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Trends in Outsourcing Governance: Unlocking the Full Value of Your Outsourcing Relationships Through Better Governance

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INTRODUCTION

Outsourcing governance is the business of ensuring that all of the potential value of an outsourcing contract is actually achieved. During our years of helping companies maximize the value of their outsourcing contracts, ISG has identified five key observations related to the mission-critical governance function.

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HARVESTING VALUE

Outsourcing governance is still maturing, and companies continue to have significant difficulty harvesting the value from their contracts. Outsourcing as an industry is mature, yet clients worldwide are still struggling to effectively manage their outsourcing agreements. In a study of companies that had recently outsourced to multiple service providers, 84 percent of respondents stated that they did not have what they would consider to be a mature governance model (*Financial Times*, July 2009). Additional research by the International Association of Outsourcing Professionals (IAOP) found that ". . . 63 percent of companies surveyed believe they lose an average of 25 percent of contract value due to poor governance." And ISG's own research indicates that between 5 and 30 percent of the expected value of outsourcing transactions is lost through ineffective governance. In a typical outsourcing agreement, this equates to lost value of approximately US$600,000 per year for every US$10 million in annual contract value under management.

PLANNING AND DESIGN

Implementing an outsourcing governance organization takes time, and the first 18 months of any outsourcing agreement is critical. Given that reality, early and comprehensive governance planning and design is critical to long-term success. Without an effective outsourcing governance group in place early to guide the relationship, value leakage is inevitable. Most companies begin this process too late, thus compromising their ability to manage the contract in those critical first few months.

THIRD-GENERATION GOVERNANCE

Successful outsourcing requires more than evaluating service provider performance — hence the move to third-generation governance. In the early days of outsourcing governance, clients limited their activities to reviewing service-level data generated by the service provider and checking their invoices for accuracy. Today's best-run outsourcing governance groups understand the interdependencies between all of the governance processes across four key disciplines: performance, financial, contract and relationship management. They constantly measure the effectiveness of these key governance processes and identify opportunities for continuous improvement.

CREATING EFFICIENCY

Separating decision-making and relationship activities from supporting governance tasks unlocks new levels of efficiency. As is the case with most back-office functions, there are aspects of outsourcing governance that can be performed by a third party more effectively and efficiently than can be accomplished in-house. ISG advocates that clients never abdicate

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responsibility for decision-making and that they should maintain the relationship with their service providers. However, there are many support functions that can be considered for outsourcing (i.e., performance analysis, invoice verification and contract administration [including management of the governance library). ISG is delivering these services to clients today through a combination of onsite and offshore support models.

TECHNOLOGY ENABLEMENT

Technology enablement is becoming a necessity for efficient outsourcing governance. What started out as a desire for a set of executive dashboards summarizing performance and financial data has evolved into a need for higher-order management tools. Today's outsourcing governance organizations require integrated tools that go beyond dashboards to provide detailed reporting capabilities, automated workflows for key governance processes, automated data feeds from service providers and a comprehensive governance library.

CONCLUSION

Although many aspects of the outsourcing industry are quite mature, the ability of clients to effectively manage their service provider relationships remains — for many reasons — an area where significant opportunity exists to reduce value leakage and to maximize beneficial results.

Technology enablement is a necessity for efficient outsourcing governance.

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Published February 8, 2013

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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.

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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**.

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