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Commentary

IT Services Contracts — Strategic Objective Statement

Service contracts must reflect the strategic objectives of the parties involved. Policy issues that arise during the life of the contract can only be reliably resolved if both parties use their objectives to guide the evolution of their relationship.

Gartner recommends that enterprises ensure that a strategic objective statement forms part of the contract between the service provider (SP) and service recipient (SR). This expression of strategic intent should encapsulate the SR's objectives and the SP's intentions as they apply to the deal.

Purpose

A strategic objective statement describes the parties' strategic intentions when entering into a service agreement, and should provide a clear statement of what constitutes success within the SR's and the SP's businesses in the context of the deal. The statement will enunciate how value is derived in cultural, process, financial and output terms for the SR, as well as the regional, vertical and resource leverage for the SP. As the parties' businesses evolve, the strategic objective statement should be revisited and rewritten as appropriate.

Importance

Inappropriate budget allocation and service priority setting by relationship managers with inadequate knowledge about the corporate objectives of the deal are consistent causes of relationship failure in deals with external services providers. An example might be where an enterprise enters into an outsourcing relationship to foster delivery innovation, but the deal is managed to deliver continuous cost reduction instead.

This situation typically arises when executive leadership drives the enterprise into an external service relationship, then backs out of involvement and supervision when the deal is executed. This leaves success criteria ambiguous and forces the personnel assigned to manage the deal into the untenable position of making operational decisions on an improvised basis without a clear understanding of what was intended by entering the relationship in the first place. The outcome often ensues where service-level targets are comprehensively met, but end users and business unit owners are dissatisfied that the relationship does not help them meet their business goals. Such deals tend to fail, because the scope of work focuses only on tactical requirements and not on an alignment to a higher notion of business need.

Making the business value proposition of the relationship explicit for both parties should significantly assist in addressing this issue.

Another frequent source of mismatched expectations between the parties lies in the functions to be performed by the SR's retained organization. The SP can go to contract expecting that a number of management functions will be performed by this retained organization, only to find that the team is eroded over time and its functions are expected to be performed by the SP. Formalizing this expectation at the start of the relationship — and updating it during the life of the relationship — provides a framework to which both parties can manage.

Structure

Within the contract document, the strategic objective statement consists of a short statement of key principles and agreements between the parties that will drive value from the execution of the deal. Specifically, the following items should be included within the strategic objective statement:

- A statement of the SR's business objectives from the deal
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- A statement of cultural change expectations within the SR
- A statement of innovation expectations and capabilities of the SP
- A statement of the SR's management and organizational structure expectations at the end of transition, once the relationship is fully operational

Examples

SR objectives might include:

- Continuous cost reduction
- Introducing cultural change around financial accountability
- Access to best-in-class skills and resources to guarantee reliability
- Leveraging the innovation capabilities of the SP to seek competitive advantage
- Adopting a more-virtual organizational structure
- Simplifying management by eliminating capital spending and human resource requirements for internal provision

The SR objectives should be matched up with the concomitant SP objectives, which might include:

- Delivering good margins by leveraging client satisfaction
- Building a key reference account in the SR's vertical industry
- Establishing a leveragable center for excellence in the SR's geography
- Exploiting underutilized specialist resources in a key industry or geography

This assists the SR and SP by providing principles by which operational questions may be resolved and an explicit reference point by which to adjudge when it is necessary to transform the deal around new strategic objectives.

Bottom Line: Enterprises choose to use external services providers because they have some explicit strategic objectives they are trying to meet. Only by making those strategic objectives clear and explicit can the SP have a sound basis for successful innovation — and the management team from the SR have the principles it needs to make correct business decisions for the enterprise.