

Outsourcing Metrics: Guidelines for Selection

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As organizations move to SLA-based outsourcing relationships, metrics assume critical importance. Proper selection of metrics is key to motivating the right behaviors and attaining success.

- In long-term outsourcing relationships, metrics are keystones to measuring and tuning performance, yet practitioners often select and set metrics by default.
- Metrics are ideally chosen with regard to the unique requirements of the work at hand and the types of behaviors they will motivate down the road. Fairness dictates that metrics measure elements fully within a party's control, and common sense requires that metrics are unambiguous and actionable.
- From a practical standpoint, metrics that are easy to gather and analyze, at minimal expense, are more likely to be used. Tools that automate metrics collection are always preferable over manual methods, and a reasonable number of metrics producing a manageable volume of data is always recommended to avoid information overload.

Service level agreements (SLAs) are a popular tool for managing long-term outsourcing relationships, and the metrics within them are the keystones to measure and adjust performance over the life of the engagement. The challenge for buyers and providers is to select the right set of metrics. Too often, metrics are simply copied from one project to another, or selected without regard to the project at hand. Metrics that work well in one context may turn out to be inaccurate, ineffective or too expensive in another. Poorly chosen metrics result in a difficult-to-interpret SLA, promote undesirable behaviors, and lead to disagreements that could spiral into a lawsuit.

Guidelines for Selecting Outsourcing Metrics

Many metrics are available to measure and manage performance in an outsourcing engagement. Selecting the right subset is a complicated process affected by organizational experience with metrics, the types of behaviors sought to be promoted, and the effort and cost of collection. Fortunately, the majority of metrics are common across outsourcing projects. Each project has a volume of work that must be delivered, for example, within certain cost ranges. But other metrics are unique to an individual project or situation. For example, a health care organization concerned with patient privacy might establish security-related metrics to ensure data confidentiality. Metrics may overlap among projects, but relying on boilerplate metrics definitions and settings is a recipe for disaster. A metric that functions well for an application development project, for example, may be entirely inappropriate when outsourcing a customer service function.

With these caveats in mind, consider the following guidelines when choosing SLA metrics.

- **Consider the requirements of the project or function being outsourced.** The type of work slated for outsourcing has its own needs, which may differ in part or in whole from those of other outsourced projects. A testing function may have far different requirements than a help desk, for instance. If the work at hand has special or peculiar needs, can metrics help ensure that those needs are met? Select metrics for their ability to make the particular project turn out better, drive optimal performance and provide insight into improving performance in the future.
- **Select metrics that correspond to factors within each party's control.** Measuring someone's performance when that performance hinges on factors outside of the person's control is unfair and ill-advised. For example, you cannot judge a painter's performance in repainting your house when you fail to supply the right kind of paint for the job. Metrics should measure items fully within the responsible party's control. Moreover, they should be mutual if the performance of one party is dependent on the other. For example, if a client must first provide specifications to the provider before any work can begin, then measuring the provider's responsiveness in completing a task must take into account the timeliness of the client in delivering those specifications.
- **Select metrics that motivate the desired behaviors.** When choosing metrics, think carefully about the types of behaviors or responses that they will provoke. Once a metric is set as a goal, each party will work to optimize its behavior to meet that goal. If metrics are chosen inappropriately, each side will work diligently to meet or exceed the goal, but users will be dissatisfied with the results. Take each party's expectations and goals into account when setting metrics and be realistic about what can be achieved.
- **Select metrics that are objective and actionable.** Strive to choose metrics that are objective, and define them with specificity. Subjective metrics leave room for interpretation, which will inevitably lead to disagreements over whether a party has met its performance commitments. Select metrics that are actionable, so that each party understands the steps that will be taken (and its responsibilities) if performance varies in meeting its stated goal. Monitoring performance does little good if the parties do not know what action to take when a problem or deficiency surfaces.
- **Select metrics that are amenable to collection.** If metrics are onerous to collect, it is guaranteed that they will not be collected. If a metric generates too much data, it is tough to analyze and will be ignored. Few organizations can justify spending inordinate amounts of time or money on capturing metrics manually, meaning that the ideal metrics will be those amenable to automatic, unobtrusive collection at minimal expense. If it appears that a metric will require a big investment to obtain, then look for another alternative, compromising when necessary.

- **Seek to collect a manageable amount of information.** Avoid metrics overload! When starting out, many organizations go overboard in defining and collecting metrics in a misguided attempt to exert control over service provider performance, and end up with too many to effectively analyze. Focus instead on a small set of metrics that will produce enough easily digested information that is appropriate for its intended purpose.
- **Take care in setting baseline and target values.** As important as selecting the right metrics is setting them to reasonable, appropriate levels. Many IT organizations will find it difficult to establish initial or baseline values for metrics because they lack historic data about how they have met those metrics in the past. Producing a baseline without historic data requires conducting some sort of first-case assessment, and an agreement to review and adjust settings in the future following a predefined process specified in the SLA. Most baseline settings should also have an associated tolerance level, based upon realistic performance requirements. For example, application availability below 100% is permissible outside of regular business hours. When setting target values (or improvements over the baseline), choose reasonable, attainable goals that will motivate the provider to make the necessary improvements without gutting its profit expectations.

Action Items

- Before jumping into metrics selection, consider the requirements of the project or function at hand.
- Aim at choosing metrics that are objective and actionable, produce a reasonable volume of data, and are easy to collect at minimal expense
- Use common sense and carefully think through the behaviors that the chosen metrics will motivate.
- The goal in metrics selection is to be able to measure and adjust performance, not hammer the outsourcer into submission. Use metrics as a tool to build a successful and harmonious relationship between client and provider.

About Clarity Consulting, Inc.

Clarity Consulting, Inc. is a management consulting firm specializing in Information Technology strategies and emerging trends in areas such as outsourcing, process redesign, efficiency enhancement, productivity and service level metrics, service offering development, and IT product and service positioning..

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