

# THIRD-PARTY GOVERNANCE – WHAT ‘GOOD’ LOOKS LIKE

**Hemant Puthli**  
*Partner & SVP, Neo Group*

**&**

**Atul Vashista**  
*Chairman, Neo Group*



**Beyond Advice to Outcomes**

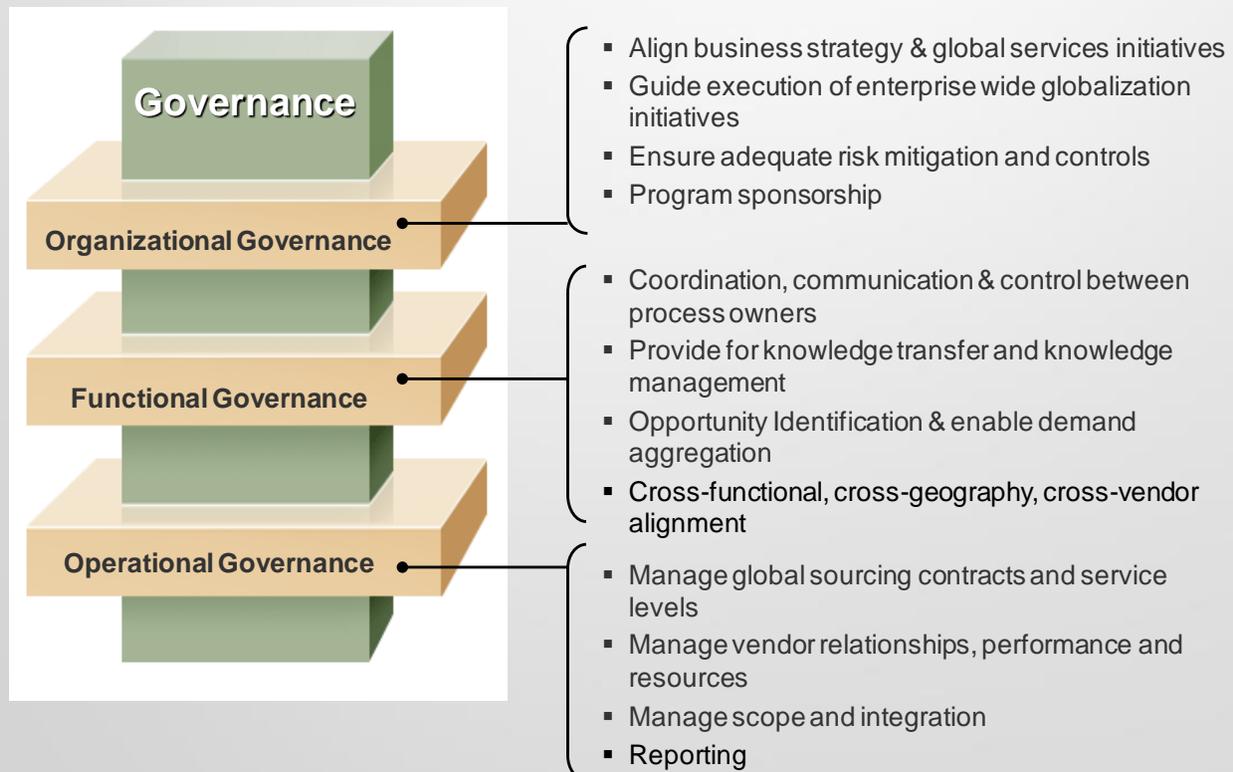
Advisory | Governance Support Services | Real-time Risk Intelligence  
info@neogroup.com | www.neogroup.com

We can all agree that ‘good’ governance is important. In the highly competitive, rapidly changing, increasingly complex and risky business environment in which enterprises operate today, the need for ‘good’ governance has never been more acute. The larger the organization, the more diversified its business lines, the more geographically dispersed its operational footprint, and the greater the number and spread of their third parties, the more critical the need. But what does ‘good’ governance look like?

Over our twenty years in the sourcing advisory space working with hundreds of clients, Neo advisors have worked with only a few enterprises that have recognized this need and established a good governance program. In our experience, the vast majority today are lagging far behind this ideal. Often, we encounter organizations that have the bare minimum dedicated team and/or inadequate tools to support basic sourcing governance imperatives. Alternatively, we have worked with many clients that have invested in a governance function, unfortunately, its sole focus is on core transactional aspects such as contracting and performance monitoring. While this may be a good start, a good governance program needs to be much more comprehensive and robust.

## Leading Practice: Model for Good Governance

Leading organizations have implemented a three-tiered governance model that provides comprehensive and robust oversight of their entire service delivery lifecycle.

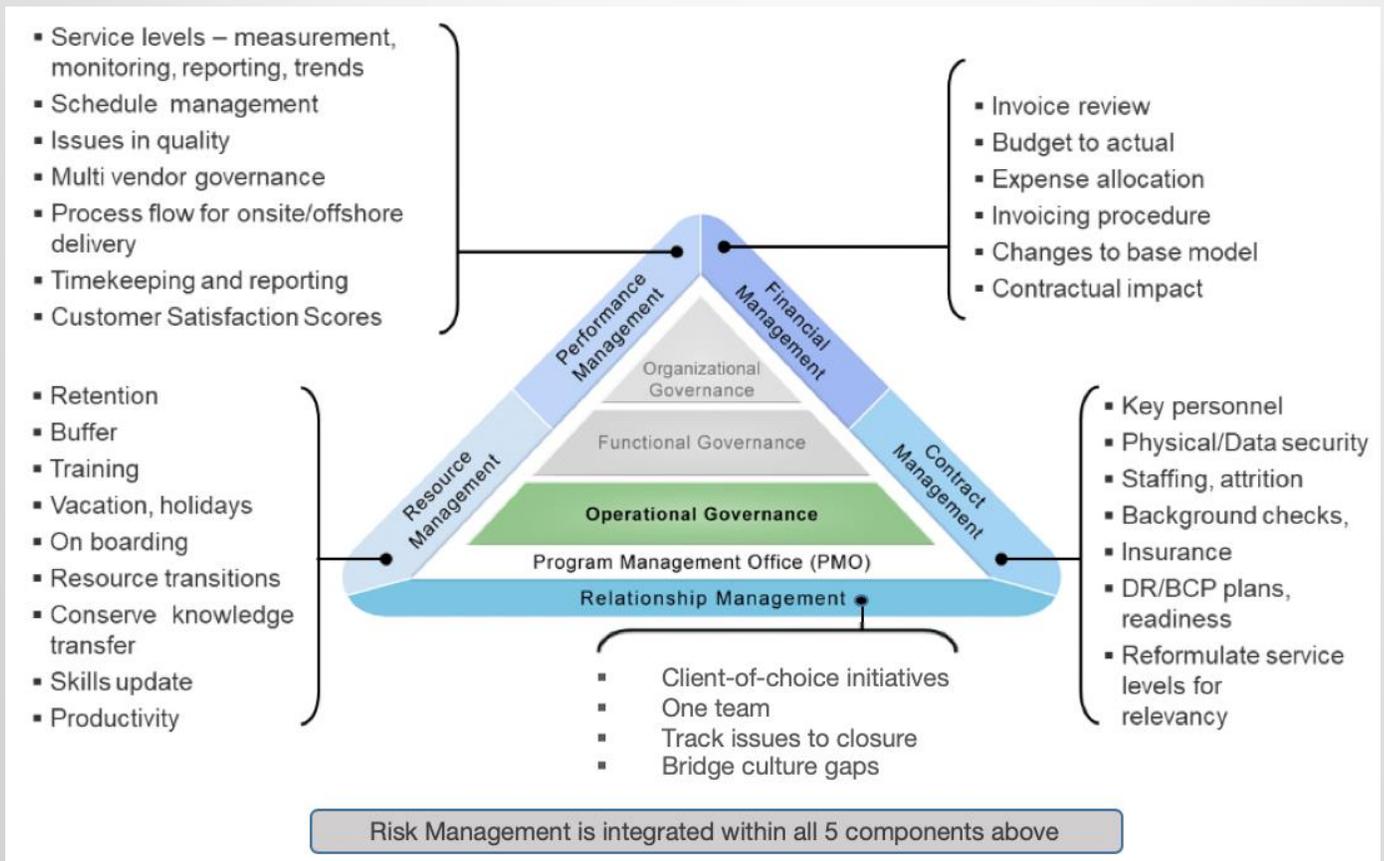


**Neo Group’s Proprietary Three-tiered Governance Model**

The foundational tier of this model addresses various aspects of operational governance, the next tier focuses on functional governance, and the top tier takes a strategic perspective across the enterprise.

Forming the foundation of a good governance model, **Operational Governance** provides the key data on which the model relies. Key aspects of operational governance include:

- **Contract Management** focuses on capturing the terms and conditions of service agreements with third parties and tracking changes to the terms through the life of contract
- **Financial Management** includes capturing consumption data and billing information that can be reconciled with the pricing structure into order to prevent leakage of spend dollars
- **Performance Management** involves capturing data on KPIs, SLAs and other metrics that form part of deliverables and obligations committed to by third parties
- **Resource Management** supports on-boarding and off-boarding of resources and their allocation to various projects, and monitors attrition and resource utilization
- **Risk Management** tracks service delivery issues and manages escalations through resolution



**Tier One - Operational Governance**

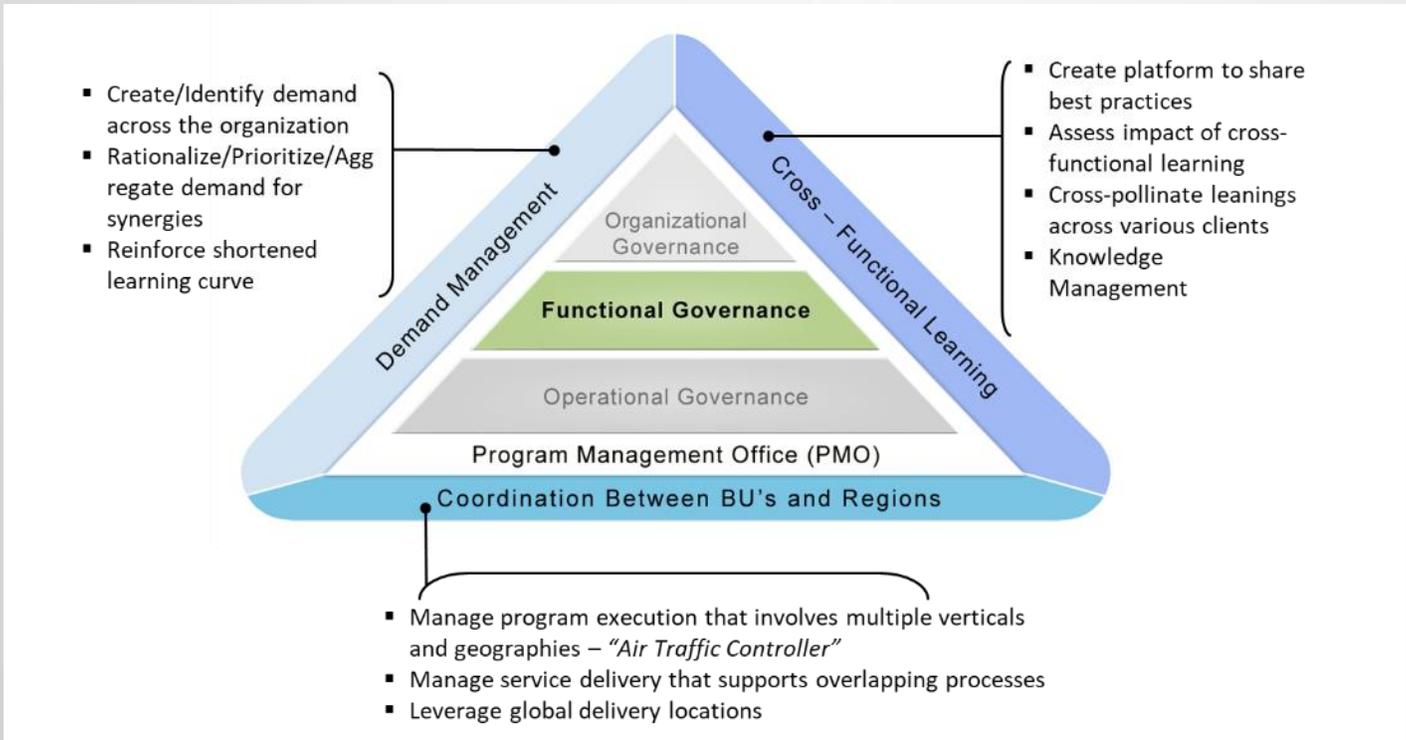
In a good governance model, the second tier, **Functional Governance**, involves governance as it relates to both specific functions or Business Units (BUs) at specific locations and also as an aggregated view across all BUs/functions and locations.

The key goal of Functional Governance is to oversee the entire service delivery lifecycle – from demand aggregation through to on-going operational outcomes – across various BUs and/or locations.

Based on this overview, the goal is to create a platform to leverage knowledge, insights, key learnings, and successful practices from one functional/ location silo and cross-pollinate them across other functions/ locations, while also eliminating redundancies and bridging gaps.

In the highly competitive, rapidly changing, increasingly complex and risky business environment in which enterprises operate today, the need for ‘good’ governance has never been more acute.

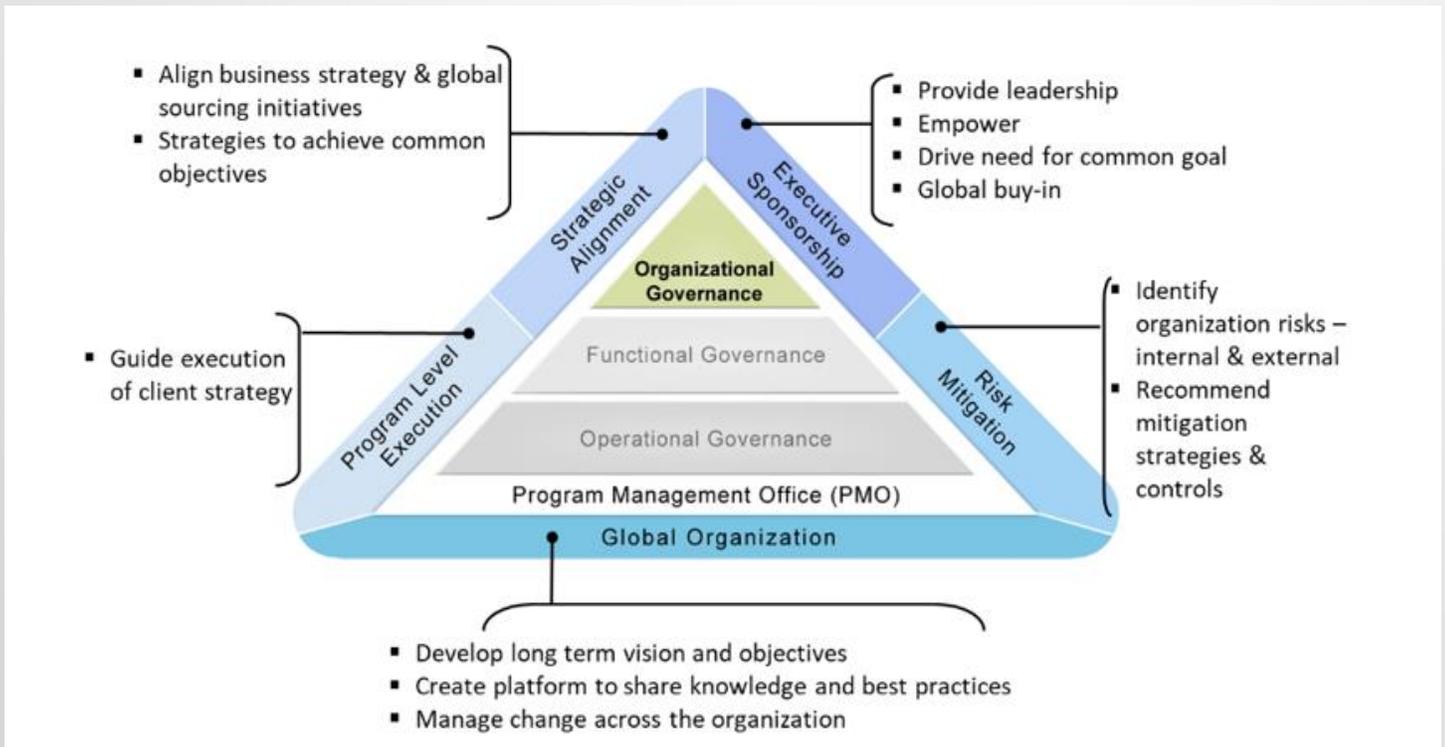
Functional Governance also includes the creation of a central repository for enterprise-wide governance information that is utilized when generating reports and dashboards and, furthermore, supports the use of analytics and AI for spend analysis and aggregated demand forecasting.



**Tier Two – Functional Governance**

In a good governance model, the top tier, **Organizational Governance**, takes an enterprise-wide, long-term approach to governance of the sourcing program. This includes several tasks of strategic importance including:

- Formulating, standardizing and periodically refreshing sourcing strategies, policies, procedures, templates, etc.
- Designing reports, dashboards, scorecards, customer satisfaction surveys, etc. as well as the related implementation/administration procedures.
- Laying out guidelines for and enabling the workings of various governance working groups/ committees, including defining their scope and focus of oversight, meeting cadence, etc.
- Educating and training stakeholders on governance processes, policies and procedures, templates, tools, etc.



### Tier Three - Organizational Governance

One key aspect of organizational governance is the management of third-party relationships, based on data generated by the operational governance tier and maintained in the centralized repository by the functional governance tier. By analyzing this data and aggregating it by BU, service domain, location and other relevant parameters, well-designed reports and scorecards can provide useful insights into how the third party has been performing and how responsive the third party has been to requests

Comparative dashboards that juxtapose key metrics of various third parties across BUs and locations help bring out the relative performance of third parties and determine whether they are living up to ‘client-of-choice’ commitments.

One key aspect of organizational governance is the management of third-party relationships, based on data generated by the operational governance tier and maintained in the centralized repository by the functional governance tier.

A structured approach to relationship management involves pre-defining and agreeing to a calendar of periodic meetings between stakeholders and third-party executives at appropriate levels within both organizations (see illustrative example below). Implemented properly, this can help monitor and ensure the health of the relationship.



**Frequency of Reviews – Governance Meetings**

Most importantly, the organizational governance tier aims to ensure that the sourcing program remains aligned with business needs and overall organizational goals at all times and delivers, at minimum, the value commensurate with what was promised in the business case. Should the sourcing program, or any part thereof, deviate from its core purpose, the organizational governance tier must support necessary remedial steps to realign it appropriately.

## Implementing Good Governance

While a three-tiered governance model provides a comprehensive and robust framework, implementation in three key areas is critical to maximize its effectiveness.

First, the governance organization and reporting structure need to be designed so as to facilitate effective oversight at each of the three tiers. Key org design considerations include various factors such as governance style (whether the mandate is to advise/educate or coordinate/support or audit/control), service domains (IT Applications, IT Infrastructure, FAO, HRO, KPO), and the number of BUs and locations involved in the sourcing program. In our experience, a centralized architecture works best for most governance organizations, unless the geographical footprint to be covered is vast and/or the organization has a highly decentralized structure. In the latter case, hub-and-spoke architecture may better serve the purpose with the organizational governance tier at the hub and operational governance spread across the spokes.

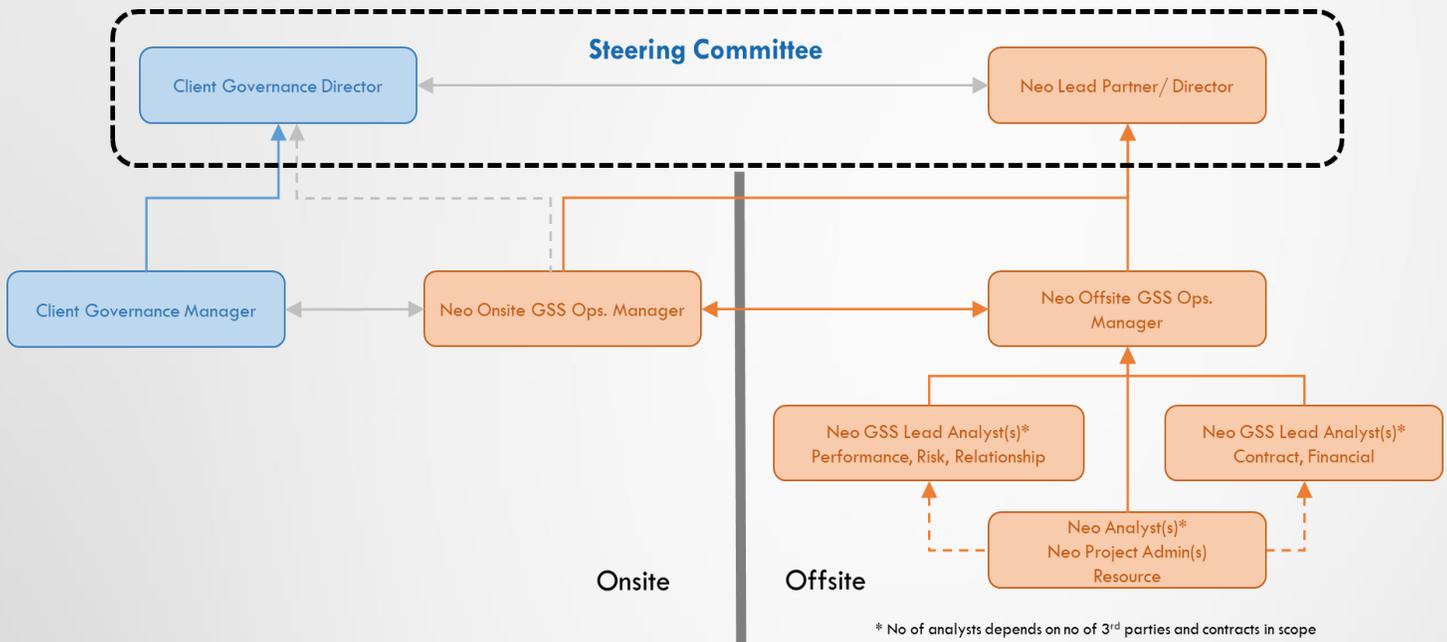
Second, an optimal number of working groups or committees need to be set-up, that include key stakeholders from relevant BUs, functions, and locations. Examples of such committees could be ‘Finance & Contracts Oversight Committee’ or ‘Service Delivery Oversight Committee’. A meeting calendar should be

defined for each committee, and a broad agenda should be set as a guideline for these meetings. As a matter of routine, these meetings need to be organized and their proceedings recorded – especially key decisions and action points for follow-up.

Neo has worked with key vendors of software tools, including Sirion Labs and Enlighta, to set up robust governance information systems that our clients are presently using, and from which are deriving considerable benefits.

Third, mechanisms need to be in place to provide these working groups or committees with timely and actionable information that they can deliberate upon during their periodic meetings, escalate matters if needed, or take other suitable actions. Software tools are available in the market to enable the creation of an operational governance repository to support the generation of reports, dashboards and scorecards that provide the necessary level of insight and support suitable action. Neo has worked with key vendors of software tools, including Sirion Labs and Enlighta, to set up robust governance information systems that our clients are presently using, and from which are deriving considerable benefits.

Since 2007, Neo has been offering clients the ability to delegate routine governance process and tool operation to Neo’s Managed Governance Support Services (GSS) team, as an alternative to hiring expensive resources inhouse to perform routine data processing work. This way, clients are able to employ a lean internal governance team who are able to focus on gaining insights from the data and taking action based on those insights, rather than collecting, cleansing and uploading and processing the data to produce reports.



## Neo’s Managed Governance Support Services

### Benefits of Good Governance

Implementation of a good governance program such as Neo’s Three-Tiered Governance, can yield substantial returns, including:

- **Reduction in spend leakage** through timely price benchmarking, tracking and reconciling consumption and billing data, and checking compliance with agreed pricing model
- **Improved productivity** through better utilization of resources already deployed
- **Healthier relationships with third parties** with more leverage for negotiation, faster and more effective issue resolution, and opportunities to benefit from third party expertise and innovation
- **Institutionalized learning and sharing of best practices** through a centralized repository and the use of analytics and AI tools to provide deeper insights into what works and what doesn’t
- **Higher degree of customer satisfaction** achieved by continuous monitoring of performance and tracking and by resolving service delivery risks before they escalate

## Conclusion: Beyond Good to Great Governance

At a very basic level, governance is simply about ‘making sure that things are running the way they are supposed to’. However, as we’ve outlined here, a good governance program that is comprehensive and robust, when implemented effectively, has the ability to deliver substantial ROI that would otherwise be money left on the table.

Three-tiered Governance Model frameworks and methodologies have helped many clients to set-up and operate great governance programs. Further, Managed Governance Support Services help enterprises simplify and streamline their third-party governance processes. By managing third-party governance end-to-end, from establishing methodologies to executing governance processes, to significantly reducing cost and generating new value from their third-party contracts, we have helped global enterprises refocus their governance organizations on strategic initiatives due to our ability to provide actionable data.

To arrange a demo to learn more about how you can unlock latent value and plug leakages from your third-party relationships, please contact **Marty Hill, Director of Managed Governance**, at [marty@neogroup.com](mailto:marty@neogroup.com).

## About the Authors

### Hemant Puthli

#### Partner & SVP, Neo Group

Hemant brings over 30 years’ experience in IT and Management Consulting Services. Over the last 12+ years, he has led Neo Group engagements with several clients across diverse industries, involving strategic transformation projects such as sourcing portfolio assessment, partner selection, contract negotiation, sourcing/governance organization design, governance tool implementation and support services oversight, health-checks and readiness assessments.



### Atul Vashistha

#### Chairman, Neo Group & Supply Wisdom

Atul is the Chairman and CEO of Neo Group, a firm he founded in 1999. Neo is recognized globally as a leading supply and outsourcing analytics, monitoring and advisory firm. Atul is recognized globally as a leading expert on globalization, outsourcing and governance. Consulting Magazine named Atul one of the ‘Top 25 Most Influential Consultants’ and ‘Top 6 IT Powerbrokers’.



Since 1999, Neo Group has advised and supported Global 2000 enterprises, empowering them to build new capabilities and generate rapid savings by leveraging global talent, analytics and automation.