To ensure successful strategic IT outsourcing partnerships, keep these two elements in mind: plan to collaborate with service providers, instead of policing them; and base your partner selection criteria on lasting differentiating factors, and not on table-stake ones.

Traditionally, it was considered good practice to simply specify mutually agreed upon deliverables and metrics across a multi-year plan. If service providers met or exceeded the metrics, it was considered excellence. However, this approach is no longer adequate. Static terms and conditions cannot support rapidly changing requirements created by market dynamics and the evolving capability of IT as a value enabler. This explains why clients may see little evidence of business benefits or competitive advantage from its outsourcing arrangement. At best, cost reductions and efficiency improvements are minimal. On the other side of the fence, the outsourcer struggles to address moving business and performance targets, while trying to maintain profitability.

The failure of many outsourcing relationships could be attributed to three reasons: first, the initial approach to outsourcing is tactical rather than strategic; second, the scope of work is poorly or vaguely defined; and thirdly, the management of the contract is adversarial rather than cooperative.

One of the problems inherent in negotiations for any outsourcing arrangement is that costs tend to dominate the discussion, despite the fact that the original objectives may have been strategic in nature, such as the mitigation of risks, or value-add capabilities that client organisations want to obtain via outsourcing. Another related problem is that organisations may impose two contradicting objectives upon the service provider. For example, the client may seek to reduce IT operating costs, and to get access to state-of-the-art technology, both of which are mutually exclusive if the length of the contract is too short. Inevitably, the ensuing difficulties result in day-to-day operational fire-fighting taking precedence over the initial objective of enhancing IT value.

For organisations seeking a value-added strategic partnership, defining specific criteria or measures of business "value" can also be difficult. Clients can enter an agreement wrongly assuming that the service provider will take the lead in understanding and delivering IT value. In other cases, contracts are signed that are long on mutual statements of intent to identify and execute opportunities to enhance IT value, but short on specific work requirements.
Organisations that outsource also tend to abdicate their responsibility, and place the burden of delivery entirely on the service provider. At best, clients may allocate inadequate internal resources to project governance and vendor management, or, in extreme cases, may consider the outsourced IT function to be no longer part of the client organisation’s problem. As such, the relationship can quickly degenerate into an adversarial one, in which the client seeks to benefit at the expense of the service provider, resulting in an untenable “win-lose” relationship.

Starting off on the right foot

In the new collaborative model for outsourcing partnerships, the emphasis is on the role of IT to generate new opportunities and create competitive advantage, not merely a way to bring costs down. The ultimate proof of a successful outsourcing relationship lies in the ability of the service provider to constantly innovate to help the company achieve its goals.

The first rule of collaboration is: avoid static relationships at all costs. If goalposts have shifted due to business or environmental factors, it is pointless to punish a supplier for not meeting a metric that is no longer relevant. Given the pace of change in today’s business and technological landscape, what is essential today may be irrelevant six months from now. The trick is to build in mechanisms that allow the relationship to adapt to changes.

Organisations need to get the common theme of business value established right from the start, which typically involves a process that involves definition, validation, and creation of concrete metrics to be met by the service provider. This is not a casual exercise – it takes time and requires skilled assistance from professionals with expertise in multiple disciplines. An external consultant can be a worthwhile investment if experienced resources are not available internally.

In creating priorities, remember two main objectives: competitive advantage (both positive and negative) and cost savings. A steering committee comprising financial, marketing, and IT people from within the organisation, as well as representatives from the outsourcing partner should be used to test the results and the process. Ideally, this process should be repeated every six months. By periodically reevaluating the business drivers for IT, and weighing priorities, benefits, and costs, you and your outsourcing partner will be able to jointly map IT to the evolving needs of your business. The idea is not to make numerous sudden shifts in priority or direction, but to provide an efficient, mutually beneficial framework to adapt to change.
A collaborative partner will not be contracted to provide outsourcing services, but will also be expected to commit to risks and rewards based upon their ability to influence your IT business value. As a partner, you will want to share the ultimate goals of your organisation with the outsourcing provider rather than focusing only on narrow technical issues. This will enable the outsourcing supplier to leverage their experience and knowledge toward meeting your business requirements.

**Selecting the right business partner taking the road less travelled**

Much of the literature on partner selection covers criteria such as technical skills, vendor experience, service features, timely delivery, reputation, and price points. While all of these factors are important, these are hygiene factors – they are a necessary prerequisite for an outsourcing relationship, but do not significantly improve the chances of success.

In order to move beyond these table stake factors, it is essential that a certain level of trust be established, both ways. Many client stakeholders are typically involved in each outsourcing decision. Since lack of support from any single stakeholder has the potential to weaken the outsourcing relationship, a number of things can be done to help prevent this erosion. For instance, it is imperative that communications with all client stakeholders and the outsourcing team are regular and consistent, that all appropriate parties are included in the communications process, and information is shared between the relationship managers.

One of the challenges in every outsourcing relationship is in dealing with organisational hindsight, and business changes. In both cases, the client expects and deserves responsiveness; therefore, the service provider who can respond — or even anticipate — possible changes or additions and address them in the early stages will add value to the relationship. Still, unexpected developments or contingencies can be expected with surprising regularity, even in the best of relationships. When these challenges become points of contention, a natural reaction for each party is to build its own encampments — the service provider around the scope of work, and the client around the service level agreement. Neither of these knee-jerk reactions is particularly productive in solving these challenges. The more responsive and productive approach is for the service provider to help the client recognise possible changes in requirements in a timely fashion.
Finally, while many service providers claim to be technology innovators, the truth is problems are usually solved by a fairly finite set of tools, applied innovatively. The ability of a service provider to demonstrate innovation in its processes and procedures is one way to do this. Outsourcing usually means delivering highly customised solutions for very specific problems. Therefore, it is in the processes and procedures related to the solution where the most innovative, out-of-the-box thinking can provide the most value. Don't discount the value of innovative thinking, which can be a major discriminator in your selection and assessment of a service provider.

In the final analysis, perhaps the biggest challenge for any outsourcing relationship is the speed with which both the client’s business and technological environments change, rapidly (or slowly) rendering old methods or processes obsolete. The best way to keep on top of these changes is by engaging in regular communications with all stakeholders, and acting responsively based on current data and prior experience. The differentiators may turn out to be more important than you think.

*Our next article provides readers with a guide on building a robust Service Level Agreement, a comprehensive, and legally enforceable statement of deliverables expected of the service provider.*