

Research from Gartner and the National Outsourcing Association (NOA) indicates that successful deals are those which are 'built for change'. Whether the issue is IT outsourcing or business process outsourcing, important lessons and best practices can be gleaned from those who have experienced the always challenging, often frustrating and sometimes very rewarding world of managing sourcing deals (known as the sourcing management phase in Gartner's Sourcing Lifecycle).

Both the NOA and Gartner believe that the networked enterprises of tomorrow will be built on today's strategic sourcing lessons. From the initial sourcing strategy decision through to managing a long-term sourcing relationship, enterprises must understand the impact of relationship complexities and new business constructs in a changing world.

Beyond understanding the lessons learned¹, you need to be able to react positively. Some enterprises will be able to utilise this for competitive advantage, whereas others risk being quickly surpassed by their competitors.

Decision to outsource

When a decision to outsource is taken, the outsourcing process and service provider (SP) become an integral part of the 'way of doing business' and, as such, should not be perceived as standalone activities. They become part of the extended virtual enterprise. Consequently, the service recipient (SR) must set realistic expectations of what the SP can provide.

Do not view the SP as a way of avoiding responsibilities or making up for inherent business failings. SRs who fail to internally communicate and integrate their sourcing strategy



BEST PRACTICE

- All sourcing follows the same rules – or should – and can be measured against the same criteria.
- Successful outsourcing in future relies heavily on learning what works today, and why.
- Assessing the quality of an outsourcing deal can be approached from different perspectives; building a code based on best practice may provide the most solid platform for future deals.

OUTSOURCING: MEASURING SUCCESS

OUTSOURCING IS JUST ONE WAY OF PROVIDING RESOURCES; THE TERM 'SOURCING' APPLIES TO THE WAY ANY ORGANISATION ARRANGES ITS VARIOUS FORMS OF SUPPLY. **ADRIAN QUAYLE** AND **MARTYN HART**, NATIONAL OUTSOURCING ASSOCIATION, LOOK AT SOME OF THE SERVICE-PROVIDER RELATIONSHIPS BUSINESSES MIGHT WANT TO TAKE ADVANTAGE OF – AND HOW TO MEASURE THEIR SUCCESS.

within their overall business requirements will not fully benefit from everything a SP can offer and may impede the ability of the organisation to succeed. With this in mind, enterprises must master the management of strategic sourcing relationships. The complex relationships that sourcing creates means

the overall success or failure of the outsourcing deal lies in an enterprise's ability to fully value, plan, and manage its role in the arrangement.

It is certainly tempting for enterprises to try to divest themselves of responsibilities in the hope that the SP will provide the all-encompassing 'silver bullet' solution. And although SPs have the advantages of economies of scale and specific areas of expertise, they do not have the magic solution for immediately correcting flawed processes.

Just as important, and a required step to ensure success in outsourcing, is the development of sourcing agreements that are built for continuous change and improvement. As the pace of business and technology change continues to rapidly increase, it is vital that both parties find a solution that can be modified throughout the course of the agreement. Within months² of an outsourcing contract being signed, expectations and needs can, and often do, change.

Outsourcing relationship

Research by Gartner³ shows that three broad relationship types exist between SPs and SRs:

- Efficiency (utility) outsourcing relationships focus primarily on cost control and, over time, cost reduction, with the goal of maintaining consistency in the delivery of aligned services.
- Business enhancement relationships are about business productivity. An enterprise's performance, as compared with its competitors, will improve, resulting in movement towards predetermined business goals.
- Transformational (frontier) relationships are characterised by a partnership between the SP and SR that is focused on innovation and new business, changing the very basis on which an enterprise competes.

Many NOA members have reported that they have only discovered what relationship they are in after the contract has been awarded. Understanding and choosing which relationship best fits an enterprise's business strategy lays the foundation for all subsequent sourcing decisions. Do not allow it just to arise; sourcing 'management' must work by creating the conditions for a relationship from the beginning. Some NOA members, such as BP4, start building the right relationship well before the RFP stage.

Can you measure the relationship?

If most organisations don't know what their relationships are and build on them it is clearly important to understand the current state of the relationship between the SR and SP. Therefore it is important to have a system of measures that are easy to understand, comparable to others in the industry and useful in building and managing the long-term relationship between the SR and SP.

WITHIN MONTHS OF AN OUTSOURCING CONTRACT BEING SIGNED, EXPECTATIONS AND NEEDS CAN, AND OFTEN DO, CHANGE.

In many respects, the industry has stuck to measuring the price and service levels around the components of basic IT services delivery. When it comes to measuring the overall success of the relationship, the only successful alternatives have been to conduct customer satisfaction surveys or some form of a balanced scorecard.

But the balanced scorecards represent internally focused perspectives with very few links to what market reality sets as best practice. It is time for an industry standard for measuring success. Gartner⁵ has presented a framework for answering the question: 'Do we have a good deal?'

Code of practice

The NOA, however, is trying to build a code of practice that tackles this from the point of view that adherence to a code will build in success and confidence. This builds in, and expands on, process frameworks such as CMMI, ITIL and the Gartner Co-Management Maxims.

By selecting suppliers (and customers) that follow the code, sourcing programmes will become more successful at establishing and maintaining outsourcing deals that satisfy the business objectives of the extended virtual enterprise. This code would be complementary to the measures described in the Gartner approach set out above. The code will be built from NOA members' best practice. As such it should be proven and practicable, and should make measurement much easier.

The NOA code currently exists as a proposal and there needs to be agreement within the services and sourcing industry to make it happen – hopefully without any legislative 'assistance'. Its main points are that there should be: a clear definition of responsibilities and objectives; consistent application of policies and procedures; clear and accessible information available to all possible stakeholders; support to ensure the competence of all staff; and monitoring and reviews of policies, procedures and performance. (See box overleaf for more information.)

The code is designed for an outsourcing scenario, but not a specific scenario. For each area the NOA will produce guidelines on what one would expect to find in a successful outsourcing relationship. For example,



the availability of clear and accessible information is described at some length in the NOA toolkit papers⁴, ranging from what this information should be to how it should be measured.

At the moment, users of the code need to ensure that they can answer and demonstrate that they have access to information for each point (more in the way of financial codes like the FSA than ITIL). As the NOA develops the code, it is most likely that it will develop a typical best-practice response to the points for certain scenarios (based on its members' experiences) rather than a prescriptive answer that covers everything. Members will have to extrapolate from this or use NOA or other resources to make it absolutely applicable to their own scenarios.

Although many members have called for a prescriptive methodology, especially because outsourcing is generic to all sourcing (it is axiomatic that one sources what one cannot do oneself, which means that all sourcing is outsourcing, even if it is produced within one's own company) therefore such a code would be applicable to all sourcing. At present this is beyond the NOA's resources.

THE NOA CODE IN DRAFT

The essential points of the code are in draft form and can be summarised as follows:

- A clear definition of responsibilities and objectives. To achieve the objectives of the outsourcing programme, the responsibilities within any particular area of activity of, for example, committees and programme boards, service groups, delivery units and staff members, together with the responsibilities of other stakeholders, should be clearly defined.
- Application of policies and procedures. Policies and practices that are underpinned by principles of fairness and equality of opportunity and to the mutual benefit of customer and supplier should be applied consistently. Policies and procedures should be clear, explicit, communicated and applied consistently. Such explicitness supports sound business practice, fairness and opportunity, secures equality and engenders stakeholder confidence.
- The availability of clear and accessible information. Information on policies, procedures, responsibilities, performance and opportunities should be clear, up to date and accessible to all potential stakeholders. Information should help stakeholders to understand what is expected of them, what is happening at the process level and what support/degrees of freedom they have. 'Management' should ensure that they are contributing effectively and working within the arrangements in place to deliver work at the right quality and standards.
- The competence of staff. All staff need to be supported to ensure that they are competent⁶ to fulfil their particular roles and responsibilities.
- Monitoring and reviews. Policies, procedures, performance and practices must be monitored as appropriate and reviewed from time to time to ensure their effectiveness and to identify and correct any consequences that might undermine the assurance of quality, standards, fairness or equality of mutual opportunities.

THERE ARE GOOD AND BAD WAYS OF ESTABLISHING OUTSOURCING CONTRACTS, AND THIS NORMALLY DEPENDS ON THE RELATIONSHIPS BETWEEN CUSTOMER AND SUPPLIER.

Complementary approaches

Research from both private industry, as typified by Gartner, and the NOA, an independent trade association, shows that there are good and bad ways of establishing outsourcing contracts, and this normally depends on the relationships between customer and supplier.

Gartner has shown that there are three main relationship types and four foundation levels. By using these as a framework it can measure a given relationship and the 'success' of the programme, and it can recommend how to make the relationship 'more successful'. The NOA has an embryo code of practice based on the experiences of its members. It gives areas that should be addressed and, if followed, can make the difference between success and failure. This does not replace the Gartner-type approach, as the code is general.

However, using the two methods, both suppliers and users of outsourcing can have greater confidence that their programme will be successful and actually deliver the mutual benefits to both parties that they set out to achieve in the first place. ^{FBA}



Notes

1. Gartner's research shows that some 60 per cent of sourcing agreements signed to date will not be considered successful by the executive management of the future, because they have not been developed and managed effectively, thereby failing to deliver anticipated business value.
2. A recent survey of current outsourcing clients by Gartner's Dataquest showed that almost half the clients had been involved in contract renegotiations, and a high proportion had started renegotiations very early in the deal.
3. See www.gartner.com
4. See NOA toolkit: www.noa.co.uk
5. The four areas that are the foundation for defining 'a good deal': alignment and vision, contract and relationship, customer satisfaction, and price and service levels. The areas will vary in importance from deal to deal and as the relationship develops. Also of importance in determining whether or not both parties have a good deal is a mutual understanding of the type of deal they have. Enterprises must determine what type of sourcing relationship is best suited to meet their specific business environment, how to measure the results within the parameters of their sourcing relationship, and how best to utilise the measured results to improve their competitiveness.
6. The NOA is considering the issue of formal professional standards for staff.

AUTHORS

Martyn Hart is the chairman of the National Outsourcing Association (NOA), which he founded back in 1987. It has become the official industry body for business outsourcing. He has been involved in information and communications technology for over 30 years. He is currently a director of the management support consultancy Extend. Prior to that he was practice director for the criminal justice and security services at Mantix and before that he worked for Xansa as director of business development and research in the telco, media and technology sector. He has also worked for DTI, Seaboard, PwC, BT, Transport for London, British Rail and the UK Home Office, where he delivered Europe's largest outsourced criminal justice ICT system, now called CJx.

Adrian Quayle is vice-president of strategic sourcing at Gartner EMEA. He has led and delivered client engagements throughout EMEA and worldwide, with over 20 years of IT and management experience. This has included responsibility for business and IT measurement strategies and delivery in a wide range of businesses and industry sectors. He led the global development process responsible for Gartner's sourcing management offerings – Independent Advisor – and is a co-founder of Gartner's strategic sourcing activities in EMEA. He has carried out a range of assignments assisting clients in structuring and assessing their outsourcing deals across several industry sectors. Recent assignments have included: establishing the back-office negotiation team for the service recipient negotiating a major global IT outsourcing deal; facilitating joint (service recipient and service provider) workshop-based reviews of a number of outsourcing deals; and assessing the readiness for, and performance of, major outsourcing deals.

TO OUTSOURCE, OR NOT TO OUTSOURCE

AS A STRATEGIC ADVISORY FIRM, THE HACKETT GROUP'S RESEARCH IS BACKED BY 14 YEARS OF EMPIRICAL ANALYSIS AT MORE THAN 2,100 COMPANIES WORLDWIDE. THE HACKETT GROUP MISSION IS TO ENABLE EXECUTIVES TO ACHIEVE WORLD-CLASS ENTERPRISE PERFORMANCE.

AS A STRATEGIC advisory firm, the Hackett Group's research is backed by 14 years of empirical analysis at over 2,100 companies worldwide. The Hackett Group's mission is to enable executives to achieve world-class enterprise performance. Outsourcing of finance activities is a topic of interest for Hackett Group members. In a recent Business Process Sourcing study, four factors were highlighted to determine whether or not outsourcing is appropriate for any organisation:

- *Risk mitigation.* Risk-averse companies do not make good outsourcing candidates
- *Track record.* Without a proven ability to implement and execute best practices, outsourcing should be avoided
- *Magnitude of opportunity.* Inefficient companies may elect to outsource, bypassing the time and investment required for internal transformational activities
- *Need for speed.* Companies facing near-term business trauma (replacement of enterprise IT systems, bankruptcy, merger, divestiture) are apt to choose comprehensive outsourcing

'Our research indicates that from the 48 per cent of CFOs interested in outsourcing only 8 per cent are doing so,' explains Tom Bangemann, vice president of business transformation at Hackett. 'This 40 per cent gap between interest and execution represents one of the biggest mysteries of this issue.'

Hackett's findings reveal that this 40 per cent will still opt for a shared service model where decentralised departments, like HR or finance, are consolidated. The data shows that the same group is steadily moving towards selective outsourcing of specific functions, which over the next five years will expand to comprehensive or full service outsourcing models. The research indicates that there will be no clear winner as both shared service and outsourcing models are forecast to experience double-digit growth.

'Geographically, despite a high degree of performance and accuracy, EU members such as the Czech Republic, Poland and Hungary, will face human capital demands, which may discourage investment,' says Bangemann. 'The endless supply of workers from India, the Philippines and China adds a further challenge to EU member states.'

FURTHER INFORMATION

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