



Good Governance

sourcingfocus.com roundtable in association with IBM and the NOA

Good governance is critical to the success of any outsourcing venture. It is an enterprise wide, overarching corporate function, aimed at delivering innovation, value and mitigating risk to the business. An exclusive sourcingfocus.com roundtable, in association with IBM and the NOA, examined how governance should provide a management continuum throughout the outsourcing life-cycle to provide a consistent and appropriate focus on strategic outcomes.

Good governance is a formal decision making framework to align services with the business, technical and sourcing strategies of the client and should not be undermined by the distractions of every day operational issues. Put simply: governance really matters.

Definition and assessing the value of governance

Effective governance provides significant benefits to all parties by providing the focus, pragmatism and direction to drive value. As such it is important that the definition and objectives of governance are agreed, at the beginning of a partnership, as a formal, disciplined, hierarchical and sustainable management framework, with clear objectives.

Governance objectives:

- Nurture and enhance the relationship between provider and customer
- Focus on the strategic business objectives and imperatives
- Enable the delivery of quality services to meet business needs
- Satisfy the expectations of the stakeholders
- Enable effective decision making and mitigate risk
- Foster the creation of value and enable innovative practices to flourish
- Enable effective communication
- Establish trust and confidence between all parties
- Provide oversight and direction
- Maintain stewardship, responsibility and accountability

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Paul Hart, Senior Managing Consultant, IBM Relationship Alignment Practice, told attendees how governance is not contract specific, but instead designed to create a formal framework while encouraging participants to make the right decisions.

“Governance is overarching and reaches into each phase of the outsourcing procurement life cycle. It is a vehicle for developing a sustainable service.”

Users should discover how governance actually informs their business strategy and whether contracts reflect the expectations of the customer and shareholders. “Good communications ranks as one of the key processes, with a focus on clarity and understanding by all parties involved.” Hart also identified that sometimes roles in outsourcing relationships “are not clearly defined, this can be a serious error.”

Relationship governance – the key components

Relationship governance defines the set of rules and procedures for empowering parties to move forward in their relationship. Without an effective means of “relationship governance,” the communications fail, and the relationship fails.

Establishing all the key components for relationship governance is essential for a successful outsourcing partnership. Hart shared his thoughts with the attendees on the principle components of relationship governance.

>> Mission

Clear strategy, intent and direction for the relationship between customer and provider

>> Roles & Responsibilities

Who is responsible for what, and to whom they are accountable - both customer retained organisation and service provider

>> Organisation & meetings

A joint governance structure and formal reporting mechanisms to provide focus at the right level with the right stakeholders

>> Processes

To provide the day to day management, rigour, discipline and information accuracy/currency required to support effective decision making

>> Policies and standards

Encourage the right behaviours and attitudes in line with the mission

>> Measures

Metrics to foster informed executive decision making e.g. KPIs & CSFs

Helping the relationship

The importance of establishing clear communication in a relationship and the need to bring the correct individuals to meetings between users and suppliers was emphasised by Matthew Bennett, Partner, Olswang. “Suppliers definitely want to meet people at the right level throughout and the inclusion of the right people at the right meetings with effective communication can result in meaningful outcomes.”

The importance of culturally compatible partners in the relationship was raised: “Before you have a relationship, work out if your companies can mix culturally” Bennett said. It is typical that a service provider will have a different culture to a consumer and a different perspective as to what represents good business provision.

Martin Cook, Principal Lawyer, Royal Mail, agreed and stated that the right mix of cultures is also imperative for a successful outsourcing relationship to work. “A relationship strategy is important to show and develop the kind of relationships which are needed for long term engagement and confidence. Expectations should be clear so they eventually lead to clear objectives which should automatically sync over time.”

Keith Fisher, Procurement of Contracts, telecommunications provider 3, commented that he saw outsourcing moving into multivendor governance arena to further help relationships where the bringing in of a third party will move focus away from blame and promote trust.

Outsourcing is a sensitive area and a clear relationship strategy should be designed to promote confidence. “Cultural differences can be balanced with a relationship strategy in order to show and develop the kind of relationships which are required for long term engagement and confidence” commented Hart.

The creation of a relationship charter can help users to measure relationships. The main measurements are the speed of delivery and the quality of the service; however these measurements are both subjective.

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In order to assess value and help a relationship, there is a need to establish both parties' expectations from the beginning.

“For governance to work well, there is a need to understand intent and ensure that both parties are working towards the same goals.”

It is rare that contracts correctly reflect the expectations of the customer. Good governance is designed to articulate the expectations of both parties.

Introducing change within contracts is expensive and wastes time, it is better to plan for change and only carry out small changes. There is a need for focus on the importance of getting governance right the first time and that contracts should be “100 per cent concerned with the outcomes of relationships” commented Hart.

Checklist

A governance checklist is an easy way to identify your organisation's particular strengths and to make sure that you are not neglecting any major governance area. It is also a practical tool to plan and prioritise your organisation's governance performance.

G4S's contract with Locog provided a catalyst for an open discussion based on good and bad examples of governance in the public space. This G4S partnership was discussed as an example of poor governance in which the service required change management without room to adapt amid poor communication.

The question of whether the right people had been involved during governance was also raised and four key questions were suggested to maintain whether governance is working or not.

- Is communication clear and effective, does the user understand what the supplier is doing?
- Are the right people at the right meetings discussing the right topics and making the right decisions?
- Does the contract need revisiting at regular stages through health checks?

Is it possible to carry out governance outside of the contract in order to promote flexibility?

A governance model should not be static and a standard template should be avoided. If it is possible to formalise as much governance as possible then all the better – within formalising, flexibility remains the key to a successful outsourcing relationship.

Contracts and incentivising

The assessment of KPIs can indicate success despite parties feeling otherwise, Bennett spoke of

how metrics can still be “green when no one is really happy.” The employment of effective governance includes the ability to accurately measure the status of contracts, including the use of regular health checks.

Bennett continued to discuss varying strategies of incentivising suppliers including financials, targets, company investment, benefits and rewards. “New innovative ways of employing a carrot and stick approach can reap dividends; natural competition and financials can naturally be used as useful incentives.” Bennett stated that although incentivisation is important, limits need to be established on the practice.

Attendees agreed that natural competition is a positive thing in outsourcing relationships. Omokorede Olatunji of NHS Haverling, stated that financials are indeed a strong incentive, especially when used within multisourcing agreements. Incentives can also bring a competitive edge where suppliers vie to exceed KPI targets.

Conclusion

Attendees agreed that the end of an outsourcing relationship can often be a turbulent period which will, one way or another, affect the speed of transition between past and future suppliers. In addressing the governance strategy for exit provisions, forward planning was emphasised along with the need for on-going and clear communication.

It was established that good governance is brought about through trust rather than a defensive stance. Bennett advised that it is often useful to have a third party to look at relationships, as it is often easier for an outsider to see if governance is working or not.

Hart concluded that he saw good governance as balancing human emotions with a cold numerical side. “One could employ basic frameworks at the beginning, but “there is a need for refinement after a short period in terms of the relationship building.”

Ultimately good governance is essential in ensuring that both suppliers and users maintain clear communications and understand each side's expectations. All attendees agreed that while governance is at the core of successful relationships, it is also at the core where outsourcing relationships go wrong. Governance must remain flexible and involve the right people if it is to properly guide outsourcing relationships.

Please visit www.sourcingfocus.com for the full set of slides from this event.