

# Chapter Twelve

## Outsourcing: Managing Interorganizational Relations

# Outsourcing Project Work

- Outsourcing

- The process of transferring of business functions or processes (e.g., customer support, IT, accounting) to other companies
- Being applied to contracting significant chunks of project work
- Being applied to the creation of new products and services

# Outsourcing Project Work

- Advantages

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

- Disadvantages

- Coordination breakdowns
- Loss of control
- Conflict
- Security issues
- Political hot potato

# Request for Proposal (RFP)

- Be announced to external contractors/vendors with adequate experience to implement the project
- Development steps:

1. Summary of needs and request for action
2. Statement of work (SOW) detailing the scope and major deliverables
3. Deliverable specifications/requirements, features, and tasks
4. Responsibilities—vendor and customer
5. Project schedule
6. Costs and payment schedule
7. Type of contract
8. Experience and staffing
9. Evaluation criteria

FIGURE 12.2

# Contractor Evaluation Template

Contractor Evaluation Template	Maximum Weight	Proposal 1	Proposal 2	Proposal 3	Proposal 4
Contractor qualifications	Weight = 10				
Technical skills available	Weight = 20				
Understanding of contract and conditions	Weight = 5				
Financial strength to implement project	Weight = 15				
Understanding of proposal specifications	Weight = 10				
Innovativeness and originality of proposal	Weight = 5				
Reputation for delivering on time and budget	Weight = 15				
Price	Weight = 20				
<b>Total</b>	<b>100</b>				

**FIGURE 12.3**

# Best Practices in Outsourcing Project Work

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

**FIGURE 12.2**

# Key Differences Between Partnering and Traditional Approaches to Managing Contracted Relationships

## Partnering Approach

- ***Mutual trust*** forms the basis for strong working relationships.
- ***Shared goals and objectives*** ensure common direction.
- ***Joint project team*** exists with high level of interaction.
- ***Open communications*** avoid misdirection and bolster effective working relationships.
- ***Long-term commitment*** provides the opportunity to attain continuous improvement.

## Traditional Approach

- ***Suspicion and distrust***; each party is wary of the motives of the other.
- Each party's ***goals and objectives***, while similar, are ***geared to what is best*** for them.
- ***Independent project teams***; teams are spatially separated with managed interactions.
- ***Communications are structured*** and guarded.
- ***Single project contracting*** is normal.

TABLE 12.1

## Key Differences Between Partnering and Traditional Approaches ...(cont'd)

### Partnering Approach

- **Access** to each other's organization resources is available.
- **Total company involvement** requires commitment from CEO to team members.
- **Risk is shared** jointly among the partners, encouraging innovation and continuous improvement.

### Traditional Approach

- **Objectivity is limited** due to fear of reprisal and lack of continuous improvement opportunity.
- **Access is limited** with structured procedures and self-preservation taking priority over total optimization.
- **Involvement is normally limited** to project-level personnel.
- **Risk is transferred** to the other party.

TABLE 12.1 (cont'd)



# Strategies for Communicating with Outsourcers

**STRATEGY 1:** Recognize cultural differences

**STRATEGY 2:** Choose the right words

**STRATEGY 3:** Confirm your requirements

**STRATEGY 4:** Set deadlines

# Preproject Activities—Setting the Stage for Successful Partnering

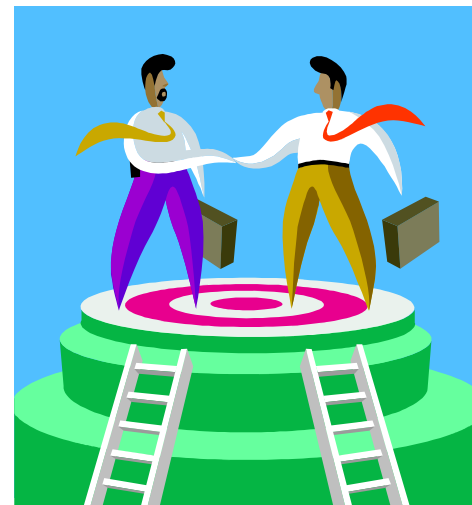
- Selecting a Partner(s)
  - Voluntary, experienced, willing, with committed top management
- Team Building: The Project Managers
  - Build a collaborative relationship among the project managers
- Team Building: The Stakeholders
  - Expand the partnership commitment to include other key managers and specialists

# Project Implementation—Sustaining Collaborative Relationships

- 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
- Establish mechanisms that will ensure the relationship withstands problems and setbacks
  - Problem resolution
  - Continuous improvement
  - Joint evaluation
  - Persistent leadership

# Project Completion—Celebrating Success

- Conduct a joint review of accomplishments and disappointments
- Hold a celebration for all project participants
- Recognize special contributions



**Evaluation of partnering process:** attitudes, teamwork, process.  
(Collected separately from owner and contractor participants, compared, and aggregated.)

## Sample Online Partnering Survey

1. Communications between the owner/contractor personnel are

1	2	3	4	5
Difficult, guarded				Easy, open, up front

2. Top management support of partnering process is

1	2	3	4	5
Not evident or inconsistent				Obvious and consistent

3. Problems, issues, or concerns are

1	2	3	4	5
Ignored				Attacked promptly

4. Cooperation between owner and contractor personnel is

1	2	3	4	5
Cool, detached, unresponsive, removed				Genuine, unreserved, complete

5. Responses to problems, issues, or concerns frequently become

1	2	3	4	5
Personal issues				Treated as project problems

**FIGURE 12.6**

# Advantages of Long-term Partnerships

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



# The Art of Negotiating

- Project management is **NOT** a contest.
  - Everyone is on the same side—OURS.
  - Everyone is bound by the success of the project.
  - Everyone has to continue to work together.
- Principled Negotiations

1. Separate the people from the problem.
2. Focus on interests, not positions.
3. Invent options for mutual gain.
4. When possible, use objective criteria.

TABLE 12.2

# The Art of Negotiating (cont'd)

- Dealing with Unreasonable People
  - If pushed, don't push back.
  - Ask questions instead of making statements
  - Use silence as a response to unreasonable demands
  - Ask for advice and encourage others to criticize your ideas and positions
  - Use Fisher and Ury's best alternative to a negotiated agreement (BATNA) concept to work toward a win/win scenario



# Managing Customer Relations

- Customer Satisfaction

- 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.
- Satisfaction is a perceptual relationship:

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

- Project managers must be skilled at managing both customer expectations and perceptions.

# The Met-Expectations Model of Customer Satisfaction

$$\frac{0.90}{\text{Dissatisfied}} = \frac{\text{Perceived performance}}{\text{Expected performance}} = \frac{1.10}{\text{Very satisfied}}$$

- If performance falls short of expectations (ratio < 1), the customer is dissatisfied.
- If the performance matches expectations (ratio = 1), the customer is satisfied.
- If the performance exceeds expectations (ratio > 1), the customer is very satisfied or even delighted.

**FIGURE 12.7**

# Managing Customer Relations (cont'd)

- 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

# Project Roles, Challenges, and Strategies

Project Manager Roles	Challenges	Strategies
<b>Entrepreneur</b>	Navigate unfamiliar surroundings	Use persuasion to influence others
<b>Politician</b>	Understand two diverse cultures (parent and client organization)	Align with the powerful individuals
<b>Friend</b>	Determine the important relationships to build and sustain outside the team itself	Identify common interests and experiences to bridge a friendship with the client
<b>Marketer</b>	Understand the strategic objectives of the client organization	Align new ideas/proposals with the strategic objectives of the client organization
<b>Coach</b>	Motivate client team members without formal authority	Provide challenging tasks to build the skills of the team members

**TABLE 12.3**