

# IT OUTSOURCING: THE ELEPHANT AND THE WATERMELON

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# THE ELEPHANT AND THE WATERMELON IN IT OUTSOURCING

Failure to agree on common definitions for performance metrics in outsourcing relationships can lead to missed expectations and serious contract disputes.

It is not uncommon to see outsourced service providers reporting outstanding performance quarter after quarter on their service level agreements. It is just as common for key business stakeholders to express extreme frustration with the quality of service from enterprise IT. We refer to this as the Watermelon Effect.

Watermelons are green on the outside and red on the inside. In the very real scenario described above case, the service provider has green on their dashboards, but the CIO and the business stakeholder are experiencing red within the organization. Why does this happen? Everyone is touching some part of the Elephant.

In the well-known parable, blind men touch different parts of an elephant but fail to agree on what the creature is.

The Elephant and the Watermelon are metaphors for real-life misunderstandings that often derail performance in outsourcing contracts, leads to animosity and bitterness in relationships between vendors and their clients, and sometimes leads to lawsuits for contract breaches and performance failures.

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## TWO SIDES OF THE SAME COIN

Here is what the internal picture looks like for a CIO:

- **Everyone is focused on their own piece:** You went from having complete control of all aspects of IT to a multi-vendor environment (including your own internal org that retains some functions). Everyone is focused on their piece, and are neither accountable nor care for how the other pieces function.
- **You do not have an outsourcing czar:** There needs to be someone who is focused on end to end service quality at the enterprise level. This individual knows how the individual service components work, and has a deep understanding of outsourcing and offshoring. If you do not have one of these folks, then you are it.

- **You think you have handed over the keys to the kingdom:** In large outsourcing contracts, clients hand over (or think they have handed over) substantially all control over IT operations to the service provider, and hope the provider will step up and whip the environment into shape. Unfortunately, many service providers fail to do that.

Here is how service providers approach outsourcing contracts:

- **Define SLA's in a way that it is impossible to miss them:** An example of this would be to sign up for system down times at aggregate levels, so even if one component of the system (let's say a critical hospital in a large system of hospitals and clinics) is down for half a day, it all comes in under allowable limits at the enterprise level. The system looks like it's functioning well at the enterprise level, however for that one hospital, a critically ill patient's life may have been put at serious risk due to an inability to access the EMR system during an episode of care.

- **"Negotiate" exclusions:** Service providers have mastered the art of holding everyone other than themselves responsible for service quality deficiencies. When there is a failure somewhere, they will quickly identify some other component of the system that caused it and negotiate exclusions to avoid penalties.

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- **Downgrade the critical SLA's:** Service providers know all too well where the challenges are, and they will be careful about assigning higher risk pool percentages to these critical items.

## BUILDING HEALTHY OUTSOURCING RELATIONSHIPS

Here are some things service providers and clients can do to avoid this:

- 1 **Hold each other accountable:** In large outsourcing relationships, the client all too often tends to blame the service provider for everything. For their part, service providers fail to insist on the client's fulfilment of their obligations around a robust technology environment, governance and compliance with internal policies and standards. Holding each other accountable through robust governance is key to making it all work.
- 2 **Define service levels in a meaningful way:** What's the most critical indicator of service quality, and how does one measure it? Unless you know the answer to the question, your SLA's are pretty much meaningless. Make the effort upfront to define metrics and ensure all around agreement and alignment before you commence transition.

- 3 **Manage expectations:** All too often, internal customers will demand that IT commits to things like four-nine system availability without understanding that it costs money to build an environment that will meet the expectation. There is a cost-benefit relationship between every system performance metric and the needs of the business.

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Ultimately both service providers and clients want to succeed. The Elephant is a gentle creature and the Watermelon can be the fruit of joint labor.

# ABOUT DAMO CONSULTING

Damo Consulting is a growth strategy and digital advisory firm that works with healthcare enterprises and global technology companies. We help develop and implement digital transformation strategies and enable market growth strategies. We specialize in thought-leadership led brand transformation and actionable healthcare market intelligence.

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