Gartner Research

Publication Date: 14 January 2009 ID Number: G00163206

The Benefits of Well-Deployed Competencies for Mastering Multisourcing

Gilbert van der Heiden, Frank Ridder, Kris Doering, Carlos Hernandez

Business unit managers, CIOs and sourcing managers who master the 10 competencies presented in this research should be able to achieve the key business benefits of multisourcing.

Key Findings

- The 10 competencies are the core skills needed to effect end-to-end multisourcing management, from business demand through internal IT and delivery to external service provider business and delivery. By assigning the uniquely identifiable responsibilities of each competence to the right roles, multisourcing management becomes measurable, more efficient and agile.
- By aligning all 10 competencies within the sourcing environment, organizations will be able to generate the business value of the multisourced services.
- Applying these competencies will bring a set of significant benefits to sourcing organizations, resulting in greater deal performance, improved supplier relationships and better business outcomes.

Recommendations

- Make these deployment competencies explicit, and communicate their relevance and interdependencies enterprisewide to generate the leverage needed to optimize alignment, and to improve efficiency and agility for the business.
- Prioritize investments in competency-building efforts and timelines based on the respective competency benefits. Use this research in combination with "Well-Deployed Multisourcing Competencies Help to Optimize Costs" to set and communicate priorities.
- Do not underestimate the investment in time, resources and effort to achieve depth and a high level of skills in each of these 10 competencies. Understanding, communicating and planning for the realization of the benefits are critical components for success.
- Start with an internal review of the implemented competencies, and review the benefits listed in this research as input for your decision-making process about which competencies to implement or improve.

TABLE OF CONTENTS

LIST OF FIGURES

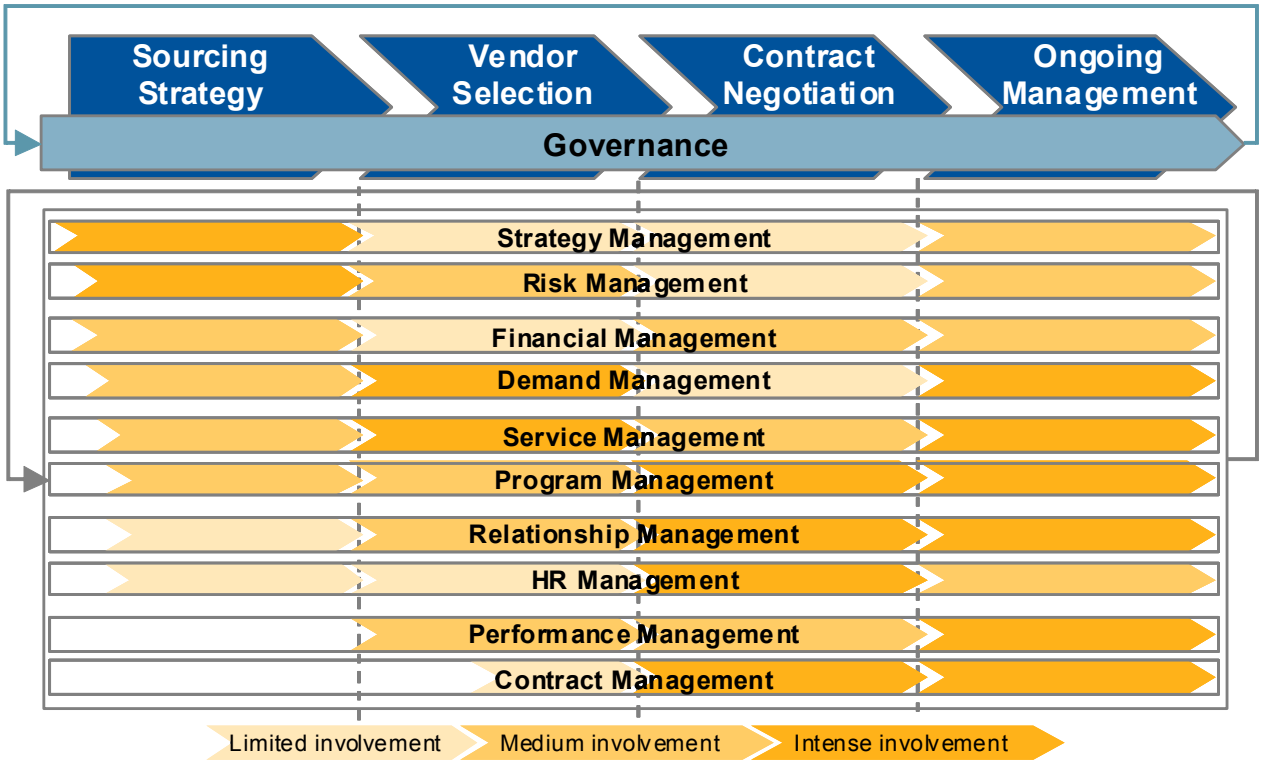
Gartner

ANALYSIS

In our initial foundational research (see "Ten Competencies and Key Activities for Mastering Multisourcing" and Note 1), we outlined the 10 key multisourcing competencies and defined their related key activities. In this research, we address the key benefits of each of these 10 multisourcing competencies that optimize the effect of multisourcing management to an organization's business agility.

Figure 1 shows the competencies in relation to each other and within the sourcing life cycle. The order only reflects the relevance of a competence for each of the defined sourcing phases. It does not state that one competence is more important than another. All competencies are important for an organization to realize multisourcing excellence.

Figure 1. 10 Competencies Positioned on the Sourcing Life Cycle



Source: Gartner (January 2009)

1. **Strategy management** establishes the boundaries for multisourcing and, therefore, is the primary competence. It has the strongest impact on the strategy phase. During vendor selection and contract negotiation (including the transition), it is used to validate choices and update the strategy if necessary. During the ongoing management phase of a sourcing initiative, strategy management monitors and supports the adherence to the strategy.

2. **Risk management** defines the business and IT controls, including security and compliancy. It directly affects the sourcing strategy principles and limits feasible sourcing options. Almost directly after initiating the strategy development, organizations must take compliancy into account. The adherence to the controls is an important element of

vendor selection. During negotiation (and transition), although adherence is more controlled from a service and program management perspective, it is always in the background. During operation, project and service execution risks, as well as compliancy, require continuous attention.

3. **Financial management** defines the financial boundaries for the sourcing initiatives and therefore should be positioned above the following competencies (numbers 4 to 10 in this list). The boundaries are used as input in the vendor selection and only require organizations to monitor adherence. During contract negotiation, rely on this competence to create the optimum financial model within the scope of the sourcing initiative and the financial guidelines. Given the importance of measuring and optimizing the total cost of sourcing, use financial management to monitor financial implications during ongoing management.

4. **Demand management** sets out the requirements of the business and IT to fulfill services, taking into account the boundaries and expectations set by the previous competency. It feeds business and IT demand directly into the sourcing strategy, and has a strong influence on the vendor selection and during ongoing management. During the negotiation and transition, demand management affects service and program management.

5. **Service management** is at the same level as program management. Demand is transformed into projects or services, where projects can also be services, and services can be parts of programs. Therefore, program and service management are equally important in implementing demand. The reason for positioning service management above program management is that sourcing implicitly aims for services (even project-based services). Service management has the highest impact on vendor selection and during ongoing management.

6. **Program management** supports the implementation of the (agreed/accepted) demand through (transition) projects. It thus follows the guidelines from the controls, the sourcing principles from strategy, the budget principles and boundaries from finance, and the business requirements from demand. The major difference between program and service management is that program management has a major impact during the negotiation phase, which includes the transition, and during ongoing management for enhancements and projects.

7. **Relationship management** focuses on alignment of business, IT management (including sourcing management) and service providers (internal and external) to business objectives, and manages/sets expectations at strategic and tactical levels based on the alignment. This alignment starts early in the sourcing cycle but gains importance during the vendor selection and the negotiation phase, where relationship management proposes the relationship structure between the organization and the service provider. This continues during operations to maintain a healthy client/service provider relationship.

8. **HR management** (HRM) supports the fulfillment of the staffing/resource requirements, based on the original requirements, the business and IT controls, the financial guidelines, and the sourcing principles. HR requirements can dynamically change as a result of performance. However, HRM is positioned above performance because HR has a clear responsibility for analyzing the organization's internal capabilities to support sourcing initiatives and to manage potential staff transfers in case of insourcing or outsourcing.

9. **Performance management** feeds into demand and service management during the definition of project deliverables, services and service levels. The highest impact of performance management on multisourcing is during the project and service provisioning, where continuous performance improvement is its main focus. Notwithstanding its importance during the ongoing management phase, its real relevance already starts with the vendor selection process and remains valid from there on.

10. **Contract management** is about formalizing the fulfillment of the demand, through programs or services, so it occurs after service management and program management. Contract structure, however, comprises many other components that relate to relationship management, as well as HR and performance management. Therefore, contract management is positioned last, but surely not least, on the sourcing life cycle.

1.0 Strategy Management

1.1 Description

Aligns sourcing actions with business goals to ensure that service delivery follows, and enables the defined business and sourcing strategies.

One of the most effective measures to realize business, sourcing and IT benefits is to view strategy as an ongoing process, where the foundation is defined, and is continuously refreshed and refined as business dynamics shift.

1.2 Benefits

- Strategy management ensures that the IT and sourcing goals are always tightly coupled with the business goals and requirements. It ensures that the most suitable sourcing option is selected because it accounts for internal and market capabilities, which are validated against defined business, IT and sourcing principles (also referred to as "maxims" or "objectives"). The business benefit is internal organizational stability and retention. Clear directions and clear choices effectively ensure that an organization knows what can be expected, why decisions are taken, what organizational positions exist and how those positions support the process.

- Strategy management enables better alignment of new service market options (for example, Alternative Delivery and Acquisition Models [ADAMs], which are introduced by Gartner and comprise 14 different models) to business objectives. Following from the previous benefit, strategy management ensures that, in the external market capability analysis, new or alternative options are validated against business, IT and sourcing targets. The enterprise architecture component within strategy management takes ownership of investigating and understanding alternative services and delivery models for an organization's sourcing requirements. Organizations that lack architectural skills should look outside for guidance, but should not ignore or minimize the activity of diligently evaluating these new options.

- Strategy management provides for effective sourcing governance (for example, the agreement of decision rights and authorities) supporting an enterprise with its dynamic needs. Sourcing governance assigns and aligns accountability among business, IT and sourcing roles, based on business, IT and sourcing targets, respectively. The major benefit is clarity in the executive and management layers throughout the organization, and communicating the directions and each person's responsibilities for moving in that direction, and realizing the organization's targets.

- Strategy management facilitates more flexibility in adjusting IT to ever-changing business requirements because strategy management ensures constant alignment of IT with the business. All strategies are dynamic and directly affected by business demands that reflect the organization's business context. By deploying strategy management, organizations create the perpetual motion that fuels this dynamic process by constantly managing strategy.
- Strategy management supports a sourcing strategy that is aligned and integrated with IT and business strategies. When combining all the above, strategy management is the primary process that sets the boundaries for all dynamic IT and sourcing decisions in regard to goals, capabilities, delivery models and governance.
- Strategy management ensures that the enterprise's business vision and strategy are communicated and clearly understood enterprisewide. This also applies to the sourcing and IT strategy.

2.0 Risk Management

2.1 Description

Provides processes and controls to prevent, detect and mitigate business and sourcing risk associated with the delivery of services.

Risk management is also responsible for the development and maintenance of business and IT (including security) controls and implementation processes for the ongoing compliance of governmental, industry and business regulations for all sourcing activities.

2.2 Benefits

- Risk management identifies risks for all aspects of the sourcing activities across all service providers. It plans and executes mitigation activities for each identified risk and prepares corrective actions in case of exposed risks. Through a consistent and continuous structured approach to risks, risk management creates the environment for well-founded business and sourcing decisions.
- Risk management develops and implements the process and controls that ensure overall compliance to internal and external rules and regulations. As such, it comprises not only risk and compliance management but also security management responsibilities, at business and IT organization levels, and from the strategic level to the operational level. This includes the responsibilities to communicate to and align all involved parties with the rules and regulations. The major benefit is that risk management ensures a stable foundation for the business to deploy and for service providers to supply services.
- Risk management provides the means to safeguard an organization's assets, which include hardware, software, intellectual property and data. In addition to managing risk and compliancy, the risk management competence sets out business and IT controls that include the guidelines for asset management, as well as for data integrity and data privacy. As such, risk management provides the boundaries for services and technology for internal and external service providers.
- Risk management optimizes the visibility into all aspects related to risk, compliance and security. Consequently, there will be fewer unexpected outcomes from unplanned events or activities. The accumulated benefits create the major benefit to the sourcing management organization for:

- Service management — better predictability of service structure and stability
- Contract management — better predictability of alignment with terms and conditions across service providers
- Performance management — less differentiation across service provider solutions, increasing end-to-end performance predictability
- Demand management — more structured business requirements and predictability of demand planning across service providers

3.0 Financial Management

3.1 Description

Defines, develops, manages and optimizes the tracking of the total cost of sourcing for sourcing initiatives in line with the business and sourcing targets.

Financial management defines, tests and validates to what extent total cost of sourcing categories are applicable per sourcing initiative. It also takes into account all financial auditing and compliance regulations.

3.2 Benefits

- Financial management provides a framework for financial reporting that ensures compliance to internal and external legal, tax, regulatory and financial requirements. Accountability for financial management lies with the CFO, who defines the guidelines and financial management staff, then formulates the detailed financial targets for the sourcing initiatives with the business. As such, all sourcing initiatives will remain compliant with the overall financial framework across all internal and external service provisioning.
- Financial management provides transparent financials for business unit chargeback. The breakdown of the total cost of sourcing per sourcing initiative enables organizations to create overviews of service consumption at the required level of granularity. This is valid at least when services have been implemented with the tooling that allows for measurement at the required detail.
- Financial management allows for a better, more-precise evaluation of service sourcing alternatives. In line with previous benefits, this only works to the level of detail that the demand has been formalized. Organizations should analyze all relevant total cost of sourcing categories before making decisions.
- Financial management allows for effective financial control over IT spending. The most effective management is realized through an automated cost-tracking process to ensure timely financial reports against agreed targets. It also allows for tracking cost against service-level objectives (SLOs) and, where necessary, specific statement of work (SOW) areas.
- Financial management provides an effective safeguard for an organization's assets. Asset management is part of financial management. Because financial management also addresses the procurement guidelines for sourcing initiatives, it always has mandatory input to sourcing decisions involving assets.

4.0 Demand Management

4.1 Description

Oversees and ensures the formalization, prioritization and timely fulfillment of business and IT demand into project and service requirements based on new and existing business processes and cycles, current and planned enterprise and IT architecture, applications, and infrastructure. The prioritization is premised on investment, budget and funding parameters.

Properly implemented, demand management creates the capability for continuous business requirements planning and translating business requirements into functional sourcing requirements.

4.2 Benefits

- Demand management provides clarity of business demands on IT services. It documents the business requirements in functional terms (for example, scope, scale and service levels), which can be handed over to service, contract and relationship management competencies to execute the provisioning of these demands in existing and new internal or external sourcing engagements.

- Demand management improves the demand prediction and supply prioritization. Demand planning is critical for predicting service requirements and service levels. It analyzes historical, current and future business activity to forecast demand, and identify opportunities and risks in demand patterns. It is fueled with service and performance management data and reporting, which provides the actual versus planned demand consumption (inclusive fluctuations analyzed to any required granularity). The combined actuals with planning information is used to prioritize how to supply what product or service and when to which end client, executed under the control of the change management process.

- Demand management requires an innovative mind-set, which leads to an improved design of service solutions. This innovative mind-set has to be involved in proactive research into market capabilities, and the definition and development or initiation of new solutions to meet the business requirements. This is the execution part of enterprise architecture.

- Demand management ensures that business requirements are communicated effectively to the IT and sourcing management organizations. It also ensures that IT and sourcing principles are taken into account in the prioritization of business demands. Demand management requires creativity, analytic and communicative skills, combined with business and IT knowledge. Organizations should put demand management on the priority list for 2009. It is the initial and continuous source of optimizing services to changing demand in the most cost-efficient, business productivity-enhancing or business-transforming manner.

- Demand management provides for the effective communication to the business of IT cost versus business value. It continuously monitors, analyzes, forecasts, reports and escalates the realization of business requirements through involved services (including service consumption). Although demand management is responsible, accountability for the realization of business requirements lies with the service and relationship management competencies. Demand management closely aligns with service management for input on the quality of services and to ensure the actual implementation

of demand into existing or new services (based on clear roles and responsibilities, described in SOWs, with SLOs, and formalized in service-level agreements [SLAs]).

5.0 Service Management

5.1 Description

Defines, structures, integrates and oversees the delivery of services from internal and external service providers to ensure seamless, end-to-end IT service delivery.

Service management owns the process from business requirements to service requirements to service implementation to service operation.

5.2 Benefits

- Service management aligns services with business requirements. As already stated, it does more than just align services and requirements. Service management structures business requirements into unique roles and responsibilities (activities) in SOWs, and defines the most suitable service measures based on the requirements. These service measures, which are the SLOs, are formally aggregated into SLAs. It further analyzes the reporting requirements that best suit the demand and its implementation. Service management can trigger service improvement based on business requirements (in conjunction with demand management). Service management initiates improvements based on input from performance management.
- Service management ensures continuous service improvement. It addresses the need for:
  - Service efficiency improvement — for example, resolve more incidents per full-time equivalent
  - Service efficacy improvements — for example, decrease number of incidents
  - Service innovation — for example, provide the same functionality with newer service components or increase functionality from existing service
  - New services — for example, new functionality with new services
- Service efficiency improvements are often included in agreements. Service efficacy and service innovation often are not incorporated into the agreements. New services are covered by (service or contract) change management procedures. Organizations should address all types of service improvements in agreements with internal and external service providers, and document incentives to drive the required service provider performance.
- Service management ensures a common understanding of and adherence to a standardized service delivery. When this is done from an end-to-end perspective and across all internal and external providers, it strengthens the business agility and end-to-end business process monitoring and management. It requires SLAs and operating-level agreements (OLAs) based on SOWs with SLOs and operating-level objectives (OLOs), respectively, where the roles and responsibilities for the involved parties are allocated.
- Service management ensures that all the "parts and pieces" of IT service delivery work together seamlessly and cohesively to deliver services. This follows from the implementation and monitoring of a standardized process methodology (for example, BiSL, ITIL), inclusive tooling, at a minimum maturity level (for example, CMMi Level 2).

Although SLAs and OLAs will address the processes, an international standard methodology provides the framework that enables a smooth transition and implementation of services because organizations and providers use the same terminology. The minimum maturity level realization sets the level of professionalism of an organization in the deployment of methodologies, and warrants the business continuity and service stability. Organizations should validate their internal maturity levels before sourcing to an external service provider. By default, the internal and external organization should not differ more than one maturity level. For example, when internal organizations act at maturity Level 2 and the external provider at Level 4, the external provider will be perceived as rigid and inflexible. The internal organization will be perceived as slow and inconsistent. Both viewpoints are correct due to the differences in maturity levels.

- Service management documents and communicates what is expected of each "part and piece" of IT service delivery through service delivery plans (SDPs) and derived service-level reports (SLRs). SLRs are updated regularly (for example, per the service-level reporting period) and address service consumption, consumption expectations and cost. They are specific to the services to which they report. The form and content are formalized in an SDP, next to the service budget, applicable processes, tools, staffing and charging mechanism. SLRs are the means to manage SDPs, and are input to demand management. SDPs connect the description of services in the SLA to how these services are scheduled for delivery. SLRs connect service-level requirements to how services are being delivered.

6.0 Program Management

6.1 Description

Provides and executes a structured approach to manage projects and programs against agreed business outcomes and the sourcing strategy.

Program management covers the planning and execution controlling activities for all projects (large and small) and programs — including transition, transformation, migration, mergers and acquisitions, and change.

6.2 Benefits

- Program management monitors and measures time, budget, scope and resources for every project and program individually, and aggregates them to the macro level for strategic assessment and planning. This is supported by consistent methodologies, principles and measurement structures, and enforced and executed by the program management office (PMO).

- Program management ensures that the project portfolio, as well as the perpetuity manage and operate functions, are aligned to, and managed against, business and sourcing strategies. By implementing the program management competence, organizations will improve the acceptance by and sponsorship of the business for internally and externally managed programs, because a business case for each program and project is clearly detailed.

- Program management enables better integration and business outcomes among the various internal and external services provided. It provides for the measurements and control activities that manage the definition, formalization, implementation,

communication and hand-over of responsibilities to the respective roles or entities in all involved organizational units, and among internal and external service providers.

- Program management ensures the implementation of overall accountability for change management. It provides the underlying framework on which all decision-related process flows are implemented. This applies clearly to change management, where program management competencies — such as the ability to link all sourcing projects to sourcing strategy and business outcome — come in place to:
  - Structure the change management process
  - Provide guidelines for handling change requests (from initiation to development, implementation, communication and hand-over to production)
  - Ensure the right decision/authorization flow from respective change boards and committees
- Program management establishes effective program communication, which ensures that everyone is aligned to strategy and objectives. The deployment of international program management standards — such as Prince2 and Project Management Body of Knowledge (PMBOK) — has ensured that project and program management comprises strong reporting and communication facilities and requirements. Program management provides for regular information and steering committee reviews of projects and programs based on agreed reporting templates.
- Program management ensures higher visibility of project status and interdependencies to areas that are able to react rapidly and effectively to sudden project resource requests. However, this benefit is only realized when an organization deploys a single program management framework and deploys a PMO, which supports all of the organization's programs. This PMO will be the hub for:
  - Program and project information exchange and reporting
  - Program and project resource management
  - Program and project financial control and budgeting
  - Overall communication toward the management of the organization

7.0 Relationship Management

7.1 Description

Aligns service providers with the business organization to optimize the understanding of, and collaboration in, realizing sourcing and business targets.

Relationship management is responsible for proactively maintaining all aspects of the relationship with the various service providers in an organization's environment.

7.2 Benefits

- Relationship management defines the mechanisms to set up and measure effective, efficient and mutually beneficial provider and stakeholder relationships. It is the competency that interacts with business and the internal IT organization, as well as external service providers. Through this interaction, relationship management warrants that:

    - All business requirements are addressed and relevant services provided
    - Internal and external service providers have access to the business at strategic levels to build and maintain a long-term relationship with a mutually beneficial focus

- Relationship management provides a clear and efficient relationship structure for the consolidation of service provider communications, including feedback (for example, performance metrics, communication effectiveness and new opportunities within the organization). Relationship management sets out the guidelines and, in principle, determines the most suitable interaction model at strategic and tactical levels for each service provider, taking into account the provided services and their business relevance. This minimizes the business effort for tactical vendors and ensures that the right attention is paid to each service provider to realize the business targets in the most suitable manner.
- Relationship management ensures the continual alignment between service providers (internal and external) and the organization. This is especially critical for organizations that have dynamic changes to their IT delivery requirements. Relationship management, in this respect, combines a demanding business requirements position with an in-depth understanding of the involved agreements (for example, contracts, SLAs and OLAs) to guide and support the service manager in managing the vendor at a tactical level. At the same time, it uses the input from the other competencies to feed the external service providers at a strategic level, and consistently challenges service providers to improve their services.
- Relationship management provides an effective means to incorporate service provider input/feedback into the organization, which is crucial for 360-degree feedback on an organization's retained and governance functions. Service providers' experiences and suggestions for improvement in these retained and governance functions should be discussed to ensure that all aspects of an organization are effective and efficient. The major benefit of relationship management, in this respect, is that it takes the macro view, identifying the multivendor challenges, makes them visible to the organization and the service providers, and guides the process to mitigate these challenges — that is, relationship management manages the OLA process.
- Relationship management keeps the organization from being managed by its service providers versus managing its service providers. The key principle for all parties should be the needs and constraints of the business. Relationship management will address the internal business dynamics. It will create the environment where requirements from different business entities are prioritized, and business cases are created and communicated. This influences the applicability and business value of sourcing decisions in a positive way.

8.0 HR Management

8.1 Description

Maintains the planning, supports fulfillment, and oversees the placement and development of human capital relative to sourcing requirements.

HRM provides the capabilities to optimize the use of human capital (focused on people and capabilities) during the complete sourcing life cycle to realize the defined business, sourcing, IT or operations targets. HRM has an active role in capturing an organization's sourcing capabilities, as well as the required skills based on the business, sourcing, IT and operations strategy. In regard to sourcing, HRM includes safeguarding that personnel are hired and retained effectively,

and that they have the correct set of skills (including ongoing training and career development) to deliver on their assigned responsibilities.

8.2 Benefits

- Effective HRM proactively participates in transforming business strategy to human capital requirements. It aligns internal and market capability with the sourcing, IT and operations requirements that reflect the business strategy, as well as the business values. In regard to agile businesses, human capital management will be an enabler for a collaborative attitude across business and internal and external IT service delivery to optimize the organization's performance.
- HRM enables a cost-optimized workforce. Mature HRM units, for example, have implemented a workforce strategy with a two- to four-year window, parallel to sourcing strategies. They will have:
    - Implemented workforce planning with a detailed approach to finding, creating, building, training and educating — as well as releasing, consolidating, moving and/or restructuring a workforce based on the 12- to 18-month requirements
    - Implemented among other dynamic measures, tools, technology, processes, procedures and contracts to fulfill three to 12 months of staffing requirements
    - Optimized the short-term and ad hoc staffing process to fulfill immediate to three months of staffing requirements
- Effective and mature HRM is prepared and has optimized the delivery of required human capabilities when, where and for as long as these capabilities are needed, for the optimized/most realistic cost to the organization. Furthermore, HRM has done this in close collaboration with its internal customers: the business, IT, sourcing and operations organizational units.
- Effective HRM is perceived as a key component in the sourcing decision process, and is not confronted with the request to merely implement a decision. As such, when a decision is reached that a sourcing initiative is best served through outsourcing, HRM will have taken care of all HR elements. These HRM elements include, but not limited to:
    - Sourcing management capabilities definition and attraction
    - Communication to and involvement of workers' councils and unions
    - Adherence to and coverage of all related (domestic and regional) legislation
    - Communication to and preparation of involved staff
- This approach and position will also ensure the capture of knowledge that needs to be retained. Within the boundaries of the deal, it will ensure that any staff or knowledge transferred to the service provider can be transferred back when required.
- In effect, HRM will improve the evolution of an organization's pool of talent, knowledge and skills. It will ensure that the best personnel are recruited, trained and retained through effective HR processes and market analysis for required job functions and roles. It will minimize staff/skill shortages through effective planning of required resources with service and program management.

9.0 Performance Management

9.1 Description

Establishes the approach and facilitates the execution of the processes to oversee and optimize service delivery performance in alignment with business requirements and service-level requirements.

Performance management requires the specific skills and proficiency for appropriately defining and measuring performance for a variety of services areas, such as business process, application or infrastructure outsourcing.

9.2 Benefits

- Performance management ensures overall accountability for performance of project and service delivery with clarity on what is being measured, why it is being measured, who is measuring it, and the implications and impact to the business. It improves a business's agility in managing project and services when implemented in a consistent and methodical manner.
- Performance management connects technical performance measures (for example, system availability), process performance (for example, productivity improvements, products quality, timeliness and process cycle time), service performance (for example, incident resolution, change implementation time and customer satisfaction) with business performance indicators (for example, on-time departure and store replenishment within six hours).
- Performance management enables senior management to manage IT investments and outsourcing relationships by creating transparency around investment performance. Performance management enables organizations to link technical, process and service performance with business objectives, and feed the program management, financial management and demand management competencies. These are the prime competencies that feed into strategy management from a performance perspective.
- Performance management ensures tighter continuous alignment of service outcomes to business objectives. Even if performance management is spread across entities or roles within an organization, when these entities or roles all act on the performance management competence responsibilities (such as ensuring that service performance supports the business needs), then all entities/roles will work toward integration of measures and alignment with business objectives across the organization. Performance management implementations can range from local to global or across the enterprise, depending on the business objectives. For example, federated organizations can have dispersed service models to the market, and thus dispersed local or divisional objectives, which require different end-to-end performance measures and controls.
- Performance management allows for effective scoring and evaluation of service providers, including their performance against expectations. This is one of the major benefits of performance management in regard to increasing efficiency and efficacy of service providers. Performance management will analyze the collected information, which is both unbiased (factual and measurable data) and biased (perceptions), against agreed performance targets. The analysis is often implemented; however, it is limited to the technical measures without the connection to business objectives. Although not preferable, the analysis is common and, even then, performance management will strengthen an organization's position toward the service provider.

- Performance management provides summarized views of numerical and graphical data, which managers and executives use to make informed decisions for programs, projects, budgets, and business demand management and planning. It increases the predictability of the services of the IT organization to the business, which then improves the trust and reliability of the business on the multisourced services.

10.0 Contract Management

10.1 Description

Establishes and oversees all sourcing-related contract development and contract administration activities.

Contract management is responsible for proactively maintaining all aspects of the contracting process with the various service providers in an organization's environment.

10.2 Benefits

- Contract management proactively manages the performance clauses (for example, penalties and incentives) to ensure that the delivered services meet the organization's contracted expectations. It is the primary competence to control service providers, internal and external. The contract management competence creates the formal delivery model for each provider to ensure internal service provisioning can be aligned with external service provisioning. As such, it sets the framework for end-to-end service delivery.

- Contract management provides the process to consistently use "industry best practice" contract templates. The corporate legal group acts within the contract management competence to take its responsibilities and ensure legal compliance of all services. Contract management exploits all formal and legal means at its disposal to prepare, define, structure, negotiate and maintain agreements with service providers that always hold the organization's business strategy and objectives as leading drivers.

- Contract management establishes agreements with service providers; these agreements must be flexible enough to match an organization's changing business requirements. Following the previous contract management benefit, contract management will provide flexibility for conditions in the contract for, among other things, pricing, scope, scale, workload volume, service levels, labor market factors, geographic distribution, projects and exit clauses.

- Contract management ensures that any contract interpretations and changes are consistent across all service provider agreements — internal and external. It owns the contract change management procedure, which formalizes all adaptations to agreements. It includes impact analysis of change requirements to other agreements and prioritization before the agreement is altered. In this respect, contract management is the competence that formalizes OLAs.

- Contract management ensures that the organization receives exactly the goods and services that were documented in the agreement. It comprises the formal role that warrants that an agreement is adhered to. However, due to the formal knowledge and control of the agreement, contract management will be able to drive contractual improvements in close and open interaction with service management, demand management and performance management competencies.

RECOMMENDED READING

"Ten Competencies and Key Activities for Mastering Multisourcing"

"Well-Deployed Multisourcing Competencies Help to Optimize Costs"

"Stop Outsourcing and Begin Disciplined Multisourcing"

"Mastering Multisourcing"

"Comanagement Processes Put Sourcing Governance Into Action"

"Adopt Disciplined Multisourcing in Your Organization"

"Nine Factors That Drive IT Services and Outsourcing Contract Pricing"

Note 1
Definition of Multisourcing

Gartner defines multisourcing as: "The disciplined provisioning and blending of business and IT services from the optimal set of internal and external providers in the pursuit of business goals."

REGIONAL HEADQUARTERS

Corporate Headquarters
56 Top Gallant Road
Stamford, CT 06902-7700
U.S.A.
+1 203 964 0096

European Headquarters
Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

Asia/Pacific Headquarters
Gartner Australasia Pty. Ltd.
Level 9, 141 Walker Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600

Japan Headquarters
Gartner Japan Ltd.
Aobadai Hills, 6F
7-7, Aobadai, 4-chome
Meguro-ku, Tokyo 153-0042
JAPAN
+81 3 3481 3670

Latin America Headquarters
Gartner do Brazil
Av. das Nações Unidas, 12551
9° andar—World Trade Center
04578-903—São Paulo SP
BRAZIL
+55 11 3443 1509

Gartner