

The Key Processes Which Lead To A Contract For Outsourcing Services

This series of short articles, which address a wide spectrum of ITC (Information Technology and Communications) related outsourcing activities, is grounded in an initial definition and an outline of the scope and more usual rationale underpinning its adoption and use. (Refer 'contributions to date' <http://1stadvisory.com/Tips-Challenges.html>). Any decision to outsource needs to be tempered with the recognition of problems and challenges that are all too often associated with such an initiative.

A first key consideration is to determine if an outsourcing vehicle is right for the business involved; questioning specifically if it has:

- ❑ Stable growth – not too chaotic- which can give outsourcing a better chance of working.
- ❑ A situation of being 'in the ditch' and in need of drastic measures, when outsourcing can add value.
- ❑ High growth, organic and/or dynamic, which typically renders outsourcing less logistically attractive.

A survey on User satisfaction with outsourcing services carried out in 2007 established that "... only 37% of clients expressed satisfaction with outsourcing arrangements" (Orbis Survey 2006). In the interim and based on several similar surveys, the level of User satisfaction with Provider outsourcing services across a diverse spectrum of agreements continues to disappoint. This phenomenon is spectacularly illustrated recently (May, 2011) with the reported suspension of CSC's (Computer Sciences Corporation) contract to implement a patients records system for the UK NHS (National Health Service) - an event that resulted in a drop in the market valuation of CSC's shares- refer : http://www.theregister.co.uk/2011/05/12/csc_suspended. Further illustrating the risks involved for User and Provider of outsourcing alike, Accenture some years previous had been exited from the same project.

Against such a backdrop of failure and disappointment, a decision to outsource can clearly have potentially serious, sometimes critical, implications for the parties involved. It is therefore very important to generate enterprise stakeholder awareness and adopt a rigorous and comprehensive approach to the activities involved in order to facilitate achieving desired, viable and effective outcomes to an outsourcing initiative.

Such an approach invariably involves the following key phases:

- ❑ Preparation and issuance of a 'Request for Proposal' or 'Invitation to Tender' (RFP/ITT) to appropriately qualified outsourcing Service Provider/s.
- ❑ As appropriate, the undertaking of 'Due Diligence' by and as applicable, of selected Service Provider/s.
- ❑ Service Provider/s final selection and contracting or alternatively, the restructure/refinement or abandonment of the undertaking.

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Examples of the activities typically undertaken within the above phases are:

RFP/ITT – issued to selected Service Provider/s

- ❑ Main purpose is to define the User's requirements formally and as accurately as possible.
- ❑ Description should feature scope, subject matter, responsibilities, limitations and constraints.
- ❑ Document can be referred to in contracts or legal dispute so generalizations and superlatives should be avoided/ kept to a minimum.
- ❑ Should be structured to facilitate easy comparison/ benchmarking of the responses of selected Service Providers.

DUE DILIGENCE - to identify facts and pitfalls

A User needs to be satisfied about the suitability and capability of any selected Service Providers. In particular: track record/s, performance with similar procurements, quality of staff, processes and facilities, and especially account management practices and personnel should be checked.

More usually, once selected and as a prerequisite to contracting, Service Provider's insist on carrying out a comprehensive due diligence review of their prospective client. While the process involved can be demanding for both parties it can be mutually beneficial too in terms of the information and insights generated by checks such as the following:

- ❑ Business, Management and structural review.
- ❑ Past and forecast capital and operational accounts, and budgets reflective of the subject matter to be outsourced.
- ❑ Details of any staff to be transitioned including skill-sets, contracts, pensions.
- ❑ Transitioning assets including valuations/depreciation, and obsolescence.
- ❑ Current versus required service levels.
- ❑ Incumbent Service Providers, contractual inhibitors, and assignment limitations.
- ❑ Any hidden contingent liabilities, e.g. IPR (Intellectual Property Rights).

For his part, pre and post contract, the prospective User must understand the level of governance (people and processes) that will be put in place:

- ❑ The Provider must ensure that the information collected during due diligence is available to the transition activity to run and maintain teams.
- ❑ Discovery questionnaires must be supplements to the due diligence process.
- ❑ Security and user provisioning must be high on the agenda.

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SERVICE PROVIDER FINAL SELECTION AND CONTRACTING

Service Provider final selection is contingent on whoever best meets the deliverable, pricing and quality levels required by the User. It is usually followed by the pre-contractual definition of:

- ❑ Detailed deliverables, performance metrics and responsibilities.
- ❑ General transition methodology/handling.
- ❑ Details of staff, unions, and exceptional rights.
- ❑ Cost, investment, cash, and pricing metrics.
- ❑ Contractual context including definitions, timings, penalties, rights, baselines, and exits.
- ❑ Details of project/account management and collaborative arrangements between Provider and User, escalation procedures and reporting.

Pre and post contract, the prospective User must understand the level of governance (people and processes) that will be put in place, for example:

- ❑ Who will do what and when?
- ❑ What do the SLA's (Service Level Agreements) look like and how are they managed and reported on
- ❑ Possible penalties for missing SLA's.

In addition, a communications plan needs to be part of transition planning covering:

- ❑ How will the Provider communicate with the client?
- ❑ How will the User communicate with the other stakeholders?
- ❑ How will the team communicate with itself!

Last but not least, the use of global or local virtual teams must be scrutinized to avoid:

- ❑ Possible mismanagement of this function which could cause a transition to fail.
- ❑ Not getting people together early on in the process.

The foregoing is a high-level description of the processes involved leading up to the drafting and finalization of a contract to outsource. The process of 'due diligence' in particular, can be wide in scope and involve considerable detail sometimes to a level not too dissimilar from that characterizing enterprise mergers and acquisitions.

The next article in this series about outsourcing will consider some of the 'people issues' involved, and the critical 'dos' and 'don'ts' of contracting with outsourcing Service Providers.