

Dirty little secret of IT outsourcing

By Nick Eian

When Best Buy recently announced its decision to outsource information technology jobs to Accenture, a third-party IT vendor that uses developers in India, it created quite a buzz. Was this yet another example of indifferent corporate America turning its back on its U.S. workers, or the inevitable result of mounting global pressures?

My hunch is that neither answer is quite on target. To its credit, Best Buy has recognized that outsourcing information technology functions can provide cost savings, allowing the company to operate as lean as possible.

But that's only part of the global outsourcing story.

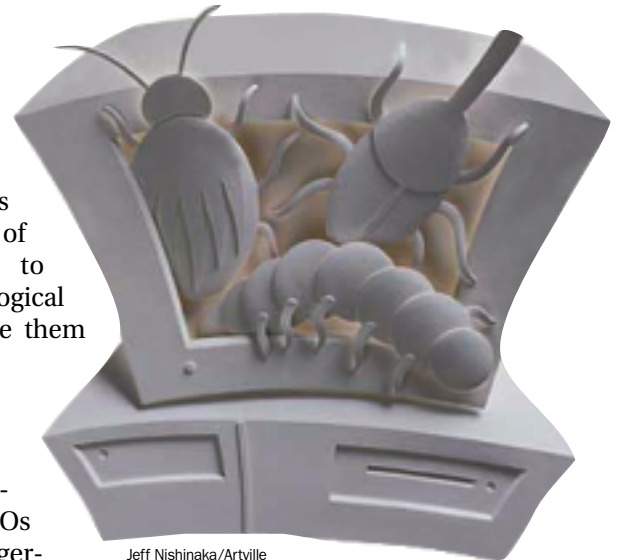
What gets less press coverage is a common, but related, problem no one in corporate America likes to talk about: major IT spending with little return. While IT has certainly allowed companies — large and small — to computerize and streamline sales orders, invoicing and accounts receivables, the grander IT promises still are tantalizingly out of reach for most organizations.

CEOs have poured billions into IT projects only to see them delayed, never finished or unable to deliver on their most basic promises. They've grown frustrated and

disillusioned with their CIOs inability to make good on these staggering IT investments. CIOs, often former programmers with little understanding of business, are struggling to keep pace with the technological changes and how to make them benefit their organizations.

This chaotic situation makes global outsourcing appear to be a relatively tidy solution for exasperated CEOs and frustrated CIOs bent on resolving their lingering IT problems. But outsourcing a mismanaged function is not the answer. In fact, sending ill-defined and poorly managed technology work overseas often creates more problems than it solves. Language and cultural barriers can be huge. Less experienced software developers in other countries are expected to get quickly up to speed, even if there's no one to train them.

But the No. 1 problem that plagues IT projects — whether done at home or abroad — is getting business managers to own and define the information technology that supports their operation. And that's the crux of the problem that IT outsourcing — global or otherwise — can't begin to solve.



Jeff Nishinaka/Artville

Information technology projects must be clearly defined before anyone is asked to write the code. Required statements must include a description of changes to the operating procedures. Without those fundamentals in place, any effort is doomed to failure.

The current issue of Newsweek looks at the issue of global outsourcing and the failures many companies are beginning to experience. The article by Brad Stone points out that developers in India can't seem to deliver. But that strikes me as an unfair, or at least incomplete, assessment of the situation. After all, if developers in the U.S. couldn't do it, why should we

expect that developers in other countries would be able to deliver? The truth is that companies need to first define, and then communicate, a good IT process to smart people — no matter where they live or what they charge per hour — to get the job done.

Let's stop deluding ourselves

While U.S. companies believe they're outsourcing to save money by employing workers with lower hourly rates in other countries, they're really fooling themselves. Project costs will begin to soar when they try to fix the predictable problems that occur with developers abroad (some are calling this "onshoring"). All the global outsourcing accomplished was to delay the inevitable reconciling of bad management practices, which can range from obsolete work processes to poorly defined goals.

In some cases, U.S. companies think outsourcing means they can radically speed up the development process. They throw more lower-paid offshore developers at a problem in an effort to get the project finished faster. That's sort of like thinking that nine pregnant women can get together and produce a single baby

in one month. Obviously "more" doesn't mean "faster" when there are well-defined developmental steps that must be followed to produce a healthy result.

Outsourcing should be the result of a strategic business decision, after careful analysis proves that it's the only way to cut costs or access crucial raw materials. Instead, the decision to outsource frequently is made by frustrated corporate executives who are looking for easy solutions to tough problems.

While these challenges may seem daunting, I still view outsourcing as a realistic tool for solving strategic business problems. With IDC Research predicting that offshore spending will quadruple by 2007, it's clear that outsourcing is a concept that's here to stay. The trick is to find a way to really make it work.

It's not as hard as you might think. However, it does take a commitment to a new business strategy, or perhaps a new business model, to succeed. It also means taking a good, hard look at how your business works, how your customers get served and how your people work together.

While outsourcing is stirring up a fair amount of controversy, it can

make sense in cases where affordable local resources or raw materials are lacking. But many U.S. companies are growing disillusioned, without knowing why. According to analysts at the Gartner research firm, 2004 is the beginning of the "trough of disillusionment" with offshoring.

Disillusionment is the predictable outcome when you start with unrealistic expectations. There is no free lunch and global outsourcing is not a panacea. But companies that know how to manage IT projects — and those who outsource for the right reasons — might be on the brink of an enduring business solution.

About the author

Nick Eian is the CEO of Endurant Business Solutions (www.endurant.com), a consulting company that helps businesses, executives and entrepreneurs with organizational and technology challenges. Eian can be reached at 952-294-2757 or nick.eian@endurant.com
