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YOUR BEST OPTIONS IN MOTION



**Outsourcing Relationship
Management: Are You Happy?**

Are you happy with your outsourcing relationship?

This is of course a very subjective question but according to a survey undertaken by EquaTerra 42% of 130 CIOs said they were dissatisfied with their outsourcing relationships. This was primarily due to poorly developed, under-budgeted and under-resourced governance models. Similarly in the book “Multisourcing” Gartner analysts identify that successful outsourcing is built on a “network of relationships, not transactions” and outsourcing governance is the most important factor in determining the success of an outsourcing engagement.¹

A strained relationship between a client and provider will ultimately detract from the value of the engagement. Any expected benefits such as cost-reduction, greater innovation, and more agility will be greatly compromised if the relationship degrades to levels of mistrust, conflict, and disagreement. These types of relationships lead to greater monitoring, auditing and issue management by the client making it impossible to extract value from the engagement.

Given this is one of the fundamental issues leading to poor outsourcing engagements we have decided to provide you with a check list to help you determine if you have any gaps in best practice outsourcing relationship management.



Do you have a clearly mapped out governance model in your contracts with your providers?

A significant amount of time and energy is often spent by procurement departments selecting a provider but very little time and effort is spent developing a governance model that will ensure the expected value can be extracted from the outsourcing relationship.

A well mapped governance model will have seven (7) components clearly defined. These components are:

¹ Cohen, Linda: *Allie Young* (November 2005). *Multisourcing: Moving Beyond Outsourcing to Achieve*

1. Define a high level mission statement for the outsourcing relationship.

Many outsourcing relationships deteriorate because there is a fundamental lack of understanding over long-term objectives. It is imperative that you have a clear vision for why you have entered into an outsourcing relationship and what business outcomes you expect from the engagement. It’s alright if this changes down the track but you will need a solid starting point.

2. Are my key performance indicators (KPIs) aligned to my stated goals?

A key problematic area we often come across is the misalignment of KPIs to the goals of the outsourcing relationship. Tension in the relationship is likely to occur when KPIs are misaligned and unlikely to achieve the required goals.

3. Defining the governance model best suited for the type of engagement you have with your provider.

To identify the right model you will need to determine how strategically important the engagement is, the level of complexity of services delivered, the impact on your customers and business, and what value you want from the engagement over time.

Growth & Agility. Harvard Business School Press. Pp. 198-203. ISBN 1-159139-797-9

4. Which people in your company do you need to be involved with the outsourcing relationship?

Just like corporate governance you will need to involve people with a vested interest in the outsource relationship. They will be people in your organisation and also from the provider. Not all have to be involved at the same level but forgetting to involve a stakeholder can lead to mistrust and conflict downstream in the relationship. Try and secure people who are also not directly involved but are influential. Having a couple of independent team members can help you resolve issues.

5. What types of teams will your selected people be part of?

The governance model you select will help you identify whether you should have a steering committee or whether you will need a team involved in change management. The two teams that should always be in place are the operational and governance teams.

6. What are the roles and responsibilities of team members?

It is important to have clearly defined roles and responsibilities in your teams. Effective governance of the engagement will only be achieved if team members not only know what they need to do but more importantly what is not in their scope of responsibility.

7. Define management information reporting formats, meeting times, and record-keeping.

It is important you identify the types of reports you need to help you determine whether you are extracting value from the relationship in line with your stated mission for the outsourcer. The frequency of meetings should be identified up-front and how record-keeping will be made and followed-up.

How do you ensure your governance model is effective in achieving your stated goals?

Having a well-structured governance model is not enough in our view. There are a number of factors we believe will help ensure your relationship with the outsourcer is as rewarding as you had hoped for.

We have included some factors that need to be addressed to improve your governance model and ensure you are implementing best practices.

What is your roadmap for building trust into the relationship?

A relationship with an outsource partner is no different than the relationship you might have with a family doctor. The overwhelming deciding factor for the effectiveness of the relationship is the ability to trust your outsource partner. The longevity of the relationship with your family doctor is built on trust

and the same determining factor will ultimately decide the direction the relationship will go.

It will be difficult to build trust into the relationship if you have a “master/slave” relationship in mind for managing your outsource providers. A partnering approach is the only way to enable trust to grow in the relationship. Building trust will take time and consistent behaviour from both parties.



What level of transparency do I need?

This question is often not well understood until problems begin and usually then it becomes the most important issue. Companies will often revert to full transparency of most aspects of the outsourcer's business when there is a lack of trust in the relationship or when a provider is not delivering.

We believe it is important to outline what level of transparency is required upfront so that trust can evolve in the relationship over time.

What new processes and procedures do you need to implement or change to make the outsourcing relationship work?

Whenever you engage a provider in an outsourcing relationship there will often be new processes and procedures you will need to implement to ensure the existing services and variations are properly documented and have proper sign-off. Effective governance of an outsource relationship is achieved when processes are clearly understood and documented.

Processes should be in place to manage variations to your services. An inflexible agreement that does not cope with variations to services is a sure way to lead to a deterioration in the outsource relationship since it is unrealistic to assume that all variables are known from the onset of the relationship.

Do you have technology in place to support your governance model?

Effective governance over outsource relationships is best supported using technology that can effectively capture all the critical operational documents, reporting, issues, and invoices. This software is ideally integrated into internal ERP systems but can easily assist in governance by providing both parties with visibility over performance, issues and long-term objectives.

Cloud based software is now readily available making it easier than ever to provide the required visibility over critical documents for parties in different geographies.

What is your plan for dealing with your provider when things don't go to plan?

It is important to have a clearly documented action plan for addressing non-performance and other governance related issues. Taking a hardened approach may not ultimately lead to your desired objectives. It is important not to alienate the provider in your approach as this could also lead to the provider unwilling to go the "extra mile" to help you achieve your goals.

Having a partnering approach to these types of issues will often mean that you will need to cooperatively work through the remedial actions with your provider. There is always going to be a remedial path to any issue. The key is to work together to identify what the best remedial path is to take. The key is to not damage the relationship beyond repair when you attempt to rectify a non-performance issue.

Kinetic BPO is a committed to the success of the BPO industry on a global basis. We hope this paper on effective outsource relationship management assists you with your outsourcing relationships.

If you would like to know more about how we can help you improve your outsourcing relationship then contact us at:

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