

Case Study: Global Healthcare Company Turns to EquaTerra to Improve Outsourcing Provider Relationship

EquaTerra Conducts Operational Governance Assessment to Create More Proactive Service Provider Relationship

At A Glance

Company Profile

The company is a global healthcare company that serves hospitals/providers, retail pharmacies and medical suppliers.

Services Featured

- Operational Governance

Business Processes Involved

- Applications Maintenance and Support

Executive Summary

Upon expansion of a small-scale Applications Maintenance and Support (AM&S) contract, where the provider served in a staff augmentation role, this global healthcare company now wanted its provider to be more proactive in the delivery of services. In other words, it wanted the provider to operate in a strategic managed services role rather than simply offering staff augmentation services. The healthcare company retained EquaTerra to review the current state of its operational governance structure, identify processes that were lacking, and assign roles and responsibilities to each of the processes. Overall, EquaTerra helped the company improve relations with its provider and gave the two parties the knowledge and tools they needed to create a more integrated and strategic working relationship.

Business Challenge

In 2004, this global healthcare company entered into an initial, small-scale AM&S agreement with a service provider. Two years later in April 2006, the company expanded the relationship to include a much larger agreement that called for the sourcing of most AM&S functions.

At the time, the company-provider relationship was experiencing some rough patches. The provider was operating in a re-active staff augmentation role rather than in a proactive role as the company now desired. Upon the expansion of the relationship, the company wanted the provider to “own” the applications and take responsibility for business unit satisfaction. But because the provider had only worked in a staff augmentation role, it had trouble understanding the expectations of a managed services model.

With the expanded relationship on the horizon and the long-term viability of the company-provider relationship at stake, executives at the healthcare company took action to improve the quality and stability of its applications environment by creating procedures for better operational management of its applications maintenance function.

To help specifically with the operational governance transformation initiative, the company engaged a third-party outsourcing advisory firm, EquaTerra.

How We Helped

EquaTerra first conducted a comprehensive review of the current state of the operational governance organization. EquaTerra found that the following activities were needed in order to create a more sound governance structure:

- Resource Alignment – The company needed to determine the accountabilities and decision rights of operational governance of the applications maintenance function and the provider agreement that supports it.
- Organizational Review – To design and build new operating procedures, the company needed to establish working groups. Additionally, it needed to ensure that the delineation between the two organizations' responsibilities was clearly articulated and documented.
- Process Planning – The company needed to work through the list of governance processes to determine what the highest priorities were. It then needed to develop a timeline for customization and implementation.
- Documentation and Implementation – To ensure both immediate- and long-term adoption of a governance approach, the company needed to create job-level documentation of governance processes and outputs.
- Tools Assessment – The company needed to identify supporting tools to facilitate immediate- and long-term operational governance processes.

Further, once all the governance processes were reviewed and evaluated, EquaTerra guided the global healthcare company and its service provider in identifying priority processes to focus on improving first. These processes included:

- Service Performance Management: Current service level agreements (SLAs) were not being met, the provider was facing severe attrition issues, and there was a lack of reporting processes in place.
- Root Cause Analysis: The provider was not doing the root cause analysis as required.
- Contract Issue Management: Contract issues were not being captured and tracked.
- Consumption and Capacity Management: There were problems managing allocation of the provider's staff to off-shore and skill-specific towers.
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- Invoice Verification and Payment Authorization: Month-to-month adjustments to the invoices unfortunately had become standard operating procedure.
- Financial Performance Reporting: The financial reporting needed to support the distribution of AM&S cost center responsibilities.

Overall, EquaTerra spent a significant amount of time identifying processes, assigning roles, confirming the right people were assigned to the right projects and explaining how each role worked.

To arm each stakeholder for success, EquaTerra conducted a series of workshops that were geared toward ensuring the new governance processes took root. The first series of workshops helped educate the company and its service provider about what roles and responsibilities would be required in the new managed services outsourcing environment. Additionally, EquaTerra conducted a series of process workshops to help the two companies better understand how processes would work in the new managed services model. Overall, the workshops created the groundwork for better communications between the two parties.

Results

Several benefits have resulted from EquaTerra's engagement:

- Clearer levels of roles and responsibilities defined: EquaTerra was able to ensure the right stakeholders from the company and the provider were assigned to the right roles, and each stakeholder understood what was expected of them.
- Greater accountability from both parties: Because each stakeholder understood his or her role, there was a greater sense of accountability to get things done.
- Better communications: The workshops created the opportunity for the two companies to better communicate their needs and then work together to develop solutions to meet those needs.

Today, the company and its provider have significantly improved relations. The provider no longer is an "order-taker" but is rather working towards the goal of operating in a more proactive managed services role.

Advisor Insights

Norm Abramson, one of the EquaTerra advisors overseeing this project, provided some insights into what factors have contributed to making this engagement a success. He says it's critical for companies to involve a third-party consultant from the beginning of their outsourcing journey. Experienced consultants can work on a company's behalf to ensure that a strong governance model is a part of any outsourcing effort, thereby poising a company for success.

Another important consideration Abramson notes is companies should be sure they completely understand the differences between a staff augmentation model and a managed services model. Staff augmentation requires a company to participate in staff micromanagement. This model is often considered contradictory to creating a productive sourcing environment. On the other hand, a managed service environment allows for a company to express its goals and objectives and then enables the provider to do what it needs to achieve those desired outcomes.

Abramson also notes a company shouldn't underestimate the importance of dedicating people to oversee, or govern, a provider-client relationship. He said, "When we came on-board, we found there weren't people on the ground right then and there to develop those processes and take ownership of them."

Abramson recommends companies assign process owners upfront so there is no confusion as to who is responsible – and accountable – for what.

"We find a lot of companies underestimate the resources needed to support a governance organization," commented Abramson.

About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their IT and business processes. Our advisors average more than 20 years of industry experience and have supported over 2000 transformation and outsourcing projects across more than 60 countries. Supporting clients throughout the Americas, Europe, and Asia Pacific, we have deep functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes. EquaTerra helps clients achieve significant cost savings and process improvement with internal transformation, shared services and outsourcing solutions.

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