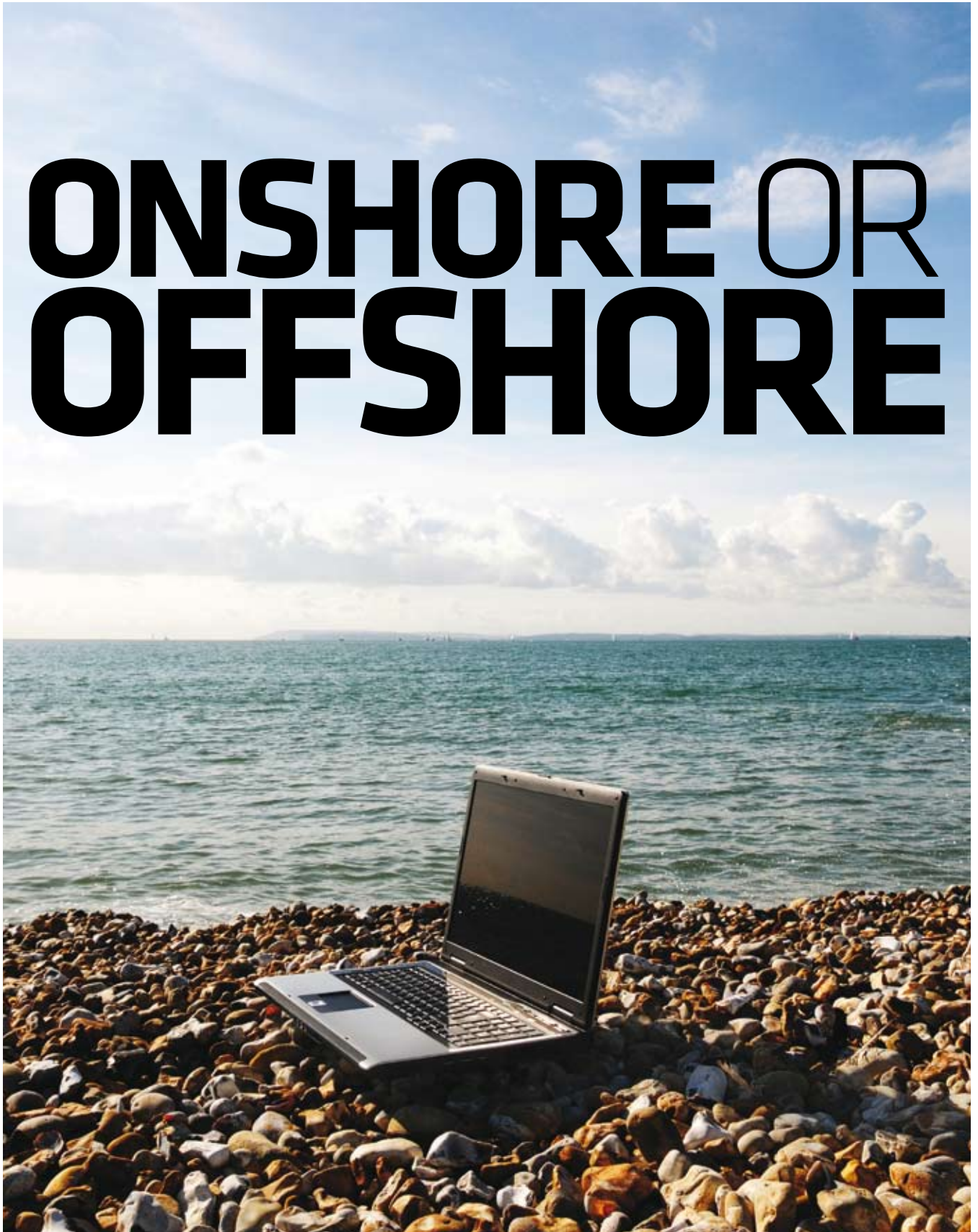**PODCAST**
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ONSHORE OR OFFSHORE

ANAND RAMESH, Research Director with the Global Sourcing Practice of the **Everest Research Institute**, and Senior Vice President **WARREN WHITE** with **CGI**, discuss IT governance in outsourcing and why just off-shoring IT is not the end-all solution to saving funds

ANAND RAMESH CGI emphasizes the governance aspect of its outsourcing services portfolio.

Can you describe why this is such a dominant component of your value proposition?

WARREN WHITE When we look at the IT function in general and how it is run within various organizations, we note that organizations that perform well in IT put emphasis on good IT governance. In contrast, within organizations where IT is run poorly and does not deliver the anticipated value, there has not been enough emphasis put on this aspect.

Our value proposition, as with most companies in the managed services area, is to deliver high-value IT services to our clients. We know that this requires more than just delivering low-cost IT service components. We have to deliver the management process that helps clients achieve value. Through our experience, we have discovered that where we assist the client in putting in place strong governance principles and the supporting framework, a sound relationship and value creation for both parties results.

AR That idea fits with our experience serving clients in the industry as well. Simply put, in addition to establishing a sound relationship at the outset, it is important to ensure there is a robust governance process that is able to progress and evolve. **Can you illustrate some of the key dimensions of the governance framework that CGI uses?**

WW Our framework is based upon ensuring that you have a tight relationship between the three main stakeholders in delivering IT services — the business leadership of the client, because they are the end receivers of IT services; the office of the CIO, which is a very strong part of our outsourcing model; and ourselves as the service provider. Our objective is to keep that relationship close and constant.

The framework that we put in place reflects this objective and has four main components. The first is clarity of decision rights. Many outsourcing deals fail because there is not enough emphasis put on decision rights. This can result in the client abdicating or, conversely, making redundant or conflicting decisions with the service provider — both of which destroy value. Therefore, the first part of our governance process is the creation of a clear roadmap as to who makes what decisions and where responsibilities lie for maximum effectiveness.

The second component of our framework is defining processes. We have a well-defined roadmap for all of the IT processes that should happen within an organization, covering infrastructure, applications, contract management, reporting, IT planning, security and so on. We define these with each client uniquely by taking into account aspects they want preserved from their own processes, combined with aspects of our management processes that we know will add value. Defining these processes, from IT planning through to daily change management and problem resolution, becomes the roadmap for how the three stakeholders will work together.

The third component of our framework is organizational structure. As an outsourced entity, we put a lot of emphasis on defining structure — where we fit within the organization and where there have to be committees and how we define them. Our model generally recommends an executive committee for strategic direction, an operational committee for execution oversight and management, as well as multiple project and user committees depending upon the situation. Each committee has specific roles in the management and evolution of IT. We also determine where we fit within the office of the CIO, what positions we hold and who we report to. That structure is important so that our clients understand that we have some buy-in and are part of their organization.

The fourth component is an effective management reporting process to ensure that expectations are met and to allow clients to retain control and have enhanced visibility into what we're doing and how. This helps both parties know that the desired outcomes are being achieved and controls the necessary levers to manage the productivity of the relationship.

AR You've worked with multiple clients in establishing governance for IT outsourcing. **What are some ways this has worked well, and what type of value has it created?**

WW When I talked about defining processes, I mentioned a multi-year IT strategic plan as being part of our defined governance process. Many companies destroy value by not putting enough emphasis on the planning process and not involving service providers and business leaders. Then they end up with a gap between what the business needs and what the service providers are instructed to provide. Probably the most important element is how we orchestrate the decision making processes around the planning exercise to help make sure we are closely aligned and are doing the right thing.

When looking at this from a services perspective, customers often take an initial look at their service levels and think, "If 99.99 is a good service level, then 99.999 is an even better service level." What our governance process does is put requested services levels and the implications of those service levels in front of the customer. We draw a line of sight between what the business actually needs with the service levels that they're defining and the cost of providing those service levels. We have found many situations where the client is paying for service levels far beyond what the business needs, which, of course, destroys value. The reverse can also be true. So part of our governance process is to engage the client in a robust, value-based discussion as to what exactly is needed.

Another example has to do with the management of enhancement requests coming from the user community. Often, organizations do not have a defined process to filter enhancement requests, leaving the CIO vulnerable to allocating resources to the user that is most demanding or trying to satisfy everyone. In our governance process, we define how enhancement requests get filtered, justified and transitioned to the next stage. Putting that simple process in place and working with our clients generally results in substantial reductions in the amount of enhancements actually funded and performed.

That may sound counterintuitive; why would a service provider like CGI try to show the customer how to spend less money? However, we find that if we show our customer how to save money and spend less in certain areas, two things happen. First, we build a solid relationship because we've built trust. We're there for the long term. Second, if we help them decrease wasteful spending in areas such as enhancements or maintenance, that money finds its way into value-added projects, and we participate in those, too. So it's a win-win situation for both parties.

AR Over the last few years, we've seen a fairly significant impact on the offshoring trend — moving service delivery to low-cost geographies. **How does that impact the way you think about the governance process and what kind of conflicts are introduced?**

WW Like most managed service providers, CGI offers service delivery out of low-cost countries as part of our delivery mix. However, we've found that it is very important to show the customer a value-based analysis of how you decide what you're going to put offshore, what you're going to put nearshore, and what you're going to put on-site.

As example, take a typical function involved in application maintenance such as emergency maintenance. This may be best delivered close to the client because they have business requirements for responsiveness that only can be achieved by proximity. On the other hand, enhancements, which typically are done with a delay, can be moved more easily offshore. Project work is similar, with analysis being done closer to the client and actual development being done offshore.

We build a mix uniquely for each customer based upon their profile and evolve it through the governance process as changes in the business require. Now, interestingly enough, we find a number of clients that initially believe that we should move 50 to 70 percent of our work offshore for cost reasons discover that the higher value alternative may be a lower percentage of offshoring for a variety of reasons. Offshoring is a key part of our model, but it's not the only part of our model.

When we talk to our customers, we explain that there are many other ways to reduce costs other than offshoring. For example, we have found that within North America there are a number of places that provide for lower costs and offer the benefits of proximity. CGI has opened several of these locations in recent years. These are locations where you have a lower average salary than in major cities and a population of skilled workers with a very low turnover rate.

The point is that our model has a delivery mix built uniquely for each customer based upon their business requirements and value expectation. How we deliver services — generally a blend of offshore, nearshore and on-site services — is part of the governance process, where we continuously examine this delivery as part of our planning process.

AR I agree that offshoring is not a silver bullet; it takes effort. In terms of applying the right amount of offshoring, the answer is different depending on what type of processes you're moving, how comfortable you are with the risks of the locations you're going to and what type of proximity or high-end processes you are moving. So it's correct to say that it is a hypersolution, and we are now seeing organizations that opt for the hybrid model having some work onshore, some nearshore, and some offshore.

WW Yes, that is our model. The "silver bullet" comment is key. Moving to low-cost centers is only an element of value capture. We have seen situations where companies offshore a large portion of their IT shop and, while there is some value there, the model is out-tasking as opposed to outcome-based outsourcing. Without the governance model and with lack of monitoring, reporting and processes, they may not get the productivity and the service level that they expect.

With our outcome-based model, we implement offshore and nearshore solutions and put governance in place to make sure that the productivity is there and the expected value is achieved. From our experience, this contributes to a good and long-standing relationship.

AR What is the market response to your governance offering?

WW The response often varies depending on who you're speaking to. When you are speaking to C-level officers about governance and some of the typical ways that IT value can be destroyed in the absence of governance, it resonates well. Most CIOs, CFOs and CEOs know that IT is one of those areas where if you don't manage it properly, value leakage happens quickly, and that's been the history of IT over the years.

Sometimes when we receive a procurement request and someone just wants to look for a rate card, a blended rate card or a very specific cost of an input, and you don't have a chance to explain the value that's derived through the management processes, it becomes somewhat complicated.

So is the market receptive to an emphasis on governance and management? In my experience, when I speak to management, this concept coincides with their concerns. It often takes some time to explain as it's not as simple as, "Here's a new rate card. Let's move 70 percent offshore." Our experience, however, is that it is worth taking the time to explain that labor arbitrage alone seldom delivers the expected value over time.

You can't get away from the need for good management, and that is what we promote. **BTQ**

ANAND RAMESH is Research Director of Global Sourcing at Everest Research Institute. He has extensive experience in studying trends in global sourcing and leads the Institute's Location Optimization practice, tracking more than 125 cities across Asia, Eastern Europe, and Latin America. He also provides a leadership role in client services to assist decision-making across a variety of issues and processes, with a focus on location selection. Mr. Ramesh has led location studies in Eastern Europe, Southeast Asia, Latin America, and India and has deep insight in these geographies.

WARREN WHITE joined CGI in 2002 and currently holds the position of Senior Vice President of Global Business Engineering. He leads a team responsible for the development and proposal of delivery solutions for major outsourcing engagements, as well as the associated pricing, contracting and transition management oversight. A seasoned executive, Mr. White brings a broad base of IT and business experience to his function. Prior to joining CGI, he held senior IT leadership/CIO positions in a number of large global organizations including Alcan, Dominion Textile, Johnson and Johnson and Lafarge.