



Outsourcing Continues:

Pursuing a Best Sourcing Strategy

Every insurance organization has to make the most of limited resources — but it's not always about saving money. If cost savings are the primary focus, outsourcing may not work. This special report from *Insurance & Technology* takes a big-picture look at outsourcing and how to make it work over the long term.

Getting more from outsourcing: Pay attention to IT governance

By Carol Weiszmann

IT governance is all about accountability. Without it, an outsourcing relationship stands in imminent danger of failing. Thus one of the secrets to outsourcing success is making accountability a formal process. This means carefully and thoroughly defining the roles, responsibilities, and decision-making authority of all participants.

Stakeholders whose roles must be clarified include senior business and IT executives and leaders of both business/functional units and IT delivery teams. Clearly defining these roles and establishing unequivocal lines of authority are crucial in order to resolve issues ranging from strategy, standards, monitoring, reporting, and change management. These roles and responsibilities should be negotiated with your outsourcer and articulated in your outsourcing contract.

To begin defining and assigning these roles, responsibilities, and authority, you'll need to ask and answer a number of key questions:

- Who approves IT strategy and ensures that it's properly aligned with the company's business priorities?
- Who decides on IT standards and ensures they're consistent with IT strategy?
- Who monitors project delivery?
- Who monitors process performance and service levels?
- Who gets feedback from business unit users and customers?
- Who approves changes?

- Who oversees that changes are implemented effectively?
- Who is ultimately accountable for the results?
- How are lines of decision-making authority — as well as decisions themselves — periodically reviewed to ensure they're still properly aligned with business and technology requirements?

What is IT governance?

"IT governance... is an integral part of enterprise governance and consists of the leadership and organizational structures and processes that ensure that the organization's information technology [that is, the infrastructure as well as the capabilities and organization that establish and support it] sustains and extends the organization's strategies and objectives."

— *IT Governance Institute (www.itgi.org)*
Board Briefing on IT Governance (Second Edition), 2003

Structure must support accountability

Your organization will need a way to review and approve requirements, as well as monitor execution and operations. Formally establishing key groups — all of which should include someone from your outsourcer — encourages stakeholders to take their roles seriously. Your outsourcing

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At a Glance: The Capability Maturity Model

By Carol Weiszmann

Developed in the 1980s by Carnegie Mellon University's Software Engineering Institute as a method for measuring the maturity of software development processes, the Capability Maturity Model (CMM) has more recently evolved into the Capability Maturity Model Integration (CMMI) to incorporate related models in such other disciplines as software acquisition, systems engineering, workforce management and development, and integrated product and process development.

CMM describes a five-level path of software development maturity. While it's similar to ISO 9001, one of the ISO 9000 standards specifying manufacturing and service industry quality levels, CMM focuses on continuous process improvement and describes a framework that enables progression from ad hoc, immature processes to disciplined, mature processes with improved quality and effectiveness.

CMM's five levels

Because it enables an organization (or an outsourcer) to assess its software development maturity, CMM is a useful tool in outsourcing software development projects, since it can be used to measure the capabilities of outsourcers to provide software on time, within budget, and to acceptable standards. CMM is also reputed to lower software defect rates, reduce time-to-market, and boost productivity.

The five levels are:

- **Level 1: Initial.** Processes are disorganized, sometimes even anarchic. The software development environment is unstable, and project success is generally a function of individual effort and difficult to repeat since processes are not sufficiently defined or documented. The software and services generated may work, but they're often over budget and delivered late.
- **Level 2: Repeatable.** Elementary project management techniques — e.g., scheduling, tracking costs — have been established and processes have been defined, documented, and formally established, so successful processes can be repeated.
- **Level 3: Defined.** An organization has developed its own standard software processes — which are improved over time and can be tailored to particular projects — through greater attention to documentation, standardization, and integration.
- **Level 4: Managed.** An organization monitors and controls its own processes through data collection and analysis, enabling much more precise predictability of process performance, thanks to use of quantitative techniques.
- **Level 5: Optimized.** Processes are continually being improved through monitoring feedback from current processes and introduction of innovative processes to better serve the organization's particular needs, enabling the organization to respond rapidly to changes and opportunities. ◆

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contract should get specific about these committees' membership, agenda, meeting schedule, and deliverables:

- An executive committee bears responsibility for endorsing IT strategy and initiatives.
- An operations committee — which should include both senior IT executives and leaders of IT delivery teams — ensures that IT initiatives are realized and IT services delivered. This committee is essential for outsourcing success, since it constitutes the primary way your outsourcer relates to your IT people and processes.
- User committees — formed around business units, business processes, and/or technology user groups — should be tasked with articulating emerging business needs and giving feedback concerning services delivery. These committees give your outsourcer a way to interact with your business unit users.

Implementing a reporting framework

All those with accountability require information about how things are going. Your outsourcing contract should detail the service-level reporting your organization will need to manage your outsourcing relationship and include examples of required reporting.

You should also specify reporting requirements of your management structure. While executive committee reporting should be high-level summaries — perhaps in the form of balanced scorecard reports concerning key dimensions (e.g., service quality, budget, user satisfaction, business contribution, strategic direction), your operations committee needs specifics about IT services, and user committees require project progress reports, backlog reporting, and process service-level reports.

IT governance — Essential to success

As a key part of corporate governance, IT governance cannot be outsourced. An outsourcer can help you with back office processes, application development, integration, maintenance, and with delivering IT services. But like any provider, your outsourcer needs rules of engagement, and those must come from you.

By focusing on governance as you negotiate an outsourcing relationship, you'll clarify both the outsourcer's roles and responsibilities and your own — and go a long way toward improving the odds of outsourcing success. ♦

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