

Improving IT service outsourcing experience: A new Governance paradigm

Business Situation

A regional utility company with 10,000 employees was ending a first time IT infrastructure outsourcing contract with a well-known, sizeable India-based outsourcer. After multiple years, the client was disappointed with what they considered the ineffectiveness of the ISG-recommended third generation governance structure* in the existing outsourcing contract.

We believe, and we would like you to believe that traditional outsourcing governance thinking needs to transform fundamentally, not incrementally, as it has for so many years.

XLACollab consultants assisted in the outsourcing contract rebid process. In addition to creating several Experience Level Agreements (XLA**) for the new IT Infrastructure outsourcing contract, **a new Experience Governance paradigm was developed.**

This case study describes what we did, how we did it, and the results obtained.

“During the first generation, governance was focused around measuring the service providers' cost and performance alone. During the second generation, companies focused on improving isolated elements of internal governance. The third generation, however, takes a holistic view of outsourcing governance and also optimizes the governance processes end-to-end. It is built on four pillars: governance expertise, strong processes, integrated technology and flexible resourcing options.”

~ Claude Marais, Partner and Managing Director, Governance Services, TPI

* Source: <https://isg-one.com/articles/a-new-generation-of-outsourcing-governance>

** Note: “XLA” is a registered trademark of Giarte. All rights reserved.

The Experience Governance Journey Taken

The client's executive team believed that experience was to be a vital component of a new outsourcing relationship. Crucially, the IT executives and senior IT management established that managing experience would be essential to a new successful outsourcing relationship. They demanded a new approach to governance via experience with mutual collaboration, trust, respect, and openness as the pillars. We listened to the challenges and frustrations from the IT vendor management leaders regarding the lack of effectiveness of the financial penalties as the only means to control the supplier's performance.

It is not possible to offset poor customer experience with technical measures, reams of technical reports, or process and procedures. Our **Experience Governance** model achieves three new core objectives:

1. Establish a valued business and employee experience with IT services delivered,
2. Create a long-term, viable IT services capability, and,
3. Create an innovation capability that ensures the viability of IT services in the future.

The goal is not to just create an effective and efficient IT infrastructure, but to ensure that the IT organization provides services that the community values. **Experience Governance** underpins a unified IT experience delivery strategy. When IT works in unison (including all suppliers), all the different technical specialist teams and suppliers work together. They do this to create a valuable and seamless experience for employees, businesses, and customers.

What We Did: Existing Governance

We started with a thorough analysis of the of the existing contract to identify possible causes behind the governance ineffectiveness and areas for future experience improvements.

The **original contract Governance** had nine traditional governance committees variously meeting on a defined daily, weekly, monthly, quarterly or yearly basis:

- **Executive Steering Committee**
- **Management Committee**
- **Service Delivery Committee**
- **Technical Steering Committee**
- **Innovation Committee**
- **Finance and Contract Committee**
- **Compliance, Audit and Risk Committee**
- **Enterprise Security Management Committee**
- **Joint Technology and Architecture Update Meeting**

In reality, we found that most of these committees were ineffective simply because they never met. When committees did meet, they focused on the "tactical issue du jour" rather than their pre-defined responsibilities. As in so many outsourcing governance model implementations, discussions of technical reports subsumed the original strategic or tactical intent. Cat and mouse games dominated the dialogue. Each side chose to focus on either finding or rationalizing poor performance. The original purpose of teaming to provide excellent service was lost.

IT Vendor Managers lamented that the agreed financial penalties for resolving sustained noncompliant technical performance were simply not paid. This reality impeded the ability of governance committees to resolve issues. Repeatedly, supplier promises to address performance failures didn't lead to meaningful improvement. Strict contractual KPI focus contributed to an atmosphere of adversarial attitudes. This tension further reduced the effectiveness of the implemented governance structure.

What We Did: New Experience Governance

The **Experience Governance** paradigm we designed is a collaborative, dialogue-based model. Measurements and procedures are necessarily supportive and secondary to creating a collective commitment to deliver a valued experience to all consumers of IT services.

We introduced three discussion forums to govern the experience and relationships. The overall success of the outsourcing relationship is measured, discussed, and decided in these three forums:

1. The **Business Experience Alignment** forum looking back and looking forward to all business matters, a true-up of prevailing sentiment, and a review of the gap between actual experience vs. ambition.
2. The **Business Viability Alignment** forum reviewing contract performance, operational and financial performance, employee experience and IT's experience with the supplier and additional direction to technical teams.
3. The **Innovation Alignment** forum reviews all three flavors of innovation, including typical continuous service improvements, improvements via new ways of working, and, most importantly, disruptive changes to enhance the mutual business experience.

In addition to experience management, technical delivery details must also be regularly and systematically managed. To guarantee appropriate operational governance, we reinstated three committees from the former contract.

The new **Experience Governance** meetings on a defined daily, weekly, monthly, quarterly or yearly basis became:

- **Business Experience Alignment** (new)
- **Business Viability Alignment** (new)
- **Innovation Alignment** (new)
- **Service Delivery Committee** (retained)
- **Compliance, Audit, and Risk Committee** (retained)
- **Enterprise Security Management Committee** (retained)

Continuum of Consequences

The client agreed to move the outsourcing relationship away from adversarial and using financial penalties as the primary means of correcting delivery deficiencies. The **Experience Governance** solution to accomplish this (while fostering collaboration, trust, respect, and openness) is the notion of the Continuum of Consequences. This concept entails several ways to either **reward** positive delivery results and experiences or **correct** adverse outcomes and experiences.

A "Doing Great" continuum can include:

- Meaningful team or individual recognition
- Reduction of imposed controls (e.g., fewer meetings, fewer reports)
- Monetary considerations (e.g., penalty abatement)
- Sole-source award of projects or additional services
- References or other business development assistance
- Contract extensions
- Additional services business awarded

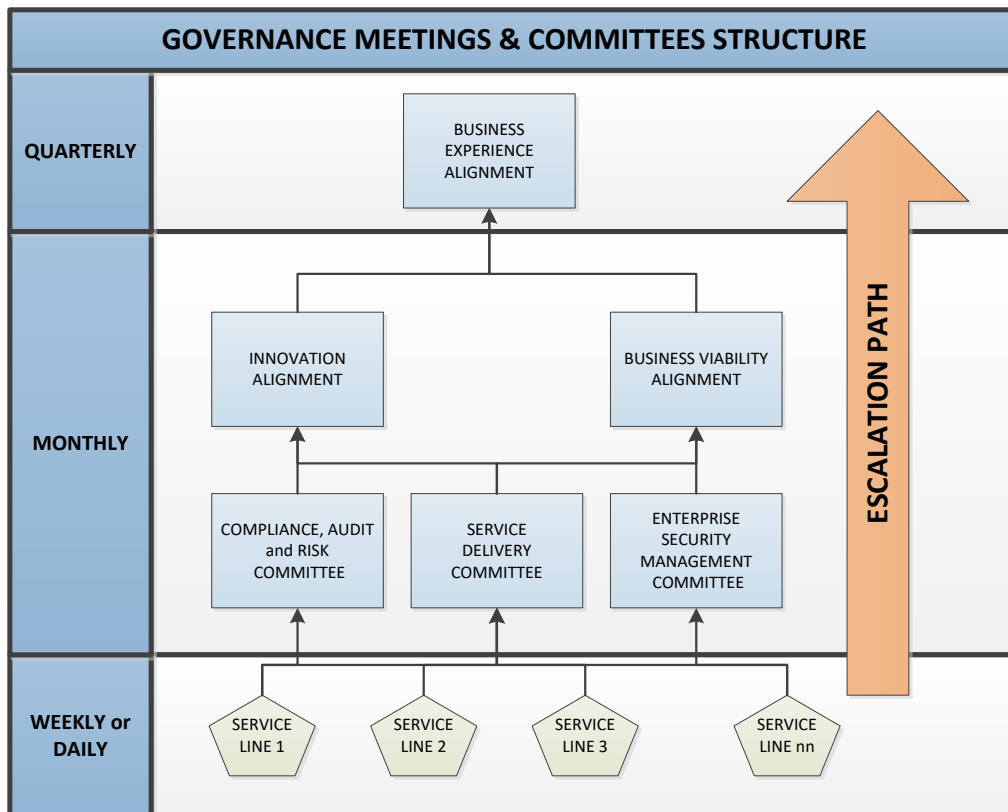
A "Not Doing So Well" continuum can include:

- Additional and frequent meetings and reporting
- Performance improvement plans
- Financial penalties (traditionally an SLA consequence)
- Escalation to executive management (arbitration)
- Notice of potential descope
- Descope of recurring failing services
- Termination (traditionally also an SLA consequence)

Just as XLAs do not replace SLAs, effective **Experience Governance** requires a balance between sticks and carrots.

The Results

The following diagram illustrates the **Experience Governance** model successfully implemented with information flow and committee relationships indicated.



Conclusion

A governance structure more suited to experience requires creativity and a focus on the desired outcome. That outcome is usually a better, sustainable experience for the employees and customers. It is undoubtedly a cultural journey that requires executive commitment. This commitment isn't just ambition and sponsorship; it is also creating a realistic balance between ambition and delivery, between culture and technology, between carrots and sticks. It requires a shared commitment to desired outcomes where each side contributes equally. Experience management is about dialogue, respect, and commitment. Who wouldn't prefer that over traditional outsourcing relationships?

If you would like to explore ways of creating a new generation of enjoyable sourcing agreements, contact the authors of this case study: Bill Barrett and Alan Nance.



Bill Barrett is Managing Partner, Experience Transformation Architect at XLACollab. Leading a global campaign to change the way (out)sourcing looks, feels and is experienced by enterprise customers. Bringing over 25 years of in-depth, hands-on leadership transforming IT delivery across the world places me in a perfect position to help senior executives transform to make the IT Service delivery and outsourcing experience effective, successful and enjoyable.

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Alan Nance is Founder and Managing Partner at XLACollab. With extensive experience of over \$9 billion of sourcing agreements, both on the sell side as well as the buy-side. This helps him to bring together parties on both sides of a sourcing arrangement to strike the best mutually beneficial deals. His focus is on the Art and Science of Experience. Assisting organizations to evolve from traditional arrangements based on SLAs and KPIs to innovative outcome-based mechanisms built on XLAs (Experience Level Agreements).

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