

IT Relationship Governance

The Relationship between the Enterprise IT Client and its IT Service Provider is vastly impacted by the level of governance and the relationship maturity of the engagement.

If the transparency between the process and the status of engagement is lost, the accuracy of data regarding service baseline and status of each service provided is affected, and hence the trust between the partners is lost. Lack of visibility and the manual processes for governing the service provider have proven to be extremely costly.

Lack of Relationship Governance can lead to 4 Major Issues:

Capacity Leakage

Outsourcing Contracts are generally based on the number of resources and hours billed; be it onsite / offshore; as well as rates billed on the hourly basis. No visibility into these areas means that service providers might overcharge enterprise IT customers for their services. Apart from this, there might be resources being fully paid for, but being under-utilized, leading to capacity leakage.

Sometimes, the service provider may even undercharge initially for non-utilized resources. Though undercharging may not seem bad at first – but when the problems are eventually found it will mean a billing surprise that is much harder to deal with than an accurate bill from the beginning.

Misclassified Cost Centers

In our experience, the new customers that we dealt with had billing errors amounting to almost \$650,000 resulting due to inaccuracies reported due to misclassified resources and projects into their particular cost centers.

This becomes a problem during end-of-year (EOY) Spend Analysis, as the figures reported in this fiscal are used to estimate budgets for the next year. Misclassifying Cost Centers can hence lead to bad budgets and forecasts, thus affecting your actionable decisions.

Compliance Risk

Most IT Outsourcing Contracts include Service Level Agreements (SLA's) and Key Performance Indicators (KPI's) on which the service provider's performance gets measured. Because of sheer volume of work and short & strict timelines, there is always a risk that these SLA's and KPI's get sidetracked and not measured like they should be. As a result of this, there can be multiple breaches of security due to things as small as anti-virus not updated or lack of firewalls for information security.

For the vendor, these things if not tracked properly can cause losses of thousands of dollars because of penalties and fines. On the Enterprise Client side, the costs add up when Audit check surrounding the outsourcing engagement fails.

A Relationship Governance team can help both the partners to mitigate that risk by regularly monitoring and measuring SLA's and KPI's and making sure that the vendor keeps adhering to the deliverables that was signed off in the contract.

Poor Operational Performance

The yearly budget for an Outsourcing engagement usually runs into millions of dollars. One of the core purposes of this IT spend is to streamline operational performance. If the success of the relationship cannot be tracked, then it cannot be improved.

Without having a dedicated team of professionals working continuously to improve and streamline operational performance by governing the outsourcing engagement, it will always be difficult to answer "whether we could have done better with our relationship". The ROI on IT has to be tracked continuously, and the Relationship Governance team helps you to track and measure how your spend is measuring against the ROI.

Conclusion

The conclusion from above and various other such situations make a strong business case for having a Relationship Governance Team in place for managing the outsourcing engagement between the Enterprise IT Client and the IT Service Provider. In a standard outsourcing engagement, the service provider always wants to protect its own interests and can use different standards to report different entities to make sure they are remunerated accordingly for the engaged services.

If the Enterprise Client wants to avoid overpaying for the resources team, it should proactively engage the vendor into Relationship Governance, and make sure that the vendor reports the metrics in a single standard and accurate way. There needs to be increased visibility between the partners for the outsourcing engagement to be successful and profitable to both the parties.

About Sourcing Gurus

We are an India-based, boutique Advisory firm offering end to end consulting for IT, BPO and Infrastructure Outsourcing initiatives. We bring insight, objectivity and local knowledge to enhance results for successful outsourcing initiatives. Sourcing Gurus supports Organizations through the complex layers of decisions and engagements with Vendors, helping to put their plans into action and deliver results.

Sourcing Gurus also provides companies with the processes, tools and technology necessary to build world-class vendor management capabilities through our [Relationship Management Scorecard Tool](#).

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