

OUTSOURCING MANAGEMENT

# Using Contract Management and Performance Tools Effectively in Outsourcing Management

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## INTRODUCTION

The market is full of all types of software tools for managing performance and contracts in outsourcing. The assortment can be confusing, and no tool meets all needs. What is the best way to understand your needs in the initial outsourcing period? And how effective can software tools be during this time?

ISG believes that tools can be both an aid and a distraction during this crucial period of significant change in an organization. This paper looks at how to use tools effectively during the initiation phase of your outsourcing transaction and introduces a new and cost-effective solution for managing your transaction.

An outsourcing contract is the culmination of significant effort by the parties to arrive at a mutually beneficial agreement and overall relationship. The contractual management activities are much more complex than typical commodity or short-term service agreements. The contract must be continually updated and interpreted to incorporate new business dynamics, technology and business process changes, and the location and provision of services. Organizations need to keep this focus and integrate the contractual requirements with the performance, financial, and relationship management capabilities being developed. The questions then become how best to integrate these capabilities and how much of a role modern contract management software tools should play in the process.

## OUTSOURCING MANAGEMENT

## WHAT TO DO FIRST: DECIDE ON TOOLS OR DESIGN THE MANAGEMENT PROCESS?

For decades, companies have bitten off more than they can chew when it comes to implementation of software tools. Some organizations launch a comprehensive tool strategy, integrated with the organization's comprehensive service management and governance strategy and approach. However, software tools, regardless of application, rarely achieve the benefits originally anticipated and are seldom completely implemented. Too often, organizations consider technology as a silver bullet that magically will make difficult outsourcing management processes, decisions and implementations disappear. We see companies making the same mistakes in outsourcing management as in other technology applications. We often observe that companies fall into the trap of trying to implement the "ultimate" solution across all aspects of service management and governance and dilute the human management energies that should be focused on this key task.



**It is better to eat the elephant one bite at a time.**

We believe it is better to eat the elephant one bite at a time, and to get the management basics in place before embarking on elaborate tool implementations. The balanced alternative is to keep one's focus on the processes, capabilities and relationships while growing the technology capabilities over time. Outsourcing management tools can be important management aids, adding significant benefits, and the tool providers have made great strides over the past few years. Yet it is important not to make the software tool the focus of the service management and governance implementation, or cause it to be a distraction for the limited resources available during transition. Even in multi-billion-dollar outsourcing environments, processes and capabilities come first; once the environments are well managed and stable, tools can be successfully applied to further improve the effectiveness and efficiency.

So where does one start? Does this mean you should not implement tools? Not at all. ISG suggests a practical approach, born from years of experience in this field. We believe the initial focus should be on processes, capabilities and relationships. The amount of change that occurs when moving from an internally executed function to an outsourced environment is greater than most organizations realize, and puts intense focus on management activities that were often not performed with rigor prior to the sourcing. It is therefore prudent to not add the unnecessary complexity of large technology implementations at the same time as developing the management capabilities.

It is also important to realize that the tools on the market today are not yet comprehensive, all inclusive or mature product sets. These tools often require adjustment and adaptation to the client's environment, which adds to the complexity of the implementation and affected processes. Tool applications require careful selection and a very pragmatic implementation approach. There is a risk that focusing on a technology solution too early can divert the focus from the critical tasks at hand or create undue emphasis on the wrong aspects of the tool's

functionality. If you encounter consultants who recommend combining tool implementations along with large outsourcing initiatives, ask them when was the last time they implemented both simultaneously as the responsible executive in a company. Chances are they never have.

## THE RISKS AND COSTS OF OVER-AMBITIOUS TOOL IMPLEMENTATIONS



**Tools are often acquired and applied before clients have defined new outsourcing management governance and processes. This is a recipe for failure.**

There are four main reasons that tool implementations fail from a functional standpoint, which can bring unplanned costs to the outsourcing engagement.

1. Tools are often acquired and applied before clients have defined new outsourcing management governance and processes. Even worse, companies assume that the tool will help them define what the new processes should be. This is a recipe for failure, because clients are assuming that they are or will be operating in a mature environment where the tools are representative of the processes required. This is not the case for most service management and governance tools on the market today. Although they do perform some functions and processes very well, the majority of tools do not yet provide a comprehensive and overarching solution for managing outsourcing environments.

This is complicated by the fact that the effort needed to transition a company to an outsourced environment is almost always underestimated. It is our observation that complex tool implementations jeopardize the transformation, with clients often expecting the tool to perform functionality for which it is not designed. As a result, companies cannot get the tools they acquire to function at a level required to reap any substantial benefits.

Because different tools focus on different aspects of service management and governance, it sometimes leads clients to focus on the wrong aspects of the job at hand. As a case in point, few tools focus on the relationship between the client and its service provider, yet this is one of the most fundamental tasks during the initial period of the agreement. Similarly, few, if any tools focus on maintaining the baseline costs of the agreement, a critical task that can cost a company a significant amount of money later if neglected in the early stages of deployment. Finally, though service level reporting has become more routine in tools, the ability to measure performance against all contract deliverables outside the service levels –which often are where the value and integration of the service provider are most critical – are limited in the marketplace.

Early wins in outsourcing management are important. Getting the key elements of service management and governance in place and under control is the priority. Long and complex tool implementation often gets in the way. Tools should help the organization achieve what it needs, and only what it needs. They should not add complexity or unnecessary work at a time when it is important to focus only on the key governance and relationship aspects. There is no tool that does everything, which can cause managers to focus only on what the tool will do and believe they have done their job. Tools do not obviate the need for detailed and assiduous project and program management of an outsourcing engagement.



**Organizations often waste money by using expensive resources to perform basic tasks.**

2. Implementing a contracting tool requires experience. Understanding, managing and tracking the obligations of the parties under the agreement is an important undertaking. This area is often neglected, or the complexity and scope of effort misjudged. There is a combination of complex tasks (understanding and interpretation of the contract) and simple ones (extracting, separating and populating the tool) to be performed. Organizations often waste money by using expensive resources to perform the basic tasks, or worse, low-level resources to perform the complex work incorrectly. Finding the right balance is best left to the experts who have the right understanding and resources to effectively perform horizontal and vertical arbitrage to get the job done. They can often do it faster, better and cheaper than the client can perform it internally.

Seen from another perspective, few tools do both contract and deliverables tracking well, and the translation from contract language into clearly defined deliverables and easily accessible reference material in the tool often leaves much to be desired. How well the tool performs this function is also related to how well the contract is understood and the tool is populated.

3. Implementing functionality not required in the short term adds cost. Not only does the company pay for software it will not use in the short term, but additional money is often spent on implementing elements that won't be used for some time, or that may even have to be redone at a later stage. If it distracts from the critical work, value leakage takes place, adding a hidden cost only discovered later during the term of the agreement. In addition, the implementations often require the service provider to perform undue additional engineering to feed the systems, which can add distraction at a key moment of integration.
4. Most outsourcing management tools have large and long-lasting licensing and maintenance fees. It is seldom necessary to make these long-term commitments upfront when only limited functionality will be used early on. There is a time to do this; however, it is after you get your hands around the entire set of processes. Only then will you be ready to reap the benefits from a comprehensive tool implementation.



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## **SO WHAT IS THE SOLUTION?**

There are several key areas to manage on Day One, including overall deliverables, timing, responsibilities, service levels, and contract interpretations. Too often, the focus is on service levels alone while the other non-service level obligations that are to be performed by both parties under the agreement receive little or no attention. The contract typically requires service providers to present service level reporting on a monthly basis, and, in general, organizations can manage this activity effectively and efficiently through readily available tools such as an Excel spreadsheet, during the initial period. Implementing the management rigor to govern the rest of the contract deliverables is much more difficult to figure out, and is typically not addressed by outsourcing management systems in the market today.

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In light of the gap in the tools market related to deliverables management and user-friendly searching capabilities, ISG has developed a simple solution for exactly this purpose. The ISG Contract Tracking Tool and integrated implementation services is a Microsoft Windows-based contract management solution that gets the job done. It is low in cost, low risk, and allows the client to remain focused on keeping control over the contract and its deliverables. The emphasis is on a management solution, not just a tool.

The ISG Contract Tracking Tool and associated services are based on the unique contract between the client and the service provider, which is the only type of tool that makes sense in complex outsourcing engagements. ISG also performs the repetitive tasks of customizing and populating the tool off-shore to maximize value to its clients. We focus only on what is important and allow the client in turn to keep its focus on the processes and relationships where its attention really counts. When the Contract Tracking Tool is customized and populated, we teach the client how to use and maintain it. Because the tool is based on Microsoft Excel and Outlook, the client's learning curve to use the tool is minimal.

The Contract Tracking Tool focuses on contract contents and deliverables tracking and performs four basic functions. The tool:

1. Facilitates detail word searches of the entire agreement including all its schedules and attachments.
2. Identifies, monitors and tracks the status of all client and service provider required contract deliverables.
3. Maintains a user-friendly contract deliverables calendar.
4. Provides a contract change history log.

### **ISG'S COST-EFFECTIVE TOOL AND SERVICE HELP YOU MANAGE YOUR OUTSOURCING RELATIONSHIP**

The most important knowledge a client can have in the early days of the relationship with the service provider is knowledge of the contract. Managers new to outsourcing are often put off by the size and complexity of an outsourcing contract, which can run to dozens of exhibits and thousands of pages. This solution brings the contract down to terms to which any business or subject matter expert in a client organization can relate.

In addition, the population of a Governance instance of Outlook will help the entire Sourcing Management & Governance team manage the daily, weekly, monthly and periodic deliverables that were included in the contract to ensure value and quality in the services. With the Contract Tracking Tool and the Outlook Governance calendar, nothing that was promised in the contract by either party will be forgotten.

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## ABOUT THE AUTHOR

### **OUTSOURCING MANAGEMENT**

#### **Using Contract Management and Performance Tools Effectively in Outsourcing Management**

Published January 3, 2003



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Tina has more than 25 years of experience helping global enterprises make smart IT outsourcing and governance decisions. Tina's team designs and implements Governance Managed Services and technology platform solutions to help companies reduce risk, cost and value leakage. Focus on business insights, advanced analytics and business outcomes uniquely enables ISG clients to achieve maximum value from their contracts and providers. Prior to ISG, Tina worked at Siemens IT Solutions and Services where she served as Vice President of the Financial Services sector and was responsible for a 600-person global sales and delivery team managing \$120 million in annual revenue.



## ABOUT ISG

**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](http://www.isg-one.com).

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