

RESEARCH SUMMARY:

Ensuring Success Through Proper Governance

By neolT

Introduction

The concept of governance is not new to most organizations, but with the blinding pace of services globalization the term has certainly taken on new meaning. When companies began leveraging global resources to supplement or complement their existing IT staff, the model for governing the efforts of a distributed resource model were fairly straightforward. There was little complexity to these offshoring relationships that were focused mainly on saving costs on discrete projects. As buying organizations have adopted the services globalization approach, the size, scale and complexity of their distributed models have also grown and expanded. What was once the purview of project managers has now firmly become entrenched as a boardroom topic.

With scale and rapid growth come numerous challenges. Among these challenges are service failures, privacy violations, theft of data and inadequate cost savings to name a few. While such issues are often attributed to lack of capabilities and inconsistent quality on the part of the service provider, one factor that remains underrepresented is proper governance on part of the client. Inadequate attention to governance on the part of client organizations has been the single largest factor contributing to the failure of services globalization initiatives. This white paper will define the new meaning of governance and present a framework that best-in-class firms are leveraging to achieve success in their services globalization initiatives.

Defining Governance

Webster's Dictionary defines governance as "the act or process of authoritative direction or control". We extend this in our context to mean how services globalization initiatives are run – the people, processes, systems and controls.

What does governance enable an organization to accomplish? An effective governance structure enables the organization to ensure that its globalization initiatives remain aligned to overall corporate strategy. Such a structure also allows an organization to manage expectations and communications between its internal constituents and the service provider or its own offshore operations. The organization benefits by ensuring that services are delivered effectively, that internal constituents make the right decisions at the right time and that key stakeholders' expectations for service delivery are managed appropriately.

Governance is not a short-term or stop-gap measure. Ultimately, governance is about alignment, controls and benefits. To craft successful relationships with global vendors and distributed global operations, an organization must put as much effort into designing and implementing the governance structure as into writing the RFP, selecting the supplier, setting up an operation or negotiating the deal.

Layers of Governance

Best-in-class firms establish a governance body across 3 layers: Organizational, Functional and Operational.

Organizational Governance: At the organizational or company level, the role of the governance body is to ensure alignment between the overarching business strategy and the services globalization initiatives. Other key responsibilities include enabling demand aggregation, guiding the execution of firm-wide services globalization initiatives and ensuring adequate risk mitigation and controls. In summary, organizational governance ensures that the firm's business case for globalization is being established, monitored and achieved.



Figure 1: Layers of Governance

Functional Governance: At a functional level within the company, the role of the governance body is to enable coordination, communication and control between the various process owners and provide a mechanism for knowledge management and transfer. This takes on even greater importance when services globalization initiatives take on shared services characteristics.

Operational Governance: The role of the operational governance body is the actual management of the individual outsourcing contract or internal service levels. At most large organizations several operational governance bodies may be in place across divisions or functional areas. The operational governance body is tasked with managing the project's vendor or internal service level relationships, performance and resources – ensuring adherence to pre-agreed terms.

Implementing a layered approach is a critical step in developing an effective governance structure. However, in order for a governance body to be successful, 7 key factors need to be considered and integrated into the DNA of the organization.

Key Factors for Successful Governance

Our experience, consulting and research shows that firms that have an effective governance model, establish the layers as shared above and then pay attention to the following seven factors:

1. INTERNAL BUY-IN

Organizations that seek to benefit from services globalization should undertake a realistic internal assessment of their ability and readiness to pursue and scale-up complex initiatives. Aside from cultural and skill differences, aspects such as internal communication structures, internal resistance and cultural sensitization may need to be adequately addressed prior to commencing on a services globalization initiative. When an organization is not poised internally to take on or ramp-up services globalization initiatives, it will face resistance from internal stakeholders resulting in lack of focus and sub-optimal performance.

2. LIFE CYCLE COMMITMENT

Organizations tend to kick-off services globalization initiatives rigorously and with the appropriate management involvement in governance. However, the senior level involvement and attention dwindles over time. In our experience, this typically happens when the initiative progresses into its second year, typically known as the steady state. Often, despite comprehensive plans or contractual clauses for the services provider or internal shared services group to enhance productivity and provide additional value to their clients (internal or external), such obligations are neither proactively monitored for positive results, nor are they pursued. The underlying reason for such failures rests with lack of focus and monitoring. Often the loss of focus stems from changes within the team and reduced senior/top management attention as operations enter steady state. So, in effect functional and organizational governance starts lacking. Thus, it is important to ensure that the governance effort remains consistent across all three layers throughout the entire life cycle of the project.

3. GOVERNANCE LAYERS & DECISION-MAKING

Organizational hierarchy and culture plays an important role in defining the three layers and decision-making authority within an overall governance body. Organizational governance needs to ensure that minimal bureaucracy is built-in into the governance structure to encourage timely decision-making and appropriate controls while clearly delineating responsibilities for strategy and tactics.



Figure 2: Key Factors for Successful Governance

4. DEFINITION OF ROLES & STAFFING OF GOVERNANCE TEAMS

Role definition needs to permeate beyond the three layers described above to the individual resources comprising each layer of the governance organization. Each team member within the structure should have a defined role and set of responsibilities that clearly outlines their contribution to ensuring effective relationship controls and performance. Establishing appropriate roles is not, however, an end in itself. When the roles and responsibilities are properly outlined for each position within a team and for the team itself, undertaking appropriate staffing becomes an easier endeavor. With target profiles in mind, the organization has the ability to look both internally and externally to fill the position(s).

5. LEVERAGE ROLE OF INFLUENCERS

Another important facet to consider here is to ensure that while nominating managers /individuals to staff appropriate governance teams within the structure, their ability to influence others is taken into account. Such individuals can become vocal champions and ambassadors of the initiative, resulting in increased and more importantly, consistent attention throughout the project's duration.

6. INVESTMENT IN TIME AND EFFORT

In order to successfully govern a services globalization initiative, operating staff and managers should budget approximately 15% to 28% of their time and effort. Management personnel at the CxO level should budget approximately 5% of their time to governing services globalization initiatives. The percentages above represent approximate averages and will vary depending on the stage of the initiative, with a higher requirement on the front end and a lower requirement in steady state.

7. ADEQUATE GOVERNANCE BUDGET

In addition to time and effort, organizations should budget approximately 5 to 8% of their overall initiative expenditure on governance.

SUCCESSFUL GOVERNANCE CASE STUDIES

Successful initiatives have always had a strong and continual governance structure, with appropriate focus resting on both the strategic and tactical aspects of relationship and performance management.

- **GE Capital International Services (GECIS)** in India grew from a small operation to become one of the largest offshore operations anywhere in the world. Today, GECIS employs well over 30,000 people across its offshore delivery centers, offering services to various companies in the GE group and beyond. Appropriate top management attention resulted in the creation of a robust governance team with commensurate strategic and tactical objectives clearly outlined. Eventually, the governance team focused on not just commencing offshore operations, but over time, readied such centers to handle increasingly complex IT and BPO operations, including global complementary disaster recovery and business continuity strategies. In addition, GE established the Jack Welch Technology Center in India, focused purely on R&D to complement the primary need of the group – develop cutting edge technologies. In this manner, GE has shown organizations world-wide how to best elevate offshoring from a divisional alternative to a strategic imperative.
- **HSBC Holdings plc** was able to establish offshore operations in 10 Asian countries a mere 6 years after opening its first offshore operation in Guangzhou, China. HSBC is yet another excellent example of continued governance commitment from top management as well as from employees across a wide berth of expertise and experience. Today, the group employs more than 18,000 people across Asia, catering to its banking divisions across North America, Europe, Asia-Pacific and the Middle East. A focused and dedicated corporate governance team called the Global Processing Team (GPT) works to continually achieve both strategic and tactical objectives. The GPT evolved from being just a small team reporting to HSBC plc UK's Senior Manager for Personal Financial Services, to today becoming a strategic division in itself, reporting directly to the Group CEO.

The Governance Operating Model

Success of services globalization initiatives starts with setting up the governance body. Subsequently, on-going success is ensured through the day-to-day program management or, as described in previous sections, operational governance. In most organizations, this is managed through a global program office (GPO).

In this section, we discuss the governance operating model and its components: performance management, financial management, contract management, relationship management, operations risk management and resource management.

PERFORMANCE MANAGEMENT

Managing performance is at the top of the list of critical success factors. If due diligence has been done well, companies can be assured the vendor has managed service levels to client expectations in the past. However, the past does not necessarily guarantee continuing success.

One of the first steps in the transitioning phase is to map out and document internal processes, information flow and interdepartmental handoffs. Bear in mind, this is about integrating the work processes and flow of two organizations. Discipline and organization at this point will lead to an operational relationship that maximizes process efficiency and ensures repeatable achievement of performance parameters.

Besides peace of mind, a program expert can contribute to innovative solutions that help avoid internal/supplier politics and the sometimes competing priorities. This native expertise comes from direct experience and knowledge of supplier methodologies, experience with cutting-edge industry and global practices, and an acute awareness of the client's business processes. A program management practitioner can act as a sounding board for both the client and the supplier to aid in managing expectations.

Ultimately, quality depends more on process and governance than tools and technology. Regular monitoring of the status of deliverables, schedules, unresolved issues and a collaborative planning of future work can go a long way in creating an atmosphere conducive to success.

Among the performance management items that a good global program manager can bring to the table are:

- Evolve a robust workflow and process for both organizations
- Agree on service levels in the contract that have a direct bearing on success
- Agree on gap closing processes
- Assign a dedicated program manager on-site and global that represents the client
- Ensure executive sponsorship, user acceptance and buy-in throughout the engagement

FINANCIAL MANAGEMENT

Preparation and managing financial expectations in the contracting phase will put a company in a prime position for entering the engagement, but what if preparation isn't enough? What happens when there are unexpected costs? Regardless of the terms of the contract, continual financial management is important to ensure the financial and commercial considerations that were the initial motivators are met and exceeded.

Unlike a traditional outsourcing program, a lack of awareness for unbudgeted expenses can often derail the budget in an offshoring contract. An understanding of the client's financial pressures coupled with a perceptive knowledge of supplier resource management strategies can lead to a methodical and efficient framework for unbudgeted expenses such as resource transitions, vacation and cultural holiday coverage strategies, unallocated travel costs, resource training needs, turnover costs, etc.

An inevitable challenge met by organizations is addressing how to push the envelope on performance without exceeding budgetary constraints. An expert's knowledge can help clients formulate a strategy to push for exceptional performance and can also help financially manage other intangibles such as supplier billing practices, vendor rebates and standard freebies. Outside expertise is also helpful in objectively adjudicating which party should pay for one-time expenses that invariably come up over the long-term.

Once the savings start to roll in, clients should expect the offshoring engagement to expand into other areas of partnership.

Some of the financial management deliverables of a good program manager include:

- Managing financial expectations in the contracting phase
- Preparing for the global engagement to expand into other areas of the business
- Creating awareness around unbudgeted expenses such as resource transitions, turnover, cultural holidays, etc.



Performance Management

- Service levels – monitoring, reporting
- Schedule management
- Issues in quality
- Offshore workload management
- Process flow for onsite/offshore delivery

Financial Management

- Invoice review
- Budget to actuals
- Expense allocation
- Invoicing procedure
- Change management to base model

Contract Management

- Key personnel
- Staffing, attrition
- Background checks, insurance
- DR/BCP plans, readiness
- Reformulate service levels for relevancy

Relationship Management

- Client of choice initiatives
- One team
- Track issues to closure
- Bridge culture gaps

Resource Management

- Retention, buffer, training
- Vacation, holidays
- Onboarding, resource transitions
- Conserve knowledge transfer
- Skills update

Figure 3: Key Factors for Successful Governance
neoIT M5 Framework

CONTRACT MANAGEMENT

Typically, a lot of time and effort is devoted to negotiating a global contract. Clients should expect that an equal or greater amount of effort should be devoted to monitoring and managing the contractual compliance. By maximizing the benefits of the time and intelligence that went into the making of the contract, clients can prepare for the conditions that may need to be enforced.

Enforcing contract compliance with periodic reviews will preempt issues relating to questions on areas of responsibility, work processes and performance and delivery. It is important to ensure that compliance reviews are scheduled monthly and client visits quarterly. Lack of contract compliance can lead to disasters, such as an application that crashes, that affects many end-users and leaves no clear responsibility or accountability for the client or the vendor.

Good contract governance is important to ensuring compliance. It is not feasible to suddenly apply the terms of the contract if it has not been applied consistently from the beginning. It would be like setting a curfew of 9 o'clock for your teenager after you have let them stay out all night. Just like the parent of the teenager, a client without contract guidance and governance loses respect and the ability to enforce the guidelines set in the contracting phase. When both parties have a consistent view and management of the contractual framework, a healthy partnership evolves.

Contract management deliverables of a program management office should include:

- Set up consistent compliance meetings as a regular check-point for deliverables, unresolved issues and service level monitoring
- Apply the terms of the contract from the beginning
- Monitor adherence to contract terms.

RELATIONSHIP MANAGEMENT

In the beginning, as the client and supplier follow the learning curve of global management, the program manager facilitates people-related issues, communicates across cultures, and provides a liaison service for the teams to exchange ideas and relate to work culture differences. An outside expert can ease the difficulties of working in a developing country and serve as a reminder to the supplier of a client's very justified expectations. In essence, the program manager bridges any and all communication gaps and levels the occasional bumps in the relationship.

Above all, a program manager is responsible for developing, nurturing and evolving the client-supplier relationship. A healthy relationship is important for continued partnership and building trust. While not a substitute for well-defined contracts and service levels, trust is an important element of successful long-term relationships between buyers and suppliers.

A successful relationship can be fostered by a program manager who:

- Hand picks the user/IT staff that forms the core team from those that have a positive stake in offshoring success
- Is patient -- building trust, relationships and effective partnerships take time
- Secures and checks executive sponsorship throughout the engagement
- Manages issues pro-actively so that they do not snowball
- Employs regular communications vehicles, especially during times of transition.

RESOURCE MANAGEMENT

Resource management – and in particular human resource management -- is inherently more important in global deals than in traditional outsourcing engagements. It is essential that the people assigned have enough domain knowledge, prior transitioning experience and good communication skills. Unlike a traditional outsourcing arrangement where the majority of the work continues to be carried out by the same individuals, in services globalization work is being handed over to an entirely new set of people.

Companies engaged in services globalization initiatives must dedicate time and effort to establishing a framework for the management of the buffer resources, training and on-boarding of new personnel, allocation of travel, vacation and holiday costs, assignment of key personnel, etc. To complicate matters, all vendors do not operate in the same manner, and there can be a lot of hidden costs that do not show up on the contract or during negotiations. It is important to have a good insight into how offshore vendors manage their resources and avoid typical pitfalls.

Global program managers should be prepared to:

- Specify a key personnel list that cannot be reassigned without prior client approval
- Prescribe a 10% buffer for resources
- Allow 2-3 weeks overlap for handover to transitioning resources, not just during transition but throughout the entire deal lifecycle
- Agree on process of addition and movement of personnel on your projects
- Oversee investment in both technical/process training and management/professional training

Final Thoughts

The adoption of services globalization has generated significant benefits for US corporations across various industries. At the same time, the rate of adoption has also generated and increased level of complexity and risk associated with leveraging globally dispersed resources. In order to manage complexity and risk, organizations need to develop governance structures that span across strategic and tactical elements of the company's objectives as well as consider key factors that impact overall success. As companies scale their services globalization efforts, there will need to be an increasing amount of attention devoted to ensuring that the right governance structure is implemented to ensure successful outcomes.

This best-in-class governance structure starts with establishing a governance body across three layers: organizational, functional and operational. Furthermore, for the governance body to be successful the firm needs to ensure internal buy-in, lifecycle commitment, timely decision-making, appropriate staffing and role definition, leveraging of influencers, investment of time and effort by senior management, and appropriate budgets.

Finally, effective governance of services globalization initiatives not only reaffirms that these initiatives are aligned with business objectives but also provides an early warning system and assures the desired return on investment.

Note: For more details on operational governance, please refer to neoIT's white paper titled, "Offshore Program Management".

More information about the offshore outsourcing industry can be found within neoIT's research center at www.neoOffshore.com. For more details about neoIT's offshore advisory and management services, please contact:

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