

Relationship management

An appropriate governance structure leads to outsourcing success at Miller Thomson



Fraser Mann,
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When two or more businesses agree to enter an outsourcing agreement, one of the most important issues to be addressed is the establishment of an appropriate governance structure. According to Fraser Mann, Partner with Miller Thomson's IP/IT Group, the governance structure should allocate responsibilities, create clear channels of communication, establish proper mechanisms for dealing with change and set up ongoing performance reviews.

"The goal is to meet the business needs of the parties and establish objectives that they are trying to achieve," he says.

Within the governance structure, it is recommended to set up at least three working committees with varying degrees of responsibility.

1. Senior Executive Committee: This group should be led by a senior management representative from each party and could also include a few other senior management personnel with varying roles and specific expertise. It will function as the oversight body, at the management level, for the outsourcing relationship.

Responsibilities: Establish strategic direction of the relationship, oversee budgetary approvals, approve the overall performance measurement framework, deal with disputes and/or issues in the relationship.

Meetings: Consider convening bi-monthly (or more frequently if requested, especially during the start-up phase).

2. Management (mid-level) Committee: This group provides advisory support to the senior committee. It should consist of management from both parties and be led by the parties' executive sponsors of the outsourcing relationship.

Responsibilities: Develop a long-term business plan, decide on priorities among various projects as part of the outsourcing



relationship, review service levels, look for new business opportunities within the context of the arrangement.

Meetings: Meetings should normally be held on a monthly basis.

3. Operations Committee: This is an on-the-ground committee, responsible for the day-to-day operations. The employees of the two organizations responsible for managing the relationship between the outsourcing parties should be the co-chairs. It could also include technical resources as well as representatives dealing with specific aspects of the outsourcing relationship.

Responsibilities: Manage the "change management" process to ensure changes are properly approved and the implications of changes are fully considered and addressed, ensure a "problem-resolution" process is in place and oversee the resolution of any issues that may arise, decide what information will be escalated to the other committees.

Meetings: Convene on a weekly basis. "In addition to these committees, it is important to identify other roles within

the governance structure," says Mann. Consider having someone who has overall responsibility for the 'transition-in' process. "This means, assign one resource to ensure everything that needs to be done to implement the outsourcing relationship is occurring upfront." Then, consider assigning specific individuals to oversee problem management and dedicate other resources to oversee the requirements of the deal.

"Another thing to consider is the reporting structure," says Mann. "In other words, identifying what reports are to be provided and how frequently they are to be provided, and what supporting documentation goes with each report." Typically the governance structure will be attached as a schedule to the agreement, which will detail all requisite parameters.

Mann says: "The primary risk of not establishing a formalized governance structure up front is that there will be a lot of uncertainty as to who is responsible for what and the project may go off-track because business needs will not be met and disputes could arise as a result."

Though it is not complicated to put down on paper what a good governance structure is, Mann advises the challenge comes in making this governance part of each business' corporate culture. "We have to go through, with all parties, what they need in order to implement this business structure."

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