



Outsourcing Venture Responsibility and Liability

Your Results.
Our Commitment.



Poor governance leads to most outsourcing failure. The good news is that the success rates are 90% for transactional relationship outsourcing ventures, where vendor's tasks are easy to define, and 63% for co-sourcing alliance, where both vendor and client share managing responsibilities. These numbers are higher than the overall 60% success rate for all projects. Companies with responsibility and liability outlined and evolved experience higher success rate than others.

Responsibility and Liability in the Outsourcing Models

Your business objectives are often the key factor in your selection of the model with the outsourcing vendor. The outsourcing model dictates the roles and responsibilities for both vendors and clients. Understanding unique responsibilities and liabilities applied to each model give you greater control on the direction of the venture.

- ▶ **Offshore Development Center:** This ODC model will benefit client with long term outsourcing program by lower cost and higher employee retention rate. The client is provided with dedicated resources that work exclusively for the client. Client has complete control on the tasks they would like the offshore consultants to do. Vendor should be responsible to ensure reliable infrastructure, meet staffing quota, create an active and motivating working environment, provide technical and leadership training to all employees including those dedicated to the client in the ODC model. Good vendors also have experienced quality control (QC) team that reviews the consultant team's work products and processes against the client's requirements. The QC team then discusses with the consultant team on how to improve and exceed the client's expectation. Ask your vendors how they can help you improve the quality of your dedicated offshore team who are far away from your location. Provide them incentive for the extra mile they go to make your consultants achievers.
- ▶ **Fixed Price/Projectized:** Client gets the assurance for project completion at a fixed price and a fixed date for delivery. But do not mistake that the client's responsibilities are not relevant here. Ultimately within the client's organization, the project manager is responsible and accountable for the success of the project that the vendor is working on. Vendor is responsible for requirement collection, develop and maintain WBS, design, implement, test, document, archive, and report to the client. Client should work closely with vendor on the requirement definition, sign off the requirement, review prototype and screen captures, track progress and milestone, inquire results on significant dates, continually communicate with vendor to assist in resolving problems (that will always arrive), mitigate risks, etc. Without this working commitment and relationship, 40% of all projects fail to meet cost, schedule, scope, or quality. Always remember the common goals that both vendor and client want to achieve and work toward the common goals.
- ▶ **Time and Material:** In this model, client usually manages the project and vendor provides highly competent consultants to work on client's projects. In addition to time keeping and task reporting, vendor should be responsible to ensure reliable infrastructure, meet staffing quota, create an active and motivating working environment, provide technical and leadership training to the consultants. These will help both client and vendor to retain the consultants and their invaluable domain knowledge of the client's business.

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- ▶ **Build, Operate, and Transfer:** Clients interested in having an offshore subsidiary entity can choose this approach. First vendor builds up a team that proves to perform and operate the client's business efficiently. Once the team efficiency level is well established and it can independently operate with no supervision from the vendor, the vendor will transfer the ownership and management to the client. Since the goal is to transfer the entity completely to the client, vendor should be responsible for building an entire organization that could operate well remotely. The organization should include experienced Executive, Human Resource, Information Technology, Quality Control teams. All legal, managerial, and technical materials must be well developed and kept by this new organization.

Responsibility and Liability in the Plans

You do planning for in-house projects. Why would you skip it for outsourced projects? Outsourced projects must be even better planned and managed to overcome challenges that only exist with outsourcing. You can't afford not to plan. As you develop the plans, the responsibilities and liabilities for both vendor and client are identified and documented. If your organization has been operating under ISO 9000, PMI Guideline or CMMI Level 2 and above, formal planning is just part of your project life cycle. If you are a small software shop not having enough resource for rigorous planning, I promise that having a simple plan for each area below will pay off. Discuss with your potential outsourcing vendor to see how the vendor can help you plan the venture.

Cost benefits analysis: Identify actual goals by performing cost benefit analysis. Transform cost and benefits to dollar value. You must know the non-trivial aspects of outsourcing to analyze cost and benefits accurately. For instance, many clients rely almost 100% on the vendors while highly successful ventures require client to take ownership of the vendor's work by tracking progress, providing feedback, making change requests on time, and etc. Most think of the cost advantage as the primary benefit for offshore outsourcing; however, the dollar value for each benefit varies depending on each company's business need. Staffing and operating cost advantage, more focus on core business, flexibility, time-to-market reduction, enhanced service levels, and risk mitigation are a few key outsourcing benefits that lead to the \$1.2 trillion outsourcing market in 2007 according to Gartner.



- ▶ **Roles and Responsibilities Matrix:** Tie the Work Breakdown Structure elements to resources. Depending on the outsourcing model, the roles and responsibilities are different for vendor and client. Vendors are obligated to meet contract agreement. Client must also be responsible and accountable to the common goal. Without that relationship, outsourcing ventures often go sour.
- ▶ **Performance Incentive Plan (PIP):** Create incentive for good results and penalty for unmet commitments. Clients and vendors can develop realistic performance incentive plan together. This will motivate vendors to go extra mile. The PIP could be based on the measured outcomes against the SLA, the throughputs from the Statement of Work, the customer survey, and/or the schedule, cost, quality criteria.
- ▶ **Service Level Agreement (SLA):** Define measurable expectation on outcomes, communication, reporting, compensation, problem management, and more. The best time to establish the SLA is in the beginning of the contract negotiation. Understanding expectation helps vendor provide more accurate estimate and plan better strategies for effective service level management program. Companies hoping to significantly change to the SLA later in the contract could lose the client-vendor relationship that is critical to the success of the venture.



- ▶ **Intellectual Property Protection Plan (IPPP):** Ensure that all employees, subcontractors, and partners of the vendors sign and commit to the intellectual property protection compliance. Even North American legal system has large loop holes in general confidentiality, non-disclosure and non-compete agreements. Make sure to spell this out as specifically as possible to maximize your legal right protection. Proactively take other protection measures by identifying security, facility, infrastructure, and process requirements to protect source code, data, and documents.
- ▶ **Project/Program Management Plan:** Define how the project or program is governed. It includes guidelines in software development cycle, operation and management, risk management, change management, quality assurance, quality control, documentation management, and more. Vendor follows these guidelines and policies under the client's direction. Client follows the policies to govern the outsourcing venture.
- ▶ **Communication Plan:** Identify level of communication required. Communication could range from day to day operation contact and formal performance reporting to more in-depth joint planning of service delivery, problem resolution, strategic changes and etc.
- ▶ **Software Development Plan:** Capture and communicate a project's scope of work, plans, processes, and procedures. It should enable a process-driven approach to manage the project.
- ▶ **Risk Management Plan:** Identify, categorize, analyze, and mitigate risks. It describes the method used to determine risk status and measure the progress and effectiveness of risk mitigation efforts. A common example is that client is responsible for overall management risks and vendor is responsible for technical and task management risks.
- ▶ **Change Management Plan:** Define processes and responsibilities of the Change Control Board and the Configuration Management team to effectively implement configuration management functions. Any change request, development, tracking, and release of artifacts must follow the defined processes.
- ▶ **Quality Assurance Plan:** Describe the level of effort for quality assurance, testing methods, processes, and cycles. If you require unit test, smoke test, silk test, regression test, automation test, performance test, stress test, web services test, and etc., specify all your required tests here.
- ▶ **Documentation Management Plan:** Describe required document artifacts and document management work flows. It's imperative for outsourcing ventures to have documents well developed and maintained.
- ▶ **Quality Control Plan:** Provide standard set of check list, quality baseline, quality metrics, and guideline to audit and control the quality of all practices, processes, and deliverables to make sure they are in compliance with the contract. Quality must be planned in, not inspected in. A set of tools like Fishbone diagram, Flow chart, Pareto chart, Run chart, Scatter diagram, Control chart can be used by either the vendor or client to review pattern variation, and analyze root causes. Outputs of the quality control process include changes requested to the project management plan, recommendations for corrective actions, updated standards and processes, and etc.

Responsibility and Liability in the Service Types

Ultimately, the measure of success is the project outcome. Service types like software development, quality assurance, or operation and maintenance have different expected outcomes. Paying attention to the responsibility and liability of vendor and client for each service type allows you to manage more relevant goals.

- ▶ **Development:** Co-sourcing alliance should work well for large project development since requirements are not easy to define. Scope, schedule and cost must be well managed, reported, and balanced. Trust but Verify should be the foundation of the relationship between the client and vendor. Do not take "no news is good news." Vendor must be responsible to complete the work, and report the status and milestones frequently. Significant dates must be met or re-planned well in advance. Client should work closely with vendor on the requirement definition, sign off the requirement, review prototype and screen captures, track progress and milestone, inquire results on significant dates, continually communicate with vendor to assist in resolving problems (that will always arrive), mitigate risks, and etc. Without this working commitment and relationship, 40% of all projects fail to meet cost, schedule, scope, or quality. Always remember the common goals that both vendor and client want to achieve and work toward the common goals.
- ▶ **Quality Assurance:** Transactional outsourcing has its advantage in quality assurance work. The scope and requirement are easy to define. If the system has a good set of functional specifications, the vendors can write the test cases, record the automation test, perform any types of test as required. If the system does not have a cohesive functional specification, the client's subject matter experts must write the test cases first. Specify the test types and methods of collecting, analyzing and reporting test results for the vendor to comply. To be informed of problem as soon as possible, test your system as frequently as possible. You can unit test, smoke test, silk test, regression test, automation test, performance test, stress test, web services test to make sure the quality requirements are met or exceeded.
- ▶ **Operation and Maintenance:** Depending on the scale of the system, co-sourcing alliance or transactional outsourcing could be chosen here. Clearly define your expectation of the time response to trouble tickets, daily support availability, communication and escalation paths. Specify quality metrics to measure and hence minimize bugs introduced by fixing other bugs, reduce incident recurrence rate, and minimize retest cycles. You should also consider pro-active maintenance that includes corrective, preventive, and perfective maintenance. Vendor could implement processes to prevent problems from happening well in advance. Performance incentive should be rewarded for vendors that go extra mile to meet and exceed your quality metrics.



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