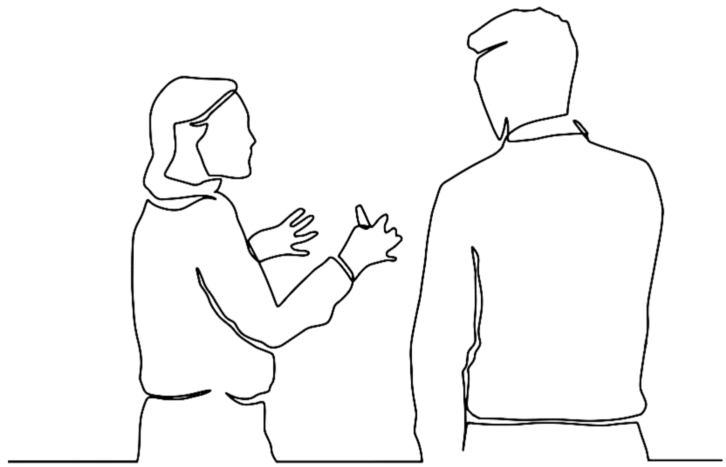
Banyan
Business Outcomes LLC

Vendor Governance for IT vendors



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Just before close of business one Friday, I get a call from a frustrated ERP Director. "Our application managed services vendor isn't working out." he says. There are 18 months left in the contract. Now is a good time to start the process of transition, and as the head of technology procurement, that task falls to me.

The vendor reported all green SLAs in the last monthly operational meeting, and talked partnership at the QBR, but no one is satisfied. The service isn't maturing. The vendor is responsive, but not proactive. The relationship hasn't created any of the intended business value, and now I'm facing an unplanned RFX process to find a vendor who can perform.

It's a common story of good intentions with poor execution. A vendor relationship is missing the key ingredient that leads to misalignment and underperformance -vendor governance.

Relationships with technology vendors can evolve into true partnerships in which both client and supplier benefit beyond the terms of the agreement. In many cases, however, missteps in the contracting and transition phase sabotage the relationship and curtail the partnership before it's begun.

Ambiguous language, stifled communication, and perverse incentives create friction that wastes effort and sews confusion. Good intentions with poor execution pave the road to a dissatisfying relationship for both parties and eventual non-renewal.

There is a clear way that these challenges can be overcome. By incorporating vendor governance and communication guidelines and cadences into the RFx, agreement, and relationship, we can avoid a few traps early in the process and create a foundation for a growing, flexible relationship that meets the needs of both the vendor and the client.

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What is Vendor Governance?

Had there been better vendor governance in the relationship with the incumbent supplier, there would have been clearly defined procedures to review and escalate the challenges we faced with the vendor. There would have been open lines of communication and 360 degree feedback sessions where we reviewed and reset our expectations. No vendor governance in the agreement means technology procurement is writing an RFI.

Vendor governance is a set of processes which ensure a successful engagement with a vendor. It's an effort to build a sustainable, flexible relationship that ages well, adjusts as necessary, and continuously delivers value to both parties.

Vendor governance should be built into every phase of supplier selection and delivery. Every commitment, expectation, relationship, and process should be governable.

Vendor governance efforts can feel like nitpicky busy work, but governance is often the difference between a healthy growing client/vendor relationship and a politically based relationship without clear milestones or goal posts.

Vendor governance in Sales

We develop and release an RFI for the AMS relationship to several of our suppliers. We whittle our choices down to three, including the incumbent. The RFP is comprehensive and prescriptive of our expectations of the service. It includes robust governance structures around change orders and scope alteration but also includes touchpoint maps, cadences, dedicated Bi-annual strategic relationship reviews and a push for innovation as an actionable Key Performance Indicator.

Technology sales processes can stretch on for months and involve dozens of meetings with many individuals on both the client and the vendor side. Technology procurement is a complex process, and it's easy to lose track of the details.

Vendor governance in sales should include documentation of all explicit and implicit vendor commitments, the buyer's obligations (fees, internal support, integrations etc.), business case justifications, and risks. Without this documentation, you can think you're buying one thing when, in fact, you're buying another. Governance in sales also includes the process by which the buyer competes and awards the opportunity.

A few weeks pass after the release of the RFP, and the questions are starting to trickle in. We decide that we will answer the questions in live sessions with each of the suppliers and include the team leads so that we don't have to waste the time going back and forth with them.

During the incumbent's session, they ask questions around organizational strategy and long-term evolution of a service—questions they should already be able to answer. I *realizes how ineffective the communication structure has been between our organizations.*

The following week the RFP responses come back, and we have oral presentations with each of the respondents. The response from the incumbent outlines a version of the services that is so far beyond what they were currently delivering that it causes the ERP delivery lead to stand up and yell, "If you could do all of this, why didn't you do it before? We could have avoided this RFP!"

They respond, "1-It wasn't in the contract and 2- you never asked us to change it." Sadly, the relationship with the incumbent has deteriorated to the point where there is no longer faith in their ability to deliver. As we review the responses for the other two respondents, we begin to build out our must haves for our statement of work.

Vendor Governance in Contracting

Contracting is the bridge that connects delivery with the sales process. A well-governed buying process simplifies contracting and ensures all salient details are recorded in the agreement. Vendor Governance in contracting ensures the client and vendor both get what they want from the relationship.

Businesses contract with vendors to achieve a specific business outcome. Agreements, however, often measure the success of the vendor in terms of service level agreements (SLAs) and key performance indicators (KPIs) that can be far divorced from those outcomes.

One vendor takes the time to understand the business outcome we need. Their proposal focuses on growing and evolving the relationship and mutual commitment. The vendor doesn't have the lowest price, but the value is obvious. During the contracting process the vendor seeks to understand the entirety of the solution, does a thorough stakeholder analysis and provides a holistic RACI that includes other vendors that their services would have to interact with.

Agreements need to be written to either directly specify the business outcome sought or commit the vendor to key results (OKR) and Key Performance Indicators (KPIs) that directly align with that outcome. Ideally, that alignment should pass through the extended enterprise: from the vendor's commitment to the technology function's internal SLAs to business unit needs and ultimately to stakeholder value.

Great SLAs and KPIs have a few things in common. They perfectly align with the business outcome sought. They are comprehensive and mutually exclusive (cover all relevant aspects without duplication). They can be measured and reported, preferably automatically, and they are within the vendor's control. Having a supplier that can fully manage our operational processes towards the goals of our organization is the key goal of building a managed services engagement.

Vendor Governance in Delivery

Parties often send hundreds of emails hammering out contractual terms which, once signed, go unread and become irrelevant as business needs and expectations change. Without vendor governance, hard won contractual concessions will be quickly forgotten as operational pressures overwhelm the team.

Three governing documents should be developed alongside the agreement to ensure fulfillment of terms and a strong relationship: a relationship charter and a vendor score card.

Relationship charter

A relationship charter is a living document that compliments the vendor's agreement by recording non-contractual expectations. It's written and maintained by the internal and external delivery teams to determine how they will work together in fulfillment of the desired business outcome and the contractual terms.

Relationship charters should include the following:

- **Roles and responsibilities** - A clearly defined understanding of who is authorized and required to perform what action minimizes confusion, dropped balls, and overlap. For complex relationships, a RACI (Responsible, Actionable, Consulting, Informed) chart should be developed.
- **Shared Goals** – A co-developed vision for the service with co-delivered metrics and milestones around operational efficiency, operational improvements, or business process improvements
- **Relationship norms** – Standards for timely, professional communication, acceptable escalations, and methods for handling conflict.

Communication Cadence

A communication cadence outlies the schedule of meetings necessary to keep information flowing and the team focused on the right things. Most managed services agreements will require these types of meetings, though the frequency of the meetings may be different.

- **Weekly Operational Meetings** – Internal and external operational teams gather to review tickets and open items, share news, collaborate on improving the service.
- **Monthly Trends Meeting** – Operational tower leadership and the account team joins the operational team for an elevated discussion of trends, performance, and larger improvement initiatives.
- **Quarterly Business Reviews** – A more strategic meeting in which a larger team continues to refine trends, review root cause analyses of major incidents or issues, review results of enhancement work, and jointly build plans for efficiency, innovation, and further enhancements to the service.
- **Bi-annual Top to Top** – High level strategy discussion, reviewing plans for innovation of the service, vendor provided view of the environment within which the service is delivered, key thoughts from the industry and changes to the vendor such as acquisitions or new technologies developed.

Vendor Scorecard

Vendor commitments in terms of SLAs, KPIs, RACI charts, dates, and deliverables are usually documented within a vendor agreement. The vendor agreement, however, is rarely consulted. Language obscured by legal prose is inaccessible during the rush of day-to-day operations. A vendor scorecard is an abstraction of those details into an actionable trackable format.

Vendor scorecards should be developed for any complex technology vendor relationship. They should include relevant facts without overwhelming details.

- General information like vendor name, contact information, and internal vendor sponsor.
- Relationship details including vendor tenure, number of active agreements, etc.
- Contract terms like expiration date, required notice-not-to-renew dates, fee schedule, penalties, and accelerators.
- Vendor commitments like SLAs, KPIs, RACI charts, deliverables
- Client commitments

The vendor scorecard is a tool for documenting achievement of vendor commitments. During periodic vendor reviews, the vendor and client should review the scorecard and score achievement of each commitment. This process tracks performance and can help set objectives to be achieved before the next review.

> *We select the new vendor and begin transition. We feel it is important to build the relationship around the idea that the way we work together will evolve as time goes on. The relationship charter builds out the rules of engagement. We agreed that 1- although we want the supplier to have many points of engagement with the business, a single point of coordination for the entire relationship that should be informed of all conversations. 2- We will maintain points of interface information, so we know who is talking to whom. 3- We will meet at specific intervals to share information with each other. 4- We will comply with any specific policies or codes of conduct*

Vendor Governance and Executive Sponsors

> *The CIO of my organization meets with an Executive VP of the incumbent to deliver the news that they have not been awarded the contract for the newly refined ERP delivery service. This news comes as a surprise to the executive as he had believed the service was delivering at a high level. The CIO relates this simple analogy,*
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> *"Imagine the service is a car. It gets us from point A to point B—It does its job. Now imagine that same car once it hits 35 miles an hour starts shaking and becomes hard to keep in its lane. That is the service. It got us from point A to point B, but the experience missed our expectations.*
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> *The CIO has a similar discussion with an executive from the new supplier. They decide to build in some experience metrics and tie them to service credits. The CIO responds "I don't want you to give me money back. I want you to make sure the service performs better than I expect it to."*

A strong executive sponsor is critical for any strategic initiative, especially if it impacts multiple departments. Executive sponsors cut through the politics and keep teams with conflicting priorities pointed in the same direction. Vendor governance gives executive sponsors an objective perspective on vendor commitments and performance. It allows sponsors to stay out of the operational mud and see the relationship from a higher level.

Often, TVM leaders struggle to achieve our objectives because we don't have strong executive sponsorship support and commitment to the goals of our programs. Pairing executive sponsors with governance helps teams fulfill project goals and deliver business outcomes.

Vendor Governance Council

The experience leads our internal team to realize that we need a governance team comprised of key stakeholders. IT cannot be the sole arbiter of what good looked like for such a complex service. Things change within the environment, behaviors change with both our internal and external customers. All stakeholders need a seat at the table to give our service provider a better perspective on our experience.

Especially large or strategic suppliers may require a full governance council capable or representing multiple perspectives. A vendor governance council creates a 360 degree view of the service provider that can be helpful in understanding the relationship and optimizing the value. Consider these roles on a vendor governance council.

- Technical lead – Primary point of contact interacting with the vendor
- Business lead – Non-technical contact focused on the business value the vendor provides
- Risk & Compliance – Representatives from these departments help prevent unanticipated problems.
- Executive Sponsor – Leader responsible for facilitating the team
- Procurement – responsible for ensuring fulfillment of vendor obligations

True Partnership

Midway through the engagement with the new vendor the unthinkable happens. Covid-19 completely upends the world. Our secure operations center in Pune is forced to close, and 200 plus employees begin working from home. Employees fulfilling niche roles see record wage hikes and move to new more lucrative arrangements. Supply chains suffer massive delays.

Covid was a monumental challenge. Providers met this challenge and demonstrated true partnership by buying technology and upgrading their employees' personal workspaces to ensure continuity of service. A strategic partner is a service provider that actively develops bench resources, on their dime, so that the damage of the great resignation was mitigated.

The co-investment of the organization and constant communication of the partnership has led to joint holiday celebrations, large scale townhalls, and a feeling that the vendor team is actually an extension of our organization. True partnership has been achieved.

Great technology vendor relationships require personal connections, strong communication, and shared goals pursued in a collaborative way. Technology vendors can become true partners that deliver unique and substantial value to the company, and help the business achieve its goals. The key is Vendor Governance.

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