

When you talk about outsourcing part of your business and when reporters like me write about outsourcing, numbers often play a big part.

But as a tech reporter, I find the most fascinating part of the outsourcing story to be the part about the intangibles, about the cultures involved in any kind of organization transformation.

In my business, we went through – and are still going through – a remarkable organization transformation called convergence.

I am a convergence experiment. I'm both a network news television reporter and newspaper beat reporter. So far as I know, no one else in the world has this kind of job.

Now in addition to having this kind of cool job, I've also had a front row seat for convergence, for this remarkable organization transformation and I can report it's been hit and miss.

At the beginning of the convergence experiment there was a lot of talk about numbers and a lot of that talk made perfect sense.

But, just as with outsourcing and other organization transformation, the success of convergence it turns out had much less to do with what the number

crunchers and policy makers thought about it and much more to do with the cultural issues.

By cultural issues – I mean issues about the natural social hierarchies in a workplace, about the way colleagues relate to each other; about the way instructions from supervisors are communicated to employees; about the way employees find satisfaction on the job; and so on.

The policy planners and head office types figured a reporter is a reporter is a reporter. Why couldn't they file to TV one day and print the next? Well, it turns out the jobs are similar but the culture is different. TV's a team sport, for one thing, involving camera crews, lighting experts, sound people, tape editors and more. Print is more of a loner's game. All a reporter needs is a phone, a computer and laptop and he or she does his or thing from anywhere..

So the folks at the Globe and at CTV who are called reporters do a similar job but they're as different as salt and pepper. They are not interchangeable and a reporter that thrives in print may not thrive on TV and vice versa.

It's the same with IT departments and I think that's something that both outsourcing vendors as well as senior

managers at companies considering outsourcing don't take enough account of.

The culture of a workplace; the culture of a particular kind of employee is tough to replicate and if it's going to be transplanted or repurposed, careful thought has to be given to that culture.

And yet, when it comes to outsourcing, business managers, it seems to me, think only of one thing – the bottom line at the next quarter. Case in point. Let me read from an e-mail I received from a senior manager at IBM's Thomas Watson Research Center in New York. He was writing about all the noise you've heard in the U.S. about offshore outsourcing and he said:

“Would we rather live in a country where everything is 10% cheaper, or where most people are employed? I believe it ultimately is pretty much that simple. Jobs which are offshored, whether manufacturing, call center, or technology related, don't create a multiplier effect as the earnings are spent in this country, don't pay taxes in this country, and, of course, don't generally adhere to the safety and human rights standards which we believe are important.

Even if the difference were 50% cheaper (it's not!), it still seems to me an easy decision. Unfortunately, the nature of the competitive system is such that, once one business in an industry has proceeded this way, it's difficult for the others not to follow in order to compete. Indeed, doesn't the fiduciary responsibility of a (publicly held) company require it to behave so as to maximize the return on its investors capital?

When the issue is as straightforward as paying \$X/hour or paying 15 or 20% of that amount, as the business manager, I won't be concerned with the secondary issues of taxes, multipliers, employment and so on. Those won't have effect until at least next quarter.¹

As I said, this is an e-mail from an IBM manager. I don't think this view is unique to IBM or unique to many executives. But it's flawed. It is not a 'straightforward' decision". It is not a binary choice: Either everyone has a job or things are cheaper.

¹ Capek, Peter G., (Jan. 5, 2004) "Maybe there's no mystery after all", Message posted to the Interesting People electronic mailing list, archived at <http://www.interesting-people.org/archives/>

You can have both. Things can be cheaper and everyone can have a job. They are not mutually exclusive.

Even when you decide to outsource, how far do you want to go? Do you want to keep all your people but outsource the maintenance of a single application? Or is headcount an issue? Do you need to get rid of people? There are no spreadsheets that can answer that question. You and your associates need to have an intimate knowledge of the people involved. Are there are employees who 'get your corporate culture? Are there employees you should fight to keep? Can you find a way for them to add value to your organization in a different role?

Now you may find your employees may actually want to go work somewhere else. You may find that in your organization, the geeks are valued only as geeks; that they're bored and listless working in some windowless room on the same application day in, day out. They never see the fellow geeks rise to senior positions in the organization. What's your CEO's background? Did he or she toil in tech support for ages?

At the Globe and Mail and CTV, we have world class photographers. But you know what, in 20 years in the business I've

never known the editor-in-chief, the president of network news, or a newspaper publisher to have been a former photographer.

I suspect the folks your IT departments are like our photographers. Will the next guy to run General Electric or Ford or Citibank come out of an IT function?

If you're not creating a culture where your IT staff believe one of their own could be the next CEO, maybe you ought to be outsourcing. Send them over to IBM where your employees may find a culture of their own and a chance to succeed Sam Palmisano.

I'm always holding IBM up, incidentally, as a terrific example of the importance of culture within an organization.

You'll recall that when Lou Gerstner arrived at IBM 1993, Big Blue was drifting. It had no mission. It was insular. It was losing billions. Many, including some board members, thought the best thing to do would be to split the thing up and sell it for parts. But Gerstner saw the value in one big information technology conglomerate. And he also rightly saw that the thing that needed changing at IBM, most of all, was the corporate culture. This is what Gerstner had to say:

I came to see, in my time at IBM, that culture isn't just one aspect of the game – it *is* the game. [That's Gerstner's emphasis, not mine] In the end, an organization is nothing more than the collective capacity of its people to create value . . . Most companies say their cultures are about the same things – outstanding customer service, excellence, teamwork, shareholder value, responsible corporate behaviour, and integrity. But, of course, these kinds of value don't necessarily translate into the same kind of behaviour in all companies – how people actually go about their work, how they interact with one another, what motivates them. That's because .. most of the really important rules aren't written down anywhere.²

Most of the really important rules aren't written down anywhere. Of course not. It seems obvious when you say it. But that's really what we're talking about when we talk about corporate culture.

² Gerstner, Louis V. *Who Says Elephants Can't Dance: Leading a Great Enterprise Through Dramatic Change*, New York: HarperBusiness Paperbacks, 2003, p. 182

How does culture go to the bottom line? Let's look at home-grown example. Let's look at Nortel. To sell telecom gear to customers in China, in South America, India, and other parts of the world where telecom infrastructure was underdeveloped, Nortel's competitors would do the hard-sell approach – what I call the American approach. Lucent was the best example here, in which the conversation of salespeople overseas would invariably end with “What's your bottom line?”

Nortel's salespeople never ended a meeting that way. Instead, Nortel's sales staff looked around at its environment overseas and saw figured that if it enriched that environment, they would end up enriching themselves and their shareholders. So Nortel started funding chairs in telecommunications research at universities and colleges in Mexico, India, China – wherever anyone needed the money. They'd pay the faculty; they'd donate switches and equipment. Remember what our anonymous IBMer said in that first e-mail – about meeting quarterly costs targets? Well, Nortel's overseers had the patience to realize that such a strategy would take years to pay off and it has. Nortel is now winning contracts left, right, and centre overseas – many of those over bids by Lucent, Nokia,

Alcatel, and others – because it is drawing on a few years of goodwill in those communities. Nortel essentially paid to train a generation of telecom engineers in India who, it turns out, learned their trade on Nortel gear.

The patience Nortel showed; the awareness it had to understand that it could get rich if everybody got rich, is a cultural trait that is, I would argue, one of Nortel's strengths.

Ok, ok, you say – but right now the guy who runs my human resources wants CGI take over the whole thing. How does all this talk help me?

The good news is that outsourcing vendors are making it easier for you to have your cake and eat it too. They're coming to market with a whole range of scenarios, a vast menu of service offerings, and different ways you can pay for all of this. So you can try to keep or at least not destroy valuable parts of your corporate culture but get some of the benefits of outsourcing.

Keep some of your employees. Keep none of them. You can send all or part of your IT function to someone else. I know RIS will be happy to talk to you about how they can take over responsibility for some of your creaky old legacy applications and free

up your staff for new stuff, for application development and so on.

HP and IBM have a new thing going called utility computing. They'll take all of your computing functions and charge you for CPU cycles the way hydro charges you for electricity: Pay for what you use. Bank of Montreal just did this kind of deal with HP. It shut down six or seven computing centres across the country and consolidated the data and apps on 110 servers onto three or four mainframe computers.

Now Jason and IDC have lots of data about the numbers behind outsourcing; about specific trends and so on but let me tell you about the results of a recent Merrill Lynch survey. Merrill surveys CIOs at Fortune 500 firms every quarter to get a sense of what's going on among buyers of outsourcing and other tech services.

Here's some datapoints:

- Good news for CIOs, bad news for vendors: There has been a price re-set, if you will, for IT consulting. You should be able to buy IT consulting a whole lot cheaper than you've ever been able to before.
- Business Process Outsourcing is hot. Lots of activity here.

Merrill, though, says its wise to

- look for BPO vendors who, and I quote, have BPO in their DNA. Accenture, Merrill says, is a good example of this type of firm.
- Merrill says the days of what it calls rolling optimism among CIOs about their budgets is over. It used to be that CIOs believed that their budgets would get big again in two or three quarters. But they would say this every quarter. Hence, this rolling optimism. See me in six months, CIOs would say, when my budget is back. Well, the budgets you have now are the budgets you're getting for good. Budgets aren't going to grow. If they are, it's going to be by two or three per cent a year and that's it. That has implications for the kinds of things CIOs are likely to buy and the kinds of profits and revenues vendors are going to earn.
 - CIOs surveyed by Merrill do not have many significant IT projects in the works. CIOs, instead, are looking to drive costs out their own departments.
 - CIOs are no longer the chief point of contact for outsourcing vendors. Vendors are now getting in touch with other line-of-business executives. That means your manufacturing VP may be asking you some day about something IBM or HP or EDS wants to do. It means your CFO is getting pitches from vendors. It means your HR guy is running scenarios that you used to run.
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What about the way your tech people interact with other tech types outside the company? This can be an important issue for your firm.

Do you let your top coders contribute to open source or free software projects on company time?

Here's an info-nugget for you, though: There are, according to some researchers at MIT, about 10,000 open source applications on the Web today. It's not just Linux and Apache. In a recent survey, 55 per cent of those who contributed code to those projects said they worked on the code on company time. In other words, their employer was paying them while they

coded software projects that anyone – including a competitor – could use.³

I think this is a good thing. I'll bet the stuff your coders help others with gets returned in spades, that they learn more and can create applications more rapidly for you or more easily solve tricky tech problems.

Does your corporate culture nurture this kind of enlightened creativity? If you outsource that employees, will the corporate culture of the outsourcer nurture this kind of enlightened creativity? Is this kind of enlightened creativity even a good thing?

Something else to think about. What sort of access to my firm's proprietary intellectual property am I prepared to give my employees? None may not necessarily be the right answer.

Microsoft right now is trying to understand the open source community but its employees who interact with coders in that community are not empowered to share any of Microsoft's secrets and so they get little in return. I think this is one of the reasons Microsoft is having trouble understanding some of the value this community is creating. Apple was having this problem, too. It's latest OS is built on a Linux variant and it was taking a lot of heat

for taking too much from the open source community and not giving anything back. That's started to change, particularly with the development of its new browser Safari. I've spoken to coders who work for Apple and they say Apple is now harnessing this "free development", in return for supporting other open source projects. But it's been a difficult task for Apple to manage this cultural interface.

So there's a run-through of some cultural issues when it comes to tech workers. I hope that's helpful and I hope that gets you talking less about the numbers and more about the culture.

I look forward to your questions.

³ Lakhani, op. cit. P. 9