THOUGHT LEADERSHIP

GOVERNANCE IN SOURCING – HONEST INTENT OR GENUINE COMMITMENT?

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IT'S NOT PROJECT MANAGEMENT

English is an amazing language. Almost every action or perception can be described using many words, that we have taken synonyms for granted, especially in the world of global sourcing. Human Resources department does nothing more than manage files of personnel with most time spent in recruiting or firing. Talent development is a fancy term to describe nothing more than the daily grind of tracking training programs to satisfy regulatory reporting requirements. Human capital management is another glorified term that indicates nothing more than administering annual appraisals and retrofitting all performances into a bell curve, so as to minimize (more often than not) payout of bonuses. Corporate governance is an appealing term used to indicate nothing more than having audited corporate financials once a year. And of course, one of the most abused terms is Project Management. Every initiative has to be termed a project, and has to have a PMP leading the initiative. Most leaders couldn't tell the difference between project management on the one end, and engagement governance on the other end. It gives me déjà vu every time I find myself with people having these conversations – that global corporate certifications are needed to increase marketing capital, and not necessarily to furnish guarantees of actual impact and endeavor. With global sourcing, engagement governance as a two-way continuous process has been given short shrift. When questioned about governance, clients do not think it necessary to invest time and attention, while service providers don't think it necessary to complicate matters when a deal has been won.

The Governance Milieu

The past two decades has seen the sourcing marketplace go through some significant upheavals, both on the client and the service provider side. Deals have moved from discrete single-service opportunities to a multi-dimensional portfolio set spanning a variety of functions. Clients have moved away from single measures of cost savings to multiple tangible measures like capital conservation ratios, time to market reductions, return on technology efficiencies, return on human capital employed et al. On the other end, service providers have also begun to move away from discrete service levels – hitherto written in stone regardless of business changes – for the tenor of the contract, where the only goal was to maximize utilization and increase production efficiencies such that contracted rates could increase margins year on year. Discussions on whether such service levels were truly reflective of the impact clients desired were few and far in between. Today clients are demanding service providers to hold themselves accountable to much more than services performance. They expect service providers to share in the business and tactical risks, while also reap the benefits of such sharing. This transformation has happened slowly, yet surely over the course of the past decade. Questions surrounding the importance of service levels and risk-averse pricing models that service providers deployed are ad infinitum. Most importantly, clients have begun to pay attention to not just the competencies of their service providers, but also to the manner in which such relationships are managed. In the context of business changes, technological redundancies, increasing requirements to support mobility, and a surge in the discerning nature of end-consumers, client-service provider relationships can no longer be driven by simple “I promise to” contracts. A continuous effort to manage not just expectations, but also outcomes has taken center-stage today. The stakes are higher than ever before - the “fix the blame” attitude one finds among buyers (not questioning the drivers for such attitude) and the retorting “out of our scope” responses from service providers is not acceptable any longer, as both entities are conjoined at the hip in today’s globalized marketplace. The emphasis here is not on the services, but on the “impact such services” have on business goals. That’s exactly what engagement governance aims to manage and promise.

Honest Intent with Governance

It is not new language – service providers know it, buyers know it, and the marketplace is agog with reams of information on what engagement governance means, and what it could potentially deliver, assuming appropriate rigor with its institution in the first place. Honest intentions to deploy governance in organizations are aplenty. Personally I have seen the term find its exalted place in sourcing contracts now more than ever. What saddens me however is that such inclusion happens if and only if clients ask for it. In such cases the expectations with governance are almost always one-sided conversations, where clients would like to hold their service providers accountable for a set of deliverables. More often than not, service providers see no way around it, and agree to Holy Grail terms and conditions that seem like the death knell if not complied with. Consequently governance becomes nothing more than a reporting exercise for the service providers and a context of maturity for client organizations. Such governance models seem more like employment contracts, where the implied threat of non-performance only goes one way. Mutual accountability for administering and managing performances at various levels that drive the ethos of an engagement are nowhere to be found, except in the fact that their impacts are manifested in terms of financial penalty clauses. Such an effort does little to promote the positive gains governance can, and does accrue on both entities.

This does not indicate that the marketplace has not been able to justify the need for governance. The financial impact governance creates, the rigor it brings to the table where additional effort and competence outlays have to be accounted for, takes the sheen away from expectations of quick implementation. Hence even committed buyers/ service providers in the absence of ongoing commitment see their pre-agreed governance models/ structures diluting into nothing more than fancy management reports. The cost of implementing governance cannot be ignored. It is not free, and neither is it always feasible for service providers to bundle the costs of implementing and pass through to their clients. On the other end, clients also don't necessarily appreciate that the cost of engagement governance is a component parcel of their own costs of managing business, and tend to view such spend as additional, not necessary to achieve business goals – hence the dilution to the point of irrelevance at both ends.

Genuine Commitment to Governance

So what then is governance exactly? It is a comprehensive set of processes that are created, instituted, deployed and managed at both ends of an engagement consistently, continuously and rigorously. These processes are inter-connected, and have matrix relationships with performance expectations on the one end, to measuring tangible business outcomes on the other end. While the former is driven by the boundaries agreed to within the context of a deal, the latter is the real emphasis governance demands effort is tagged to, such that risks are reduced, and business goals are furthered. Benefits then are proactively pursued because clients and service providers cohesively agree on such goals. Such an institution of processes needs a host of competencies – from project management, escalation protocols, to impact assessments, risk management, forecasting improvements and demand management. While a governance model is created and instituted within the aegis of an engagement (driven by a master services agreement and services schedules), where the focus is on delivering technology or business services, the focus shifts from measuring "service performance" to measuring "impacts of service performance". Such impacts are necessarily tied directly to business goals. I have always found it amusing that a cost-centric service engagement - where the service provider is paid for processing inputs within agreed timelines (and some additional service-centric measures) – reports as having the ability to increase revenues for the client by 15% or 20%. Inquiry as to how cost-centric services delivered by the service provider result in new revenues for the client are measured or mapped more often than not are very ugly and oblique conversations to have. Claiming a business impact requires verification, which in turn requires appropriate measures, which in turn requires administering the right processes to track the impact, which in turn need commitment from the service provider to pursue goals that are over and beyond their ability to deliver services.

The question that immediately comes to mind now in the context of the above statements is – do we need to employ new people as that would increase costs and there is not much visibility to the impact such resources shall make? I think it is the incorrect question to ask. The correct question is – what modifications should we bring to existing roles (both client and service provider side) to ensure effective implementation of governance where the pursuit of positive business impacts is guaranteed? Corporate hierarchies can play havoc on governance. Satisfying management egos on the one end, to increased expectation of higher compensations on the other end are realities with institutionalizing governance, hence justifying the need for engagement governance more often than not clashes with corporate policy chieftains whose single answer to all questions governance is “our policies are sufficient to address it”, thereby diluting genuine commitments to nothing more than honest intentions. In addition, using policy levers as the answers to all questions that an engagement brings to the table are both myopic, and suggestive of lack of emphasis on long-term relationship goals where collective endeavor results in higher value accrual, both financially and otherwise.

Process complexities in governance go beyond service-centric processes and make instituting governance a nightmare in most cases. Is there an easy way to reduce the pain? Unfortunately the answer is no. Is there one who can take accountability for not just instituting governance both sides of the aisle but also seeking consent from buyer’s top management – yes surely, and more often than not, it’s the service provider’s role to play. I would always encourage service providers to take the proactive step in initiating conversations around governance with their clients – for the simple reason (beyond all other positive aspects) that service providers have a clear and singular view to what they bring to the table for clients, while client organizations are focused on much wider aspects over and beyond a service provider’s business model itself. Hence a proactive endeavor from service providers reduces not just the pain at the client side, but also permits them to view such engagement governance positively and one that could be instituted across all their service providers. Most beneficially, such conversations result in co-development of governance processes where accountabilities are apportioned to both sides (and not like a hardware procurement contract or an employment letter where a one-sided implied threat of failure guides all clauses). Therein lays the ability and willingness for co-investments. Service providers will invest in client organizations in the face of a long-term relationship, positive focus on the future, and relative mutual respect that both have clear roles to play for an engagement to succeed. Clients can also see the benefits of such investments in achieving more tangible business measures that they are held accountable to by their Boards/ management as their service providers are not outside the spectrum but a component extension of their own function/ division.

In Conclusion

It goes without saying that governance is not just about managing a simple project, preparing issue logs and reporting on them, or firefighting every single morning where “Blame and not Problems” are fixed. Governance goes way beyond just articulating today’s effort. It is aimed at instituting discipline for today, forecasting for tomorrow, and committing to the progressive future of both organizations. Governance is not for free. There is spend associated with it and mutual commitments can reduce spend while not diluting the effectiveness. Governance is a living organism that needs to be nurtured, managed and evaluated for its effectiveness. Hence it goes beyond individual roles, and corporate policies. It is the conduit between expectations and actual results, and it is the bridge between effort and outcomes. Governance needs involvement from many across the organization, and is not a role for one individual. I have seen companies employ a Governance Head and hope he/ she can do all the things necessary for engagements to succeed. There can be no more damaging a mistake than that. Governance is a set of processes, disciplines and actions that are farmed out across the larger organizational population who have a vested interest in achieving positive business outcomes where conversations are not about “us vs. them”, but about “both together”.

About The Author

Bobby is the [founding] **Chairman & CEO** of **Matryzel Consulting Inc,** a strategy consulting, sourcing advisory and management firm headquartered in New York. Matryzel advises corporations and governments worldwide adopt concerted strategies aimed at enhancing competitiveness while focusing on their core competencies. He advises federal governments across four continents on ICT sector development with particular emphasis on policy development, industry-government partnerships aimed at creating GDP growth and enabling positive economic impacts. Bobby has advised Fortune 500 customer organizations on Strategic Planning, Mergers & Acquisitions, JVs, Private Capital Investment Evaluations, Process Reengineering, Pricing Strategies, Sourcing Relationships, Business & Financial Modeling et al, contributing immensely to global sourcing for clients. He is a sought-after speaker in conferences and round-tables worldwide where he moderates panels and presents content on thought leadership. He has been quoted and published in Forbes, fDi, Economist, The Outsourcing, ZDNet, CIO Africa, Brazil Exportati, Times of India, Business Week, New Straits Times, Malaysian Business, Technology Inquirer, Logicall Worldpress etc.