

Managing relationship equilibrium in outsourcing

HP's relationship governance model and methodology



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Governance is the holistic way HP engages in and operates within an outsourcing engagement—and it is the key to relationship success.

Executive summary

The intent of governance in outsourcing is to provide a mutually agreed-upon framework for the way a service provider and client will work together to conduct business (the outsourced function) and manage their relationship. Traditionally, the relationship aspect has been overlooked. For decades, third-party advisors have suggested to buyers that outsourcing governance agreements should focus on a set of ground rules that dictate the parties' roles and responsibilities, how they will measure and monitor provider performance as well as how they will handle change and conflicts. In this manner, the buyer puts in place processes that enable it to have some control over the outsourcing arrangement.

Outsourcing, for today's leading companies, has evolved beyond providers merely taking over a function and performing the work with higher quality and/or lower cost. Desired outcomes from dynamic, complex business process outsourcing (BPO) and business transformational outsourcing (BTO) initiatives require a deeper relationship between a provider and its client. Unless the parties trust each other and are willing to work together in a manner that achieves mutually beneficial outcomes, one or both will become dissatisfied.

At HP, governance is a framework supported by a critical set of processes that tie delivery infrastructure, service management, resource management and relationship management together.

A key element of HP's governance model, the Total Customer Experience (TCE) and Quality Program, is incorporated at every stage of the customer's business life cycle. HP's TCE is not a high-level philosophy but, rather, a clearly defined process with objectives and documented tools and methodologies.

"Our brand is a promise to clients. The Total Customer Experience we provide reflects that promise."
- Carly Fiorina

In addition to the promise of TCE, HP's global governance model focuses on ensuring that a relationship is sustainable and mutually beneficial over a long term. This is, in fact, a key differentiator for HP's service delivery.

This paper discusses HP's governance model and how it results in establishing:

- A deeper level of trust
- Greater mindshare
- A stronger relationship
- Increased delivery efficiencies
- Business growth

All of which add up to mutual value.

Equilibrium—the state of being balanced and stable despite all influences

The governance balance

In outsourcing arrangements, the provider and client basically form a new type of business relationship within the client's business. As with any business, executives must determine how to run the business. Although the provider performs the business services, both parties must jointly manage how their new business will operate in a mutually beneficial, synergistic manner.

Whether a buyer of outsourced services is entering into its first arrangement with a service provider or whether a prior "supplier"-type of arrangement is changing to a BPO or BTO initiative, an effective process must be put in place to ensure the correct setting, managing and monitoring of the new relationship. Ensuring return on investment and achieving high-value outcomes require that governance—a viable, overarching framework for management principles—be a part of that process.

With increasing regulatory issues (such as the Sarbanes-Oxley Act of 2002) and media worldwide focusing on failed outsourcing arrangements as much as successful ones, today's buyers of outsourced services are aware of the importance of governance. Increasingly, more focus is being given to relationship management and governance as a key component in buyer expectations for structuring their outsourcing arrangements.

But outsourcing governance structures typically do not emphasize the crucial activities associated with enhancing the relationship itself. Some governance agreements are merely principles and actions that focus primarily on policies surrounding decisions and responsibilities; such an approach can be a force that cancels out the factors that deepen trust and the relationship. Yet, such principles need to be in place to ensure stability as conditions—and the parties' divergent interests—change over the long run.

The contrasts between using governance to both manage and build/nurture a relationship require careful balance. Many buyers and providers lack insight into how to design and maintain equilibrium in governance structures. Effective governance should be a source of strength—not a show of force—when challenges arise.

HP's governance model stands out in the marketplace because of its focus on fewer rules and more relationship.

The governance framework/structure is supported by a management system that includes a set of standard, documented management processes and decision rights, which link to operational processes and procedures. It also envelops a behavioral and cultural approach.

Governance enables seamless activity between the parties' joint "business" and service delivery. It enables a service provider and its client to mutually oversee and manage:

- Expectations for each other's actions
- Expectations surrounding how the parties will work together to achieve their agreed-upon objectives
- Contractual obligations and dependencies
- Information sharing
- Service performance
- Overall strategic direction of the relationship

HP works outside the box to give you a robust, relationship-focused, partner-based structure for managing your outsourced operations.

Without effective governance, outsourcing arrangements can be plagued by poor communication styles, causing defensive (or even adversarial) behaviors. Such behaviors are likely to negatively impact both parties' possible ROI, and outsourcing cannot be successful without achieving mutually beneficial gains.

An effective governance structure, on the other hand, provides the basis for eliminating value-shrinking communication styles—or even a lack of communication.

It establishes processes that provide the framework for an open, honest, proactive communication style that:

- Operates from an appropriate number of defined internal and external touch points
 - Ensures that people understand the goals and will be able to take action when necessary
 - Ensures that issues do not fester but are discussed and resolved on a timely basis and at appropriate levels
 - Creates decision-making protocols
 - Promotes meaningful communication between the parties
 - Enables the parties to measure and monitor the health of the relationship through an organized approach rather than hearsay and opinions
 - Increases responsiveness
 - Ensures flexibility
 - Enables understanding and review of costs and service impacts from change
 - Eliminates ad hoc decision
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HP's unique governance model

In HP's model, governance is more than establishing and adhering to processes, ground rules and ongoing management procedures. HP recognizes that each party enters an outsourcing arrangement with certain expectations. Therefore, its governance model addresses intrinsic elements, going beyond the parties' broad, written contract regarding service performance and objectives in that it includes key methods for managing and enhancing the relationship.

While it is composed of written documents, processes and tools and is a component of, as well as an addition to, the overall contract, the governance framework completely expresses the approach to dealing with the intrinsic elements of each party's expectations and commitment.

Numerous industry studies reveal that outsourcing arrangements fail even when both parties strictly adhere to meeting contractual obligations. The fact is, the relationship aspect is crucial to achieving desired outcomes in outsourcing arrangements. As the degree of change necessary to achieve objectives rises, so does the importance of the partnership aspect.

While a client and HP may have had an excellent relationship for years as customer and supplier, the new outsourcing paradigm in which both companies find themselves requires a formalization of this new relationship; this is facilitated via the governance model.

To HP, relationship and governance are tightly linked. Thus, HP's governance model focuses on ensuring that a relationship is sustainable and beneficial to both parties over a long term.

Outsourcing Relationships: Great Expectations

Client wants...

- Quality service
- New thinking
- Extraordinary responsiveness
- Partner-like caring about their success
- Intuitive understanding of their business
- Immediate and continuous business value

Outsourcer wants to...

- Meet all client expectations, and...
 - Make a fair profit
 - Expand business with the client
 - Expand business to the other clients in same industry
 - Use client as a reference... for many years to come

The governance structure in HP relationships is not only built for a particular client, but it is also built by collaborating with a particular client.

Partner-based, collaborative approach

A partner-based approach is a crucial aspect to success in outsourcing. At HP, relationship building and partnering begin early in the procurement process or other initial discussions and are dependent on both parties collaborating on designing a governance structure that meets both parties' needs and fosters a partner-based relationship.

Cognizant of the relationship aspect, the model focuses on clearly understanding not only each other's business objectives but also how both parties will be working to achieve them. Because clients are involved in the decisions affecting their relationship and are actively involved in shaping components of the governance structure, the model is also more robust and client-centric.

Proven best practices

Governance in HP arrangements is jointly implemented. This approach provides transparency and helps to build trust.

Building the governance structure begins with the baseline model and both HP and the client working to customize, scale (up or down) and supplement components for the client's specific needs or requirements.

The baseline is sourced in proven successful engagements and has continued to evolve over recent years with client input on essential actions for success. The best-practice baseline structure for meetings, for example, would be customized to meet client needs and expectations with details surrounding types and frequencies of meetings, attendees and decisions from those meetings.

The Customer Management Office component would, for example, be customized regarding headcount (one or several people, with dedicated or part-time responsibility for managing the relationship), functions and accountability, communication touch points and methods, as well as compliance for HP and client internal matters and external regulatory and compliance issues (such as Sarbanes-Oxley).

The business management component would be customized according to procedures and processes to meet client needs and expectations in such matters as invoicing, asset management, contract management, change order management and reporting.

Case in point: Telecommunications company

Business challenge: Seamlessly and affordably maintain high levels of customer satisfaction (24x7 customer service and billing operations, WAN management of over 140 systems, data center and numerous business partners) while adding new services and new customers; reduce escalating costs.

Solution: Strong outsourcing relationship and governance that evolves to reflect changing business needs; risk-sharing component; predictable costs.

Joint governance responsibilities:

- Align around goals associated with the work
- Be committed to delivering its part of the agreement
- Consider the long-term relationship, even during difficult times
- Communicate
- Work to sustain the relationship before working to undermine it
- Don't damage the relationship on daily "potholes" (waste of time) operate with mutual respect

Flexibility is not just a buzzword

Businesses are not static, so effective governance structures must also be fluid. In order for both parties to be successful in an outsourcing arrangement, an agile system must be in place to balance proactive change with operational controls.

Thus, a key component of the HP governance model is periodic collaboration around improvement that allow the parties to rapidly adjust appropriately to the client's changing business environment at any point in time. This has proven to be a cornerstone of client satisfaction, but it is ultimately beneficial to both parties when they can leverage governance to change their priorities, accommodate emerging needs and develop new value in the relationship.

What to expect, end to end

From the initial RFP process, through transition and ongoing service delivery, to the point of renewal, HP's end-to-end governance model is structured each step of the way to ensure six critical success factors:

- Relationship management
- Smooth transition
- Delivery on service promise
- Proactive partnership
- Financial benefits to both parties
- Linkage, where appropriate, to the client's corporate governance model

Relationship management

HP's concept of relationship management moves away from the traditional customer-supplier relationship where information is limited. When open communications do not exist, the relationship becomes under-valued and under-utilized. This discourages mutual risk-taking, stifling creativity and value-creating opportunities.

HP embraces developing trust and respect early in the engagement. A relationship that improves mutual understanding encourages sharing of information on each other's interests and improves trust through communication and results. This creates valuable options for each party in reaching its business objectives.

Smooth transition

For example, it aligns with and supports HP's Transition and Transformation Methodology. Governance processes manage the transition, from taking critical actions to mitigate against risks and communicating the risks of deviating from the plan, managing change, tracking transition progress, and developing a steady state beyond the transition.

Proactive partnership

This is how HP works with the customers to help them be more innovative with technology and services to enhance their business goals. HP assesses the environment, identifies opportunities and makes recommendations for improvement. Key people are accessed within the customer organization to help HP better understand the major business issues and then work together to build a living roadmap. This in turn leads to a better relationship.

Delivery on service promise

Similarly, in a transformational project, the governance structure achieves this critical success factor by taking steps to ensure business continuity throughout the project.

Financial benefits

Critical success factors include opportunities for reduced operational costs through increased account and delivery efficiencies realized by predictable and consistent application of standard governance practices. Effective governance also results in opportunities for long-term gain through cost avoidance, efficiency gains, improved processes and increased productivity.

Linkage to the client's corporate governance model

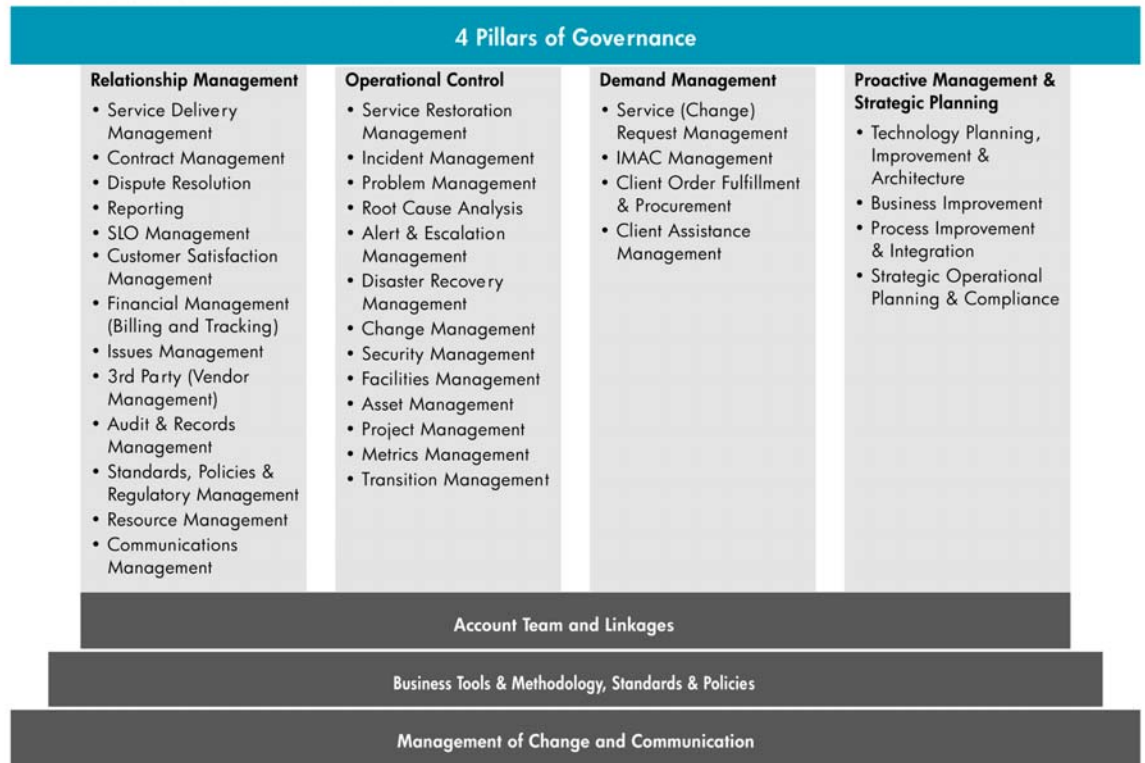
This is an emerging requirement within the IT marketplace. As more focus is provided on management and effective business controls posture around the corporate financial data and performance, both the IT component of the client and the service provider are now required to certify the efficacy of the client's financial data.

Governance extends across multiple dimensions of delivering services. The end-to-end model allows HP to fulfill its contractual obligations, increases the quality of the relationship; thus, it enhances the total experience and ROI for the client.

The processes within HP's end-to-end governance model are segmented into four pillars:

- 1) **Relationship management** is how HP addresses the total client experience, oversees the execution of contractual obligations and adapts to changes in the business environment. This is a fundamental—and crucial—factor in a successful outsourcing arrangement.
- 2) **Operational control** includes rigorous ITSM standards and processes, which are then customized for client requirements and escalation, notification and management of operational issues dovetailing with requirements.
- 3) **Demand management** involves agreements on how HP responds to and manages client requests, both in and out of the scope of the contract.
- 4) **Proactive management and strategic planning** (a) revolves around HP proactively reviewing, improving, and enhancing processes and technologies used in providing services, and (b) defines how both parties will quickly adapt to meet new or changing business requirements.

Pillars of Governance – The Framework



At the base of the pillars are three foundational steps:

- **Management of change and communication.** The model ensures an integrated, yet segregated, communication plan. While the way a message is framed and communicated may be good news to one group of stakeholders, it might be received as bad news to a different stakeholder group. An effective governance plan's communication structure frames messages according to a particular segment of people.
- **Business tools and methodology, standards and policies.** These are keys to managing the relationship and delivery proactively.
- **Account team and linkages.** The linkages (touch points) create effective communication/interaction channels between the client and HP. This is especially important, on a global basis, to ensure that regional politics and cultural issues of a large organization do not get in the way. In addition, these linkages foster strong bonds between key players at different levels of the two organizations and between similar roles.

The outcome of these foundational steps and pillars is a strong relationship, with the parties equipped, aligned and empowered to quickly and efficiently move through joint business challenges.

Case in point: Fortune 100 financial services firm

The following case in point illustrates a challenged relationship and how HP's governance model changed the potential unsatisfactory outcome to a mutually valuable and growing partnership.

Business challenges

- Reduce costs using utility pricing.
- Impose operating disciplines through firm service level agreements and provider reporting requirements.
- Reallocate more expensive direct labor to higher-value projects and tasks.

How the relationship developed

The client retained HP as its service provider because of its regional presence, past performance, cost, and depth and breadth of resources. The parties encountered the following challenges during the early stages:

- The statement of work did not fully represent expectations. The client's business-driven measures were unclear and interests were not well defined.
- A client-retained organization was not stable.
- Decisions and actions were dominated by a people vs. process-oriented culture.
- HP's performance was dependent on client's deliverables (e.g., application process reengineering).
- There was a lack of trust. The client was micromanaging HP and moving toward a body-shop relationship.

Role of governance model in enhancing the relationship

Despite the challenges, both parties were willing to continue to invest in the relationship. The client and HP chartered a joint management team to turn around the situation in two to three months. One of the team's key initiatives was to implement HP's governance model to help manage the relationship and introduce structure.

Key results included:

- The customer management office's delivery team was restructured.
- The business management office implemented a quality management system and a joint communication strategy.
- Critical core process reviews were jointly implemented. Reviews encompassed incident management process, issue and escalation management, change management, and service request management.
- Touch points and linkages were identified and documented.
- Structured meetings were established, building and strengthening the relationship

Outcome

HP now understands and meets expectations consistently. Regular meetings are held, during which problem areas are discussed and joint decisions are made on how to address issues. The client has since awarded HP additional services. Without establishing the governance model, this would have been an extremely unlikely prospect

Conclusion

Successful outsourcing requires effective governance to manage execution on shared commitments and to achieve mutual benefits. Success, therefore, depends on the willingness of both a provider and client to engage in the governance process.

Anything not specified in a contract (and many aspects that do have contractual clauses) must be discussed before the parties go into business together. The parties must work through their psychological expectations, which may differ from what is specified in the contract. They must also identify risks for all concerned and discuss how to mitigate them.

Without these steps, the parties cannot manage through to a win-win arrangement.

HP takes governance to the next level. More than governing operations, its model sustains and enhances the relationship. The tone is set early on for a collaborative relationship and a proactive approach from the outset. It leads to:

- Increased trust
- Greater mindshare
- A strong relationship that stands the test of time
- Mutual business growth

Just performing to contractual clauses will not result in a successful relationship.

For more information

To learn more about HP's relationship governance model and methodology for outsourcing, visit: <http://www.hp.com/hps>