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## Trends in Enterprise Management in a Multisourced Environment

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### CONTENTS

2. Introduction
3. The Types of Multisourced Environments
3. The Outsourcing Center of Excellence
4. Develop an Enterprise Governance Approach to Managing Service Providers
4. Develop a Corporate Approach to the Outsourcing Life Cycle
4. Develop and Publish a Policy that Requires the Corporation to Adhere to the Outsourcing Life Cycle
5. Develop and Publish Standards that Support the Policy
5. Develop and Publish Guidelines and Processes that Support the Sourcing Life Cycle and Standards
5. Train the Organization on Skills and Best-Practice Processes
6. The OCoE Development Continuum
6. Risk and Compliance
7. Conclusion: Benefits of an Enterprise Approach



## INTRODUCTION

Managing service providers in a multisourced environment has many of the same problems as managing a single service provider. For example, the client must manage service delivery, cost, risk, contract compliance and stakeholder satisfaction at a minimum. However, with multiple service providers these objectives are often approached in different ways by different business units or management teams and very often to different degrees of maturity and success. The management problems (and potential for value leakage) multiply when service providers have dependencies on each other, or when business units are ordering new services without fully understanding the business aspects of the services contracts.

As sourcing services mature across all industries, leading organizations are finding value in building capability to perform service management and governance practices in a common way, by creating an Outsourcing Center of Excellence (OCoE) or similar outsourcing program management function. The objectives of OCoEs typically are to standardize the outsourcing management process, control internal management costs, address corporate risk appropriately, and assure that both metrics and financial results of the sourcing activity are performed in a common way and periodically reported in a holistic manner to the executive. Furthermore, a centralized view of a single service provider supporting multiple business units will ensure maximum leverage of the commercial terms in place while at the same time avoiding duplication of cost where multiple provider management activities are being undertaken. Based on the prevalence of this approach, we believe it represents a best practice.

The success of an OCoE is tied to three key components: 1) executive sponsorship; 2) alliance with corporate culture; and 3) realistic objectives for the OCoE. As companies move through the development of their OCoEs and increase in their sourcing maturity, all of these factors come into play. TPI has observed common elements to approaching OCoEs, which are the subject of this paper. While it may be premature to say that these approaches are a best practice, they are consistent with standard practices in corporate governance and compliance, and, therefore, represent an acceptable starting point.



**Outsourcing Center of Excellence  
Key Success Factors**

We have also observed that OCoEs often must adjust their approaches as they face resistance to change from the various internal business units and organizations that are engaged in sourcing, and that demonstrated flexibility by OCoEs is a critical component to middle-term success.



## THE TYPES OF MULTISOURCED ENVIRONMENTS

There are three types of multisourcing. First, a business unit or company may have relationships with multiple service providers. Second, a business unit or company may have the foresight to have common terms for multiple agreements with the same or multiple providers. The third type is a single company with multiple business units who have multiple providers.

Single business units often have multiple service providers and may find themselves with very different terms for each of their sourcing relationships. In some cases, entirely different departments manage the relationships resulting in situations of inconsistently managed relationships and lost efficiencies because of the duplication of internal processes for each relationship.

If a company or business unit starts its outsourcing process knowing there will be multiple providers, it is possible to build fundamentally common processes using common contract documents – TPI has observed this in a number of engagements. This allows the company to build the required governance and inter-company cooperation into the agreement through both incentives and penalties. We have seen situations where a service provider “marketplace” is created from providers who offer substantially similar services, from which business units may select providers for specific projects or ongoing services. However, without policies, procedures and the attendant accountability, the management of the service provider is often not executed appropriately.

Most often, the enterprise has not coordinated the outsourcing strategy, and both delivery management and integration (when required) must be achieved through internal management structures, which

increase the service management and governance complexity.

In any of these situations, the development and implementation of a common strategy is critical to sourcing success for large organizations and will assure satisfaction with both the services and the savings.

## THE OUTSOURCING CENTER OF EXCELLENCE

TPI notes that OCoEs are usually chartered by top corporate executives as attempts to introduce standardized management and reporting (both performance practices across their enterprises (in both national and global scope situations). These organizations, typically called names such as Enterprise Sourcing Office or Global Vendor Management Office, build expertise for the organization, generally in the overall sourcing lifecycle not simply in the post-contract management practice. However, TPI has seen some that only focus on post-contract management and at least one OCoE with a strict contract management focus. These OCoE organizations report to their CEOs on a monthly basis, typically on overall organizational financial performance of the outsourcing engagements in their scopes. Though each may express their charters somewhat differently, the steps below outline the approach to the development of OCoEs in general.

An OCoE has a greater chance of success if the stakeholders (i.e., the outsourcing executives on the various engagements) have at least some input into the development of the charter and scope of the OCoE’s responsibilities. Not only does this create early buy-in but also is a means to address stakeholder dissatisfaction as the maturity of the management process increases.



## **Develop an Enterprise Governance Approach to Managing Service Providers**

When there are multiple service providers in place, typically they are all managed to different sets of metrics. Once formed, one of OCoE organization's first tasks is to establish common reporting metrics, for the business units to deliver at either a monthly or quarterly enterprise governance meeting. These meetings are held in two parts: a single service provider meeting and a combined service provider meeting at which all the service providers who work together or in the same functional marketplace must report together.

This allows the OCoE to both review metrics and to understand integration issues – intervening if there are problems. The approach also initially avoids the confrontation of enforcing a specific process approach in the early stages of the OCoE life, while establishing the OCoE's role in reporting and governance.

TPI has noted that more mature companies are comparing the performance of the service providers in their environment on a regular basis across services and functions and are rating them in relation to each other. Mature companies are also looking regularly at their own capability in managing the multi-sourcing, in areas such as performing internal reporting on time, control over issues and disputes, and how well the OCoE understands what is going on in the environment.

In addition, TPI has observed some OCoE groups developing regularly scheduled stakeholder governance meetings. These meetings are attended by the leads for the various outsourced services. The OCoE uses the meetings to present new ideas, technologies, and options for common outsourcing management practices. The meetings are also a forum for

the stakeholders to provide feedback to the OCoE on policies, standards, processes and lifecycle issues.

## **Develop a Corporate Approach to the Outsourcing Life Cycle**

The outsourcing lifecycle starts with the strategy development, then continues with the functional and financial analysis, development of an RFI/RFP, publication of an RFP, evaluation and selection of a service provider, transition and transformation to the new services delivery model, and the disciplines around managing the services. Some companies also are developing strategies for termination and changing service providers.

OCoEs are generally looking at the whole sourcing lifecycle, and are looking for industry standards such as Carnegie Mellon's eSCM-CL model as a potential roadmap to develop this lifecycle internally. They are seeking to select an "industry standard" way to manage their outsourcing lifecycle that represents demonstrated industry best practice. It is sometimes difficult for organizations to accept that this is a frontier area in business management practice, and companies must both investigate the options as well as trust their instincts as management professionals, as they construct an OCoE.

## **Develop and Publish a Policy that Requires the Corporation to Adhere to the Outsourcing Life Cycle**

Most policies TPI has seen are focused on managing operational and asset risk and risk of failure to meet requirements of regulatory agencies because of the outsourcing. These policies direct employees to follow the defined corporate sourcing lifecycle and standards in order to mitigate that risk.



## **Develop and Publish Standards that Support the Policy**

In each component of the outsourcing lifecycle, there are activities and responsibilities that must be executed, which are identified in the standards. For example, during the selection part of the lifecycle, an example of a standard might be that the corporate security department signs off on any proposal for services to assure that security will not be breached. During the outsourcing management part of the lifecycle, it might be that services must be managed to assure they are delivered according to the terms of the agreement.

Typically, standards should contain both the requirement and the effect of not adhering to the standard; however, this is an area in which developing the relationship with the business units may be more important than establishing hard rules. Organizations commonly are starting with standards that do not carry penalties for non-conformance initially, with the plan to increase the enforcement obligation as the organization matures.

## **Develop and Publish Guidelines and Processes that Support the Sourcing Life Cycle and Standards**

This often is where the political lines are drawn between the enterprise function and the business units. An enterprise function may issue guidelines for various things, but it may be difficult for that group to issue process documents that require a specified approach to executing processes under the standards, particularly when a sourcing engagement is a few years old.

## **Train the Organization on Skills and Best-Practice Processes**

In all sourcing situations, the ability to increase maturity in service management is tied to training the teams in the expected processes and objectives. This is often neglected in the early days of an engagement. However, training will provide team members with an understanding of the company's expectation of their roles, and will increase overall sourcing maturity at any point in the lifecycle.

We have seen situations in which the organization has felt that the OCoE has overreached the boundaries of influence with these strategic structures and have had to step back temporarily. In one such case, the company decided to develop training in all the areas of the standards, using education of the business unit outsourcing managers to bring consensus. This tactic has had some success, though matching the training to the maturity of the various business units has presented challenges.

TPI advises against allowing business units to design their own processes, since a different process to manage each engagement increases the risk of value leakage. However, the political landscape will sometimes not permit the enterprise group to provide more directive instruction to them. As organizations mature in their outsourcing management capabilities, this may change over time.



## THE OCoE DEVELOPMENT CONTINUUM

Companies that build OCoE functions typically expect to see results immediately, but they instead find that making this level of organizational change challenging. This points to the importance of an alliance between the corporate culture and realistic objectives for the OCoE. For example, companies that have grown by acquisition without completely integrating acquired business units will find it more difficult to direct behavior in those business units and, as a result, need to adjust their expectations toward the influencing end of the continuum accordingly. However, companies with a strong management culture may be more directive in requiring compliance with processes, standards and reporting.

TPI has seen some OCoE groups start with influencing as an objective but back the influencing approach with simple reporting requirements. The fear of being exposed at the executive level for not reporting will drive less cooperative business units to engage, simply to avoid exposure at the executive level. In other cases, business units see reporting metrics to the OCoE as busy work and bureaucratic; nevertheless, the OCoE finds ways to influence through offering training to the business units' teams.

There is no one way to achieve the objectives, and, it is critical that the OCoE and executives take a middle-term view, not expecting that simply because the OCoE exists management practices will change overnight.

The continued visible engagement of the CEO in supporting the OCoE will ensure that progress will be made eventually, as it provides an escalation path in the event that management change is not occurring according to the OCoE plan.

## RISK AND COMPLIANCE

We have seen some OCoE organizations leave the policies for risk and regulatory compliance to the corporate risk and compliance departments, referencing them in the standards and processes. Policing of compliance is typically relegated to the risk and compliance offices, which may be politically expedient.

TPI has noted that when the risk and compliance groups sit on monthly board meetings of the OCoE stakeholders, it may result in immediate action in situations in which business units are not in compliance. This relieves the pressure on the OCoE to enforce corporate policies yet assures the connection with the risk and compliance groups that otherwise might not occur in daily business operations.

In very large organizations, particularly in the financial services industry, this requires a strong relationship with the risk and compliance departments, which the OCoE would be well advised to maintain.



## CONCLUSION: BENEFITS OF AN ENTERPRISE APPROACH

As the practice of managing outsourced services matures, TPI expects to see more development of OCoEs. It is clear from the experiences we have seen that companies may not get to an optimal state of aligned management overnight, but persistence, resourcefulness and willingness to adjust the approach, is showing benefits. Companies that may introduce more standardization in their internal approach are able to save significantly on costs, both of the internal management and in more effectively managing the services being provided to them, as well as improving their ability to manage corporate risk.

## LOOKING FOR A STRATEGIC PARTNER?

TPI's Service Management & Governance experts can help you achieve your organizational goals through objective advice, knowledge of your industry and experience with complex arrangements.

Looking for a strategic partner? Contact **Cynthia Batty**, Director, TPI, at **+1 201 978 0542** or **[cynthia.batty@tpi.net](mailto:cynthia.batty@tpi.net)**.

### **ABOUT THE AUTHOR:**

Cynthia Batty advises clients on SM&G aspects of their IT and business process services. She offers expertise in service management, contract administration, financial management, evaluation of confidential back-office processes, shared services center management, performance management strategy, process development to operationalize agreements with service providers, relationship management and transition management. Cynthia's knowledge derives from practical experience in the implementation of major change management projects. Additionally, she is adept at assessing a multitude of business factors to assist clients in formulating and implementing service transition and delivery strategies.

Immediately prior to joining TPI, Cynthia was the Vice President of Operational Systems with Simon & Schuster and led a project to identify a new, full-service IT outsource service provider. Cynthia is a PMI-certified Project Management Professional.

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