Critical Success Factors for Outsourcing Relationships

Case studies of a wide range of outsourcing relationship issues reveal several critical success factors for ensuring good decisions and enduring, mutually beneficial relationships.

This Sourcing Spotlight focuses on various outsourcing relationships and critical success factors that enterprises and external service providers (ESPs) have identified as intrinsic to the success of outsourcing decisions and the ensuing relationships. These critical success factors fall into four broad categories:

1. **Sourcing strategy**: A comprehensive sourcing strategy that aligns business strategies with enabling IT strategies, and clearly defines the current state and desired state.

2. **ESP evaluation**: A structured ESP evaluation process that is used to choose the best provider for a specific engagement.

3. **Contracting and deal development**: A robust deal development process for creating contracts that drive mutual benefits for the enterprise and the ESP on an ongoing basis.

4. **Sourcing management**: A relationship governance model that is vigorous and capable of adapting to change as business conditions evolve.

**Sourcing Strategy**

In terms of sourcing strategy, service recipients repeatedly told us that the most successful outsourcing arrangements are based on deliberate presourcing activities. These activities are necessary, first, to make certain that business strategies are driving IT investment and, second, to ensure that the sourcing requirements of each IT service is analyzed in terms of how best to execute it. Sourcing decisions then will be anchored in knowledge of the cost and quality of the current environment, coupled with knowledge of the desired state. The ability of the existing resources to respond to the creation of the desired state, along with a knowledge of what is available in the marketplace, leads to the decision about when it is appropriate to use ESPs. In one of the case studies, a comprehensive sourcing strategy exercise caused an enterprise to postpone plans for outsourcing. The enterprise realized that it did not have sufficient knowledge of the current environment, and it failed to have an organization in place that was capable of supporting a successful outsourced relationship. This enterprise correctly refocused on implementing internal improvements.

**ESP Evaluation**

In terms of ESP evaluation, success requires more than a cursory review of an ESP’s capabilities and prior engagements. One case study is of an enterprise that initially outsourced commodity-type service activities. As business conditions changed, this enterprise needed to significantly transform the particular
service environment. However, the original ESP had been selected for its operational excellence, not its ability to transform service delivery. The enterprise, therefore, selected a new ESP. This case study not only revealed a sophisticated vendor-evaluation process, but the need to constantly realign sourcing relationships based on a living sourcing strategy.

**Contract and Deal Development**

Several of the case studies identified critical success factors related to contract structures. First and foremost, contracts must create the capability to measure the performance of an ESP against the defined requirements of the service recipient. This type of measurement provides empirical data for measuring the success of the relationship. Additionally, the contract must be capable of evolving over time. In one case, the scope, terms and conditions of the initial outsourced relationship were significantly redefined in response to changed business requirements. The enterprise’s business strategy had changed from being focused solely on cost control and predictability to an additional focus on how best to manage mergers and acquisitions. As the pace of business change in terms of expansion and contraction increases, this type of contract evolution will become more prevalent.

**Sourcing Management**

Some of the most-compelling critical success factors relate to how outsourcing relationships are governed. There is a direct correlation between the amount of care and nurture put into a relationship, and the overall success of that relationship. Enterprises that understand that outsourcing does not eliminate the need to manage the ESP are the most satisfied with their ongoing relationships. The more complex the relationship is in terms of breadth of services and reach within the enterprise, the more need there is for a robust internal management structure that can interact with the ESP on many levels.

By approaching every sourcing decision through a structured, disciplined process, with a clear understanding of the critical success factors, enterprises and service providers can successfully exploit outsourcing relationships.

**Features**

“Outsourcing: General Dynamics and CSC Adapt to Change” — Emphasizes the need to develop and manage a long-term business relationship. By Christopher Ambrose

“BOC’s Sourcing Strategy Led to a Decision to Insourse” — Describes how developing a sourcing strategy overturned a predisposition for outsourcing. By Ronan O’Mahony and Lisa Stone

“Fannie Mae’s Help Desk Outsourcing Experience” — Reinforces the need to select an ESP that understands how to work with an enterprise’s existing systems. By Richard Matlus

“Business Process Outsourcing Benefits BP and Accenture” — Illustrates the benefits of a robust governance structure and the need to evolve a sourcing relationship as business priorities change. By Lisa Stone

“Assessing the Performance of Full-Service Outsourcing” — Describes a third-party methodology for regularly assessing an outsourcing relationship to identify areas for improvement. By William Maurer

“Choosing Between Full-Service and Selective Outsourcing” — Provides advice on making the right decision, based on a predefined sourcing strategy. By Lorrie Scardino
“Infrastructure Support Services: An Offshore Success Story” — Illustrates the feasibility of successfully providing 24x7 remote support from India. **By Rita Terdiman**