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INTELLECTUAL CAPITAL EXCHANGE

SBC Case Study

Managing the Use of Contractors



Summary

This case study describes SBC Communications Inc.'s redesigned process and web-based application (called the Contractor Request Management System) for hiring supplemental IT staff. This case study might be used to: raise awareness of ways to streamline the hiring process for IT contractors and leverage your organization's purchasing power; and, benchmark your company's policies and practices for managing contractor vendors.

SNAPSHOT

SBC Communications Inc., a leading diversified telecommunications company has implemented a new process for hiring contract IS staff. The process is supported by a web-based, internally developed application—the Contractor Request Management System (CRMS). By proactively managing the contractor hiring process and the information associated with it, SBC no longer perceives a shortage of skilled contractors and has leveraged its total purchasing power.

Key new policies:

- ❖ Enforce use of limited number of preferred vendors
- ❖ Monitor vendor performance on strict criteria
- ❖ Establish single point of contact (CRMS Office) with vendors
- ❖ Require contractors to take technical tests prior to hire

Major benefits:

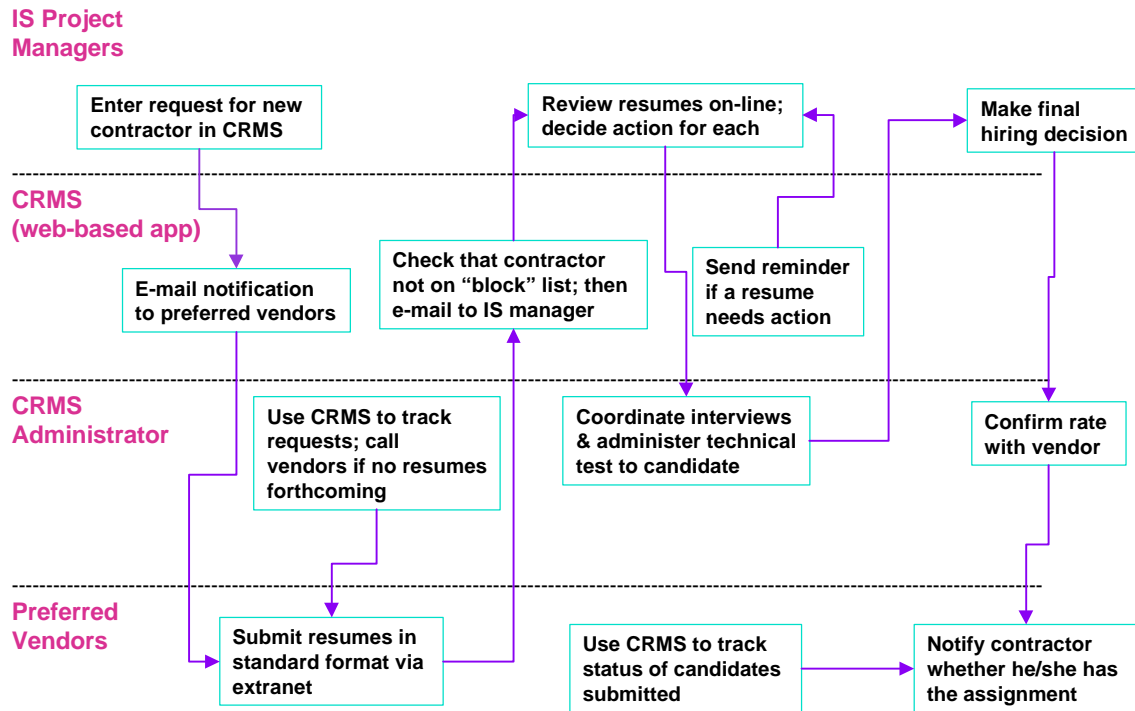
- ❖ Average contractor rates 20% lower
- ❖ Hiring process faster and simpler
- ❖ Vendor relationships stronger
- ❖ Assured that contractors have skill level needed
- ❖ Reduced administrative and accounting paperwork

OUTLINE OF THE CASE STUDY

- ❖ **Diagram**—overview flowchart of the new hiring process
- ❖ **Background**—context information about SBC and the motivation for initiating CRMS
- ❖ **Overview of the Contractor Request Management System**—summary of how IS managers now hire contractors using a web-based application, the CRMS, to interact with a limited set of preferred vendors
- ❖ **Keys to Implementing the New Process**—important aspects of redesigning the process, including getting input from IS project managers and negotiating vendor contracts
- ❖ **Results**—description of the major outcomes and benefits of CRMS and the new process
- ❖ **Vendor Requirements in the Request for Proposal**—a list of criteria the vendors were asked to meet



Exhibit 1
Steps in SBC's Contractor Hiring Process



BACKGROUND

SBC Communications Inc., is a leading diversified telecommunications company with approximately 110,000 employees and \$25 billion in annual revenues. Through its subsidiaries, SBC provides innovative telecommunications products and services under the Southwestern Bell, Pacific Bell, Nevada Bell and Cellular One brands. The company also has international holdings on five continents. In 1995, 1996 and 1997, SBC was named by Fortune magazine as the most admired telecommunications company in the world. In May 1998, SBC announced plans for a \$62 billion merger with Ameritech.

The contractor management process described here originated in SBC's Southwestern Bell subsidiary. Southwestern Bell is the regulated telco that serves Missouri, Kansas, Arkansas, Oklahoma and Texas. It has \$10 billion in annual revenues, 48,000 employees (about 2500 are in IS) and 16 million phone lines.

In 1995 a newly appointed CIO reorganized IS at Southwestern Bell and put in place a number of "vision initiatives" to improve the IS function's effectiveness. One of the initiatives established a group within IS called the "Virtual Development Center," with the aim of sharing resources and reducing redundant efforts across the various application development groups. Under the Virtual Development Center, the "resource broker" function was created to enhance the IS organization's ability to respond to business needs through intelligent use of internal resources and an external resource pool.



Another driver behind the creation of the resource broker function was that contractor costs appeared to be out of control. In the space of a few years, Southwestern Bell had gone from very few contractors to about 300. There was no easy way to determine how many there were, on which projects, at any given point in time. Also, Southwestern Bell was dealing with about 100 different vendors. There was a list of preferred vendors, but these vendors were only used about 20-30% of the time. Thus, the Resource Broker was given responsibility to establish relationships with a limited set of external service providers to ensure that skilled contractors would be available at the appropriate time for the right price.

OVERVIEW OF THE CONTRACTOR REQUEST MANAGEMENT SYSTEM

What now happens when an IS manager at Southwestern Bell needs to hire a contractor:

1. Hiring managers access the Contractor Request Management System (CRMS) via the corporate intranet and fill out a “new contractor request.” This web-based form enables them to:
 - Enter information about the project and the expected duration of the assignment.
 - Select the relevant computing environment (e.g., MVS, Unix).
 - Use pull-down menus tailored to each environment to list the specific technical skills required.
 - Specify the level of skill (entry level, experienced, expert) and whether the skill is “required” or “optional.”
2. The system automatically sends an e-mail message to the nineteen preferred vendors when a manager completes a new request. The e-mail includes a hot-link that the vendor can click on to go to the SBC web site containing the complete “contractor request.”
3. Vendors access the Vendor Home Page, the extranet portion of CRMS, and respond to requests by filling out a résumé forms. The first part of the form is very structured to make it easier for the hiring managers to compare the skills of the person to the requirements; the résumé form also contains areas where text can be “cut-and-paste” from the contractor’s own résumé.
4. CRMS checks all resumes submitted against a “Block” file to make sure that the contractor was not deemed unsatisfactory on a previous project. CRMS then immediately sends the hiring manager an e-mail notification with a hyperlink to the résumé.
5. The CRMS Administrator tracks how many responses are coming in for the requests posted and will call vendors to find out what is happening if a request generates little or no response. Also, CRMS automatically tracks when to send e-mail messages to hiring managers to remind them to take action on the résumés submitted for their projects. Per the terms negotiated with the preferred vendors, a candidate remains available for five days.
6. The hiring manager decides which candidates to bring in for interviews and testing, and the CRMS Office coordinates. SBC uses an external testing service and the test results are available the next day. The hiring manager uses the test scores as additional information about the candidates; the tests supplement, but do not replace, the interviews.



7. The hiring manager makes the decision as to which candidate gets the assignment. The CRMS administrator confirms that the vendor has put the contractor in the appropriate rate category given the level of expertise shown by the test scores.

Other features of the Contractor Request Management System:

- ❖ CRMS allows the hiring managers to easily track all their open requests and pending résumés. The system also automatically sends them an e-mail message about two weeks after a contractor has started (and again about three months after) to ask for a quick evaluation of the person's performance. Response is optional. In addition, CRMS sends the hiring manager a message a few weeks before a contract is scheduled to expire and asks if they want it to be renewed. If no, and if the contractor has performed well, the CRMS Office tries to match the person's résumé with other open requests.
- ❖ The vendors, using the Vendor Home Page, can see the log of all open requests, the detail and status of any particular request and the résumés they have submitted. They also can see a scorecard of how they have done in terms of the percentage of relevant requests they responded to, what percentage were accepted (i.e., hired), and other statistics concerning candidate availability and turnover. (Not all vendors are expected to respond to all categories of requests; it depends on what skillsets they specialize in.) The vendors can compare their scorecard to everybody else's—the vendor names are omitted but all the information is displayed for all preferred vendors to see.
- ❖ CRMS has several special functions that only the CRMS office can access. These include: (a) maintenance of the vendor price matrix; (b) control of the "blocked list"; and (c) a number of report generation features.

KEYS TO DEVELOPING THE NEW PROCESS AND SYSTEM

In June 1996, an experienced IS manager was appointed as Resource Broker. She led the effort to establish new policies and a new process for the hiring of IS supplemental staff. After an RFP process, new contracts with preferred vendors were in place by January 1, 1997. A web-based system to support the process, the Contractor Request Management System (CRMS), went live in March 1997. Some key steps in achieving the new process and system were the following:

- ❖ Many of the IS project managers—who really are the primary customers of the process—were interviewed to understand their needs and problems when it came to hiring contractors. The new process and system had to meet their requirements.
- ❖ A request-for-proposal (RFP) process was conducted to select a set of preferred vendors. The conditions the vendors had to meet included: (a) keeping candidates available for five days after the submission of their résumé; (b) submitting available, appropriate candidates for at least 75% of the requests related to the skillsets they specialize in; and (c) agreeing that the CRMS Office would be their single point of contact (in other words, stopping direct solicitation of the hiring managers). (See the section on vendor RFP requirements for a more complete list.) Not surprisingly, there was initial resistance from many vendors to some of these requirements. The metrics developed to measure vendor performance help ensure that SBC gets high quality contractors.



- ❖ Nineteen vendors were selected and a separate contract was executed with each. Not all vendors are paid exactly the same rates for the same type and skill level of contractor. SBC recognized the differences due to vendor size, specialty, geography, etc. SBC wants to save money but also knows that if it pays too much below market rates, the vendors will not send them their best people. The objective was not to reduce the pay of the individual contractor but to put some pressure on the vendors' profit margins with the commitment that they would get essentially all of SBC's business.
- ❖ Developing the CRMS application was central to implementing the new policies and procedures, and to allowing SBC to manage the process without having to add staff. It was the key to expediting the hiring process—an important factor for IS project managers. It also has allowed the CRMS Office to successfully track and enforce the vendor pricing agreements, which they say would be too complicated to do without a system.
- ❖ The system was developed internally using Cold Fusion and a SQL database. Additional functionality has been added to the system on an ongoing basis. IS managers access CRMS via SBC's intranet. Vendors access the system as an "extranet" application. For both internal and external users, access to the system is password protected.
- ❖ A requirement was instituted that all contractor candidates take tests to assess their technical skill level. The purpose was to ensure that the project managers would be satisfied with the caliber of contractors. SBC chose a certified, independent testing service, in part to avoid issues of bias and discrimination. Not surprisingly, the contractors do not like having to take tests, but no one has refused. The scores give the hiring managers some objective data to supplement the interview process. The scores also help confirm the rate that is applicable for a contractor. Initially, some low test results showed that the vendors themselves were not doing a good job of screening people. SBC views the tests as a supplement to the vendors own screening process, not as a substitute. (To help calibrate interpretation of the test results, a number of SBC employees voluntarily took some of the tests.)
- ❖ Senior IS management enforced the changes in policy. When the new process was first implemented, a number of hiring managers requested exceptions to hire a contractor from a now non-preferred vendor. These requests had to be sent to a vice president in IS. To signal his commitment to the new process and its objectives of better control and cost savings, he approved very few of them. (Note that contractors already on projects were not affected and remained in place until the completion of their assignments.)
- ❖ The CRMS Office had to deal with some resistance to the "single-point of contact" policy, not only from the vendors, but also from some IS project managers. While some project managers were happy to have their time freed up by having someone else handle the vendor relationship, about half did not like losing that direct contact.

Now that the process and system are in place, the Resource Broker spends only about 10% of her time on contractor-related activities. Two people on her staff constitute the CRMS Office and are responsible for the process on a day-to-day basis. The CRMS Administrator manages the process and acts as primary contact with the vendors. The clerical assistant's responsibilities include scheduling candidates for tests and interviews, processing invoices and reconciling time sheets.



RESULTS

IS management at SBC is very pleased with the results of the new process and the Contractor Request Management System. Since the new process and system were put in place, about 300 contractor positions have been advertised. Based on the feedback they have received from the hiring managers, the preferred vendors and individual contractors, it appears that these stakeholders are also very satisfied with the results. Below are some of the key outcomes and benefits that have been achieved.

Both SBC and the preferred vendors gain from SBC's decision to work exclusively with a limited set of vendors.

- ❖ Enforcing the use of preferred vendors has resulted in significant cost savings for SBC. Compared to what they actually were spending on contractors, the rates negotiated with the new preferred vendors resulted in average rate savings of 20%. SBC estimated a potential annual savings of \$5.2 million, assuming the conversion of 300 contractors from non-preferred to preferred vendors.
- ❖ SBC knows that adhering to the commitment to give all their business to a limited number of providers is also key to making the deal attractive to the vendors. Prior to CRMS, SBC did have a list of preferred vendors but they were used only about 20-30% of the time. Well over 90% of the contractors now on projects are from the nineteen preferred vendors. Although there are still some contractors in place whose assignment had started before the new preferred vendor contracts were signed, only twice since the new process was initiated has SBC had to go outside the preferred list to find the skills it needed.
- ❖ Also, some individual vendors are getting a greater portion of SBC's business than before. For example, one vendor is now doing four times the volume, having gone from about \$30,000 a month to \$120,000 month.
- ❖ Consolidated invoicing has led to significant reductions in administrative time and accounting paperwork for SBC and saves time and money for the vendors, too. Now each vendor submits one total bill, not one bill for each contractor. The vendors are paid more promptly and SBC knows its payments are current.
- ❖ Many of the vendors have praised the functionality of the CRMS system. CRMS gives the vendors information about their own process that they did not have before, and lets them monitor the service they are providing to SBC.
- ❖ Overall, SBC is very satisfied with the performance of the 19 preferred vendors. While some of them have been more responsive than others, SBC's contract staffing needs are successfully being met. Other vendors continue to approach SBC and ask to join the preferred list.

The process for hiring contractors is simpler and faster, with no more paper forms and waiting for paperwork to go through Procurement.

- ❖ It used to take about 3–5 days for a request to be processed and get to the vendor, and another 3–5 days for résumés to get back to the project manager. CRMS has removed unnecessary approvals and paperwork processing delays, and hiring managers now typically receive résumés the same day they submit a request.



- ❖ It is easier to compare the qualifications of different candidates because of the standard résumé format and the test results. The testing also verifies that each contractor is categorized at the appropriate rate level.
- ❖ The individual contractors like the 21-day notification feature of the CRMS which means that if their current assignment is coming to a close, the CRMS Office will see if there is another SBC project appropriate for them.

Senior IS management is now assured that the contractor hiring process is being proactively managed and has comprehensive and accurate information about the use of contractors. The IS vice president who championed the effort emphasized that not only are total costs lower but also the quality of the contractors they are hiring is higher.

- ❖ Better information about contractor utilization aids overall IS staffing plans. Since a full-time employee is typically less expensive than a contractor, SBC pays attention to how long a contractor is kept on a project. They are concerned if an assignment approaches eighteen months in duration and ask the project manager for a staffing plan that will resolve the issue. SBC has the right to hire contractors with fees and timeframes set out in the vendor contracts. About twenty-five contractors have switched to permanent jobs since the new process was implemented.
- ❖ IS management now has a better, broader view of the availability of skills. They know how many contractors of what skill level are being submitted for each open position. This information about skill availability means they know when they do or do not have to pay more for certain categories. Before, the vendors (and the press) could make them worry that certain skills were very scarce and expensive. Now they are better able to judge for themselves when this may be true.
- ❖ IS management feels it has shifted what used to be a largely relationship-oriented purchasing situation to a stronger focus on price and quality, and that SBC is now able to get leverage from its buying power. The process (with its single-point of vendor contact) also makes it easier to resolve problems with a vendor.

VENDOR REQUIREMENTS IN THE REQUEST FOR PROPOSAL

Some of the vendor requirements the Resource Broker developed for inclusion in the Request for Proposal

Single Point of Contact. All providers shall be required to adhere to existing Southwestern Bell (SWB) policy as it relates to marketing/solicitation of services within SWB organizations. This requires that all marketing/solicitation of services be conducted through the appropriate contact in the Virtual Development Center. Any provider that deviates from this may be withdrawn from doing any future business with SWB at SWB's sole discretion.

Right to Hire. All providers shall be required to enter into contractual agreements with SWB which will include appropriate terminology granting SWB the right to hire contracted personnel upon completion of existing task orders covering their services without fee or penalty. Providers may not recruit and hire SWB employees.



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Service Warranty. All Vendors shall warrant the performance of all their service employees in addition to the software they design, develop, install or maintain for a minimum of 12 months following the completion of related Task Order. Performance of individual contractors will be monitored. Service providers will be expected to provide skilled, experienced contractors, per our specifications. Service providers that provide greater than 5% unsatisfactory performers will lose their “preferred” status.

Candidates for Contracted Positions. Service providers are expected to be capable of providing ample resources in the technical areas for which they have been deemed a “preferred” service provider. Providers that fail to submit at least one résumé of an available contractor for each position advertised in skillsets for which they are a “preferred” provider at least 75% of the time may lose their “preferred” status at SWB’s sole discretion. Submitted résumés must match our skillset specifications, be submitted within the requested timeframe, and be available for hire into the advertised position for a one-week period following receipt of the résumé.

Incentive Awards. Vendors are expected to provide skilled, available resources in a timely manner in all technology areas for which the provider has been deemed a “preferred” vendor for 75%–85% of all advertised positions. “Preferred” providers will be awarded an incentive payment if they exceed our expectations in this area. Providers that provide skilled, available candidates to more than 85% of our advertised positions, per our specifications, will be paid an award of 5% of the amount invoiced for the quarter. Renewals will not be used in the calculating percentages.

Training Clause. Providers are expected to provide resources with appropriate skills. If training is necessary, SWB may agree to allow provider’s employees to attend SWB or vendor provided on-site courses. Providers are expected to pay for such training in exchange for our agreement to contract with the provider.

Testing Requirements. Testing in the technical discipline for which the contractor is being hired will be required for all contractors. Individuals that fail to pass such test(s) will not be hired and will be considered an inappropriate candidate when calculating incentive awards. Failure rates will be monitored, and providers that submit candidates that fail the test more than 10% of the time will lose their “preferred” status.

Incentives To Reduce Turnover. “Preferred” providers are expected to provide resources that will be available for the duration of the contract. Providers that have a turnover rate of greater than 10% may have their “preferred” status revoked.

Standard Résumés/Standardized Recruiting Process. Providers must provide résumés in SWB standard format. Providers must adhere to standardized procedures for collecting resource requests, submitting résumés, scheduling interviews, time reporting, and billing.



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