Effective Multi-Vendor IT Governance

Conduct better IT governance meetings by setting goals, planning ahead, and understanding best practices

by Steve Coper

Introduction

As more IT services and applications are outsourced to third-party vendors, it becomes increasingly important for companies to understand how to effectively manage vendors and conduct governance meetings at predefined intervals. This allows organizations to take full advantage of IT-vendor relationships by providing the opportunity to strategize, review, align goals, and hold vendors accountable for their performance. However, in order to conduct better governance meetings and create stronger governance structures, it is critical that companies understand what effective governance is and how it can help them achieve their core business goals.

Understanding goals

Managing IT vendors is now a core function of IT, but sometimes setting clear goals and getting everyone on the same page can be challenging. Meetings often end up accomplishing little as conversations lose focus and participants simply want to get the process over with as quickly as possible. Organizations must try to overcome this tendency by creating clear, concise goals and ensuring that the pertinent topics are addressed. In order to achieve better multi-vendor IT governance meetings and build better vendor relationships, it is critical that companies have a solid understanding of their own business goals and how they can work with vendors to achieve those goals.

Why is effective vendor governance important?

In a recent survey of enterprises, over 93% of respondents said they were running applications in the cloud or using IaaS solutions.[1] Cloud services are taking up an increasingly large share of the average company's IT workload, making it even more important for companies to manage vendors effectively. Working to create mutually beneficial relationships with IT vendors can greatly reduce costs, improve performance, and drive business goals. A strong governance structure is critical to ensuring that vendor relationships meet the needs of the business. By implementing vendor-management best practices in an organization, IT and business leaders can build better relationships with vendors and ensure that they live up to expectations.

This paper was created to help companies take full advantage of their IT vendor relationships by planning effective multi-vendor governance meetings that address the needs of key stakeholders and incorporate known best practices.

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What is effective multi-vendor governance?

Before delving into the details of planning meetings and reviewing vendor performance, you should begin with the end in mind. Companies must first gain an understanding of what healthy vendor relationships and effective governance look like. This will provide the basis for effective multi-vendor governance meetings and help set clear goals for all parties to work toward.

Key tenets of IT governance include:

Mutual respect

Vendor governance is not one-sided. All meetings should begin with the goal of achieving a mutually beneficial partnership. That means understanding the goals of the vendor as well as those of the company. The most effective governance structures work to build long-lasting, strong relationships with trustworthy partners. This strategy reduces friction and turnover, while creating a healthier work environment.

Quantitative and qualitative measurements

A key goal of vendor governance is to hold vendors more accountable for the services they provide. That means collecting both quantitative and qualitative measurements at regular intervals. This provides the data necessary to assess a vendor's performance and prove issues to the vendor.

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Candid information sharing

A vendor relationship built on mutual respect should also have complete honesty. That means openly sharing information about any problems, future plans, or limitations that need to be addressed. This creates an environment that allows both parties to work together more effectively and address issues before they become insurmountable or cause serious damage.

Continuous improvement

No vendor-governance strategy should be static. Both vendor and client parties should constantly be working toward achieving better performance and a more harmonious relationship. On the part of the client, this means collecting data, regularly reviewing performance, working with the vendor to improve the relationship, and putting out RFPs as needed. Vendors should do their part by submitting new ideas and working to improve their solutions.

Ongoing opportunities for business growth

Companies should always be looking to understand how they can use third parties to drive business goals. This means identifying potential areas for improvement and working closely with vendors to develop new solutions.

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Building a consensus

Stress the importance of vendor relationships

In order to hold effective IT governance meetings and develop strong governance structures, company leaders must understand the importance of vendor management and relationships. As IT and business goals become more aligned, it becomes increasingly crucial that technology leaders work with other members of the company to create a consistent, effective governance strategy. By stressing the value of effective governance to key stakeholders, it is easier to develop a structured means of holding vendors accountable and working to improve vendor relations.

Major benefits of effective IT governance include:

Improved productivity

By creating streamlined structures to manage and oversee IT vendors, productivity can be greatly improved. Managing vendors takes a considerable amount of time and resources. Good governance practices can reduce this workload, eliminate siloed information, and improve collaboration.

Productivity can be greatly improved with good governance practices.

Reduced costs

Third-party cloud solutions account for nearly a quarter of the average enterprise's IT budget.[2] By implementing comprehensive sourcing and vendor-review plans, companies can reduce needless expenditure, find the most cost-effective solutions, and improve value-added returns in a more systemized, effective way. This can translate to significant reductions in the costs of delivering IT services.

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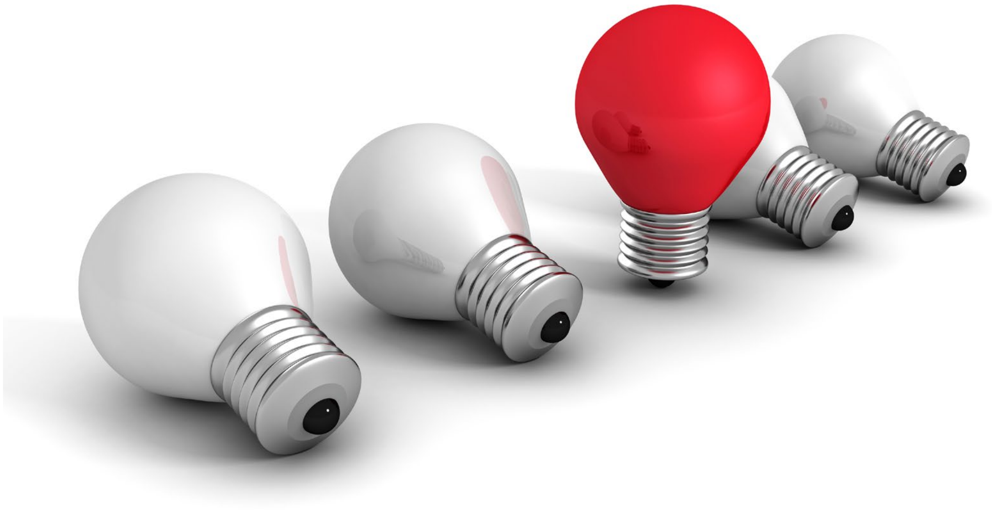

Better end-user experience

Organizations that implement effective vendor-governance structures can significantly reduce the risk of downtime, improve IT performance, and create a more reliable IT infrastructure. This means that end users are less likely to experience problems, potentially increasing productivity and brand reputation.

Greater accountability

In the past, IT in many companies has functioned as a nearly autonomous unit with little accountability to the business at large. Governance structures help align IT services with business goals and provide real, quantifiable accountability for vendor performance. This allows IT to better function as a core component of the business, rather than a separate entity.

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Setting the agenda

Key IT governance talking points

Effective multi-vendor IT governance incorporates a mix of skilled personnel, disciplines, and tools from both the client and vendor. Companies must establish for all parties an ongoing program featuring regularly scheduled meetings to set agendas, address problems, and make future plans. Before beginning, however, make sure the key topics of discussion are understood. This ensures that meetings are productive and that all necessary points are addressed adequately.

IT vendor governance should cover six key management areas:

1. **Financial**
2. **Project**
3. **Relationship**
4. **Contract**
5. **Performance**
6. **Continuous improvement**

Each of these areas covers a key component of the overall vendor-management strategy.

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1 Financial management

One of the most critical roles in an effective vendor governance strategy is controlling costs. As third-party vendors make up an increasingly large share of the overall IT budget, this role becomes even more critical. Companies must validate and reviews costs, monitor the economics of the contract, and ensure that the value proposition or expected benefits are realized. This allows companies to achieve more cost-effective service and keeps IT and vendors accountable.

Key points:

Foundational goals

The organization should set short- and long-term spending goals – and craft its governance strategy to support those goals. These goals provide a basis from which to measure performance and allow companies to achieve measurable progress toward increasing value. Governance meetings should regularly meet to evaluate the company's current status in relation to milestones and address any budget overruns as they arise.

Monthly invoice reviews

Business leaders should review vendor invoices monthly to gain an in-the-moment snapshot of spending, ensure that expenses are on track, and prevent billing surprises. This review period can provide a reality check for spending, reducing any unexpected events. It also provides the opportunity for the company to work with vendors to address issues as they arise, rather than putting them off until they become more serious.

Quarterly budget scorecard

Every quarter, the organization should review its budget and rate it based on previously defined goals. This provides the opportunity for the organization to assess its vendor relationships, set new goals, and make adjustments as needed.

Value proposition management

Absolute spending figures have little meaning when not placed in relation to the value they add to the company. The organization must strive to ensure that vendors are living up to their promises and that SLAs meet the needs of end users.

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2 Project management

Although outsourcing projects to third-party vendors dramatically shifts IT's role in the company, project management remains a critical function and a core component of vendor governance. Developing and implementing new solutions can be challenging, particularly when working with third parties. Although the vendor might have its own project manager, it is still important for the company to oversee projects themselves. The vendor's project manager represents the vendor's interests, and the company must also represent its own interests to ensure its needs are met. The organization must measure and monitor project control and execution performance; review schedules, issues, risks and mitigating actions; and compare budgets to actuals and estimates to completions. This process helps ensure that projects stay within budget, meet expectations, and finish on time.

Even if the vendor has its own project manager, the company still has a responsibility to oversee the project.

Key points:

Setting and communicating expectations

The company must be very clear with the vendor about what it requires from the project early on. This means setting quantifiable milestones and holding the vendor accountable to them. To ensure that the project stays on track, governance structures should be created to monitor performance and set up regular communication with the vendor.

Monthly measurement reports

Companies should be carefully monitoring project progress and reviewing that progress at least once a month. By collecting quantifiable data on project progress and comparing that data to predefined milestones, the organization can gain a clearer understanding of progress and identify areas that may need to be addressed.

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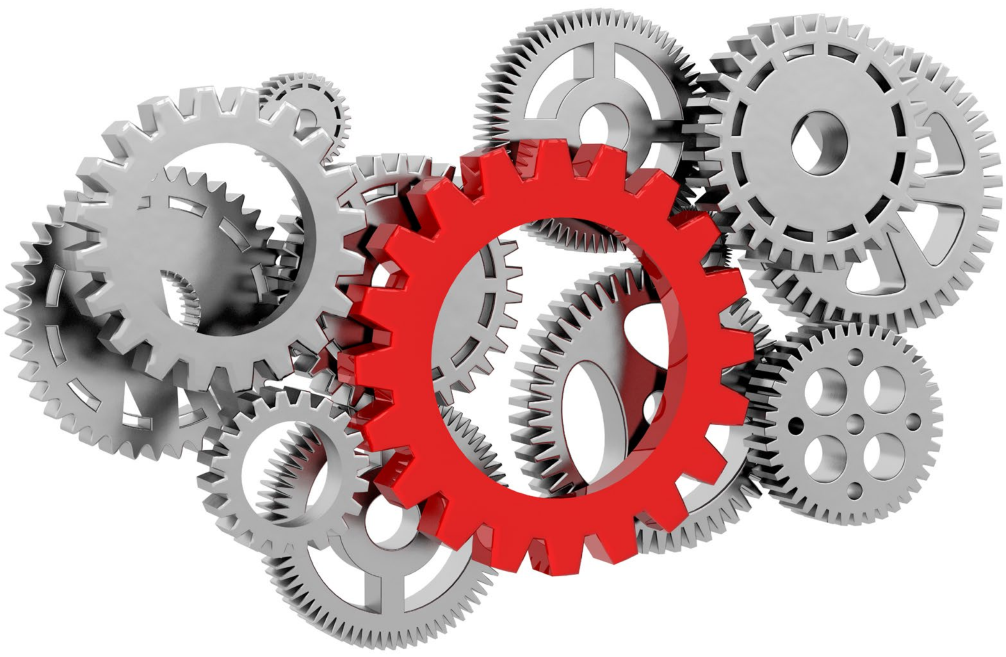
Issue resolution

To make sure project issues are resolved quickly, there must be structures in place. This necessitates clear communication with vendors, collection of data to help identify problems, and conflict-mediation structures.

Quarterly multi-vendor project overview

It is also important for the organization to have a sense of how its projects are performing in aggregate. This means reviewing quarterly multi-vendor consolidated reports, with clear indications of the status of every project underway. This overview allows business leaders to quickly gain an understanding of the current state of affairs and take strategic action as needed.



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3 Relationship management

Building strong relationships with vendors can have many benefits for an organization. Better partnerships help decrease turnover, improve reliability, and deliver better IT services. IT vendor governance must incorporate a sense of this value and work to build strong relationships while ensuring the company's needs are met.

Ongoing, well-defined communications will help foster a healthy vendor relationship.

Key points:

Overall communications

The company must institute and maintain a program for ongoing communications with the vendor. Regular meetings should be held between the client and the vendor, and key points of contact should be well defined. This allows for the mutual goal planning, assessment, and collaboration necessary for a healthy vendor relationship.

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Vendor risk assessment

Vendor risk assessments allow companies to gain insight into the potential risks associated with a given vendor's product or service. This is a critical component of developing a mutually beneficial relationship that meets the company's unique needs. Risk reviews should identify any risks that the vendor may be subject to, both in absolute terms and relative to other vendors, and determine how that risk will align with the company's overall risk management strategy. These reviews should occur both before contracting with the vendor and on an ongoing basis for the period of the contract.

Risk assessments should occur both before contracting the vendor – and on an ongoing basis for the period of the contract.

Satisfaction review

It is important for the client to communicate its level of satisfaction with the vendor regularly. This allows the vendor to address any problems and work toward improving the delivered services.

Long-term planning

In order to maintain a healthy vendor relationship for extended periods, it is important to plan for the future. This means open communication between all parties and discussion of long-term goals. This allows the vendor and client to ensure that they stay on the same page in regards to demands and capabilities. It also allows incumbent vendors the opportunity to adapt to the company's long-term needs.

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4 Contract management

The foundation of a vendor-client relationship is the contract. It provides a key basis by which vendor performance can be measured. It also serves as a roadmap for vendor-client relations, providing important guidelines in the event of problems and allowing the company to better plan for the future. Companies must hold meetings regularly to ensure compliance with contract agreements and the service-delivery model; conduct dispute resolution; and maintain contract documents.

Key points:

Compliance review

At the core of vendor governance is compliance review. The company must ensure that the vendor is delivering on the requirements set forth in their SLAs and address any shortcomings promptly. Monitoring contractual deliverables and red areas can provide the company with leverage to negotiate reduced prices or other compensation. It also can help the company identify problem vendors and decide when to request bids from alternative sources.

Dispute resolution

Most contracts include predefined processes for escalating issues and resolving disputes. In the event of problems, companies may need to meet with the vendor to discuss solutions or to terminate the contract. Companies should strive to gain an understanding of why the problem is occurring and whether the vendor can actually meet the company's needs. This will help guide the actions the organization takes when attempting to solve any issues that may be occurring.

Contract review and improvement

Improving a contract so that it better meets the needs of the company is extremely important to vendor governance. It is frequently the case that terms that seem sufficient on paper actually fail to deliver the level of performance the company requires. In some cases it may be necessary to renegotiate the contract before the renewal period. During renegotiations, it may be helpful to solicit bids from other vendors to provide alternative options and leverage for negotiations.

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5 Performance management

Ensuring vendors deliver the level of performance necessary to meet business needs is a critical business function. As IT's role shifts from building and maintaining the infrastructure to monitoring and managing third-party vendors, it becomes increasingly important that performance be strictly controlled and structures be in place to take action when problems arise. Companies must measure and monitor delivery performance in relation to SLAs and to business goals; review deliverables and trends; and aggregate incident, problem, root cause, and other performance data. This allows the company to gain a holistic view of IT vendor performance and ensure that end-user requirements are met.

Measuring and monitoring delivery performance gives companies a more holistic view – and helps ensure that end-user requirements are met.

Key points:

Monthly performance measurement reports

Each month, the company should review performance measurement reports, comparing them both to SLAs and current business needs. Any areas in which performance is lagging should be addressed, either by working with the incumbent vendor to develop new solutions or improve existing ones, or by finding a new vendor that can better meet the needs of the company.

Quarterly multi-vendor aggregate performance reports

It is also important to gain a better vantage of overall vendor performance by reviewing aggregate reports on a quarterly basis. This can help identify structural problems within the organization and allow the company to make better long-term strategic decisions.

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Monitoring qualitative performance

Although vendors may be delivering on the relevant metrics set forth by the SLA, they may be failing to deliver on end-user expectations. This phenomenon is known as the watermelon effect, and occurs when compliance with SLAs appears green on the outside, but upon further inspection, is red on the inside. In many cases, the performance statistics laid out in the contract don't actually meet the needs of the business. This can have extremely damaging implications for IT and the business, as users are unsatisfied with the performance, leading to losses in productivity, damage to brand image, and other problems. Vendor governance must address this problem by monitoring qualitative reports on performance and working to tailor SLAs to better meet real business needs.

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6 Continuous improvement and innovation

Improving vendor relationships, performance, and cost-effectiveness should be built into the framework of effective IT governance. One of the greatest benefits of using third party providers is that it allows the company to source talent, ideas, and services from a diverse range of providers. Businesses should take advantage of this by involving the vendors intimately in business innovation and allowing them to submit proposals, work with business leaders to develop new solutions, and bring fresh ideas to the table.

Key points:

Vendor proposals

Companies should establish a predefined multi-vendor process for vendors to submit ideas, business cases, and proposals, and hold briefings to discuss added value, partnership and other innovation topics. This gives vendors the opportunity to prove their potential to bring value to the company and allows for an influx of new ideas into the organization.

Monthly review

Every month, companies should track and review individual submissions and make decisions about each one. New vendors should be given an equal chance to prove their worth over incumbent vendors.

Quarterly review

Clients should meet with vendors on a quarterly basis to share strategic and tactical business ideas and discuss IT intelligence, emerging trends, and plans for the future. This allows the vendor and client to be strategic partners, working together to achieve mutually beneficial goals.

Quarterly reviews are an opportunity to share strategic and tactical business ideas.

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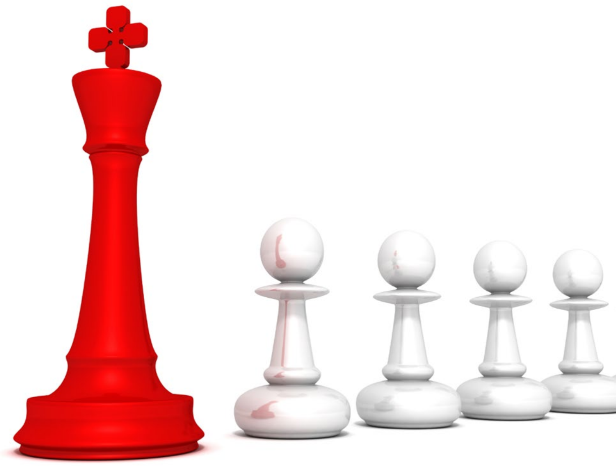
In summary

Managing multiple vendors has become a core functions of the business. As cloud services and other innovations replace in-house operations, it is increasingly important that governance structures be strong and companies regularly conduct meetings to review performance, discuss solutions, and plan for the future. Understanding best practices for vendor governance is critical to holding more effective multi-vendor governance meetings and achieving better outcomes with vendors.



Key points:

- Vendor governance is a critical function of IT and the business.
- Effective governance can improve productivity, reduce costs, and lead to better vendor relationships.
- When conducting IT governance meetings, it is important to set clear goals and focus on achieving those goals.
- Be sure to engage the support of key stakeholders within the company when planning governance meetings.
- Open communication, regular review, and strong partnerships form the basis for effective IT governance.
- Key governance talking points should include:

  Financial management | *Contract management*
  Project management | *Performance management*
  Relationship management | *Continuous improvement and innovation*

- Each point should be discussed with key business leaders, IT, and vendors on a regular basis.

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With a pragmatic approach to problem solving, Steve Coper enables his clients to quickly implement and benefit from his recommendations. A Managing Principal of WGroup, he has over 30 years of senior IT management and consulting experience. Steve specializes in transforming IT organizations, IT sourcing strategy, contract development, and negotiations.

In his work with global Fortune 500 companies, Steve uses his extensive expertise in IT Transformations - organizational effectiveness and governance, service-delivery processes, program and portfolio management, and merger-and-acquisition IT integration. He advises clients with diverse focuses ranging from gaming, hospitality, and beverages to financial services, pharmaceuticals, and packaging. Steve has led teams that analyzed IT delivery processes, modeled IT costs, benchmarked results to industry data, developed organization and sourcing options, and provided recommendations for improvement and sourcing to both company executives and board of directors.

Prior to joining WGroup, Steve was a consultant with aligne, Inc., where he strategized and solved IT and business management problems for Fortune 500 clients. As a project executive with IBM Global Services, he managed several long-term, client-sourcing contracts valued at up to $1 billion and was the executive P&L owner for three long-term contracts, managing IT infrastructure, network, applications development, service desk, and program office.

Steve earned an MBA from La Salle University and a BBA in computer science from Temple University. While at IBM, he attended the Harvard University and Thunderbird Graduate School of International Management Executive Development Programs. Steve is a Certified Project Management Professional of the Project Management Institute (PMI) and is certified in ITIL Foundation.

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