A center of excellence is a key success factor in governing multiple outsourcing contracts

by: Julie Sullivan, Director, Shared Services and Outsourcing Advisory practice, part of KPMG Management Consulting

Outsourcing is an evolution for most companies. They typically begin with processes in one functional area, such as information technology (IT), and as their comfort level with outsourcing growth, they add more deals, e.g., in human resources (HR) or finance, to the outsourcing portfolio. Each of these deals are managed by the different business units and divisions across multiple geographies, each with their own style and approach. And each of these groups possess varying degrees of contract knowledge, governance, relationship management, reporting, risk management, opportunity identification, and business case know-how.

When the outsourcing portfolio becomes large enough to be on senior management’s radar screen, questions on governance begin to emerge (see Figure 1).

Outsourcing governance questions

- What all have we outsourced?
- What overall value is outsourcing creating?
- What are our measures for success, and are they being achieved?
- Who really owns and manages the outsourcing relationships?
- How well are the efforts being managed?
- What are our risks, and are they being managed effectively?
- What other new opportunities should we pursue?
- How do we determine what else to outsource?
- Are there standard methodologies and processes across the enterprise to manage the efforts?
- Does our approach to outsourcing help maximize opportunity and value while helping minimize risks?
- Do the various businesses leverage information/knowledge about key relationships?
- How do we leverage what we have learned from other outsourcing experiences?
- How can we do all of this better and faster?

Organizations unable to answer these questions satisfactorily may gain significant value by establishing and effectively managing an outsourcing center of excellence (COE), as doing so can help support their enterprise-wide strategic agenda and outsourcing-oriented expectations.
What is an outsourcing COE? It is a centralized function in which knowledge and resources converge, creating a more powerful alliance of complementary skills and resources to drive outsourcing excellence. Enterprises create COEs by focusing and leveraging their talent—people who are doing like work—as a means to help reap maximum value from their collective outsourcing skills and knowledge. Generally, COEs are central points of contact for internal lines of business, other stakeholders (e.g., legal, tax, finance, accounting, sourcing, and compliance), regulators, boards of directors, and senior management committees. By gathering assets in a central function, organizations are able to:

- Better leverage existing knowledge
- Increase the speed of knowledge capture and improve levels of retention
- Manage outsourcing efforts more as an enterprise portfolio
- Standardize their outsourcing lifecycle methodology
- Create more consistent and repeatable outsourcing governance processes by sharing tested leading practices, skills, and tools

Despite these substantial benefits, many businesses that have undertaken multiple outsourcing efforts opt against adopting the COE model for outsourcing governance, or fall short in achieving all the value a COE can deliver. Why?

First, many organizations erroneously believe that creation of an outsourcing COE requires large-scale hiring and lavish spending on IT. The deployment doesn't have to be a big bang. Most organizations start by better leveraging the resources they have in place—a few individuals who have demonstrated outsourcing governance ability, existing methodologies, and supporting IT tools—and then supplementing what may be missing. In other words, for most businesses, creating a COE is an evolution that begins with meeting critical needs and then expanding capabilities at the right pace for their individual environments.

A COE requires individuals with not only strong technical outsourcing, governance, deal development, and measurement knowledge, but also superior communication and collaboration skills, as one of a COE’s primary roles should be that of an educator. For any organization, the ability to take knowledge and turn it into good business decisions as quickly as possible creates advantage. The more individuals who have the right information at the right time, the quicker the learning and execution curve.

At the same time, creation of a COE must be a coordinated effort across the enterprise, with agreement on vision, purpose, goals, and business parameters. All stakeholders within both corporate and business areas need to commit to making the COE an asset. Ultimately, the COE will need to stretch and challenge the organization to make better decisions by creating and disseminating leading tools, processes and methodologies, and providing advice and subject matter knowledge. A COE will be embraced by stakeholders by providing the right information, at the right time, enabling solid business decisions, and supporting everyone to do their best work. At times, the COE acts as the organization’s conscience as it pertains to outsourcing. The COE must represent the enterprise, and see both the whole and the sum of the parts. Additionally, potential suppliers and partners must understand the COE and its processes, and the COE must remain impartial and fair in its oversight.

The result of all these efforts can be maximum value achieved through focus, process standardization, knowledge capture, and dissemination of ever-evolving tools and methodologies.

Second, many businesses fail to realize the criticality of executive sponsorship and business unit/functional buy-in to the success of an outsourcing COE. A key criterion here is the COE’s ability to effectively demonstrate top echelon backing for, and value from, the initiative as soon as possible. Indeed, as creating a COE is another means of change management, support must be demonstrated at the most senior levels to enable all parts of the enterprise to embrace the change, and to understand the importance of it to the organization as a whole.

### Sample operational activities in an outsourcing COE

- Central repository for contracts, outsourcing portfolio
- Repository for tools, templates, process support
- Enterprise reporting
- Standardization of methodology
- Subject matter specialization
- Leading practice/market knowledge
- Performance monitoring
- Relationship management
- Consulting/deal support
- Enterprise supplier governance and linkage
- Education
- Standardization of crucial terms and conditions for contracts
- Facilitator of stakeholder input into the process
Third, many organizations mistakenly believe that all COEs look alike. The reality is, the purpose and design of a COE must reflect a business’ distinct formal and informal culture and infrastructure. For example, if an organization works from a top-down approach in which authority and position are essential for things to get done, creating a COE that has no formal authority is a potential recipe for disaster. The same is true for an organization that values its informal network and influencers yet designs a COE to be an authoritative entity in deciding what can, or cannot, be done. A COE’s goals, purpose, authority, and role must be congruent with the enterprise’s goals, purpose, authority, and roles.

The role of the COE is also influenced by where the company is in its outsourcing lifecycle. Are the majority of deals in-place, in-flight, or aspirational? The initial focus of the COE should be parallel to the maturity of the outsourcing portfolio. In mature cases, the initial focus may be on using a standard governance and reporting methodology, and leveraging key supplier relationships for benefits realization. For a company that is in the process of establishing a new outsourcing relationship, the focus should be on the strategy and solution phases.

The role of the COE can span any number of functions. At one end of the continuum of support, it may serve in a relatively basic role as a knowledge base repository, while at the other end it may play an internal consulting role, actively participating in deals and working closely with the lines of business (see Figure 2.).

The functions of the COE should be congruent with the organization’s goals, culture, and needs. In a large, global corporation, for example, the primary purposes of the COE may be to: disseminate leading practices; serve as a central repository for information and identification of core relationships and patterns; be a central site for integration; and leverage skills, standard tools, and experiences. Within that same organization, each business may have varying degrees of experience in managing relationships or in structuring and executing a deal.

An experienced COE can supplement gaps by leveraging, for example, past work with a particular partner spanning various businesses within the enterprise, or knowledge gained from deals across the business that went well (or not so well). A COE can be leveraged to manage quality and performance of a single service provider across multiple outsourced service lines, and can be a source for advice and subject matter know-how. All this learning can be shared throughout the enterprise, resulting in savings or other types of value realization.

### COE continuum of support

<table>
<thead>
<tr>
<th>Repository</th>
<th>Leading practice sharing</th>
<th>Internal advisory</th>
<th>Shared services</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Contracts data base (terms, pricing exit dates)</td>
<td>• Proactive collection, cataloging, and dissemination of leading practices across the lifecycle</td>
<td>• Access to skilled and experienced resources throughout the lifecycle</td>
<td>• Provision of governance support (i.e., contract management)</td>
</tr>
<tr>
<td>• Collection of external and internally generated tools and templates</td>
<td>• Facilitation of leading practice sharing across the business</td>
<td>• Access to tools and templates</td>
<td>• Enterprise portfolio reporting</td>
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<tr>
<td>• Information related to external advisors and links to legal support leveraged by the organization</td>
<td>• Maintenance of the marketplace (service providers, conferences)</td>
<td>• Access to the latest market knowledge</td>
<td>• Remediation/healthcheck services</td>
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<tr>
<td></td>
<td>• Maintenance of a list of “preferred” advisors and providers</td>
<td>• Support for relationship remediation</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>• Portfolio reporting and optimization recommendations</td>
<td></td>
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<tr>
<td>• Limited organizational impact and value</td>
<td>• Some value based on the ability to maintain currency of information</td>
<td>• De-risk outsourcing</td>
<td>• Reduced cost of governance</td>
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<tr>
<td></td>
<td></td>
<td>• Reduced cost of transactions</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>• Improved performance reporting and tracking</td>
<td>• Improved performance realization</td>
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How is the success of an outsourcing COE measured?

At the organizational level, the success of a COE is determined by its ability to execute on the corporation’s outsourcing vision and goals. Some organizations see outsourcing as a strategic tool to enhance capabilities, time to market, etc. Others may want to help ensure a few key relationships provide maximum value at an appropriate risk level. For regulated industries, the COE may be focused on demonstrating to the regulators: consistency of approach; use of a standard methodology; senior executive awareness of outsourcing risks and value; contract monitoring and oversight; and a portfolio management approach. Many enterprises have entered the outsourcing arena with a desire to expand their portfolios. To achieve this, they must help ensure they are outsourcing the right things, to the right partners, in the right way. Regardless of the type of organization, the success of the COE will be determined by how effectively it operates (see Figure 3), and how well it meets the business drivers—whatever those may be.

At the functional level, the first essential success criterion is that the COE’s authority is established at the right level for governance, education, and deal support. Second, the COE must have clearly defined roles and parameters sanctioned by all stakeholders, and that are congruent with the organization’s culture. The COE’s purpose must link directly to business goals and outcomes. Third, a COE needs the right staff with the appropriate technical skills, experience, and communication skills. Like any new undertaking, the COE should have visible senior level support and endorsement. The COE must establish its presence quickly by disseminating leading practices, tools, and methodologies. Additionally, it must have the appropriate technology to support its role and function.

COE “success” check list

• Clear vision for the COE, implementable over time
• Vision aligned with the culture and authority levels within the organization
• Executive sponsorship and active supporters throughout the organization
• Strong communications road map and execution for stakeholders and businesses
• Talented core team with exceptional technical, collaboration, and communication skills
• Constant evolution
• Technology to support role

Finally, a COE should model leading practices and document its major processes and methodologies. A COE is not frozen in place; rather, it should be flexible to evolve as the goals of the organization change. Continuous improvement and education must be an integral part of its value and operations. The individuals within the COE should embrace their role as communicators and educators. The COE should be the “go to” place for tools, leading practices, support, and insight. For a COE to provide value, it must address and support business needs. And, like any good partnership, the monitoring and reporting of its development and success needs to be visible to all.

Loss of outsourcing value from ineffective service provider governance

<table>
<thead>
<tr>
<th>Efforts duplicated</th>
<th>Resources wasted</th>
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<tr>
<td>10%–20% value loss operational challenges</td>
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<th>Problems not managed</th>
<th>Performance not at expected levels</th>
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<td>20%–30% value loss performance challenges</td>
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<th>Vendors deployed against conflicting or wrong goal</th>
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<tr>
<td>5%–10% value loss portfolio management challenges</td>
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<tr>
<th>Opportunities untapped</th>
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35%–60% potential value loss

Total potential value gained from the outsourcing relationship

“Net” value gained from the outsourcing relationship

Figure 3
Conclusion
Establishing an outsourcing COE is a balance of art and science. Attracting talented people with the right technical skills and experience is just one piece of the puzzle. It’s also critical to create a center that exemplifies the best in the organization, aligns to the business’ goals, and has consistent support and commitment from senior management. Successful outsourcing COEs pay for themselves by providing to the organization the right knowledge, experience, information, tools, and methodologies. These are delivered at the right time to the right users to assist in achieving organizational excellence.

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About the author
Julie Sullivan is a director in KPMG Advisory Services in Toronto. Her areas of specialization include services portfolio management, governance, and transition. She has substantial experience in helping companies optimize the value of their third-party agreements, and has advised on large information technology and business process outsourcing deals from strategy assessment through to implementation. Her client engagements include: helping companies develop and launch centers of excellence: shared services; vendor management; and outsourcing and business process management. Additionally, she has assisted major corporations in restructuring/designing governance organizations, policies, methodology, and practices, and coaching and training governance personnel.

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