



WHITE PAPER

Building an effective stay back team to gain maximum value from an outsourcing agreement

HOW TO DEFINE ITS ROLE, DETERMINE ITS SIZE AND ASSESS THE SKILLS REQUIRED



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The success of an outsourcing agreement depends upon the effectiveness of the “stay back” team. Early in the bid process, organizations should plan for the team's mandate, size and scope of responsibilities in a manner that helps achieve the agreement's expected benefits.

Introduction

An outsourcing agreement is deemed successful if the expected benefits are harvested and the organization's stakeholders recognize that the deal is delivering these benefits. Achieving these two objectives is dependent on the effectiveness of the client team managing the agreement. A team that is too large or too small, or that lacks the required skills or has the wrong mandate, will jeopardize the successful implementation of the agreement.

These teams often are referred to as “stay back teams” or retained organizations. For the purpose of this discussion, stay back team refers to the team in the client organization that is responsible for managing the outsourcing agreement with a service provider. Its functions focus on governance, relationship management and ensuring that IT addresses the organization's business requirements. In this context, the stay back team does not deal with IT functions that remain with the client organization.

Planning for such a team should happen early in the bid process. To help organizations develop a stay back team that guides a successful outsourcing agreement, this paper presents CGI's advice for defining and building the team, highlights industry best practices, and provides recommendations for the team's role, size and required skill set.

Defining the role

A CIO who recently outsourced the management of his organization's IT infrastructure to CGI, provided this advice to a potential customer:

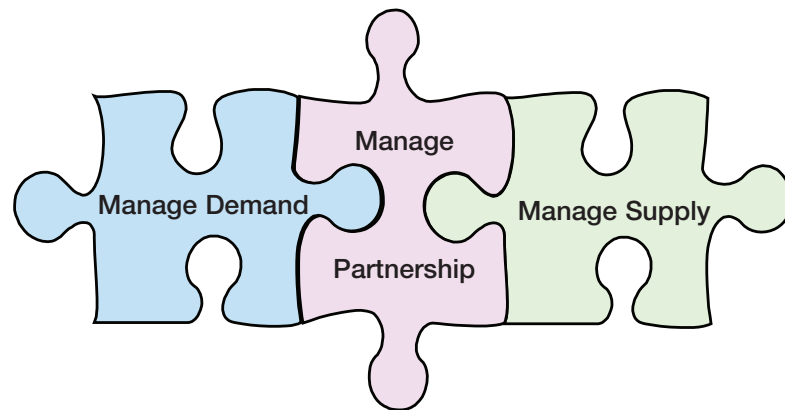
“Let the outsourcer manage IT. If you have picked one of the major players, they know how to do this well. Your biggest challenges will be, first, letting go of the minutiae of IT and, secondly, managing the internal clients within your organization.”

When an organization outsources its IT, clear roles and responsibilities must be defined for the service provider, the stay back team and the business units or internal clients.

- The **service provider** should have control over the “how” of service delivery. While this is critical to the provider's value model, it is often difficult for the client's stay back team to relinquish direct responsibility in this area. Dissatisfaction and conflict arise when the client does not give up decision rights pertaining to key components of service delivery. This interferes with the provider's ability to deliver contracted services according to its business model and compromises service delivery.
- The **stay back team** needs to retain authority over critical components of IT strategy. Decisions related to architecture, security, standards and project priorities are its primary focus. The provider can provide valuable advisory support.
- The **business units or internal clients** must actively participate in articulating their business requirements in terms of IT deliverables, such as projects, services and service levels. Although this responsibility should belong unequivocally to the business, the stay back team provides some oversight to ensure alignment with the contract. Typically the provider does not want to undertake initiatives without clear business ownership and clarity about deliverables.

The effective stay back team builds and cultivates a partnership between the service provider and the organization's business communities to ensure that IT meets the organization's evolving needs.

A traditional and simplistic view of the role of the stay back team is modeled on vendor and contract management practices. As a result, it underestimates the challenge of managing the demands and expectations of the business stakeholders. A more complete view of the stay back team's role defines it as managing the supply and demand for IT services by building and cultivating an effective partnership between the service provider and the organization's business communities



As illustrated above, the effective management of an outsourcing agreement depends upon aligning demand and supply and ensuring that the service provider's delivery and performance perfectly meet the organization's IT needs. The stay back team plays three roles to achieve this.

Manage demand. This principle ensures that the consumption of services is aligned with business priorities and affordability. This can be achieved by undertaking the following actions:

- Work with internal clients to predict the changes in business drivers that can affect services and volume
- Encourage a culture that embraces synergy and shared services across communities of internal clients
- Prioritize and approve business requirements for services and projects
- Track service utilization versus forecast or budget
- Allocate costs across business units

Manage the partnership. This activity ensures that services evolve to meet changing business requirements. Facilitating interaction between the business and the service provider can be achieved in the following ways:

- Communicate with internal users throughout the term of the agreement to ensure that the capabilities of the service provider and the objectives of outsourcing are understood
- Ensure the appropriate representation in various levels of operational change management
- Ensure appropriate client participation in IT projects
- Ensure that project plans and the provider's deliverables get appropriate reviews and approvals from internal clients

A stay back team that is an active participant in the business planning process – anticipating how the business will evolve and making necessary adjustments to services and projects - helps create sustained value.

- Ensure that technology plans get appropriate business input, review and approval
- Ensure compliance with security and audit requirements
- Ensure that the business participates appropriately in major incidents and addresses recurring issues

Manage supply. This area ensures that the service provider is meeting its contractual obligations, which can be accomplished through the following functions:

- Monitor service-level performance
- Ensure continued competitiveness of pricing
- Ensure that vendor-initiated change requests are addressed by the business

CGI asked its account managers responsible for outsourcing agreements to consider the stay back team functions listed below and to rate them, on a scale of 1 to 5, in terms of importance to the success of an agreement (with a score of 5 being the most important). The account managers also assessed how well these functions are performed by the stay back teams with which they worked (with a score of 5 signifying the highest effectiveness).

The table below outlines how the account managers rated the relative importance of each function, as well as the gap between importance of the function and the effectiveness of the stay back teams. For example, “working with internal users to identify business drivers” was identified as being the most important function and had an average score of 3.6 (out of 5). However, when this score was compared with how effectively this function is performed, the importance of the function exceeded how effectively the function is performed by a gap of 1.6.

Stay Back Team Function	Importance	Gap
Work with internal users to identify business drivers	3.6	1.6
Participate and approve technology plans	3.3	1.5
Prioritize and approve business requirements	3.4	1.0
Approve project plans and deliverables	3.4	1.0
Track service utilization vs. forecast or budget	3.0	1.0
Represent client in operational change management process	3.3	0.9
Ensure appropriate client participation in projects	3.3	0.8
Act as point of escalation for major incidents	3.5	0.6
Ensure compliancy with security and audit requirements	3.1	0.6
Address CGI initiated change requests	3.0	0.6
Monitor service level performance	3.0	0.5

During the transition phase of an outsourcing agreement the stay back team should undertake extensive internal communications to explain the anticipated benefits, expected changes and key components of the outsourcing arrangement.

This ranking suggests a higher maturity level in more traditional operational and vendor management functions, which are required to “manage supply,” and an opportunity for greater emphasis on more critical functions that manage change and planning. The stay back team that focuses on the “rear view mirror” – looking back to confirm that the service provider's performance last month met the performance levels agreed to at contract signing – will bring limited value to the organization.

The stay back team should actively participate in the business planning process to anticipate how the business will evolve and make the necessary adjustments to services and projects to ensure sustained value from the outsourcing agreement. Likewise, incremental benefits can be harvested from active participation in the technology planning process. Benefits also can result from technology improvements and the provider's evolving capabilities.

Understanding the role during transition

During the first year of an agreement, the role of the stay back team is especially critical. Considerable effort is required to work with the service provider to implement the governance and operational processes that both parties have agreed to.

A financial reconciliation of assets purchased by the provider, prepaid expenses and the like will most likely be required. Hardware and software contracts, software licenses and leases may be transferred to the service provider. While the service provider has extensive experience negotiating these transfers and assignments with third-party vendors, client participation in these negotiations is often required to guard against excessive fees and penalties.

There also should be extensive communications with the internal clients to explain the benefits of outsourcing, expected changes in processes and key components of the agreement. While users of outsourced services do not need to know details of the agreement, they should understand key terms. For instance, they should know what service levels have been contracted and how in-scope employees have been integrated into the service provider's organization or reassigned within the client's organization.

Determining the team's size

There are dangers associated with a stay back team that is either too large or too small.

Too big an organization can result in the following problems:

- Redundancy: The stay back team, attempting to justify its existence, may perform functions that have been contracted out to the provider. Over time, this will lead to confusion about accountability.
- “Checkers checking checkers” with no added value
- Unnecessary expense

The typical investment in a stay back team is 3-5 percent of the annual outsourcing contract value. However, the size of the stay back team also depends upon the organization's experience with outsourcing.

A stay back team that is under-resourced also is ineffective. It can negatively influence the relationship and the outcome of the agreement in several ways, including:

- Slow decision making and approvals
- Irregular governance meetings and reviews
- Poor preparation and input

Many factors contribute to the level of resourcing required for the stay back team, including:

- **The organization's previous experience with outsourcing.** An organization with a mature outsourcing culture and a core team experienced in managing outsourcing agreements will require smaller stay back teams to facilitate new or expanding agreements than a less experienced organization does.
- **Single vs. multiple providers.** An environment with multiple providers requires some "integration" effort from the stay back team to coordinate interfaces between providers and to navigate across "grey" zones.
- **Degree of decentralization in the organization.** If an organization has highly autonomous, non-homogeneous business units, significantly more effort is required to communicate and deploy processes for interfacing with the service provider.
- **Geographic diversity.** In addition to the inherent demands of decentralized organizations, there are international, federal, state or provincial laws, regulations and tax considerations that add complexity to an agreement.

Advisory services typically recommend an investment of 3-5 percent of annual contract value of the outsourced services to effectively manage the agreements. In TPI's January 2007 "Guidelines for Sizing Outsourcing Governance Investments," the firm suggested another rule-of-thumb:

"Staffing of the management team will vary by organizational model but has trended to be 2-6 percent of in-scope staff for outsourcing agreements that included significant transition of incumbent staff."

CGI's own experience with successful stay back teams supports these ranges. As mentioned above, a larger team will be required through the transition period. Likewise, periods with major transformation initiatives will require incremental resourcing.

Assessing the skills required

Managing an agreement is as different from managing IT as flying a plane is from building one. A successful stay back team needs to have a blend of the following skills:

Business. The team members should have an intimate knowledge of the organization, its business strategy and priorities, as well as its culture and influencers.

The ideal stay back team has a blend of business, IT, sourcing and relationship management experience. Having the right balance of expertise should be complemented by a change management program to help coach the stay back team on their role.

IT. An established IT team should refocus its technical capabilities in an outsourcing regime to concentrate on the following:

- Strategic level thinking that looks ahead, focusing on those service provider capabilities that help the business and considering future needs that require new or modified services from the service provider
- Outcomes and results rather than the “how”

Sourcing. Outsourcing management has many more dimensions than procurement. Senior level outsourcing professionals can capitalize on lessons learned from the increasing outsourcing activity of the last 10-15 years. With the growth in the number and size of outsourcing contracts and the burgeoning associations of outsourcing professionals, the pool of experience and the body of knowledge are expanding.

Relationship management and communications. As brokers between the client and the service provider, the team needs strong behavioral and interpersonal skills to achieve the following:

- Reconcile sometimes conflicting demands across different constituencies
- Bridge the gap between user expectations and the levels and scope of services they have contracted for
- Negotiate unforeseen or changing requirements with the service provider
- Maintain a healthy partnership that not only meets the letter of the contract, but continues to bring added value

Among stay back teams that CGI works with, it is estimated that 60 percent of their members are from the internal organizations that delivered IT prior to outsourcing and that 40 percent were brought in from other areas of the business or from outside in order to enhance the team's capabilities.

Selecting and transitioning stay back members

Early in the process of outsourcing, most organizations face the dilemma of determining which key personnel are in-scope and will be transferred to the outsourcer, and which will be retained to manage the agreement. Many factors are at play, including the individuals' career aspirations and the need for some continuity on both sides (the outsourcing organization and the service provider).

The personnel selected to join the stay back team likely had some delivery responsibilities that will be transferred to the outsourcer. When an organization chooses to retain these individuals, it is in the best interest of the client and the service provider to include knowledge transfer as part of the transition plan and to agree on interim roles and responsibilities where required.

As part of the transition, the client organization also should have a plan to coach the stay back team on their new role and associated skills such as the outsourcing business model and processes and organizational change management.

With a strong stay back team, transition issues can be overcome more quickly and the business benefits more fully achieved.

Summary

Managing an outsourcing agreement is complex and multi-dimensional. Building an effective stay back team is more than printing new business cards for a few managers from the IT delivery organization. The breadth and depth of capabilities required can not come from a single individual or a single source. Nor can it be expected that a high-performing team will be fully in place on the effective date of the contract. However, understanding the full scope and challenges of managing an outsourcing agreement is a prerequisite to assembling the right players who will focus on the right issues

About CGI

At CGI, we're in the business of satisfying clients. For more than 30 years, we've operated upon the principles of sharing in clients' challenges and delivering quality services to address them.

A leading IT and business process services provider, CGI has approximately 26,500 professionals operating in 100+ offices worldwide, giving us close proximity to our clients. Through these offices, we offer local partnerships and a balanced blend of global delivery options to ensure clients receive the combination of value and expertise they require.

CGI defines success by exceeding clients' expectations and helping them achieve superior performance.