

SOURCING GOVERNANCE

Enabling  
Effective  
Sourcing  
Governance  
Through  
Technology

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**By separating decision making and relationship activities from supporting governance tasks, companies can garner new levels of efficiency.**

As many organizations face the challenge of harvesting the value from their sourcing arrangements, the approach for comprehensive governance of these relationships is still evolving. First, it generally takes organizations 18 – 24 months to implement and stabilize a proper sourcing governance organization. Second, organizations must recognize that it takes more than looking at service provider performance to be truly effective. By separating decision making and relationship activities from supporting governance tasks, companies can garner new levels of efficiency. To obtain this higher level of effectiveness, companies not only need to establish the appropriate governance structure and use qualified resources to perform the oversight functions; they also need to understand that technology enablement is a necessity for good outsourcing governance.

The role that sourcing governance tools can play goes beyond the collection of relevant service and cost data or the automation of standardized processes. These tools also help reduce the administrative workload of the governance organization resources while streamlining their work flow. They provide a single point from which to consolidate reporting and data capture in a consistent manner across multiple service providers, and, if used effectively, they tend to reduce the overall costs of governance by reducing the headcount requirements of the service management organization.

There are a number of tools available in the marketplace today that support sourcing governance. Most of them provide the ability to monitor performance of multiple service providers. The offerings vary in sophistication, however, and tend to be fragmented in terms of the areas they support. That is, many of the tools offer support in a specific service management discipline such as contract or financial management without facilitating automated solutions in other key governance disciplines. When considering the type of tool appropriate for your sourcing environment, it is best to look across the spectrum of governance activities the organization is engaged in to ensure that you are securing technology that best matches all those needs.



**The collection and consolidation of service level metrics is an obvious candidate for technology enablement.**

## **PERFORMANCE MANAGEMENT**

In terms of sourcing performance management, the collection and consolidation of service level metrics is an obvious candidate for technology enablement. The ability to review and report the performance results of multiple service providers from a single, consistent source allows for common understanding and evaluation of the data. The most effective tool in this instance would be one that is capable of compiling the raw data that determine the metric results via automated feeds. This type of capability eliminates the need for manual data entry (and the accompanying data discrepancies intrinsic to such processes) and supports deeper analysis of the data to uncover causes and trends. It also provides the client the capability to make metric determinations independent of service provider manipulation.

## **FINANCIAL MANAGEMENT**

Another area where technology can play a significant role is in financial management and analysis. Managing the value of each sourcing arrangement requires not only the disciplined oversight of invoicing practices of the service provider, but also the consideration of other items that directly affect the financial aspects of the sourcing arrangement, including performance credits and earnbacks, spend pools, resource baseline usage, chargebacks and contract pricing adjustments. Furthermore, companies need to monitor the status of the actual contract value in comparison to the initial anticipated business case to ensure mitigation of value leakage. All of this activity lends itself to easily being tracked and reported through automation.

For invoice verification and approval, best practice requires a formal work flow to make it possible for the appropriate parties to participate in reviewing charges and related verification tasks in an orderly, controlled manner. Using technology to maintain an invoice verification work flow provides automated control over these steps and ensures they are accomplished in a timely, appropriate order. A tool's ability to integrate with your company's financial systems to facilitate the recording and payment of invoices furthers extends the efficiency and value of the automation.



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## **CONTRACT MANAGEMENT**

Although the attention to the contractual requirements of any sourcing relationship tends to be most focused during the initiation of the arrangement, the obligations defined in the contract must be managed throughout the life of the relationship. Using technology to support this discipline can help validate that the contractual requirements remain valid through the evolution of the sourcing arrangement.

Technology can assist contract management in a variety of ways. Some tools provide the capability to monitor contract deliverables and obligations, notifying responsible parties of upcoming actions and tracking the timeliness of those actions. Others assist with the tracking

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of contract issue resolution and contract interpretation actions, providing workflow capability for change request and contract amendment processes, as well as with the reporting of overall contract management effectiveness.

Although document management capability is a feature that is typically managed separately via specific tools developed for such a purpose, the ability to house relative contractual content within the governance tool itself generates far more effective control over contract administration functions.



**Strategic interaction with your service providers is a key function of governance organization resources.**

## **RELATIONSHIP MANAGEMENT**

Strategic interaction with your service providers is a key function of governance organization resources. This interaction occurs with varying degrees of formality and generally requires direct human contact. Nonetheless, technology can also support this interaction (and help make sure that it occurs regularly) by monitoring open action/issue items, keeping track of Governance Committee session occurrence and attendance, and acting as the repository for governance session agendas and meeting minutes. The tool can also be used to store customer satisfaction survey data, allowing reporting and comparison to service levels.

## **SERVICE CATALOG**

Many service providers maintain a catalog of available services for line-of-business customers that enable them to order these services. Having a governance tool that interfaces across service providers to capture these listings allows for the governance organization to better manage the consumption of such services while creating a single point of entry for customer selection.

## **OVERALL GOVERNANCE PROCESS HEALTH**

Best-in-class governance organizations today not only need to monitor and measure service provider performance, but they also need to measure and manage the effectiveness of the governance processes themselves. The reporting aspect of this type of monitoring is straightforward. However, the capture of the data across the service management disciplines requires a well-rounded tool that can provide all the depth of metrics necessary to determine your sourcing governance effectiveness.

## **CONCLUSION**

Identifying the correct tool for your particular sourcing environment is challenging. As we noted earlier, there are numerous options in the marketplace. The fact that the capabilities, cost and implementation approaches for these offerings vary widely is important to understand at the outset of any search. Identifying and formalizing the requirements that must be fulfilled for your situation will help narrow the search and make it more likely that you will identify the appropriate tool. Furthermore, the list of candidates narrows dramatically once you decide that options such as process automation and document management are necessary to your governance program.

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## ABOUT THE AUTHOR

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Tina has more than 25 years of experience helping global enterprises make smart IT outsourcing and governance decisions. Tina's team designs and implements Governance Managed Services and technology platform solutions to help companies reduce risk, cost and value leakage. Focus on business insights, advanced analytics and business outcomes uniquely enables ISG clients to achieve maximum value from their contracts and providers. Prior to ISG, Tina worked at Siemens IT Solutions and Services where she served as Vice President of the Financial Services sector and was responsible for a 600-person global sales and delivery team managing \$120 million in annual revenue.



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