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MAXIMIZING OUTSOURCING VALUE THROUGH AUTOMATED PEOPLE ANALYTICS @ WORK

White paper By

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ABSTRACT

The highlights of this white paper are as follows:

- Identify the typical problems in managing outsourcing relationships.

- Introduce the concept of co-managing outsourcing relationships and automating outsourcing governance, for better alignment and success.

- Describe a technology solution that provides automated and accurate visibility into outsourcing engagements, driving data-driven decision making and more trusted relationships.

- Highlight how co-management, technology and automation can deliver a ***20+% increase in value creation or 20+% reduction in outsourcing costs*** (depending on business needs), within a few months.

1 INTRODUCTION

In 2017, the global outsourcing market reached 88.9 billion U.S. dollars, according to Statistia[1]—that's 12 billion more than the previous year. U.S. companies are outsourcing more work every year, and it's easy to see why. Transferring responsibilities to an outside source can lower capital expenses and overhead, free employees' time to work on other tasks, increase efficiency for time-consuming functions, and improve quality for specialized work. But how do companies manage teams that are hundreds or even thousands of miles away, to ensure the best quality of work, and the greatest return on investment?

Outsourcing governance, or the process of managing outsourcing engagements, has become a hot-button issue. In order to manage risks effectively and get the most value, a strong outsourcing governance strategy is critical. Unfortunately, many companies lack such a strategy—which may be why so many outsourcing arrangements fail.

A 2017 report[2] from Everest Group found that 61% of customers focused on digital capabilities were unhappy with their outsourcing providers. Some of the biggest problems cited include a gap between ideas and execution, bureaucracy in contract execution and enforcement, and a lack of leadership attention. In another 2017 study, by KPMG[3], only 36% of those surveyed said their outsourcing initiatives were "very effective" in significantly lowering operating costs.

In this whitepaper, we will look at some of the key challenges in outsourcing, and explore how outsourcing governance automation is improving visibility and value creation.

2 KEY CHALLENGES IN OUTSOURCING

Deloitte's 2016 Global Outsourcing Survey[4] identified several of the top issues companies face with outsourcing service providers. 46% of companies found providers to be reactive rather than proactive in solving problems, and 33% cited a lack of innovation as the most problematic issue.

Some things can't be outsourced—and outsourcing governance is one of them. Although the service delivery is transferred, it is in the business interest of the customer organization to effectively manage risks and ensure steady delivery of value. Vendor management teams rely on various tools and processes to measure and manage the providers' engagement and delivery. However, this is easier said than done.

The top 5 challenges in managing outsourcing engagements are:

1 Lack of Visibility Into Operations

And the resulting inability to audit and predict outcomes

2 Absence of Benchmarks

To compare multiple vendors, teams and projects

3 Lack of Alignment

Between client and outsourced vendor goals

4 Understaffed Vendor Management Teams

And lack of automated outsource governance technology

5 Lack of Accountability

And a need for contracts and service level agreements (SLAs) that are based on scientifically measured, automatically generated data

3 CREATING A BETTER OUTSOURCING GOVERNANCE MODEL

SAPIENCE INTRODUCES THE CONCEPT OF CO-MANAGING AND AUTOMATING OUTSOURCING GOVERNANCE TO HELP CUSTOMERS AND SERVICE PROVIDERS WORK TOGETHER BETTER.

Most of the challenges in outsourcing governance stem from the lack of accurate and objective data, starting with a baseline in the initial period of engagement and continuing with improvements based on reviews as the relationship progresses. Since companies don't have the data to set precise SLAs, metrics and goals, they are left without leverage to positively impact the engagement and drive business value for both parties.

Traditionally, vendor managers and governance programs are introduced after deals have been finalized. Vendor managers are always struggling to get the right information. They may receive a lot of data (such as project plans, status updates, timesheets, etc.), but they are rarely able to predict outcomes accurately. It is typical for projects to be in a "green state" until the last stretch, and suddenly the end dates are pushed out. Customers have little option other than to complain and keep pushing the team to try and meet the new dates.

Sapience introduces the concept of co-managing and automating outsourcing engagements to help customers and service providers work together better. Co-management establishes a partnership relationship with vendors that includes complete transparency at operational and strategic levels, between both sides. Co-management arrangements must be supported by the right technical solutions. Our software provides highly automated and accurate visibility into vendor team performance, on a real-time basis.

4 CO-MANAGEMENT, TECHNOLOGY AND AUTOMATION OF OUTSOURCING GOVERNANCE CAN RESOLVE CHALLENGES

Let's now look at the each of the challenges listed earlier and discuss how they can be solved through co-management, technology and automation to build a better governance model.

4.1 Lack of Visibility Into Operations

Vendors usually lack a robust governance plan, and most of the information they do collect is used internally and not shared with customers. At best, they share the project plan, current status, some output metrics, and timesheets. These give an appearance of progress, but rarely drive continuous improvements in value creation or ensure alignment with business goals. The data also tends to be historical in nature and can't be influenced.
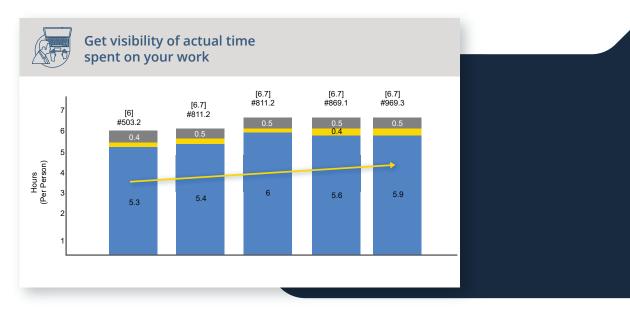
Vendor managers need tools and technology that will give them access to real-time data that can be used to co-manage the team. Imagine a scenario where vendor managers have access to the following data in real-time:

a. Time at Work

Your timesheets may show that vendor teams work for 8 hours, but do you know how their time is spent? Sapience reveals how time on the job is divided between various purposes, such as project work, non-project work, time spent using PCs, time in meetings, and more. Our data shows that most of our customers are getting around **35% less productive work time than expected.** Unproductive work may reflect underlying issues relating to manager oversight, team morale, misunderstood requirements, slow or incomplete provision of information from customers, and so on.
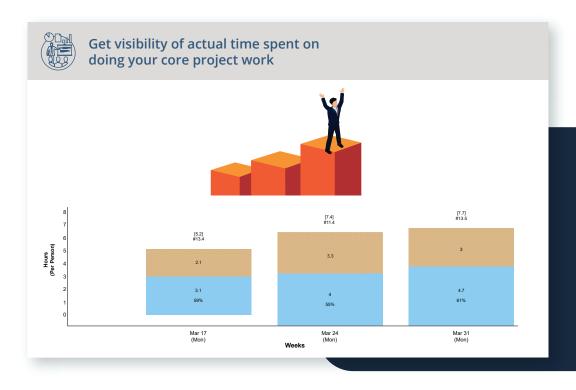
> VENDOR MANAGERS NEED TOOLS AND TECHNOLOGY THAT WILL GIVE THEM ACCESS TO REAL-TIME DATA THAT CAN BE USED TO CO-MANAGE THE TEAM.

Visibility into how on-the-job time is spent represents a huge opportunity for transformation, which can drive more value from outsourcing engagements.
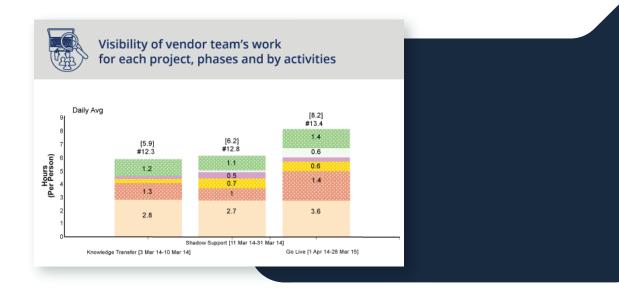

b. Time on Core Activities

The output of the team depends on the time they can spend on core activities, i.e. activities that are directly related to their job functions. In today's work environment, a lot of time gets wasted on useful but non-core or unproductive work activities, such as emails and meetings. Changing this mix to get teams to spend 10-15% more time on core activities over the same work time has a direct and significant impact on output.

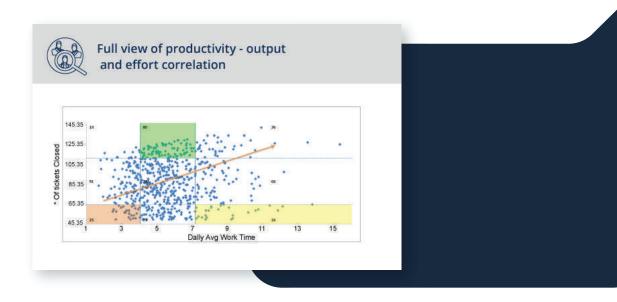## c. Work Activity Aligned with Project Plan

Teams prepare plans for each project, but do they provide visibility into whether or not the work in progress is consistent with requirements for each phase of the project? This real- time visibility can assure you that the efforts are aligned (or not!) with the project plan.

We have seen instances where customers were informed that the team was in the final QA and release phase, when actually, a significant amount of development work was still in progress.

Visibility of vendor team's work for each project, phases and by activities

d. Comparison of Effort and Output

Comparing effort and output provides a powerful 3600-view into individual or team performance. It can highlight the extent to which output can improve based on the gap between expected and actual effort. One challenge is that output is not always quantifiable, but whenever it is (as in managed services and QA teams), measuring it can become a powerful and holistic method to improve productivity.

Full view of productivity - output and effort correlation

When users enter input manually, time estimates are more subjective and less accurate. Users may also make data entry errors, which can throw off reporting as well as benchmarks and goal setting. Automated data capture is more accurate, brings objectivity to review sessions, and ensures that both sides focus on improvements necessary rather than playing the blame game.

4.2 *Lack of Alignment*

In the KPMG study referenced earlier, only 45% of survey respondents believed their outsourcing partner had the right talent to align with corporate business strategies.[3]

Strong SLAs and metrics provide common ground for outsourcing governance. When these elements are missing, vendor managers are hindered in their ability to align service providers' efforts and output with customer business objectives.

Access to real-time data will help validate alignment of efforts and goals, at all times. The data can be used to define SLAs and pay-for-performance models that will benefit both sides. Providers can now drive efficiencies while meeting customer goals, and customers can pay based on results. If there is a gap, the real-time data provides advance notice and enables both sides to proactively resolve any issues.

At times, internal pushback from the team may not be visible to vendor managers until vendors miss deadlines and issues escalate, sometimes terminating outsourcing agreements. However, by this point, it is too late and precious time and money have already been lost.

Customer teams must ensure proper knowledge transfer, documentation, training and other input is provided during the critical starting phase of projects. If the vendor teams are idling in the initial stages, vendor managers can work to ensure scheduled tasks are completed on time. A weekly review of work activities by project phase provides the data that vendor managers need in order to ensure their own teams are fulfilling their responsibilities.

Mentioned below are some examples of elements to include in effective service level agreements (SLAs):

a. Work Time

Set an expectation for work time. Track the daily average at a team level on a monthly or quarterly basis. For most companies, it should be within a +- 10% band of about 8 hours of work time per day.

b. Time on Core Work

Out of the average 8 hours of work, it might be suggested that 6 hours must spent on core activities.

c. Effort Alignment with Project Plan

This is very dependent on the nature of work. In managed services, where the work is steady and may not go through various phases, aligning efforts with project plans may not be relevant. For application engineering teams and other project-oriented teams, however, goals can be set based on different phases of the project (waterfall model) or sprints (agile teams).

d. Output and Effort Correlation

Where output metrics are available, correlation with effort can help determine how output is impacted based on the underlying effort, including total work hours, time spent on core activities, and activity patterns in various phases of the project.
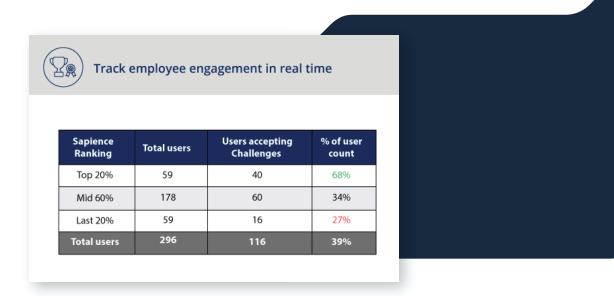
4.3 Absence of Standard Benchmarks

Projects and work assigned to different teams and vendors may vary widely. Traditionally, it has been challenging to come up with a common benchmark to compare multiple teams, projects and vendors. This hampers the ability to negotiate and drive change.

One benchmark that can be used is the average per-person work effort. Irrespective of the location, technology and nature of work, it is to be expected that teams are sufficiently engaged in productive work at all times. The ability to compare employees based on productive work effort provides much-needed insights into which teams, locations, and work streams are the most productive. Armed with this knowledge, you can decide the areas where additional work is possible or headcount increase is justified.
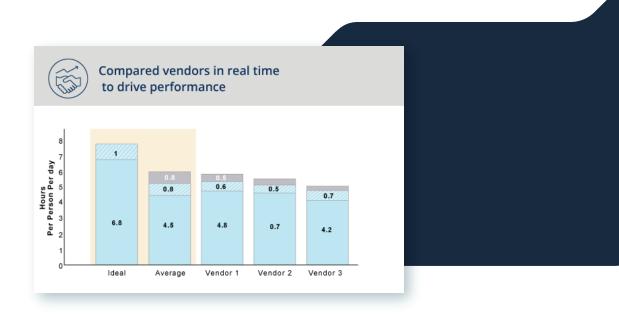
a. Team Analytics

With accurate data, it becomes possible to analyze your outsourced team's workload across any dimension, such as the difference between the top 20% and others (as shown in the chart below), across roles, skills, locations and so on. At Sapience, our clients typically discover that 20-30% of the team is fully engaged, while the rest of the team is not as busy. This is mostly due to poor delegation, which eventually impacts the team through higher attrition due to high stress (amongst the busy 20%) and a lack of opportunities (from those less busy). Another example is the discovery that QA engineers are typically underutilized. They are busy during the pre- release phase, but don't have much work at other times. Once the data is visible, the actions required are obvious.

Distribute the workload more evenly, ask for required volunteers to pick up the work backlog, and have the QA team work on test plans, writing new test cases, and implementing test automation where feasible.

Track employee engagement in real time

Sapience Ranking	Total users	Users accepting Challenges	% of user count
Top 20%	59	40	68%
Mid 60%	178	60	34%
Last 20%	59	16	27%
Total users	296	116	39%

b. Vendor Comparison

In an increasing trend, companies are conducting periodic vendor reviews with the objective of reducing the vendor count or replacing under- performing ones. One uniform yardstick is the level of each team's total work time and the percentage of time spent on core activities. An engaged and focused team usually means good management and processes on the customer's side.

Compared vendors in real time to drive performance

4.4 **Understaffed Vendor Management teams**

The vendor management function is seen as a cost center within the customer organization. Typically, the size of the team depends on the number of vendors and the outsourcing volume. Due to an over-reliance on manual and inefficient governance processes, vendor management teams   tend to be very busy.

The majority of the work is focused on ensuring that the vendor-supplied data is reliable, processing it and getting a sense of what is really going on with the outsourced team. Lack of the right tools and governance process at the vendor organization means data is coming in multiple formats from disparate sources, which have to be combined and analyzed. This takes a lot of effort, only represents past performance, and rarely influences immediate outcomes. At best, it provides some learning for future work, but that too is often not the case, since the nature of work and vendor employees keeps changing, too.

Tools that only provide automated and objective data in a dashboard for easy consumption and review will reduce the load for vendor managers significantly. Integrating billing and project management tools will have an even bigger impact. Vendor managers can now focus on performance reviews, identifying problem areas, and taking corrective steps in a proactive manner.

4.5 **Lack of Accountability in Contracts**

Although customers want accountability, it is often difficult to set precise numerical goals. Companies lack the means to create accurate baseline data on which future goals can be set. In relationships with quantifiable deliverables, such as tickets resolved (or a similar equivalent), SLAs can be created around total volume of tickets and quality of resolution (turnaround time, end user satisfaction). In others, such as application engineering, such metrics are a challenge. Schedule variance and quality of the deliverables are often used in such cases.

A TOOL THAT CAN PROVIDE AUTOMATED AND OBJECTIVE DATA IN A DASHBOARD FOR EASY CONSUMPTION AND REVIEW WILL REDUCE THE LOAD FOR VENDOR MANAGERS SIGNIFICANTLY.

THE AVAILABILITY OF AUTOMATED OPERATIONAL DATA MAKES IT POSSIBLE TO STRUCTURE COMMITMENTS AND PRICING TO STEADY AND MEASURABLE IMPROVEMENTS OVER THE BASELINE PERFORMANCE.

Yet, when customers complain that SLAs are not met, or delivery dates slip, or the quality was not as desired, this is inevitably disputed by the provider, who gives all kinds of explanations. It is difficult to arrive at a firm conclusion, and typically both sides simply commit to do better next time. And so this goes on, with the customer either making do with the value delivered by the provider and not knowing whether it can be better, or deciding at some point that they are better off with some other vendor.

This status quo can only be broken when the customer has access to automated tools that provide accurate facts about the provider team's effort and output (where practical). Then, if the effort is inadequate, it can be corrected. If the output does not improve despite reasonable effort, the customer has the choice to switch to another vendor. The new vendor will have clear objectives from day 1.

Many contracts are multiyear deals, with a commitment for year-to-year value improvements and/or cost reduction. The availability of automated operational data makes it possible to structure commitments and pricing, with steady and measurable improvements over the baseline performance measured in the first few months of the relationship.

In today's scenario of multiple vendors, a head-to-head comparison allows consolidation to the top 2-3 vendors. This ensures that you get the highest business value and lowest governance overhead, with fewer vendors to manage.

A co-management approach between customers and service providers will ensure that the above recommendations are viewed in the right spirit and implemented effectively by both sides. Both sides are committed to delivering higher business value from the outsourced engagement, irrespective of the business model. For example, a provider may fear reduction of headcount if the team's productivity were to increase.

However, in a partnership, the provider may expect to receive additional business if they deliver higher value. If nothing else, a satisfied customer will mean a continuing long-term relationship, something to be valued in the current scenario of multiple vendors and vendor churn. In SLA and outcome-based pricing, the provider will improve profitability as team productivity improves. Customers will see better on- time delivery and higher quality, thereby reducing their risk. In the best-case scenario, the outsourced team may deliver high impact innovation, for which the provider can be appropriately rewarded.

5 PEOPLE ANALYTICS @ WORK - ABOUT SAPIENCE

Time spent on work is a key asset that influences outcome. Manual timesheets and headcounts are not accurate indicators of what is happening at outsourced teams. Sapience is a unique People Analytics @ Work solution that moves the needle on outsourced team productivity. It provides automated visibility of effort and output at team levels. Customer and provider managers get never-before-seen, exact insights into how busy teams really are, enabling data-driven workload assignments and resource allocation. Employees, too, get a self-improvement tool that guides them to achieve more at work with less stress through mindful effort.

Key benefits from an outsourcing perspective include:

1 *Transparency*

Sapience delivers the facts about provider team efforts (work time and breakup across activities), output (transactions, tasks), and trends, delivered on daily, weekly and monthly bases. Data delivery is automated and does not require any user input. Correlating effort with output results in never-before-seen, 3600 visibility into productivity. Sapience insights enable both sides to discuss how to fine-tune priorities so that the team will deliver on time, rather than perform a post-facto analysis of what went wrong.

2 *Dynamic Staffing reduces cost by 20+%*

In T&M projects, providers are motivated to keep asking for greater headcounts since this adds to their revenue. When project deadlines slip, the first reason cited is insufficient people. Headcount reduction happens only when the client is scaling down the outsourced team for cost reasons, and never because the vendor says that they don't need as many people for the assigned workload. With Sapience, decisions about adding or reducing headcount, backfilling attrition or not, or moving resources to other teams, all become

very objective. Staffing is tuned to the current workload, reducing the cost of outsourcing typically by over 20%. In non T&M projects, on the other hand, optimizing resource allocation will significantly improve profitability for the provider.

③ *Retain your top Vendors and Business Models*

Most large customers have multiple service providers. There is an increasing trend to consolidate and retain only the best ones. Sapience enables you to compare vendor performance head-to-head. Both customers and providers benefit from a predictable cost model and measurable performance benchmarks. With Sapience, you can first baseline current performance, and then set goals and payment terms that make the business model increasingly tied to results and fair to both sides, in a very transparent manner.

6 RECOMMENDATIONS

In summary, the top 5 recommendations for a successful outsourcing engagement are:

1. Define the governance process before signing the contract, including the key activities and points of contact for both sides, at each level. Ideally, there could be three levels of governance:

    a. Operational - to monitor daily/ongoing progress and ensure service continuity

    b. Tactical – for regular reviews of operational metrics and service delivery aspects including escalation handling

    c. Strategic – to ensure alignment of high-level objectives and measurement of business value delivered

2. Data must be the bedrock of governance. Choose the right technology to measure performance in an automated manner, and require all vendors to use these tools. If possible, plan a 30-day pilot to obtain baseline SLAs and metrics.

3. Get creative with the contract, with pay-for-performance clauses. Include both penalties and rewards linked to objective data that is always available to both parties.

4. Create competition. Run joint governance for multiple vendors together. Then, share and review everybody's data. This will create competition amongst vendors to score over others, which will ultimately benefit you.

5. Encourage vendors to implement processes, tools, and frameworks to improve teamwork, employee engagement, and motivation. A high-caliber team is as much in your interest as the provider's.

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Note: For more details, case studies, and information about the People Analytics @ Work solution, please contact marketing@sapienceanalytics.com