ISG

imagine your future®

PERFORMANCE-BASED
CONTRACTING

The Next Step in Sourcing

Lauren Herbert and **Jaimee Colenso**

ISG™

Measuring Performance in Sourcing Contracts

It has long been standard practice to include performance-based metrics in sourcing contracts. These metrics have traditionally been in the form of key performance indicators (KPIs) and service level agreements (SLAs) to define minimal acceptable service standards. The assumption is that if providers maintain certain standards – a set number of full-time equivalents on the service desk or a set number of days to answer service requests – then the quality of the service is being effectively managed.

Today, high-performing organizations are increasingly building experience and satisfaction metrics into their sourcing contracts, especially in cases where the services delivered have a direct impact on the end user and the contract is "outcome-based." Outcome-based contracts are those in which either all or part of payment to the provider is tied to its ability to achieve a specific outcome or result.

There is growing recognition that, due to their high level of business visibility, end-user services play a critical role in shaping perceptions of the entire IT organisation. For many users, end-user services will be the only interaction they have with IT. It is also worth noting that users often do not differentiate between service provider entities that deliver services and internal IT teams that simply manage the provider relationship.

The concern with traditional approaches to performance management is that end users tend not to be aware of, or particularly interested in, KPIs and SLAs. Instead, they focus simply on whether or not the service is meeting their expectations and allowing them to perform their roles effectively and efficiently. To assess this, the enterprise needs to measure how users perceive the quality of services with a more nuanced view than KPIs and SLAs alone can demonstrate. The answer? End-user satisfaction metrics.

The Need for New Metrics

It is possible for service providers to meet established SLAs and KPIs and for users to be simultaneously unsatisfied with the quality of their technology experience. This is why leading enterprises are complementing traditional performance metrics with indicators focused on the user experience, which they evaluate through a user-feedback program.

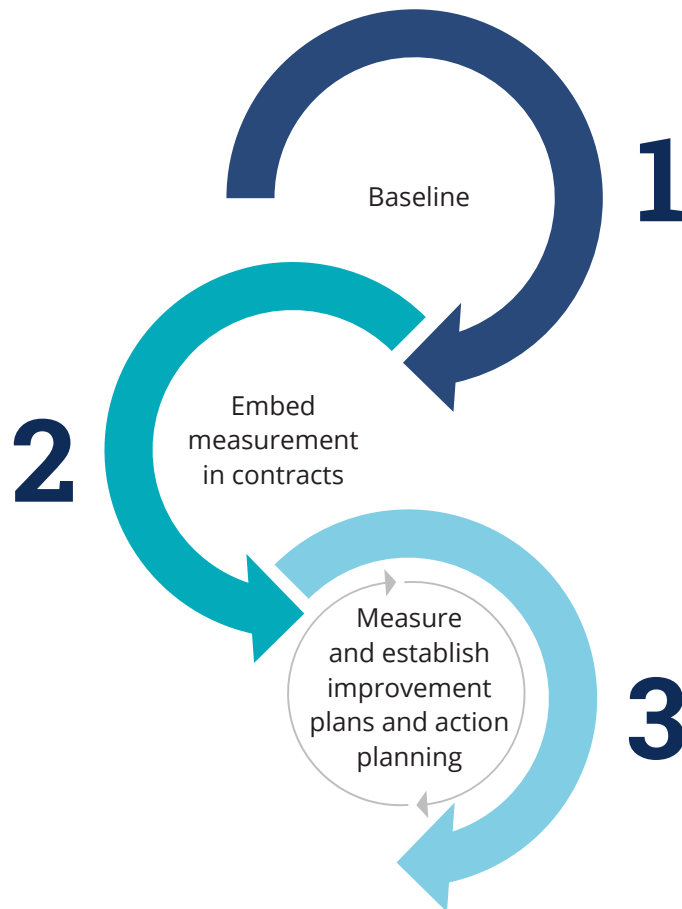Building end-user satisfaction measurement into a sourcing contract requires three distinct steps:

1. **Baseline the workplace technology experience.** This typically occurs prior to a change in service delivery, whether that is a transition from insource to outsource, from one service provider to another or simply re-contracting with an existing service provider. Measuring performance at this stage enables organizations to establish the basis against which ongoing improvements can be measured over time. Incentives and penalties over the lifespan of the contract are then contingent on how end-user satisfaction tracks over successive waves. In the case of transitions from one provider to another, or from in-house to outsource, an initial decline in user satisfaction can be expected. It is therefore

critical to measure satisfaction six months post-transition. This will identify pain points and give the provider an opportunity to stabilize these areas before end-user satisfaction becomes a KPI at the twelve-month post-transition mark. An enterprise can then base incentives objectively on the provider's ability to lift end-user satisfaction above the baseline.

2. **Entrench user-experience metrics into the fabric of the outsourcing contract.** This means providers must commit to regular assessment of end-user satisfaction at defined intervals. The enterprise and provider should agree on minimum levels of wave-on-wave improvement either at the outset of the contract or after each successive measurement wave. This is frequently done in collaboration with an independent third party who can advise on creating targets that are achievable and in line with industry benchmarks. Targets must be realistic, independently measured and accepted by all parties.

3. **Establish improvement and action plans.** During this stage, user feedback must be distilled into specific recommendations for improvement in shared sessions with both the provider and the client. Both parties commit to specific actions designed to improve satisfaction and assign responsibility for these actions. The success of these initiatives is assessed in the next wave of feedback, as is depicted in the figure below.

> The enterprise and provider should agree on minimum levels of wave-on-wave improvement either at the outset of the contract or after each successive measurement wave.

Baseline — 1

Embed measurement in contracts — 2

Measure and establish improvement plans and action planning — 3

Performance-based Contracting

Performance-based Contracting in Multi-provider Environments

In multi-provider environments, the basic principles of performance-based contracting remain the same; however, each distinct aspect of the end-user experience is mapped back the individual service provider.

For example, if one service provider is responsible for the help desk, remote and desk side support, then user feedback on these services forms the basis of the performance evaluation. Separate and distinct feedback is obtained for services provided by other providers (e.g. end-user computing, tech bar, etc.). This not only enables fair evaluation of the end-user services but also ensures improvement initiatives and action planning are targeted to the appropriate provider groups.

At the end of the measurement exercise, bringing together providers to align action planning and priorities helps create a cohesive approach to the services being delivered to the business.

Guidelines for Measuring the End-User Workplace Technology Experience

The following factors must be considered when measuring the end-user experience.

Sampling

In large organizations, it is not practical or necessary to measure the entire population. Instead, work to obtain a statistically robust sample. Target a statistical confidence of 95/5 at the overall survey level. For most organizations, this would mean inviting a sample of 4,000-5,000 users to participate in the survey.

Survey Fatigue

It is important to minimize impact on end users when measuring the workplace experience. In most instances, user experience research programs are run on an annual basis, but in times of change this may increase to bi-annual. Surveys should take no longer than eight minutes to complete, and refrain from surveying any one user more than twice in a twelve-month period.

Benchmarking

External benchmarking is necessary to set context and understand how the experience compares to other organizations. To ensure an impartial and unbiased account, engage an independent third party to collect the feedback and prepare the results.

ISG Satisfaction Benchmarking works with large global organizations to measure, monitor and benchmark user experience with workplace technology services. Our User Experience index (ISG UEi™) assesses user satisfaction with day-to-day technology including support, services and workplace tools. In addition to one of the largest databases of end user satisfaction benchmarks in the world, we provide a proven methodology for designing and executing workplace technology diagnostic programs. ISG has a track record of delivering action-oriented outcomes that enable IT to drive targeted change and the expertise to assist in setting realistic performance targets for future improvements.

Each distinct aspect of the end-user experience should be mapped back to the individual service provider.

PERFORMANCE-BASED CONTRACTING
The Next Step in Sourcing

LAUREN HERBERT

Lauren is a Senior Research Consultant who works to measure and assess the health of business to business engagements amongst many large organizations. She has run a number of programs assessing the User Experience (UEi™) and health of Business and Vendor Relationships (BRm/VRm) between users of technology, technology groups and external vendors. She has conducted more than 100 interviews and worked on a number of bespoke customer satisfaction and programs for clients in manufacturing, resources and the financial sectors.

JAIMEE COLENSO

Jaimee manages the benchmarking database and analyzes business-to-business engagements for some of the largest Australian and international organizations. She is involved in the design and delivery of ISG's User Experience index (UEi™), taking an active role in the end-to-end research process from design to data analysis and report delivery. Jaimee has expanded the UEi™ question library and the ISG Satisfaction Benchmarking database, which has led to a considerable broadening of ISG's benchmarking capabilities.

ISG™

imagine your future®

ISG (Information Services Group) (NASDAQ: III) is a leading global technology research and advisory firm. A trusted business partner to more than 700 clients, including 75 of the top 100 enterprises in the world, ISG is committed to helping corporations, public sector organizations, and service and technology providers achieve operational excellence and faster growth. The firm specializes in digital transformation services, including automation, cloud and data analytics; sourcing advisory; managed governance and risk services; network carrier services; technology strategy and operations design; change management; market intelligence and technology research and analysis. Founded in 2006, and based in Stamford, Conn., ISG employs more than 1,300 professionals operating in more than 20 countries—a global team known for its innovative thinking, market influence, deep industry and technology expertise, and world-class research and analytical capabilities based on the industry's most comprehensive marketplace data. For more information, visit www.isg-one.com.

Let's connect NOW...

Performance-based Contracting