



The New Global Services Governance

Tapping Fresh Sources of Enterprise Value

Rich Kabrt, Partner
Adolfo Kunz, Engagement Director
Gordon Welch, Engagement Director

Copyright © 2014, Everest Global, Inc. All rights reserved.

Introduction

Given the widespread adoption and advancing market maturity of shared services and outsourcing, enterprise attention is shifting from established value drivers—cost takeout via labor arbitrage, consolidation, and process standardization—to new sources of value derived from tighter alignment with enterprise strategy. Strategic considerations such as enhanced organizational agility, efficiency, scalability and flexibility, and talent access are growing in prominence as drivers of global business services models and agreements.

Yet this quest for stronger alignment is posing new challenges to services governance. The traditional, single-point governance model is no longer sufficient for coordinating and optimizing the contributions of portfolios of services providers, which at most enterprises are a mix of third-party and shared services entities. While the growing number and complexity of arrangements make enterprise value capture efforts difficult on many fronts, governance must simultaneously address and balance the imperatives of two critical requirements that are in its special purview:

- How does the enterprise structure and operate services governance to optimize the alignment of its services portfolio with enterprise strategy, increase the portfolio's contributions to corporate goals and objectives, and harness services synergies across the enterprise?
- How does the enterprise define and execute services governance to ensure full participation of stakeholders—across the organization and multiple services arrangements—as well as unleash the full creative, innovative, and delivery potential of its services providers?

Our work with clients makes two things clear. First, there is no one-size-fits-all for how enterprises address these imperatives. Each organization, within the context of its own distinct culture and business model, must strike its own balance between the centralized direction required to gain strategic alignment and the stakeholder influence essential to promote service effectiveness, responsiveness, and adaptation to evolving end user needs. Second, the rewards for achieving and maintaining a healthy balance are many, and the capacity to sustain balance as enterprise strategy and market capabilities evolve is an enduring competitive edge.

Governing Thoughts about Governance

Business literature offers an embarrassment of riches on the topic of governance. With its focus on evolving governance of global business services, we find useful concepts for the role of governance set forth by the IT association ISACA®:

Governance ensures that stakeholder needs, conditions and options are evaluated to determine balanced, agreed-on enterprise objectives to be achieved; setting direction through prioritization and decision making; and monitoring performance and compliance against agreed-on direction and objectives.¹

We at Everest Group especially appreciate the balance implicitly called for among diverse stakeholder needs, and the imperatives of strategy as organizations set direction, make decisions, assess performance, monitor risk, and manage issues—the essence of governance.

While straightforward in concept, effective services governance is increasingly challenged by the volume of arrangements and relationships, both internal and external, involved in the provision or consumption of business services. This challenge only grows larger as technology and business model innovations enable the development and deployment of new arrangements to deliver an expanding array of services across the enterprise. Finally, the stakes are large. The benefits of strong, well-integrated services governance—itsself a potential source of competitive advantage in dynamic environments in which corporations seek best of breed capabilities across the enterprise—include:

- Robust, systematic methods for engaging stakeholders and end users in opportunity identification, assessment, implementation, and improvement
- Strong, well-managed business cases that evaluate and demonstrate opportunity value to stakeholders; test alignment with enterprise strategy; capture cross-services synergies; and evolve with both end-user needs and market capabilities
- Accumulated experience on which to draw in negotiating complex contracts with highly trained and experienced vendor negotiating teams
- Sound, effective, and consistent approaches to vendor and end-user demand management across the enterprise
- Enhanced opportunities to prepare organizational culture for new service arrangements through enterprise-wide change management efforts
- Improved prospects for identifying and capturing synergies across functional shared and outsourced services, driving services innovation, and sharing best practices across the enterprise

¹ ISACA®, COBIT®5: A Business Framework for Governance and Management of Enterprise IT (ISACA, 2012), 14

Governance Models

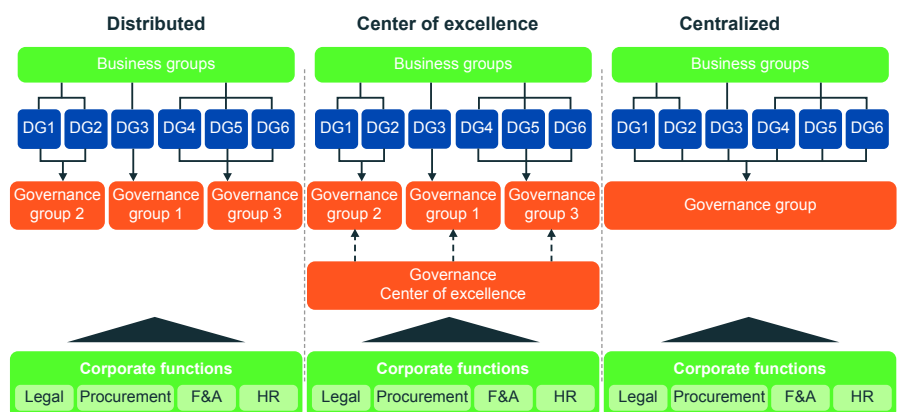
Governance models must be designed to effectively address how the governance structures and processes are established and resourced, and how specific decisions are made.

Establishing governance structures

The following table outlines the typical governance structures:

Model	Characteristics
Decentralized governance	Multiple self-contained governance structures and processes deployed across the organization: <ul style="list-style-type: none"> • Distributed accountability • Little or no standardization and leverage of existing capabilities, through informal processes (if any) • Opportunistic sharing of best practices within the organization • Existing corporate groups (e.g., legal and procurement) provide ad-hoc coordination when required
Governance Center of Excellence (CoE)	Team established to support other groups in the organization with defining and/or implementing governance structures and processes: <ul style="list-style-type: none"> • Distributed accountability with central guidance and support • Facilitates cross-functional standardization and leverage of existing capabilities to the extent the CoE's involvement is allowed • Assists in identification and sharing of best practices across the organization • Corporate groups participate as advisors to the CoE (e.g., legal and procurement)
Centralized governance	Team established to manage relationships across business groups, delivery organizations, and third-party vendors in a single structure: <ul style="list-style-type: none"> • Single point of accountability • Standardized governance structures and processes

Each enterprise's unique structure, size, complexity, and culture determine the most appropriate model or models to be used. The three basic models are illustrated below:



The deployment of governance structures and processes may be part of a broader transformational process, and organizations may use different interim structures before achieving the optimal model. While it is important to best fit the overall model to the enterprise's culture, defining the actual decision making processes within the chosen model deserves the lion's share of the governance design effort.

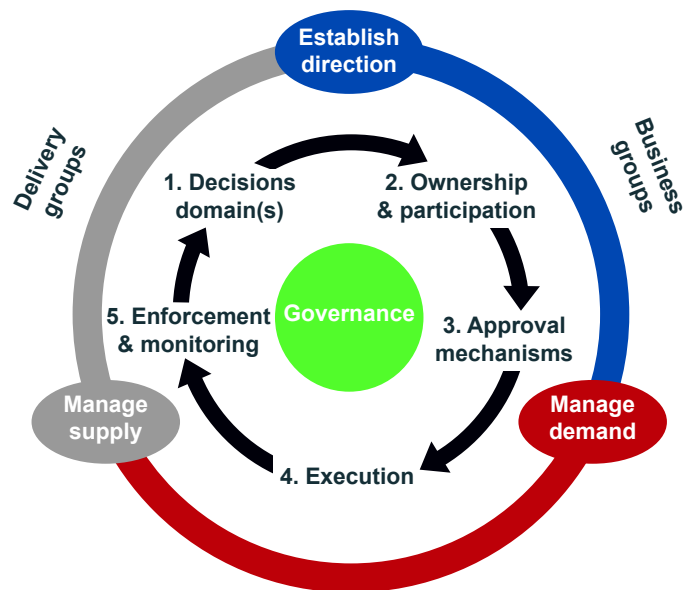
Establishing the way decisions are made

The governance model to be deployed must also consider the way decisions are made, as a function of the following elements:

- The **type of decision** that needs to be made: establishing direction, managing demand, or managing supply (delivery)
- The **tier of the decision**: Strategic, managerial, or operational
- **Accountability** for the decision based on type and tier: an individual, a group of people, members of a business or functional group, or members of a committee

Governance Framework

When establishing governance structures and processes, an enterprise must have a broad perspective that includes the relationships and workflows across its all entities, from the business groups to the service delivery groups, and all the support organizations in between.



Governance is about having the right structures and processes that enable effective and efficient management of all relationships in a complex environment that involves multiple stakeholders (internal and external):

- Establishing the direction, principles, policies, and standards to be followed when making any decision, in alignment with the business strategic direction
- Managing the demand from business groups to optimize the use of resources and contain cost, understanding the requirements, validating the need and value to the business, identifying and evaluating options, establishing priorities, and allocating the necessary resources
- Managing the supply of services and products to the business groups, defining the most effective service delivery model, establishing and managing relationships with partners and service providers, validating the quality of the products or services delivered, proactively tracking and managing issues and risks, and ensuring that the expected value/benefits is attained

Governance Approach

Following is Everest Group's five-step approach to defining, implementing, and tracking governance structures and processes in an enterprise:



This approach provides organizations with a structured way to define their governance structures and processes, or assess and implement changes to the existing ones to improve alignment with business needs and strategies.

- **Understand scope:** Understand and document the context, objectives, constraints, and scope (functional areas, decision domains, processes, and services)
- **Develop organization & structures:** Assess and/or identify and document the bodies (e.g., committees) and/or individual positions that will be accountable and/or involved in the decision-making process, identifying key roles, relationships, responsibilities, and skills
- **Develop processes & tools:** Assess and/or identify and document the mechanisms (processes and tools) to be used to enable the decision-making processes, define the incentive structures to attract and retain best talent, and drive desired behaviors from all stakeholders
- **Implement:** Appropriately resource and implement the defined governance structures and processes to effectively manage and shape ongoing change in the organization
- **Enforce and monitor:** Continuously gather feedback from all stakeholders involved, monitor the performance of the governance structures, processes, and participants (individuals or groups), and the realization of the expected benefits, and enforce the use and compliance of all defined policies and procedures. If done robustly, this will also support continuous improvement of governance itself

Active participation of all stakeholders during the different stages of this process is extremely important, as some of the better ideas often come from the people directly involved or affected.

Our case study below illustrates that governance is neither simple nor trivial, but done effectively can powerfully enhance and advance overall strategic objectives.

Case Study: Moving to a Hybrid Governance Mode

One of our clients, a global services organization, outsourced its IT infrastructure and application development and maintenance to a third-party service provider as a key component of an aggressive transformation initiative. Key transformation objectives included reducing operational costs and improving the quality of services delivered to its customers.

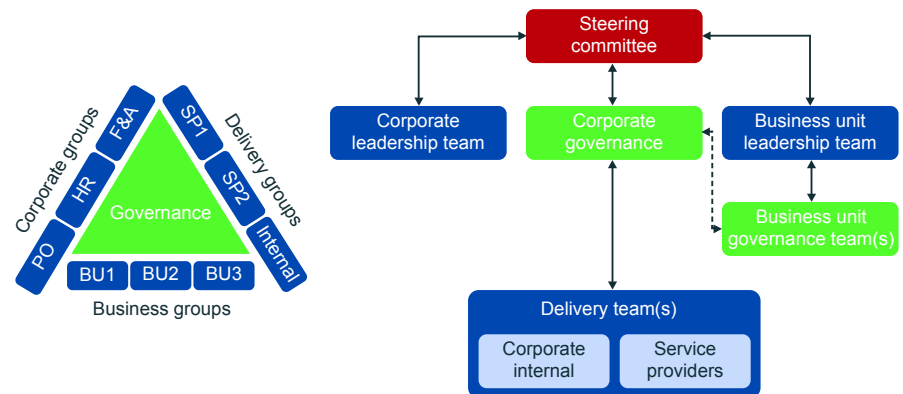
As the company had recently gone through a merger that produced a highly decentralized model for decision-making and services delivery in each business unit, we advised that it establish an effective governance framework to manage this and future outsourcing arrangements.

The following table describes the client’s major challenges and our recommended solution to each issue:

Challenges	Recommended solution
<ul style="list-style-type: none"> Decentralized business groups, used to make decisions at a local level with little corporate leverage or involvement No initial baseline of services existed. There was a need for processes to identify and generate work orders to meet a minimum revenue commitment A non-exclusive environment, that necessitated creation of competitive tension among multiple service providers and internal delivery groups Geographical dispersion of resources, including onshore and offshore FTEs, with pricing dependent upon a mix for bundled work orders Transition of resources worldwide had different implications and challenges 	<ul style="list-style-type: none"> Establish a hybrid governance model with clearly defined roles, responsibilities, and incentives, to enable centralized control with actively engaged business units Establish a centralized demand management process to improve leverage of the agreement with the third-party service provider and achievement of the established commitments Establish a model that would enable the incorporation of additional services and service delivery groups (internal or external) Understand the business environment, including key demand and supply sources, and define a pricing model that would deliver improved value based on the resource mix and increased offshore allocation Understand geographical constraints and requirements, engaging corporate support teams (F&A, HR, and Procurement) to coordinate local business unit support groups

Per our recommendations, the implemented solution was a hybrid governance model consisting of a centralized corporate governance group working with decentralized groups located in the business units. The corporate group consolidates and manages all demand requirements (to manage costs and provider service priorities across business units); monitors financial and service performance; and resolves contract and service delivery issues escalated by the business unit teams. The business unit teams manage the day-to-day operations with a focus on service delivery and evolving end user needs.

The following figure depicts the high-level structure:



The implemented governance solution has enabled the client to:

- Actively engage all stakeholders (business, corporate, and delivery teams) to achieve the project objectives, and achieve minimum revenue commitments and savings (~19%)
- Create standard policies and processes for the delivery and management of in-scope services across business groups, enhancing service quality and provider responsiveness
- Transition resources to the provider worldwide through timely identification, escalation, and resolution of major issues
- Create a platform to expand the role of outsourcing to other services via additional service providers, while maintaining tight alignment with corporate strategies and goals

We encourage all enterprises seeking to gain greater value from outsourcing and shared services to look at enhancing their governance design, processes, and execution. Compared to the work involved in establishing these alternative sourcing delivery channels, changes to governance require relatively modest effort, and can yield attractive direct and ongoing returns.

About Everest Group

Everest Group is an advisor to business leaders on the next generation of global services with a worldwide reputation for helping Global 1000 firms dramatically improve their performance by optimizing their back- and middle-office business services. With a fact-based approach driving outcomes, Everest Group counsels organizations with complex challenges related to the use and delivery of global services in their pursuits to balance short-term needs with long-term goals. Through its practical consulting, original research and industry resource services, Everest Group helps clients maximize value from delivery strategies, talent and sourcing models, technologies and management approaches. Established in 1991, Everest Group serves users of global services, providers of services, country organizations and private equity firms, in six continents across all industry categories. For more information, please visit www.everestgrp.com and research.everestgrp.com.

For more information about Everest Group, please contact:

+1-214-451-3110

info@everestgrp.com

For more information about this topic please contact the author(s):

Rich Kabrt, Partner

rich.kabrt@everestgrp.com

Adolfo Kunz, Engagement Director

adolfo.kunz@everestgrp.com

Gordon Welch, Engagement Director

gordon.welch@everestgrp.com