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Keane White Paper

Offshore IT Outsourcing

An Integral component of High-Performance IT Organization

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EXECUTIVE SUMMARY

This white paper is a part of a series of informational papers developed by Keane to share knowledge on specific outsourcing issue that should be considered in today's business environment. This paper covers the topic of Offshore IT Outsourcing and is the first in the series. Additional topics planned for this series include the following:

- Mission-Critical Asset Management
- Process and Metrics Management
- Enterprise Resource Planning (ERP) Management.

About Keane

Keane, an NTT DATA Company, is an IT services firm headquartered in the US with more than 12,500 professionals worldwide. For 45 years, Keane has been an Application Services specialist with distinguished project management credentials. Today, we offer a flagship suite of Application Services, as well as Infrastructure and Business Process Outsourcing solutions delivered through onsite, nearshore, and offshore resources.

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Abstract

This paper provides a framework for understanding how offshore IT outsourcing has become a mainstream delivery methodology and should be considered a part of every IT organization's mix of services. Offshore is not necessarily the ultimate endgame; however, offshore does play a valuable role in helping companies build high performance IT organizations that enable their business strategies by optimizing performance, value, and risk.

This paper, the first in a series of four, will outline how to select the best offshore outsourcing partner for your organization. It will then help executives understand how to fully leverage the powerful value proposition offered by a stronger partnership relationship with a full-service outsourcing firm.

Offshore Outsourcing – a Mainstream Option

Globalization, increased competition, and a challenging economic environment are driving many organizations to reevaluate their business models in an effort to enhance performance. In particular, companies are increasingly focusing attention and resources on their internal core competencies and outsourcing other functions that are not considered core to their business. For many companies, certain IT services fall within the category of functions that are ideal for outsourcing. These IT services range from application development and maintenance to help desk functions.

IT outsourcing is not a fad, and it is not just a method of gaining a one-time cost advantage. IT outsourcing is an effective strategy for gaining and maintaining competitive advantage when executed as part of an overall program to build a high-performance IT organization.

IT outsourcing had its origins in the hiring of contractors to fill short-term capacity voids or one-time project ramp-ups. It is not surprising that IT services firms sprang up to fill the need for IT project services that could not be accommodated by staff augmentation firms. These IT services firms recognized the importance of wrapping processes, methodologies, and project management disciplines around the technical skill sets of its employees.

More recently, IT services firms with offshore operations have demonstrated the added benefit of reduced cost and "follow the sun" work shifts, allowing for more productive use of IT budgets that continue to be pressured by today's economic realities. The decision of what and how much of a company's IT services should be outsourced is a relatively simple one, although it can be fraught with internal political pitfalls. The decision of what to outsource should be based upon the company's assessment of non-core IT services and the degree of risk the company is willing to take in order to achieve their desired balance of cost and quality.

What is not so simple is the actual process of selecting an outsourcing partner and then aligning the partnership to maximize overall performance. This alignment requires effort by both the outsourcing partner and the hiring company that is not significantly different from the effort required for any high performance team relationship.

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Figure 1: Checklist for Offshore Vendor Selection

Quality

- Recent quality assessments at offshore facilities
- Recognizes the importance of CMM within the client site

Management

- Demonstrated experience in distributed team management
- Exhibits project management certifications at the individual level
- Generates effective engagement management tools

Dedication

- Dedicated to deli ver long-term competitive advantage
- Offers long-term client relationship references
- Invests in training and employee retention

Security

- Formalized and documented contingency plans
- Insulation from risk, nuances, and complexities
- Ability to seamlessly distribute work to local facilities

Infrastructure

- Illustrates telecommunications capabilities and technology equipment
- Demonstrates rapid and seamless immigration abilities

Delivery

- Demonstrates a commitment to metrics-based measurement
- Proves consistent delivery to SLAs on-time and on-budget

Focus on Success

There have been many how-to guides written about taking advantage of offshore IT outsourcing. These guides generally focus on the selection of projects and services to send offshore, the contractual terms and conditions of the agreement, and assessing risk factors, e.g., geopolitical, data security, scope creep. While these are certainly items for consideration, it makes sense to first focus on the primary critical element that will have the most impact on the success of any offshore outsourcing arrangement – the selection of an offshore outsourcing partner.

An offshore outsourcing partner should be viewed as a true partner, a critical member of the IT organization's high performance team. When offshore outsourcing

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was in its infancy, there was a tendency to isolate a particular project or projects, ship the project offshore for the lowest price possible, and then use contractual and customer/vendor pressure to correct any problems. While this may solve a company's short-term issues with cost pressures, it does not position that company to fully leverage the powerful value proposition offered by a stronger partnership relationship with a full-service outsourcing firm.

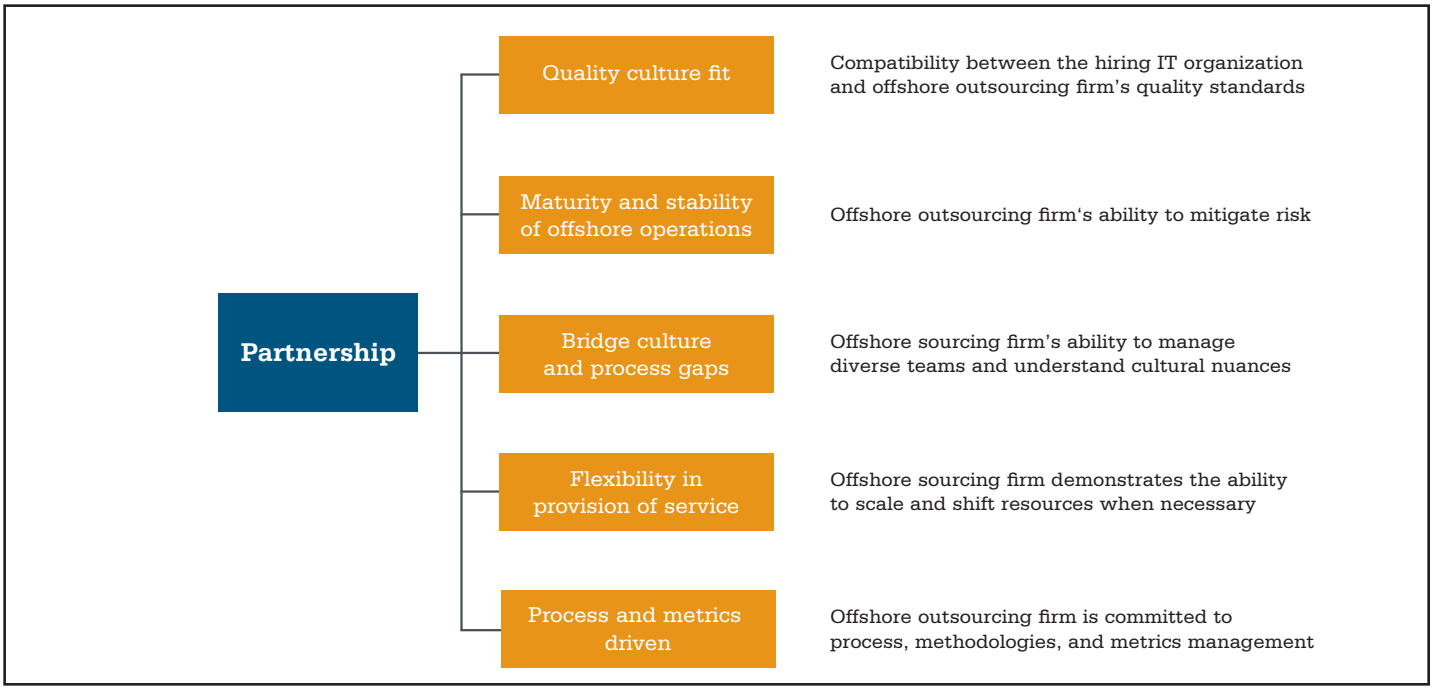
The Partnership is Key

In building high performance teams, it is acknowledged that each team member brings value to the group that can result in a higher team performance than the sum of the individual team players. This phenomenon does not occur naturally with all teams. The team must openly respect and treat all team members as equals, tapping into the power of the contributions of all players. This same factor applies when adopting an offshore services provider, or any outsourcing provider, as a team member within the IT organization. The following elements are critical to the selection process in order to establish and maintain a successful relationship with an offshore provider.

Quality culture fit

The hiring IT organization generally desires the strong quality culture displayed by many offshore outsourcing firms. However, there is often a disconnect between internal company quality processes (or lack thereof)

Figure 2 : Five Critical Elements of a Successful Offshore Partnership



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and the offshore firm's passion and commitment to standardization and quality methodologies. It is critical for the hiring IT organization to recognize that effort will be required on the part of internal resources to work with the offshore firm in a manner that truly leverages the benefits of quality standards and methodologies.

The mature offshore outsourcing firms have demonstrated commitment to quality and continuous improvement by their dedication to achieving the highest levels of ISO and CMM certification. Buying organizations should ensure that this commitment to quality is not only resident in far-away offshore facilities, but also is delivered locally with each project engagement.

Maturity and stability of offshore operations

An important risk factor to consider is the maturity and stability of offshore operations, both from the individual provider perspective and from the country location perspective.The first consideration should be the desired characteristics of the outsourcing firm that will help minimize overall risk.

For example, is it important to a hiring company that the offshore outsourcing firm be headquartered and managed by a U.S. entity? If the hiring company is not U.S.-based, is it important for the offshore outsourcing firm to have a committed base of operations in their country? What is the longevity and track record of the offshore operation? What is the depth, satisfaction level, and repeat business of the offshore firm's client list? What are the current skill sets of the offshore provider and what is the track record for hiring new skill sets to meet evolving client needs?

It is also important to evaluate the offshore country's infrastructure, political, and legal support for offshore IT services as this can dramatically impact the offshore firm's ability to provide sustainable, uninterrupted, and secure offshore services.

Ability to bridge culture and process gaps:

There have been well-publicized reports of the cultural differences that exist when dealing with an offshore provider. These cultural differences can be reflected in differences in communications, work ethics and habits, and approaches to problemsolving/resolution.

Since many hiring firms do not have significant experience in managing diverse team interactions, it is mportant to look for an outsourcing firm experienced in helping to bridge this gap. Outsourcing firms who most successfully bridge this gap have a strong U.S. project management presence, utilize local on-site resources to gain sensitivity to a client's culture and unique project requirements, and follow a strict methodology for knowledge transfer.

Flexibility of service provision

The hiring firm will want to give strong consideration to the flexibility of the offshore provider in meeting their needs.Does the offshore provider have the ability to ramp up required skill set resources to meet delivery needs? Does the offshore provider have the flexibility to provide a mix of on-site, off-site, near-shore, and offshore resources to accommodate changing client needs and preferences? Does the offshore provider

Establishing a relationship with an offshore services provider helps corporations to improve the performance of their own IT organization while reducing cost and improving the overall quality of IT operations.

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Outsourcing firms that most successfully bridge the culture and process gap have a strong U.S. presence, utilize local on-site resources to gain sensitivity to a client's culture and unique project requirements, and follow a strict methodology for knowledge transfer.

have the ability to change this mix when necessary to mitigate risks or meet escalated project deadlines?

Process and metrics driven

In addition to a focus on quality, the hiring company should seek a partner who is process and metrics driven for all of its business operations – on-site, off-site, near-shore, and/or offshore. It is this inherent commitment to process, methodologies, and metrics management that forms the basis for a true partnership that provides the most benefit to the hiring firm.

The Rewards Can Be Great

Establishing a relationship with an offshore services provider will enable corporations to improve the performance of their own IT organization while reducing cost and potentially improving the overall quality of IT operations.The degree to which the hiring firm reaps the rewards of improved cost and quality depends upon how well the relationship is leveraged and maintained.

Summary and Conclusion

In an effort to build high performance IT organizations while dealing with economic realities, today's companies must consider offshore IT outsourcing in their mix of services. Since the relationship with an outsourcing provider is key, the hiring firm should give serious consideration to establishing and maintaining a relationship with an IT services firm with a strong track record in both U.S. based and offshore operations. This will provide the hiring firm with maximum flexibility in managing performance along a continuum of risk/reward delivery options – on-site, off-site, near-shore, offshore, and any combination of these services.

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