

BUILDING WORLD-CLASS
OUTSOURCING GOVERNANCE

Accepting, Managing and Surfing on Waves of Change

Cynthia Hollandsworth Batty, Director, ISG



INTRODUCTION

How hard can it be to build a world-class outsourcing governance organization? The components are all known by now: ISG has been providing strong and continuously improving operating model consulting for nearly a decade and in recent years has been providing governance as a managed service to our clients. But as all of our practitioners around the world would tell you, we learn something new every day. Perhaps our most significant learning is that introducing outsourced managed services into an organization creates fundamental organizational change that can take years to master.



The basic components for developing an outsourcing governance organization are straightforward, even though this is still an emerging management science:

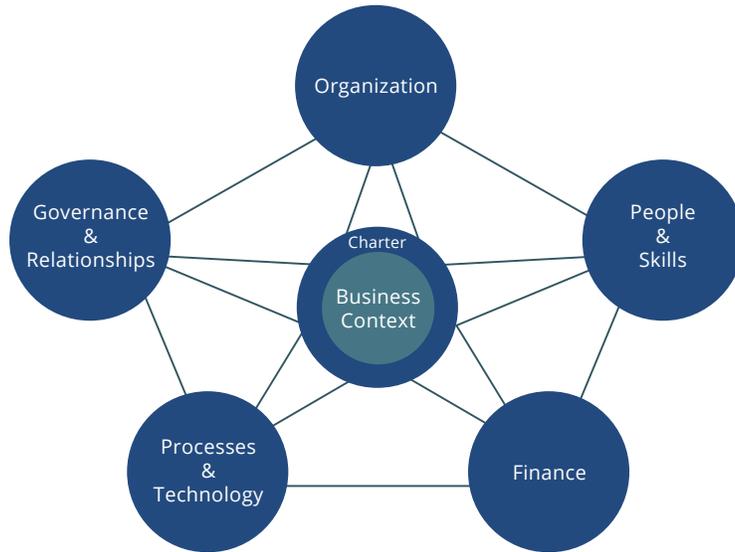
1. Align the governance organization to the business environment.
2. Create a clear sense of purpose for the organization.
3. Build the right processes to support the new work; develop an organization model to effectively execute the work.
4. Identify the skills to make the organization successful.
5. Create a governance approach to handle tough decisions and issues.
6. Create transparency in value creation and cost.

But this is only the beginning. The introduction of third parties performing significant services represents change to an organization that goes far beyond the initial implementation of the new management structure. Our clients who have the most success in managing sourced services have recognized that there is a continuous process of learning and evolution process that spans many years. The ability to be open to and to respond to this type of change takes significant effort, dedication and flexibility.

Governance organizations learn quickly that they are not only operating in the realm of sourced services. Rather, they are thrust into the very center of the business operations of a company where nearly all stakeholders have a strong opinion that they are very ready to express!

Business stakeholders take a much more judgmental view of services provided by a third party than those provided internally and often bridle at the perceived bureaucracy involved in dealing with service requests (and challenges like unplanned outages). Governance processes must focus on stakeholders almost as much as service providers to ensure clear communication and confidence in the quality and value of the services.

Governance Operating Model Framework

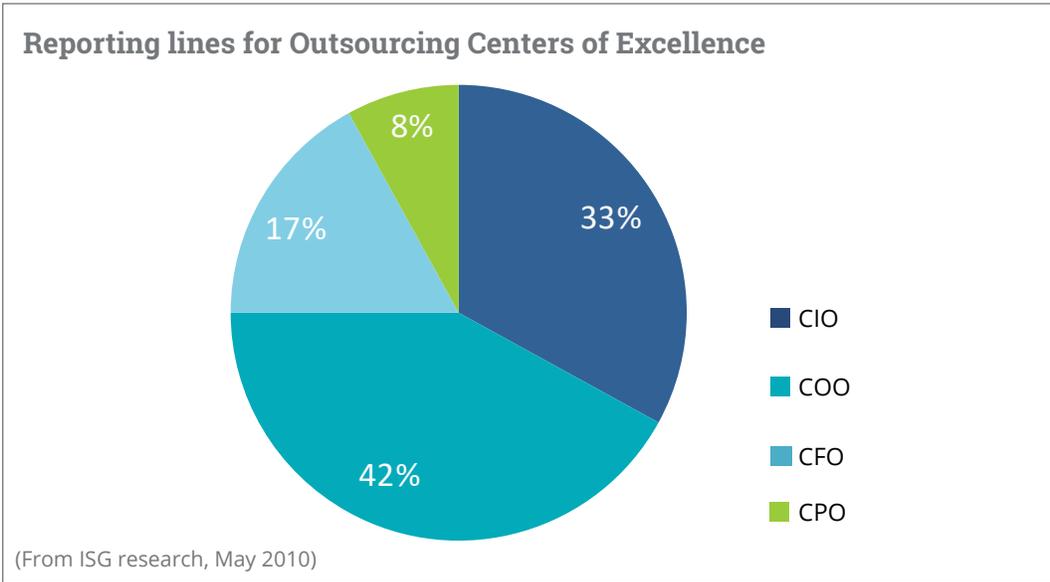


The changes don't stop there. Once a third party is in the environment and performing your work, your company executives are stakeholders in ways that they usually would not be when the services are performed internally. Services that are the usual candidates for outsourcing are often perceived by the executive team as back-office functions and therefore often not seen as the concern of executive management. However, aligning cost, sourcing strategy, risk management, and value development of the services to the corporate strategy requires knowledge of the sourcing engagements that needs executive focus and attention. At ISG, we have identified a number of key role adjustments that are critical to corporate strategy for corporate executives of companies with substantial outsourced services.

Executive engagement is also essential to support a governance organization that must balance the demands of the business stakeholders, budget, risk and strategic objectives. Without strong executive support, we observe that governance organizations will frequently find themselves unable to deliver on the objectives of their charter.

An emerging area of governance excellence is in the management of multiple service providers, especially when integrating the services of these providers is essential in managing risk and performance in business operations. We have written extensively on this trend, which we call the Outsourcing Center of Excellence.

Our recent research reveals that today these organizations are perceived by companies as a unique and specialized management discipline and generally do not report to the Chief Procurement Officer. However, the growing maturity of the Procurement and Supply Chain function is making it more difficult to separate these functions. In situations such as Application Development and Maintenance, where some work is sourced by staff augmentation and other work is sourced as a managed service—both from the same service provider—the ability of the organization to ensure appropriate vendor management and coordination across purchasing organizations becomes a substantial business concern—and augurs even more evolutionary change.



Finally, there is the change and growth of individuals in an organization who understand this new way to operate the business. Successful companies find that rotating people through a “tour of duty” in an outsourcing governance team not only brings in new ideas and insights, but also ensures an attractive career path for motivated people and pollinates the organization with the new knowledge and skills.

Getting up on this wave of governance and change and riding it is exhilarating and interesting—outsourcing is here to stay; this is the way much back-office work is performed today and will be performed in the future. The hardest aspect of achieving world-class outsourcing governance is preparing and leading both an organization and the individuals at all levels who must cope with the substantial organizational change necessary to achieve excellence.

Oh, and one more thing—your service provider also needs to be interested in participating in world-class governance.

ABOUT THE AUTHOR

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Published January 30, 2012



CYNTHIA HOLLANDSWORTH BATTY

Director, ISG

Cynthia brings 25 years of experience helping clients develop their sourcing governance and service management design. Having worked with more than 50 organizations to improve business management and service management processes in both single-provider and multi-provider environments, Cynthia has become a recognized expert in sourcing governance, vendor and contract management. She currently serves as the architect for ISG's service methodology and global integrator of its products and services. Cynthia works to leverage ISG's accumulated intellectual property resources to help enterprises create effective transformation and governance capability, and maintains a continuing role in the Strategy and Organizational Change Enablement practice.



ABOUT ISG

Information Services Group (ISG) (NASDAQ: III) is a leading global technology research and advisory firm. A trusted business partner to more than 700 clients, including 75 of the top 100 enterprises in the world, ISG is committed to helping corporations, public sector organizations, and service and technology providers achieve operational excellence and faster growth. The firm specializes in digital transformation services, including automation, cloud and data analytics; sourcing advisory; managed governance and risk services; network carrier services; technology strategy and operations design; change management; market intelligence and technology research and analysis. Founded in 2006, and based in Stamford, Conn., ISG employs more than 1,300 professionals operating in more than 20 countries—a global team known for its innovative thinking, market influence, deep industry and technology expertise, and world-class research and analytical capabilities based on the industry’s most comprehensive marketplace data. For additional information, visit www.isg-one.com.

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