

## You Can Outsource Operations – Not Responsibility

One of the great challenges facing senior executives today is whether or not to outsource some of their business functions. The financial services sector was an early adopter of outsourcing in the US and UK and many institutions have outsourced their IT functions for years. In other sectors, such as telecommunications, outsourcing is in its infancy. In these sectors key questions are being asked about what functions should be outsourced; various criteria are used to inform these decisions – are these functions core? Are they critical? Whole industry norms are being challenged in the telecom industry with big players such as Hutchinson 3G outsourcing their IT Operations and Mobile Networks. Key players like Vodafone are reported to be in advanced negotiations to outsource their complete IT infrastructure.

Outsourcing in the telecom sector has raised one specific interesting regulatory issue. Licenses governing spectrum allocation in the mobile space usually stipulate that mobile operators must retain ‘functional control’ of their network. The telecom sector is highly regulated; network operators cannot evade this regulatory responsibility – it cannot be shifted to service providers. Indeed this issue raises interesting questions for the dominant outsourcing providers – no doubt some caution may need to be exercised in the future to ensure that the service providers serving these clients are not perceived to have de facto control of any network.

More broadly speaking all companies should retain strategic control over the direction of all outsourced functions. All aspects of your core business will have key dependencies on the functions you have outsourced – this means you need to be in a position to control the outsourced operation at a strategic, governance and operational level (up to and including termination where the outsource is no longer aligned to corporate strategy) This control can only be safely maintained through the establishment of a clear and structured Service Model. In this article I will focus on three of the core elements of the Outsourcing Service Model.

- A Strong Internal Service Management Team responsible for the day to day management of the Service Provider. (commonly referred to as the Internal Service Management Team or the ‘Retained Layer’)
- A specific and enforceable Service Level Agreement between you and your Outsourcing Service Provider.
- Ongoing review of the strategic business drivers for outsourcing.

Frequently companies spend so much time during the analysis, design and implementation phase of an outsourcing project that they neglect to dedicate time to the importance of ongoing management of the deal. It is only through consistent management of the service provider that the client organisation will retain a high level of understanding and expertise in the outsourced function. (This needs to be achieved whilst allowing the Service Provider to get on with managing the delivery of the service whilst the client focuses on the governance).

It is worth noting some of the high level differences which exist between managing an insourced Operation and an Outsourced Function. Fig 1.0 below illustrates some of the key differences.

Area	Insourced Operation	Outsourced Operation

<b>Service Management</b>	<i>Managing company employees to deliver a service through a combination of employee engagement, performance and career management.</i>	<i>Managing a supplier to deliver a contracted service through contract management, partner engagement and relationship management.</i>
<b>Performance management</b>	<i>Performance measurement is based on a combination of internal SLAs on end user satisfaction.</i>	<i>Performance measurement is based more on contractual SLAs and less on end user satisfaction - achievement of SLAs doesn't mean high levels of End User satisfaction and visa versa.</i>
<b>Stakeholder management</b>	<i>Business stakeholders can influence priorities on dynamic basis.</i>	<i>Business stakeholders may not be able to influence priorities as quickly.</i>
<b>Service planning</b>	<i>Business stakeholders that do plan tend to do so in an isolated way.</i>	<i>Planning and consolidation at a business level is key to maximising efficiencies and economies.</i>

## *Internal Service Management Team*

The Internal Service Management Team or Retained Layer consists of the people who own the relationship with the Outsourcing Provider. They are responsible for ensuring that the Service Provider delivers the service as contracted and more importantly that the service delivered meets the requirements of the end users. The kinds of issues the people on this team will deal with will include;

**Performance Management** – the Internal Service Management Team measure the performance of the Service Provider on an ongoing basis. Service Measures should be in place from day one to measure actual performance against promised performance. In addition the Retained Layer ought to take measures to regularly (at least once a year) benchmark the service levels they are receiving against the industry best practice.

**Supplier Management** – some aspects of service quality can be measured in SLAs or covered in a contract. However there is typically a significant amount not covered in contracts or SLAs. The way in which the supplier is managed and the relationship is established and maintained is key to ensuring that the non-contractual aspects of the outsourced service are delivered to a level of quality consistent with the harder contractual measures. This is possibly one of the biggest challenges facing the retained layer.

**Managing end users expectations** – In many cases the decision to outsource will necessitate the need to qualify level of service required (if SLAS have not already been established within the business), in an outsourced environment the level of service is directly linked to the cost of service – the impact of qualifying the SLAS or changing existing SLAs to reach a negotiated price with the outsourcing provider may be perceived negatively by end users after the outsource is implemented, the Internal Service Management team must be capable of managing the implementation of the changes and any negative perceptions of end users. End Users will not normally have high visibility of a change in the sourcing model (nor should they) – but they do have high visibility in any change to the level of service. Good outsourcing arrangements are predicated on a clear understanding by all stakeholders of the level of service which is expected.

"Our Service has deteriorated so badly since we outsourced to X"

Changes in level of service can cause real confusion when they are not communicated to end users. In one large company I have worked in there was a major outsourcing of all IT functions. The Business Driver for outsourcing was to reduce cost. This resulted in the client and the Outsourcing Provider agreeing to substantially reduced level of service than the companies' end users had been accustomed to. The reduced level of service was not clearly communicated to end users. The outsourcing arrangement was immediately perceived by end users to be inefficient and disorganised. For several years employee satisfaction survey indicated that poor IT support was a key demotivator for employees. From a corporate perspective the outsourcing arrangement actually delivered the overall objective of cost reduction – but poor end user communication had delivered it at some human cost.

### *Service Level Agreement:*

The Service Level Agreement is a key component of the Service Model. It is important to ensure that specific service levels are agreed between you and your service provider. Service levels should be as precise and as business relevant as possible – avoid ambiguity and use a small number of significant measures. Where possible try to ensure the numbers are baselined against accurate data of current and historic service volumetrics. Service Levels must be realistic – there must be confidence within the Service Provider and the Client that the targets will be achieved. Very often Service Providers are pushed into very aggressive service levels which are not realistic – avoid this if you want to be confident that you will get what you are promised.

"Why is my service provider always paying service penalties?"

Many outsourcing professionals are familiar with scenarios where Sourcing Providers are negotiated into agreeing service levels which they know are completely unrealistic. The short term satisfaction on the client side in having negotiated such a service level is quickly tempered by the realisation that the Service Provider has accepted it to 'win the deal'. They are commonly referred to as 'Salesman KPIs'. The Service Provider may have accepted that they will pay service penalties from day one. In this scenario the Service Level is unrealistic – the provider may even have factored this into their business case – and the client is left with a service which is incapable of delivering at the expected level. It is always worth remembering that an effective outsourcing relationship must deliver some benefits to both sides.

### *Business Driver alignment to Service Model*

It is important that the criteria against which you measure your service and your service provider are aligned to the reasons why you are outsourcing. These will change over time – it is important that you capture this change in your Service Model. A robust contract and service model will facilitate changes from time to time. In most cases a formal and rigorous process should be used to re-evaluate the reasons why you outsourced – ensure they are shared across the organisation – and then map them onto clear and discrete performance indicators.

"Remind me why we outsourced!"

The reasons why a company chose to Outsource initially may not necessarily still apply two or three years into a contract. It is key that the reasons ('value drivers') are formalised, agreed and endorsed by key stake holders and reviewed frequently after you have outsourced. Both the outsourcing arrangement and the client organisation need to be capable of realigning or fundamentally changing as the commercial landscape changes.

## *Final Words*

Sometimes when I am discussing service management issues with senior executives I get a sense that they just hoped that outsourcing would make a certain 'high maintenance' business function disappear! Outsourcing can certainly take the hassle of certain activities – it can allow you to focus on 'core' activity. However in order to ensure that this happens you need to put a framework in place to ensure that you are still in control – still responsible. A carefully designed and implemented Service Model will ensure that you remain in control of your business – you can feel that you are managing your responsibilities and focussing on your core business!

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