



## SmartAdvice as seen on InformationWeek.com

The Advisory Council (TAC) is an Internet-based IT advisory service that connects IT leaders with world-class experts to provide fast, focused and actionable advice. SmartAdvice is a weekly column on InformationWeek.com featuring TAC Experts and Thought Leaders answering questions from IW readers regarding technology, management and career issues.

**Topic:** How should we evaluate and manage our outsourcing vendors' performance?



**Expert:** Ian Hayes, TAC Thought Leader, has extensive experience in improving the business returns generated by IT investments. He's the author of three IT books and hundreds of articles, a popular speaker at conferences, and his clients include many of the world's top corporations. He helps companies focus on value-creating projects and services by better-targeting IT investments, improving the effectiveness of IT execution, optimizing the sourcing of IT activities, and establishing measurement programs that tie IT performance to business value delivered.

**Our Advice:** How you evaluate and manage the performance of outsourcing vendors depends on the sophistication of your outsourcing relationships. Very different approaches are required if outsourcing is conducted on an ad hoc, project-by-project basis than if it's based on a long-term contract backed by service-level agreements. If your company views outsourcing as more than a short-term response to economic conditions, we strongly recommend using SLAs as the foundation for your evaluation and management of the services and deliverables provided by your outsourcers. Supplement SLA-based performance evaluations with assessments of the strength of the relationship with each vendor, and a comparison of their relative price and performance.

### Managing Performance Through SLAs

When properly implemented, SLAs are an extremely powerful tool for evaluating performance. SLAs list the services and deliverables expected from an outsourcer, identify metrics for

evaluating whether performance meets expectations, and use those metrics to define initial performance standards. Typical categories of metrics for SLA deliverables include volume of work effort, responsiveness, quality, and cost and efficiency. Specific metrics within these categories are chosen based on the type of work performed. Since SLAs are metrics based, they provide an objective report card on current and historical performance, and if problems are identified, they offer a quick means of determining if the subsequent corrections were effective.

### **Assessing The Relationship**

A vendor may meet its SLA performance commitments, but be difficult to work with or offer little value beyond the contracted assignment. As strategic outsourcing relationships are long term, it's important to evaluate the strength and value of the relationship alongside with performance. Key criteria include: ease of working together, flexibility when dealing with changing needs, creativity and responsiveness when solving problems, and willingness and ability to provide value-adding ideas to enhance business performance.

### **Comparing Price And Effectiveness**

The ultimate cost of a service is always an important consideration. Initial prices don't necessarily map to the ultimate cost of a deliverable. For example, a provider may offer the lowest hourly cost but take longer or deliver lower quality than its competitors, leading to higher overall costs. Capture costs and calculate the final (and total) costs of key deliverables to use as comparison against other internal and external delivery options.

### **Drive Business Value**

Evaluating and managing outsourcing vendors' performance requires a combination of objective performance metrics, relationship assessment, and price effectiveness calculations. SLAs provide a good foundation for setting clear, measurable performance standards for outsourcers.

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