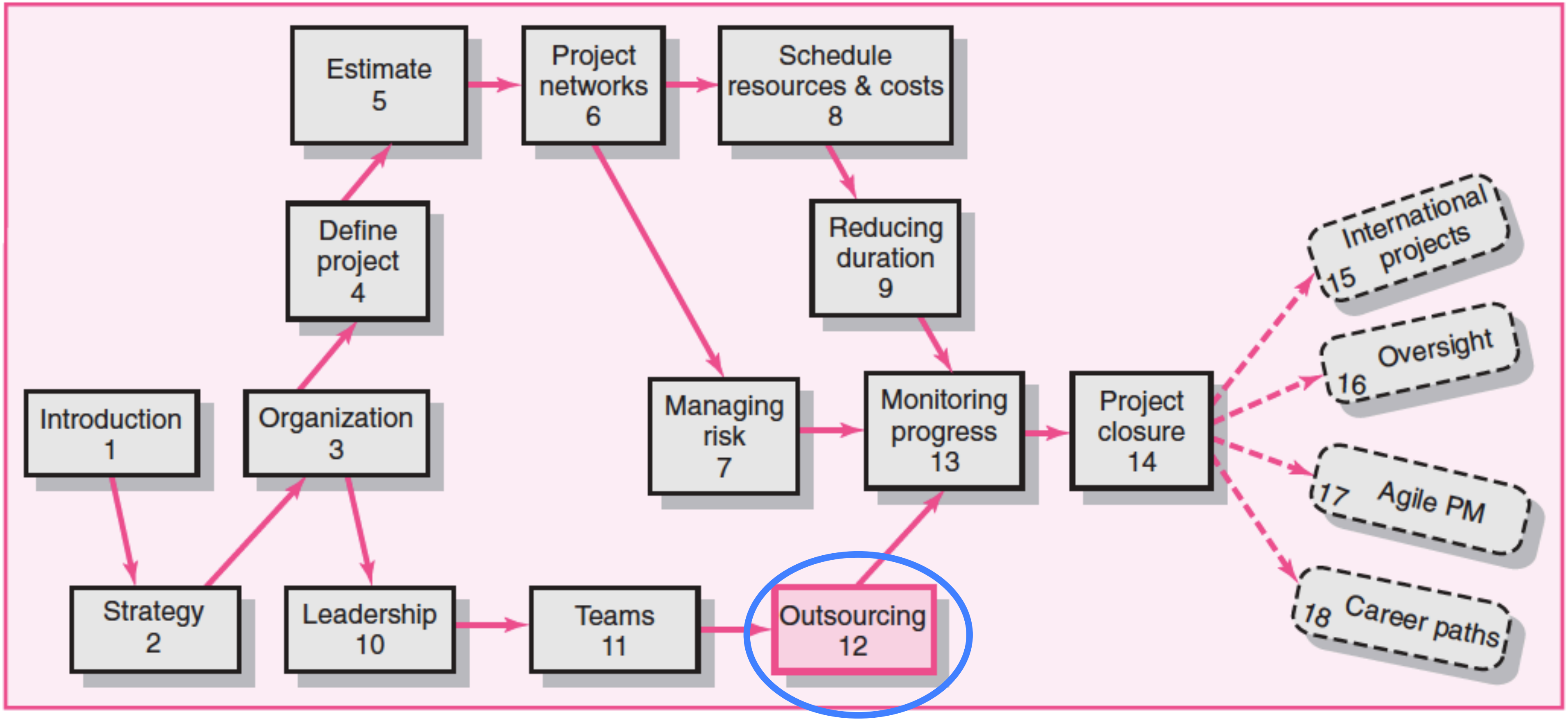
Week 11
Outsourcing

Course Roadmap



What is Outsourcing?

Is the **contracting out** of a business process or function to another party.

Outsourcing

Outsourcing refers to the process by which an organization gives part of its work to another firm / organization and makes it responsible for most of the applications as well as the design of the enterprise business process.

Outsourcing includes both foreign and domestic contracting, and sometimes includes offshoring.

Insourcing

The opposite of outsourcing is called insourcing, which entails bringing processes handled by third-party firms in-house, and is sometimes accomplished via vertical integration.

Offshoring

Offshoring is the relocation, by a company, of a business process from one country to another—typically an operational process, such as manufacturing, or supporting processes, such as accounting.

Financial savings from lower international labour rates is a big motivation for offshoring.

Benefits of Outsourcing

Outsourcing is said to help firms to perform well in their core competencies and mitigate shortage of skill or expertise in the areas where they want to outsource.

- Cost reduction
- Faster project completion
- High level of expertise
- Flexibility

Risks of Outsourcing

- Coordination breakdowns
- Loss of control
- Conflict
- Security Issues

Risk Management Strategies

Mitigating/Reducing/Controlling Risk

- Reducing the likelihood an adverse event will occur.
- Reducing impact of adverse event.

Avoiding Risk

- Changing the project plan to eliminate the risk or condition.

Transferring Risk

- Paying a premium to pass the risk to another party.
- Requiring Build-Own-Operate-Transfer (BOOT) provisions.

Accepting/Retaining Risk

- Making a conscious decision to accept the risk.

Outsourcing Best Practices

- Well-defined requirements and procedures
- Extensive training and team-building activities
- Well-established conflict management processes
- Frequent review and status updates
- Co-location where needed
- Fair and incentive-laden contracts
- Long-term outsourcing relationships

Project Partnering

A process of transforming contractual arrangements into a cohesive, collaborative team that deals with issues and problems encountered to meet a customer's needs.

- Assumes that the traditional adversarial relationship between the owner and contractor is ineffective and self-defeating
- Assumes that both parties share common goals and mutually benefit from the successful completion of projects.

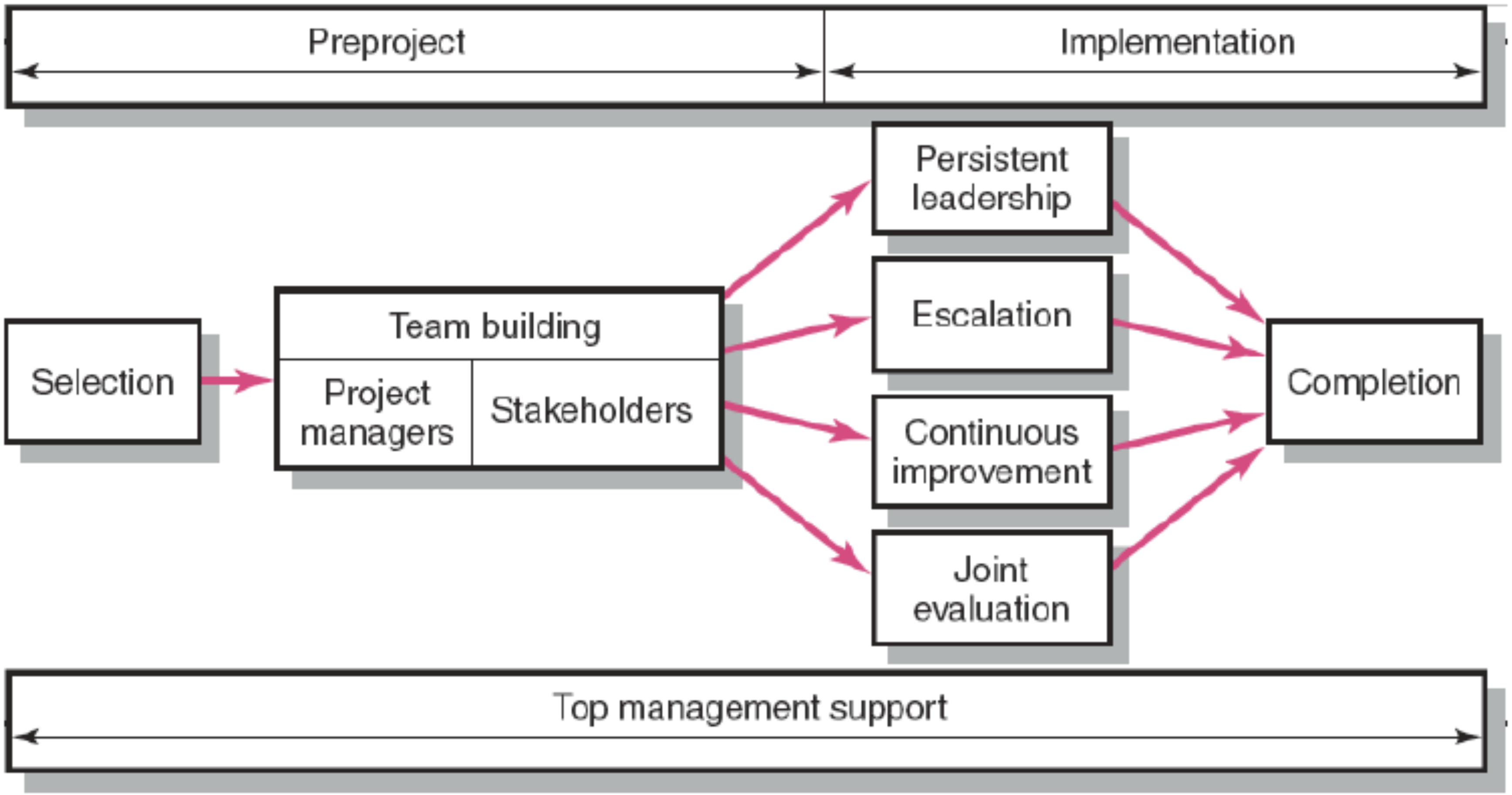
Factors favouring partnering:

- Existence of common goals
- High costs of the adversarial approach
- Shared benefits of the collaborative approach

Differences of approaches to managing contracted relationships

Partnering	Traditional
Mutual trust	Suspicion and distrust
Shared goals and objectives	Independent goals and objectives
Joint project team	Independent project teams
Open communications	Communications are guarded
Long-term commitment	Single project / contract
Objective critique	Objectivity is limited
Access to each other's organisation resources	Access is limited
Total company involvement	Involvement of project team only
Integration of administrative systems	Duplication of administrative systems
Risk is shared jointly	Risk is transferred to the other party

Project Partnering Framework



Pre-project Activities

Selecting a Partner(s)

- Voluntary, experienced, willing, committed top management

Team Building

- The Project Managers
  - Build a collaborative relationship among the project managers.
- The Stakeholders
  - Expand the partnership commitment to include other key managers and specialists.

Project Implementation activities

Establish a "we" as opposed to "us and them" attitude toward the project.

Co-location: employees from different organizations work together at the same location if possible.

Establish mechanisms that will ensure the relationship withstands problems and setbacks.

- Persistent leadership
- Escalation/Problem resolution
- Continuous improvement
- Joint evaluation

Advantages of Long-term Partnerships

- Reduced administrative costs
- More efficient utilization of resources
- Improved communication
- Improved innovation
- Improved performance

Why Project Partnering Efforts Fail

- Senior management fails to address problems or does not empower team members to solve problems.

- Cultural differences are not adequately dealt with such that a common team culture develops.

- No formal evaluation process is in place to identify problems and opportunities at the operating level or to assess the current state of the partnering relationship.

- A lack of incentive for continuous improvement by contractors participating in the partnering relationship.

Contracts

Recall that we defined outsourcing as
"the **contracting out** of a business process or function to another party".

A contract is a written or spoken agreement, that is intended to be enforceable by law.

Common types of Contracts

Fixed Price / Lump Sum Agreement

- Fixed Price Incentive
- Firm Fixed Price

Cost-Plus

- Cost-Plus incentive
- Cost-Plus percentage of cost

Fixed Price Contracts

The contractor with the lowest bid agrees to perform all work specified in the contract at a fixed price.

Preferred when the scope of the project is well defined with predictable costs and low implementation risks.

Advantages

- Owners know the cost and can focus on monitoring work

Disadvantages

- for owners is that it is more difficult and more costly to prepare
- for contractors is the risk of underestimating project costs

Contract adjustments

- Redetermination provisions
- Performance incentives

Cost-Plus

The contractor is reimbursed for all direct allowable costs (materials, labor, travel) plus an additional prior-negotiated fee (set as a percentage of the total costs) to cover overhead and profit.

Advantages

- More flexibility
- Less risk to the contractor
- May reduce the chances of project over bidding because the contractor does not need to pad fixed expenses to avoid going over budget

Disadvantage

- Risk to client is in relying on the contractor's best efforts to contain costs.

Controls on contractors

- Performance and schedule incentives
- Costs-sharing clauses

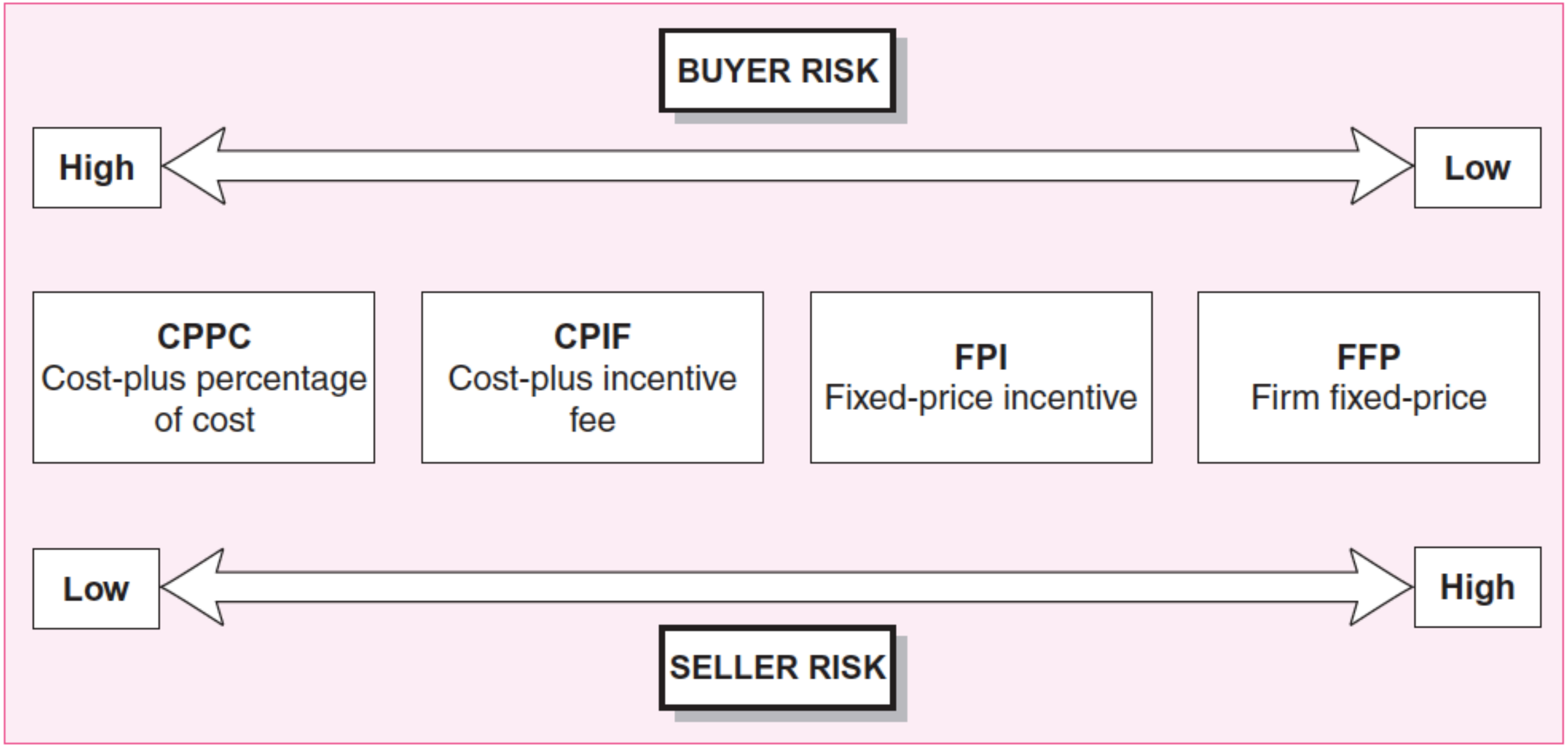
Contract Change Control

Defines the process by which a contract's authorised scope (cost and activities) may be modified:

- Paperwork
- Tracking systems
- Dispute resolution procedures
- Approval levels necessary for authorizing changes

Best practice is the inclusion of change control system provisions in the original contract.

Risk sharing by contract type



Managing Customer Relations

Customer Satisfaction

Customer Expectations

Customer Satisfaction

- Satisfaction is a perceptual relationship
- The negative effect of dissatisfied customers on a firm's reputation is far greater than the positive effect of satisfied customers
- Every customer has a unique set of performance expectations and met-performance perceptions
- Project managers must be skilled at managing both customer expectations and perceptions

Managing Customer Expectations

- Don't oversell the project; better to undersell
- Develop a well-defined project scope statement
- Share significant problems and risks
- Keep everyone informed about the project's progress
- Involve customers early in decisions about project development changes
- Handle customer relationships and problems in an expeditious, competent, and professional manner
- Speak with one voice
- Speak the language of the customer

Met-Expectations Model of customer satisfaction

Highlights whether a client is dissatisfied or delighted with a project and is based on subjective information such as perceptions and expectations

The formula is stated as:

$$\frac{\text{Perceived performance}}{\text{Expected performance}}$$

Team exercise for next week

Each team is to perform a retrospective and answer the following questions.

1. What worked well with the team? Why?

2. What did not work well? why not?

3. What advice would you give to future students working in project teams to maximise performance?

Next week - Project closure