ISG imagine your future®

Have You Outsourced by Stealth or by Design?

ISG

Over the past 20 years, large public and private sector organizations have made significant use of third parties to deliver their back-office support functions. For some, this has been a metaphorical 'sticking plaster' applied to solve a short-term tactical need. For others, it has been an informed decision taken after the development of a carefully thought-out strategy, designed to allow sufficient flexibility to remain relevant in the medium-to-long term. So, where do you stand? Are you a tactical first-aid officer applying a quick fix to an immediate problem, or are you a strategic surgeon carefully executing a complex operation with enduring results?

To answer this question, first think about how you have arrived at the service delivery framework and models you have in place today. What led you to the operating models that exist in your organization? How complex are they? Who carries the financial and the technical risks? And how many people or interactions are required to get a problem resolved?

Most organizations today rely on delivery of a substantial part of their operations through a third party.

Whatever your answers, the reality is that most organizations today rely on delivery of a substantial part of their operations through a third party. At some point, most have applied sourcing 'bandages' to solve short-term business issues.

Survival is a fundamental part of human nature and is carried with us into our business life. Often this instinct compels us to grasp at a quick solution to resolve problems rather than thinking through the long-term consequences of the action. For example, a person may think: 'My organization is bleeding money. I must stop this quickly in order to survive. Let's outsource/offshore/ buy low-cost resources to fix the problem so I get kudos instead of kicks'. Another example of using a sourcing 'bandage' is to fulfill a temporary need for additional manpower. Many organizations start their outsourcing journey with the cry, 'I need 100 FTEs to fulfill a capability gap for a series of development projects. Let's offshore it'.

These are tactical solutions to everyday business issues. They meet the need in the short term but, unless they are revisited frequently, they quickly stop being effective solutions and end up costing your business far more in the medium-to-long term.

This issue is even more evident when you consider change. Every business faces the challenge of constant change, and over the past few years the uncertain economic climate and swiftly evolving technology have combined to accelerate this change and place an increasing burden on organizations. Like any other delivery model, outsourcing contracts need to provide sufficient flexibility to handle change. These contracts are typically multi-year agreements and as such need to be able to survive several periods of change in both demand and strategic direction.

Therefore, it is essential to ensure that your contract has sufficient flexibility to cope with both tactical and strategic changes. However, as with tactical first-aid responses, most 'sticking plaster' solutions address the 'here and now' and do not consider future change. In the sourcing world, it is absolutely necessary to spend time modeling potential future scenarios and ensuring that the proposed solution is comprehensive and flexible enough to meet those needs. If this is not done, the usefulness of the solution will quickly diminish and it may become detrimental to the business.

HAVE YOU OUTSOURCED BY STEALTH OR BY DESIGN?

Furthermore, companies that take the tactical route to either outsourcing or offshoring through a third party are most likely to do so through a simple staff augmentation approach, buying additional capability on a time-and-materials basis. This might start with a 25-50 FTE transaction, but end up being 10 times that large within a very short space of time. Then, two years after starting their journey, they see a mouse's tail hanging, pull on it to check that it's still a mouse, and an elephant lands on their heads. With this comes the realization that they have a large volume of business in the hands of a service provider, yet they have only a simple staff augmentation agreement that leaves them exposed to a whole raft of issues. Both financial and delivery risks sit with the client, yet the technical and process knowledge sits with the service provider. In this topsy-turvy world, the client cannot access the knowledge or end the relationship because the client does not have the appropriate exit strategies and termination assistance in place that would have come with a robust and properly planned managed services agreement.

Such organizations have taken the first aid officer's approach to outsourcing, allowing it to happen incrementally by stealth and, in doing so, they have placed their businesses at risk. They have applied a quick fix originally designed to heal a minor wound, but they have ended up with multiple referred complaints because the solution addressed the symptoms rather than the cause of the problem. If you then consider that most organizations will have several such relationships, you can begin to see the scale of the problem caused by quick-fix sourcing solutions.

So how do you avoid these common pitfalls when it comes to outsourcing? How do you take the more considered, holistic approach while still recognizing the need for everyday tactical solutions? The simple answer is to develop a **robust sourcing strategy** that recognizes the need for change and can therefore accommodate responses to both strategic and tactical changes.

There are a variety of white papers on the subject of what constitutes a best-practice sourcing strategy and how you go about developing one. For now, I would like to highlight some of the most important characteristics of a well-thought-out sourcing strategy:

1. **Did you seek expert advice in the development of your strategy?**

As noted in the introduction, outsourcing has been with us for more than 20 years, and a raft of market data and expert insight exists through firms like ours. This is not a self-serving advertisement for ISG. In our personal lives, we do not hesitate to take expert advice from medical professionals or independent financial advisors in order to help us make informed decisions to safeguard our future. The business world should be no different.

The best strategy is an informed one that makes use of data, information, and insight provided by sourcing experts with the broadest, deepest possible data set and market understanding. This market view does not typically reside within internal departments, which will be aware of what their own organization has done but will have a limited

sense of broader market trends. An external advisor will have a wealth of experience on how others have used different sourcing models to best effect, and how to apply these appropriately to another organization.

2. **Does your sourcing strategy reflect the requirements of the business?**

It may be seem obvious that the sourcing strategy and operating models must be developed with business needs and strategy in mind, but a surprising number of organizations will develop their business, IT and sourcing strategies in a vacuum and rely on good fortune for them to align. To succeed, the strategy must reflect the business and operating context, both currently and in the future. A clear understanding of how the business currently operates and its future direction is a key requirement and will play a vital part in the identification of which services are needed, by whom, and how and where these services should be resourced. Senior executive sponsorship and business buy-in should also be seen as fundamental requirements to ensure that the sourcing can be successful. This goal is typically more likely to be obtained by company-wide active participation in the development of the strategy, rather than simply leaving the process in the hands of the team responsible for delivering the service.

3. **Does your sourcing strategy reflect the fact that change is inevitable?**

The need to develop models and strategies that consider change is driven by a simple tenet: we develop plans and strategies expected to last several years and the only thing we can be certain of is that change will occur during the intended life of the strategy, plans and models that we implement. Building in the flexibility needed to cope with change is therefore fundamental to ensure the longevity of sourcing and operating models, and it must be taken into account as the strategy is developed and subsequently implemented. With the benefit of an overarching strategy, that change can be accommodated in the negotiated agreements to include both strategic and tactical changes such as:

- Inclusion of Significant Events provisions to take account of potential future acquisitions and divestments as well as the addition of other geographies and business units not included in the original scope.

- A pricing mechanism that contains minimum or no commitments and provides for volume-driven payments on the basis of both tactics (small incremental changes) and strategy (large changes driven by a single event).

- The client's ability to add, change or delete service levels without the need for negotiation to recognise that what is critical today but may not be so critical tomorrow.

- The ability to terminate the agreement in whole or in part for circumstances other than breach (e.g., Change of Control and Convenience).

No decision in this domain should be made without first developing a sourcing strategy that is aligning to business needs and future direction.

These are just a few of the questions that need to be asked when designing a comprehensive sourcing strategy, but they are the most fundamental. Business leaders have to make many choices and decisions, including ones that concern outsourcing and offshoring. However, no decision in this domain should be made without first developing a sourcing strategy that is aligned to business needs and future direction. Having a robust sourcing strategy is a key requirement if you are to avoid the pitfalls and risks of 'outsourcing by stealth'.

Outsourcing can and does work well when done by design, via a strategy that will ensure the optimal blend of internal and external resources and capabilities. This strategy must include the appropriate governance structures to effectively manage the client demand and services provided by third parties. When done well, outsourcing can recognize and embrace the need for change. Without the analysis and forethought driven by the development of a strategy, outsourcing can be no more than short-term, tactical first aid.

ISG (Information Services Group) (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 more information, visit **www.isg-one.com**.

Let's connect NOW...

＊
iSG™

imagine your future®