

Contract Governance: The Movie

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This article looks at Procurement's involvement in determining value from contracted services. It was first published by contract service consultant, Chris Arlen, President, Service Performance. It's reprinted here with permission from the author.

Understanding Contract Governance

This is a drama about outsourcing, procuring and managing contract services. It's based on real life. And like a good melodrama, the hero prevails in the last reel. It was prompted by a conversation recently with the Corporate Director of Procurement for one of the major travel web sites.

Cast of Characters

These are the typical suspects.

Company: A business that outsources non-core services.

Procurement: A company employee who sources, vets, bids and negotiates with Contractors.

Business Owner: A company employee who manages the outsourced service. Also goes by the name of **Customer** sometimes. Yes, it can be confusing.

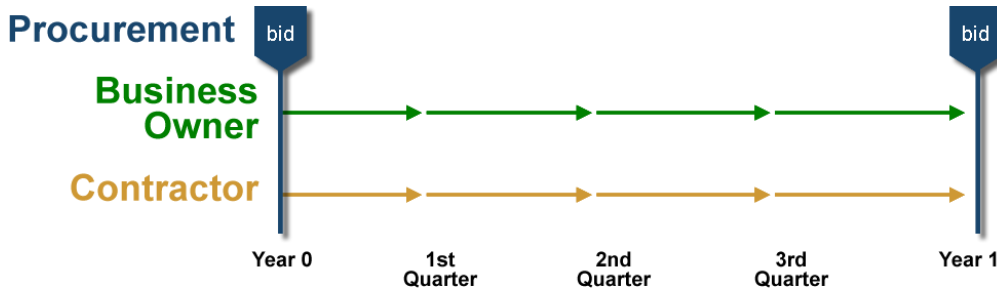
Contractor: A business that provides outsourced services.

The Storyline

Here's the overly simplistic storyline. Stay with me for a moment.

1. Procurement bids out a service contract.
2. Procurement, with input from the Business Owner, selects a Contractor.
3. Procurement finalizes a contract with the Contractor.
4. Procurement hands over contract responsibility to the Business Owner.
5. Contractor performs service.
6. The Business Owner observes Contractor's work and keeps them on track.
7. Before the contract renewal date, Procurement rebids service contract.

This is what that process looks like: on-going contact between Business Owner and Contractor, but no contact with Procurement except when bidding the contract.



No Oscar threat here. But it points out...

The Dramatic Conflict - An Unclosed Loop

After the contract hand-off, Procurement doesn't know what the Company got from the contract.

- *Did the Company receive less, or more value than dollars spent?*
- *Did the Business Owner manage the Contractor relationship well?*
- *Did the Contractor deliver everything proposed in its bid?*

The loop is unclosed because Procurement is unaware of the value received from the contracted service. Procurement doesn't know how the Contractor performed: were they a star, a wall flower, or an embarrassment? How can Procurement find and select the best Contractors if they don't see how their choices perform?

The Broken Heart - Lost Opportunities

The unclosed loop means the Company lost on the contract. Lost opportunities may include:

- *Not receiving full value for spend - not all of the contractor's proposal promises delivered*
- *Procurement not learning from poor Contractor selections - repeating them again and again*
- *Not correcting deficiencies in the contract when identified - waiting & suffering until rebid to update*
- *Not reducing liability risk from non-contract compliance - diligence varies between Business Owners & Procurement*

The Red Herring - Contract Management

The Business Owner works with the Contractor:

- *Observing service delivery*
- *Catching problems*
- *Holding the Contractor accountable*
- *Providing guidance*

This is contract management: necessary, but not governance.

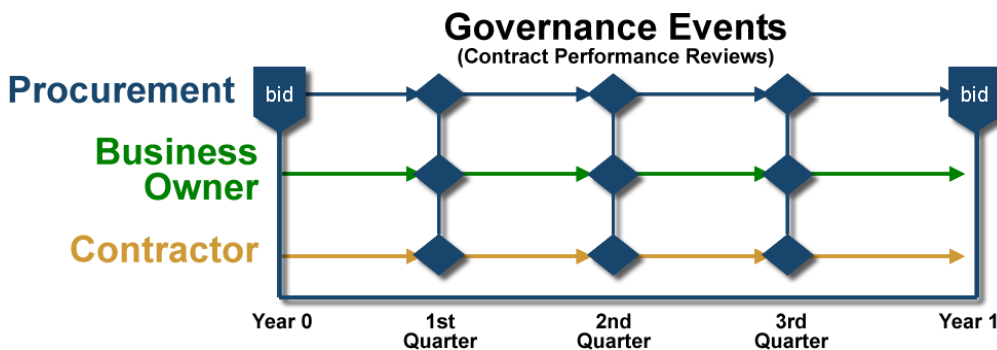
Contract management is a process. It's about activities, and Procurement doesn't benefit much seeing daily performance. That's the Business Owner's job.

But there is a way to connect the loop and avoid the broken heart of lost opportunities. Read on.

The Hero Prevails - Contract Governance

Contract governance is an event. It's where performance is validated - officially. It's done by looking at measurable outcomes - cumulative data.

Now here's a surprise (or not), governance takes place in Contract Performance Reviews. That's their real purpose: to look at the contracted outcomes.



And almost every outcome can be measured in some form; cost, quality, reliability, responsiveness, etc. These metrics are KPIs (Key Performance Indicators).

Even feelings are measurable, such as:

- *Business Owner's satisfaction working with the Contractor*
- *End-users' satisfaction with the delivered service*
- *Contractor employees' satisfaction working at that location*

Contract governance closes the loop between Procurement, the Business Owner and the Contractor.

As a result:

- *Procurement sees value received (or not) from the contracted service*
- *Procurement sees how their contractor selection played out - did they make the right or wrong choice, or somewhere in between?*
- *The Business Owner updates Procurement on their Contractor relationship - a great one can improve the Contractor's standing with Procurement*

Into the Sunset - Value Verified

Contract governance verifies that promised value has been received. With Procurement's involvement the loop is closed: from bid proposal to performance to verification. Going forward Procurement makes better contractor selections, getting more from less spend. Think bonus.

The Business Owner demonstrates the importance of their service's contribution. It's done in terms that can send good news upstream in the Company. Think job security.

The Contractor welcomes contract governance. It makes their work visible in a way that counts - with Procurement, who'll be rebidding their contract in the future. Think best value.

Hopeful contractors appreciate Procurement's fairness. They know the winning contractor will be held accountable to delivering on promises made in the bid process. Think account retention.

THE END