IT GOVERNANCE DOMAIN PRACTICES AND COMPETENCIES

Governance of Outsourcing

IT Governance Institute®

The IT Governance Institute®

The IT Governance Institute (ITGI) (*www.itgi.org*) was established in 1998 to advance international thinking and standards in directing and controlling an enterprise's information technology. Effective IT governance helps ensure that IT supports business goals, optimises business investment in IT, and appropriately manages IT-related risks and opportunities. The IT Governance Institute offers original research, electronic resources and case studies to assist enterprise leaders and boards of directors in their IT governance responsibilities.

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ISBN 1-933284-13-7
Governance of Outsourcing
Printed in the United States of America

Acknowledgements

From the Publisher

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Note: This publication is part of the IT Governance Domain Practices and Competencies Series from the IT Governance Institute. The titles include:
Information Risks: Whose Business Are They?
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Measuring and Demonstrating the Value of IT
Governance of Outsourcing
IT Alignment—IT Strategy Committees

1. Executive Summary

Outsourcing is a US $180 billion-plus industry with more than 75 percent of IT organisations using it in some form.[1] Outsourcing of some or all of the services within larger companies is seen as a way to contain, if not diminish, costs and simultaneously increase control over revenue utilisation. The increasing costs arise, to a substantial extent, from the difficulty of retaining internal technical expertise in a 24x7x365 global, dynamic market. A strategic organisational response is to disaggregate the value chain and push the service provision out to third parties.

There is a perception that the result will be quicker, faster service that will cope more expeditiously to gain advantage from technological evolution. Another hope is that the specialist suppliers will adapt more readily in the face of regulatory pace and evolution, especially in the global environment where regulations with outwardly similar intent may require substantially different, and sometimes conflicting, enablement. The only way to ensure a consistency of service provision is to implement an approach that regulates and assists the interface between client and supplier. This is the function of the governance of outsourcing.

It is no longer a company's ownership of capabilities that matters but rather its ability to control and make the most of critical capabilities.

These factors contribute significantly to a reduction in the increasing risks of regulation. The global trend is that regulations 'see through' the body corporate and specify individually identifiable accountable agents. There is thus a personal protection aspect such that corporations seek to protect their individual employees, notably at the board level, by shifting certain functional responsibilities to third parties. In 2004, the IT Governance Institute, in conjunction with Lighthouse Global, surveyed 200 IT professionals from 14 countries in the Americas, Asia-Pacific and Europe. This survey found that the required levels of governance are not reliably extended into the relationships with the service provider when service provision is outsourced.

The findings of this survey are consistent with other research showing that outsourcing benefits are no longer just about price. They include service quality improvements, scalability, better risk management and the freeing up of internal resources to focus on core, value-adding activities.

> It is no longer a company's ownership of capabilities that matters but rather its ability to *control and make the most of critical capabilities*, whether or not they reside on the company's balance sheet.[2]

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[1] META Group, *Proactive Planning: A Prerequisite for Successful Sourcing*, 2004

[2] Gottfredson, Mark; Rudy Puryear; Stephen Phillips; 'Strategic Sourcing: From Periphery to the Core', *Harvard Business Review*, February 2005

It is therefore necessary that the outsourcing initiative be cognisant of the potential changes to the risk profile of the new organisation and its operations. This publication highlights how, through the formalisation of the governance of outsourcing, this becomes integral to the outsourcing transaction and therefore supports continued operations that position the organisation competitively and with controlled risk.

2. Why Is Governance of Outsourcing Important?

Outsourcing is the mechanism that allows organisations to transfer the delivery of services to third parties. Fundamental to outsourcing is accepting that, while service delivery is transferred, accountability remains firmly with the remit of the client organisation, which must ensure that the risks are managed and there is continued delivery of value from the service provider. Transparency and ownership of the decision-making process must reside within the purview of the client.

The decision to outsource is a strategic, not merely a procurement, decision. The organisation that outsources is effectively reconfiguring its value chain by identifying those activities that are core to its business, retaining them and making noncore activities candidates for outsourcing. Understanding this in the light of governance is key, not only because well-governed organisations have been shown to increase shareholder value,[3] but, more important, because every organisation is competing in an increasingly aggressive, global and dynamic market.

As a strategic resource, outsourcing must be governed accordingly.

Establishing and retaining competitive and market advantage requires the organisation to be able to respond effectively to competition and changing market conditions. Outsourcing can support this, but only if the organisation understands which parts of its business truly create competitive advantage. Disaggregating these and giving them to a third party must in themselves become core competences, because outsourcing is a strategic mechanism that allows the organisation to focus its efforts and expertise constantly.

As a strategic resource, outsourcing must be governed accordingly.[4] This is not just about purchasing but about effective management and ensuring that both parties benefit.

Governance of outsourcing is the set of responsibilities, roles, objectives, interfaces and controls required to anticipate change and manage the introduction, maintenance, performance, costs and control of third-party-provided services. It is an active process that the client and service provider must adopt to provide a common, consistent and effective approach that identifies the necessary information, relationships, controls and exchanges among many stakeholders across both parties.

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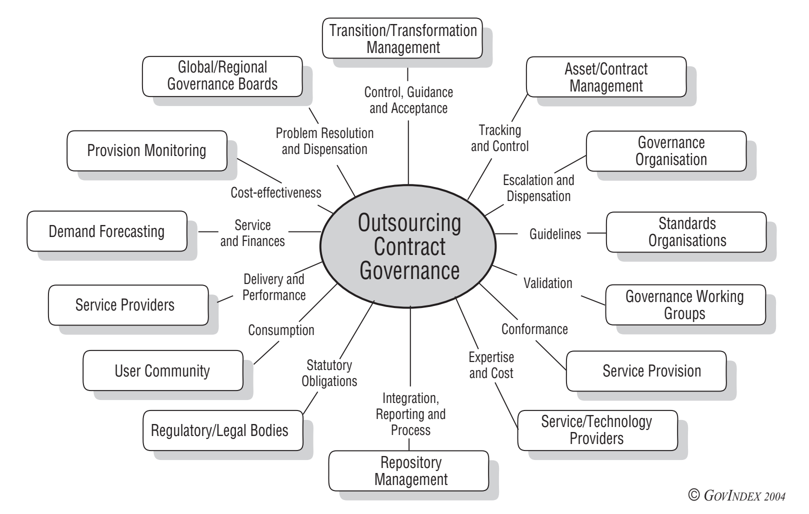
[3] Felton, Robert F.; Alec Hudnut; Jennifer van Heeckeren; 'Putting a Value on Corporate Governance', McKinsey Quarterly, 1996

[4] 'Estimates of resources needed to manage outsourced services effectively range from 1-7 percent of contract cost', Venner and Bays, 2002

Figure 1 identifies typical stakeholders in the relationship, which itself can take a number of forms.[5] Market-type relationships are categorised as short-term and commodity-style, where there are a number of providers available in the marketplace and switching costs are low. At the other end are the partnership form of outsourcing arrangements, which are typically longer term and require deeper understanding of the client organisation. The decision to outsource and subsequently manage that relationship demands effective governance to succeed.

Figure 1—Outsourcing Governance Stakeholders



Most people who conduct outsourcing contracts include basic control and service execution provisions; however, one of the main objectives of the outsourcing governance process, as defined in the outsourcing contract, is to ensure continuity of service at the appropriate levels, profitability and value-add to sustain the commercial viability of both parties. Experience has shown that many companies make assumptions about what is included in the outsource proposition. Whereas it is neither possible nor cost-effective to define contractually every detail and action, the governance process provides the mechanism to balance risk, service demand, service provision and cost.

Reminding ourselves of the IT Governance Institute's definition of IT governance as 'the leadership and organisational structures and processes that ensure that the organisation's IT sustains and extends the organisation's

[5] Klepper, R.; W.D. Jones; *Outsourcing Information Technology Systems and Services*, Prentice Hall, USA, 1997

strategies and objectives',[6] the governance of outsourcing extends both parties' (i.e., client and supplier) responsibilities into:

- Ensuring contractual viability through continuous review, improvement and benefit gain to both parties
- Inclusion of an explicit governance schedule[7] to the contract
- Management of the relationship to ensure that contractual obligations are met through service level agreements (SLAs), operating level agreements (OLAs),[8] service credit regimes and gainshare
- Identification and management of all stakeholders, their relationships and expectations
- Establishment of clear roles and responsibilities for decision making, issue escalation, dispute management, demand management and service delivery
- Allocation of resources, expenditure and service consumption in response to prioritised needs
- Continuous evaluation of performance, cost, user satisfaction and effectiveness
- Ongoing communication across all stakeholders

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[6] IT Governance Institute, *Board Briefing on IT Governance, 2nd Edition*, 2003, *www.itgi.org*

[7] The schedule contains the definition of the assets and processes to which the legal agreements apply.

[8] An SLA defines the support relationship between a service provider and its customer. The agreement describes the products and/or services the customer receives, each party's responsibilities, the financial agreement (if any), and how the service provider measures and reports services. The objective of the SLA is to present a clear, concise and measurable description of what the service provider does for the customer.

For example, an SLA might include: Network and server responses will be such that 98 percent of screen queries turn around in 1,500 milliseconds and will be available 99.998 percent of the time, with scheduled maintenance periods measured on a calendar monthly basis.

An OLA defines the interdependent relationships among the internal support groups working to support an SLA. The agreement describes the responsibilities of each internal support group toward other support groups, including the process and time frame for delivery of their services. The objective of the OLA is to present a clear, concise and measurable description of the service provider's internal support relationships.

For example, an OLA might indicate: Network and server responses will be such that 100 percent of screen queries turn around in 1,500 milliseconds in the payroll department on the first Tuesday of each month regardless of any other considerations, because payday is sacrosanct.

Definitions are sourced from the Duke University (North Carolina, USA) Office of Information Technology (2005), *www.oit.duke.edu/oit/sla/*. Examples were provided by GovIndex.

3. Current Outsourcing Governance Approaches

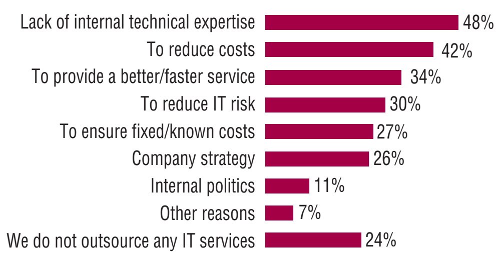
In 2004, the IT Governance Institute, in conjunction with Lighthouse Global, surveyed 200 IT professionals from 14 countries in the Americas, Asia-Pacific and Europe. The respondents included CIOs, IT directors and IT managers from companies with annual revenue in excess of US $50 million. The survey highlighted several key themes that have driven organisations' strategies to consider outsourcing and how these were implemented and subsequently managed. The four key themes identified (which correlate well with other recent industry observations[9, 10, 11]) are detailed in **figure 2**.

The most interesting detail is the elevation of lack of internal technical expertise to the number one position. The problem is that this bland statement conceals several subtle effects:

The increasing size of the technology solution space is driven by the pace of technological evolution.

Figure 2—Reasons for Outsourcing

1. Lack of internal technical expertise
2. Cost reduction
3. Business alignment
4. Inflexible first-pass contract governance processes



- The increasing size of the technology solution space is driven by the pace of technological evolution. Acquiring, training and retaining qualified staff are becoming more expensive in an increasingly global, dynamic and mobile economy.
- Investing in costly technology implementation and training is seen as less of an organisational core activity than is the ability to work effectively across the value chain by integrating outsourced service provision.

[9] Transforming infrastructure/alignment with business, reducing operating costs, improving service to end users, deploying new systems, making costs more predictable and reducing capital investment are the top reasons for outsourcing, according to *Outsourcing Priorities*, Gartner, 2005.

[10] C.S. Prabhakara (2005) reports, 'While cost savings is still an important objective, it is not the dominant factor. The factors such as focus on core business, improving service and gaining access to the outside expertise outweigh cost savings'.

[11] Reducing and controlling costs were key drivers in 2003, according to *Current Practices and Future Expectations*, CSC Strategic Outsourcing, 2003.

Cost reduction covers real reductions of cost that might arise from outsourcing, and the perception arising from the movement of these expenditures in the accounting framework. Typically, there are two main accounting benefits:
- The movement of certain capital expenditures into the revenue accounts as part of the revenue expenditure on the outsourced service
- The movement of salaries from the wages account into the outsourcing expenditure account

Both can be achieved through outsourcing by utilising scale and scope of economy through service provision as well as reduced labour costs when offshoring. The latter point is less stable as those economies supplying cheaper skills are buoyed by the influx of business and they become subject to the same pressures, e.g., India's dominance in the IT services market being challenged by China.

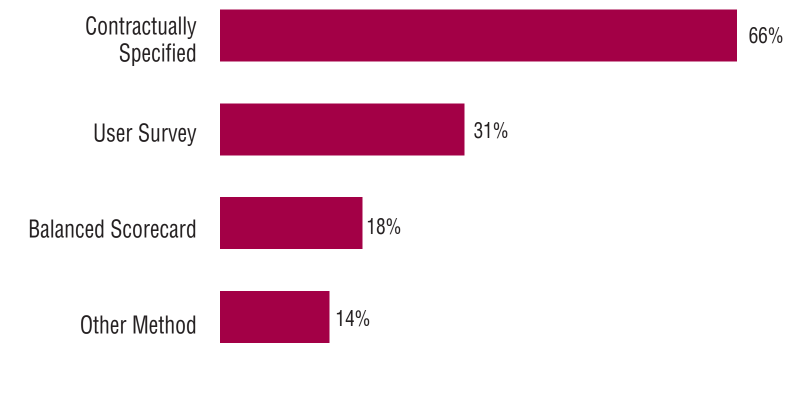
Cost reduction does not necessarily mean that value is always retained or created.

However, these may or may not have substantive effects on the real value of the enterprise. The decoupling of the service from the users and its provision by the intercession of longer process paths can create extra costs within the existing service overhead. It is not clear to what extent these are normally investigated during the construction of the business case for the outsourcing. The bottom line here is that cost reduction does not necessarily mean that value is always retained or created.

Although the term 'business alignment' is often used, it is not always clear just what it encompasses. In the widest sense, it involves making the services provided by the corporate IT function more closely reflect the requirements and desires of the business users. When organisations recognise what is core to their business and which services provide them differential advantage and outsource the activities that support these services, business alignment can begin to be achieved.

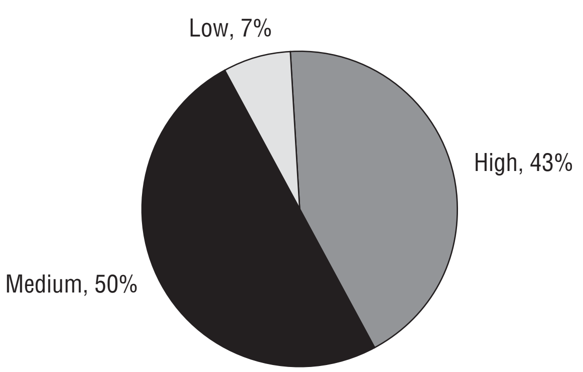
If the degree to which this alignment is approached is to be understood, the implication is that SLAs and OLAs must be established, monitored and measured in terms of performance and user satisfaction. However, the ITGI survey shows that the SLAs are most often specified in the contract (**figure 3**). This implies that business alignment is known and understood at the time the contract is written.

Figure 3—SLA Conformance



Around 30 percent of outsourcing contracts must be substantially (i.e., up to 50 percent) renegotiated (**figure 4**). It is clearly far more cost-effective to recognise this likelihood and include a governance provision to enable the contracts to be brought into line with the situation as it changes.

Figure 4—Significance of Contract Renegotiation



It is important to understand that contractual performance is not necessarily the same as providing good service to an end user. Research for this publication indicates that less than one-third of provider assessment was concerned with the user perception of services provided.

This implies that business alignment should be driven by the service end user. The increasing use of this approach is reflected in the ITGI survey, with almost one-third of the respondents using user surveys.

In reference to the concept of first-pass contract governance processes tending to be inflexible, this research found that only one-quarter of respondents have a defined governance system in place to manage and control the outsourcing contract. It is generally accepted that outsourcing is more about managing the services, their demand and consumption, and less about buying them.

Regarding the contractual IT governance, approximately 10 percent of the survey's respondents introduced it as a result of a crisis and a further one-third implemented it only for specific outsourcing contracts.

This clearly indicates that governance should be preplanned and built into the contract as part of the service cost optimisation. The defined governance processes should evolve as the needs and conditions of the outsourcing relationship adapt to changes to service demand and delivery and to technology innovation.

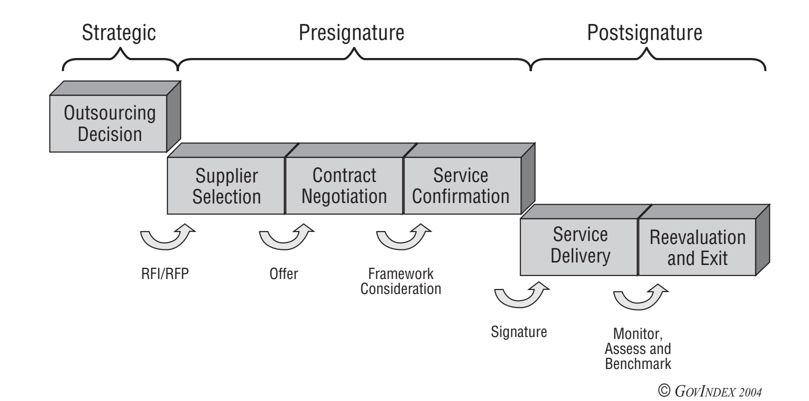
The defined governance processes should evolve as the needs and conditions of the outsourcing relationship adapt to changes to service demand and delivery and to technology innovation.

4. Best Practices for Governance of Outsourcing

All outsourcing initiatives follow a path similar to that outlined in **figure 5**. For the organisation to adopt best practice, the outsourcing life cycle must be understood operationally and strategically as this supports control across each of the life cycle stages.

Armed with this widely accepted life cycle model, the organisation will be better able to manage, govern and allocate resources effectively across the following areas.[12]

Figure 5—Outsourcing Life Cycle



Asset Management

All assets utilised by the client must be managed through a governance environment. This environment consists of content against which to govern (contract schedules, SLAs, policies, etc.) and process (automated workflow supporting all decision making, benchmarking and communication activities). Typically, this includes a repository of equipment detail, location and especially configuration management. Additionally, this is used to provide the linkage among contracts, SLAs, monitoring and performance management, and benchmarking.

Contract Management

This covers the definition of all contracts entered into, including the master services agreement (MSA) and all schedules and companion agreements for subsidiary entities regarding maintenance, service supply, demand, etc.

[12] Extracts taken from the Impact Programme, *Executive Briefing #8 (Supplier Governance)*, September 2004, with the kind permission of Gary Hardy.

It also includes the formal governance processes by which the performance and change against these contracts remain visible, managed and of known status.

Relationship Management
This discipline promotes effective communication among parties to the contract and all stakeholders. Organisations should integrate relationship management with the outsourcing initiative, and must consider continuous communications, conflict identification and resolution, effective and creative problem solving and information sharing.

SLAs and OLAs
SLAs and OLAs provide the basis against which performance is managed in the governance processes. They must be measurable and comparable over time.

SLAs and OLAs provide the basis against which performance is managed in the governance processes.

Differentiating between SLAs and OLAs provides useful metrics against which to measure the supplier's performance as well as reduce the margin for error in service delivery when driven by key demand patterns. The survey reveals that, surprisingly, only 57 percent of respondents do not differentiate between SLAs and OLAs (see footnote 8).

Due Diligence
Due diligence refers to the discovery by both parties of the asset base, resources, processes and, most important, the capabilities of each other. It is essential to identify and understand the capabilities required to support the future organisation as this provides support for early decision making throughout all three major life cycle stages (see **figure 5**).

Baselining and Benchmarking
Baselining involves using the findings from due diligence and expressing them as a normalised set of data from which performance changes can be measured.

Benchmarking allows either party to measure its performance and resource requirements against industry norms. In the ITGI study, 68 percent of the respondents use benchmarking to assess the potential cost-effectiveness of an outsourcing contract, while 42 percent use postcontract baselining.

These activities are key drivers for one-quarter of the survey sample in renegotiating their contracts.

Governance Processes
Governance processes are required to identify, manage, audit and disseminate all information related to the outsourcing contract whilst controlling the relationship between the client organisation and service provider. It is used to ensure that all contractual documents, SLAs and OLAs are monitored on an ongoing basis with clear auditability. The governance processes form part of the governance environment (see the Asset Management section).

Typical high-level governance processes include relationship management, service delivery management and contract management. Across these, there are a number of more detailed processes including:

- Policy processes acceptance, development and implementation
- Compliance
- Dispensation
- Performance management
- Business control
- Change control
- Environment management
- Billing analysis and review

A three-tier governance structure works effectively, if structured in terms of local, regional and global tiers.

Governance Organisation

It is necessary to define a governance organisation/hierarchy that is responsible for tasks such as decision making, ensuring delivery meets contractual obligations and escalating issues. All of these integrate to form a risk-aware and risk-managed approach to ensuring that the activities undertaken by both parties are articulated and transparent.

It is necessary that this organisation be established and given the correct levels of responsibility, authority, access and visibility within the governance and service demand and supply environments to carry out duties effectively. Effective outsourcing governance must be explicit and have committed executive sponsorship.

GovIndex's global experience with the governance of outsourcing has confirmed that a three-tier governance structure works effectively, if structured in terms of local (day-to-day operational management and issues), regional (divisional/regional or country level) and global tiers.

Scope Reviews

Like all organisational activities, governance regimes are subject to lifetime changes. To maintain the efficiency of the processes, it is necessary for the governance regime to include a process for revisiting and revising the applicability of each governance process.

Roles and Responsibilities

Whilst the actual roles and responsibilities vary in magnitude and complexity accordingly with the processes to be outsourced, there are certain key interactive roles on both the client and supplier sides that are crucial to the successful implementation and its subsequent governance.

Experience has shown that equivalent logical roles should be present at each level in both the client and supplier. These are necessary to identify early indications of risk and ensure that proper management can take place through to resolution. The view from the client is outlined in **figure 6**.

Figure 6—Client (and Equivalent Supplier) Roles	
Client Position	**Roles**
Executive sponsor	• Oversees global MSA and schedules • Ensures internal and external communication about the contract and its status • Provides guidance to regional governance teams and site procedures • Resolves issues, ambiguities or conflicts arising in the implementation and management of the contract
Program manager	• Delivers the services and financial benefits identified in the MSA and schedules • Identifies and manages risks associated with the execution of the MSA and schedules • Organises and synchronises resources to enable the contract to be implemented • Works with the regional teams to assure contract conformance and delivery of benefits • Understands information from the benchmarking process(es) to ensure that prices remain market-competitive
Delivery sponsor	• Assures adherence to day-to-day service and operational levels • Establishes and delivers seamless process management associated with faults, change, assets and third-party interfaces • Co-ordinates and implements cost savings resulting from novation[13] of contracts • Co-ordinates and implements the transition and transformation plan(s)
Delivery support manager	• Ensures that all working interfaces between application support and the supplier are clearly defined and managed effectively such that application support can meet its service levels
Contract manager	• Ensures that the client maximises the value from the contract by proactive management of the supplier and the client contractual obligation
Transition manager	• Ensures that the transition to the supplier contract is managed effectively
Transformation manager	• Ensures that the supplier transformation programme is delivered in line with contractual commitments
Service change manager	• Ensures the smooth introduction of new services and changes to existing services
Service planning manager	• Ensures that all supplier proposals are reviewed, challenged and approved as appropriate by the client information systems and delivery unit order book and plans are fully reflected within supplier and governance team plans
Communications manager	• Ensures that governance team communications are incorporated within the overall IS communications process
Finance manager	• Ensures that the financial aspects of the contract are implemented and managed effectively and the financial benefits of the agreement are realised

[13] The process, agreed by all parties, of altering the standing of each party to a contract without changing the operational and subjective effect of the contract

5. Likely Future Trends and Conclusions

While cost reduction and control are still important features of outsourcing, there are many changes on the outsourcing front. Perhaps most important is that outsourcing is an increasingly important business tool.

The first and most obvious change about the way outsourcing is considered is that the decision about what is or is not a core function or key differentiator is becoming more widely accepted. Recent mega-deals have been reversed when it was realised that certain aspects of IT were crucial in both these aspects; as a result, multisourcing has arisen, in which many service providers are engaged. Whereas this reduces some risk, it also requires client organisations to pay particular attention to the governance of their outsourcing initiatives.

Retention of the organisation's accumulated outsourcing knowledge can be diluted or lost. To avoid this, it is necessary to turn this knowledge into process as much as possible.

The drive to use offshore outsourcing to drive down costs has notably moved functionality to lower-cost, emerging economies. However, in the long term this has a self-limiting effect. As the regulatory tide sweeps around the world, the indirect effects of home territory regulation will feed into offshore regulations, reducing the offshore benefits, and stabilising and creating higher-value economies. There is no transitive responsibility gain in outsourcing, i.e., organisations must be aware of and factor regulatory obligations into their outsourcing governance.

GovIndex illustrates, in **figure 7**, the learning curve typically experienced by companies as they progress over time. The first outsourcing cycle in **figure 7** has largely passed, as more and more contracts come up for renewal and the lessons learned are included in the reappraisal. However, learning from experience is a concept that usually applies to the individual, not the organisation.

Retention of the organisation's accumulated outsourcing knowledge can be diluted or lost.[14] To avoid this, it is necessary to turn this knowledge into process as much as possible through formalised governance of outsourcing.

The regulatory environment itself is fundamentally changing the view of what is desirable, acceptable and cost-effective. No longer is pure cost a sufficient decision factor; optimisation of grants, tax rebates, environmental taxes, geopolitical and religious stability, personal data protection, identity protection and many other real or perceived risks must now be brought into the equation.

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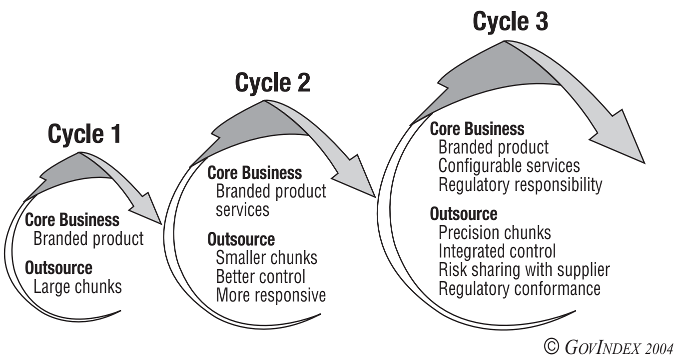
[14] Erosion of in-house skills was one of three risks most often considered by organisations in outsourcing, according to an Accenture and the Economist Intelligence Unit study, *Business Wire*, 2003.

Figure 7—Outsourcing Cycles



It is not likely that this trend will decelerate during the next cycle. Corporations will be more discerning—both about what they outsource and to whom. Generally the scope of outsourced services will be more confined to the known expertise of the providers and there will be a growth in aggregators. Contract renegotiation checkpoints will be introduced at increasingly shorter intervals to allow greater precision in addressing changing requirements. These pressures must result in formal and explicit governance of all outsourcing activities—possibly by regulation, but certainly as a protection of asset specificity,[15] necessary to ensure competitive advantage and, by extension, shareholder value.

[15] Resources specific to the production of a particular good or service, thereby increasing the dependence on the service provider; see Klepper and Jones, 1997

6. Recommended Generic Steps

While there is no single set of activities that will ensure governance success during an outsourcing initiative, the following is considered a best practice approach:

- Ensure that outsourcing is both acceptable and feasible through understanding the organisation's business and operations strategy. This will highlight those activities that are core and provide differentiated advantage to the organisation. These are usually not candidates for outsourcing.
- Determine the type of outsourcing relationship by the requirements for services consumption. Whereas these are discrete, consistent and have simple characteristics, the relationship is market-based (services provided may be packaged as 'catalogue' items)[16] and costs less to establish. More complex and longer-term service provision requirements necessitate a more integrated or partnership approach.
- Establish the outsourcing governance processes and framework before the contract is signed. This provides contractual reference for governance and allows all parties to the contract visibility of the objectives, expectations, and roles and responsibilities of the governance initiative. Formalising this through a governance schedule ensures the proper contractual foundation.
- Do not outsource broken processes. If the organisation cannot manage it, then it is unlikely that the service provider will be able to either.
- Undertake due diligence. The organisation must undertake due diligence on itself (to understand, quantify and qualify its outsourcing needs) and potential service suppliers (to ensure fitness of purpose, reliability, resources, etc.). This will facilitate the development of the request for information (RFI). The request for proposal (RFP) can then be created and service providers who responded to the RFI are invited to submit their RFP position.
- Expect and plan for some form of renegotiation approximately 12 to 14 months into the contract.
- Develop and negotiate the contract with prospective service providers. During this stage, the organisation should start to define the type of relationship it is entering into with the service provider. SLAs and OLAs are defined at this stage as a key component of the governance process. These must be established to ensure service provision and also the acceptance of a service credit regime to which both parties will adhere.
- Set up companion agreements for each country[17] and carefully research the business case for each. Where the contract is global and provides services to multiple parts of the organisation (especially those spread geographically), this is imperative.

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[16] Catalogue items are discretely identifiable service units at a fixed unit price and clearly defined service characteristics.

[17] Be especially careful to check for conflicts of precedent and interpretation.

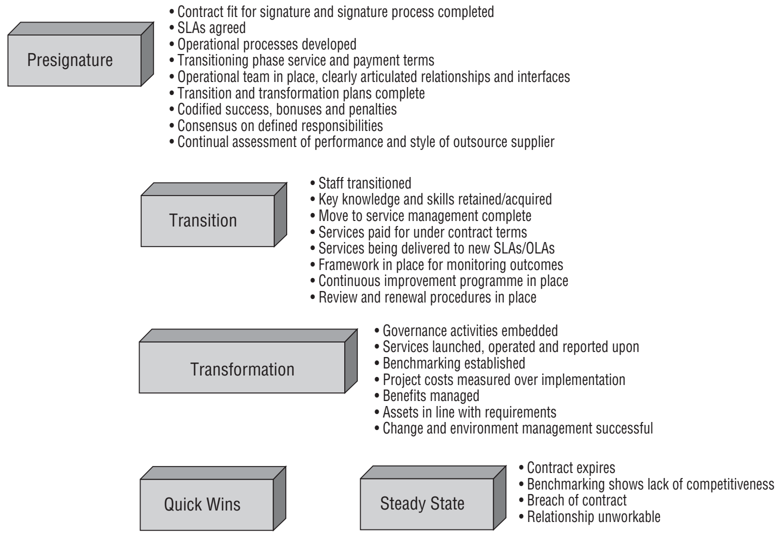
- Ensure that appropriate communication is in place across the organisation, as outsourcing can be a significant change and provoke many types of response, mostly driven by uncertainty. Consistent communication, road shows, forums, briefings and newsletters can help reduce the anxiety that can be a part of the outsourcing process. Careful people management is an absolute during the outsourcing process, not only for those staff being moved to the outsourcer but also for those being retained by the organisation. Proactive communication is appreciated and enables better control than reactive responses.
- Thoroughly plan the transition (see **figure 8**), which is the transfer of service delivery to the supplier. This is a formal plan that requires correlation with the contract and sign-off from both parties at each stage.
- Plan for the transformation (see **figure 8**) of the business processes, operating methods, product and service creation and delivery. This is integral to the total service contract negotiation. It must provide for the services to be benchmarked, measured, project costing managed, etc.
- Plan for quick wins (see **figure 8**). They can provide two advantages parallel to the contract's main objectives:
  - A cache of goodwill arising from a demonstrable success
  - A visible mechanism for establishing confidence early where both parties agree
- Ensure that governance of the contract in its steady state (see **figure 8**) continues to be an active process. As well as the normal day-to-day monitoring by exception, it must also include periodic benchmarking (internal and external). This ensures continuing value-add by the service provider and forms the basis for reevaluations to support contract renegotiation.
- Plan renegotiation. This normally takes place at contract expiry, but it can take place before this for a number of reasons: termination for convenience, breach, offence, insolvency, change of control or default. Renegotiation should be a standard process specified contractually and included in the governance regime.
- Ensure that risk management is a discipline that has accountability within the framework and approaches described previously. This is typically achieved by having in place the requisite roles as outlined in **figure 6**.

Proper control and management of these initiatives is key to success in outsourcing.

Proper control and management of these initiatives through established governance is key to success in outsourcing.[18]

[18] Poor governance accounted for 13 percent of outsourcing failures, following only unclear buyer expectations (23 percent) and misaligned interests (15 percent).

Figure 8—Summary of Generic Steps



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