

The Outsourcer's Guide to Success: Nine Factors for Great Governance

EquaTerra identifies the nine critical contributors to outsourcing governance success

Organizations undertaking information technology and business process outsourcing understandably focus on “doing the deal.” This involves everything from finding and assessing service providers to selecting geographies to determining which services should be sourced, developing contracts and defining final service levels.

But the hardest part of outsourcing occurs after the deal is done. Outsourcing governance is an ambiguous term with as many definitions as companies managing outsourcing relationships. To help organizations ensure consistency in outsourcing governance, EquaTerra developed its 29 best practices, which are outlined in our study titled, “*Why and How Outsourcing Management and Governance is Critical to Success.*” While these best practices provide a solid operating framework, there are nine critical factors to keep in mind to help ensure outsourcing success.

1 It is never too late to establish a best practice outsourcing governance team – as a lack of governance erodes the deal value by as much as 15 to 20 percent.

Framing the 29 best practices are six key capabilities or workstreams that must be present to ensure that your outsourcing management and governance teams are successful. Much of the work in governance involves balancing risk mitigation, with value realization and the corresponding capabilities outlined below.

Risk Mitigation	Value Realization
<ul style="list-style-type: none"> Finance and commercial management Compliance management Issue and problem management 	<ul style="list-style-type: none"> Change and program management Service quality management Communication management

Despite recognizing the importance of such critical functions, many organizations struggle to run successful governance programs. For some, it is simply a problem of under-investment. Other failings occur due to late planning or underestimating the challenges, skills and resources required. Many assume (often incorrectly) that one service provider liaison can manage

the relationship since the work is outsourced. All too often businesses assume that service providers offer this skill as part of the arrangement. While service providers offer tools, data and processes that help manage the relationship, they don't necessarily possess governance skills. And, mistakenly, many companies simply transition existing operations staff into the new governance roles. These individuals may be highly skilled in managing operational processes, but they rarely possess the skills and experience required to govern a relationship. This leads to critical point number two.

2 Realize that effective operating managers usually don't make effective governance executives.

A study by the Corporate Executive Board cited that 20 to 30 percent of outsourcing value can be lost by ineffective problem management and performance not reaching expected levels. Many times, former operating managers and new outsourcing governance executives are not equipped to manage a third-party relationship of the scope and scale of a multi-year outsourced relationship. They quickly find themselves “outmanned” if they do not have the requisite battle scars or receive the appropriate training. You may need to hire employees or consultants with relevant experience, or if you intend to develop current employees, secure training for them so they are prepared to manage and help you achieve the greatest value from your outsourcing effort.

3 Shadow organizations likely exist in your organization creating redundancies and increasing costs – root out these teams and right-size your organization.

Former operating heads in governance roles are known to create mini-operating teams that often perform similar, or shadow, work to the providers. In almost every outsourcing opportunity, it is a natural tendency to revert back to old service delivery models. Operations personnel often continue going back to that internal support person who knows exactly what they need and how they need it. These shadow organizations typically begin on a small scale and grow to the point where the costs begin to eliminate the value sought from outsourcing. The impact can be significant. Left unchecked, these redundancies can erode between 10 to 15 percent of the outsourcing contract value. It is imperative to utilize your provider for the services intended or suffer frustration and cost escalation as a result.

4 Outsourcing governance teams should ebb and flow as needs change throughout the transition and ongoing, or steady-state, phase – make sure your teams flex and contract accordingly.

Many organizations over-staff their governance teams for the transition phase and never re-evaluate their outsourcing management needs once the transition ends. This often results in increased costs and frustration. Make sure all outsourcing governance work is necessary – not unnecessary overhead. Expect the work of governance to peak in the transition phase and migrate down to 2 to 5 percent of the total outsourcing contract value.

5 Learn how to track the value of your outsourcing relationship – focus on the “what” and not the “how.”

Many organizations outsource a business or IT process, yet remain focused on how the service is performed. They try to fit the service into the historical model, a time-wasting exercise. Does it really matter that your network is managed by a service center in Atlanta or London, or accounts payable invoices are scanned and indexed by Documentum or iXOS, if both provide the same performance and integration? The important issues are uptime and integration in these two examples. Companies also have difficulty measuring the value of their relationship. A recent KPMG survey noted that 79 percent of companies did not accurately know the cost of selecting an outsourcing provider. Many organizations fail to realize that significant market data exists to help them evaluate the performance and value of their relationship. Benchmarking is not the “be-all, end-all” solution, but accessing market data to evaluate oneself against one’s peers can provide informative data for further analysis, discussion and validation.

6 Make sure your enterprise business intelligence and knowledge management initiatives include all the data and information related to outsourced processes and that it is tracked throughout the lifecycle of the relationship.

An outsourcing relationship produces volumes of data from the moment evaluation begins. Assumptions are made, analysis is performed and data is shared with internal and external parties prior to contract signing. Very often companies disregard the need to begin tracking this critical data and, since it involved outsourcing, organizations assume their service provider will be responsible for the data. This is a flawed assumption as there are business intelligence tools that can support your organization throughout its outsourcing journey. These tools can provide

improved knowledge management, audit-like validation of provider performance and increased collaboration among both internal and external teams, as all the knowledge can be utilized across the enterprise and across multiple provider relationships.

7 Track and measure internal client satisfaction – keeping an open dialogue and obtaining regular feedback from internal clients is key to managing expectations.

Clearly, the service provider is motivated to provide any and all services to meet a client’s needs or respond to increased demand. This service orientation can potentially drive up costs. It is, therefore, crucial for a client to independently validate actual consumption and simultaneously work with internal stakeholders to determine if a new, enhanced or expanded service is really necessary, or if there is a problem or usage issue that requires attention. This review should be performed through a dual lens: historical, making sure services have been validated by the business units, and future, identifying trends based on historical service consumption. At the same time, the governance team needs to evaluate internal client satisfaction and make sure that realistic goals are in place. Clients often set the performance bar for their service provider higher than they set it for themselves. This can result in unexpected cost escalations and long-term dissatisfaction when organizations fail to realize the financial goals of the relationship.

8 Ensure you and your provider have aligned goals or risk failure to deliver on the “intent” of the deal.

Many organizations are puzzled by the fact that service levels are being met but the original “intent” of the deal is not. Often a client may have goals involving significant innovation and transformation of their business processes. The service provider may be focused only on delivering service levels, assuming these represent the shared goals of each party. Focusing only on the service levels and not understanding a client’s needs will lead to dissatisfaction. While buyers may expect a more collaborative or innovative relationship, they may not understand that this type of relationship requires an investment on their part, as well as that of the provider. It is never too late to have a discussion to make sure that each party is aligned, understands the goals of the other organization and agrees how to achieve shared objectives. In fact, a recommended best practice is to develop a joint scorecard for measuring each other and to regularly conduct a formal review to keep goals aligned. This exercise is good relationship management and will likely result in improved service and satisfaction.

9 Determine your organization's level of trust toward its provider – do whatever necessary to maintain or regain trust to avoid diminishing value.

It may sound trite, but if you harbour doubts about your provider's motivations, intentions or integrity, it's likely your relationship needs serious focus and attention. If necessary, you should test whether your organization is aligned in terms of how much it trusts its provider. This can be done by conducting a quick survey or exercise within your organization. If there are executives who do not trust the provider, the path is not clear for a high-performance relationship. Distrust of the provider often impacts the client organization through the manifestation of shadow organizations, as described in point three, or through the governance team's inappropriate focus on the "how" and not the "what," as described in point five – both of which can diminish the value of the deal. It may be that your relationship requires remediation or intervention by both parties to recapture trust and alignment.

Conclusion

This list is not intended to over-simplify very complex issues, but it should provide a gauge for focusing attention on the areas where our experience indicates the greatest opportunity for improvement. The attention to detail required to deliver effective outsourcing management and governance can seem daunting; however, there are tools available to aid the process. Above all, by addressing these issues early in the outsourcing process, clients can protect the value, integrity and intent of the deal and clearly focus on realizing the business advantages that inspired the transformation in the first place.

About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their IT and business processes. With an average of more than 20 years of experience in over 600 global transformation and outsourcing projects, our advisors offer unmatched industry expertise. EquaTerra has in-depth functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes with advisors throughout North America, Europe and Asia Pacific. Our people are passionate about providing objective, conflict-free advice to our clients, which has fueled our exponential growth over the past four years. We help clients achieve significant cost savings and process improvements with outsourcing, internal transformation and shared services solutions. **It is all we do.**

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