

# 10 STEPS TO GOOD CONTRACT GOVERNANCE

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GOVERNANCE IS ONE OF THE MAIN REASONS WHY IT MANAGED SERVICE OR OUTSOURCE CONTRACTS SUCCEED OR FAIL. GOOD CONTRACT GOVERNANCE IS ABOUT THE DELIVERY OF BUSINESS BENEFITS, WELL MANAGED SERVICES, AND A STRONG CUSTOMER-SUPPLIER RELATIONSHIP. ON THE OTHER HAND, POOR CONTRACT GOVERNANCE, OFTEN RESULTS IN POOR SERVICE DELIVERY TO THE CUSTOMER AND AN UNPROFITABLE CONTRACT TO THE SUPPLIER. WHAT DO YOU NEED TO DO TO GET CONTRACT GOVERNANCE RIGHT?

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## 1. DEFINE AND IMPLEMENT A CLEAR AND UNAMBIGUOUS GOVERNANCE STRUCTURE

An effective governance structure is critical to the success of any contract. Contract governance should be multi-tiered, consisting of strategic, management and operational levels that not only ensure effective decision-making but also provide a clear escalation path for issue resolution.

## 2. TRACK AND REPORT ON CONTRACTUAL OBLIGATIONS

Once the contract is signed you need to be actively tracking and reporting on the delivery of contractual obligations to ensure both parties deliver on the commitments in the contract. Consider Contract Lifecycle Management (CLM) software, which can automate contractual obligations tracking and provide you with event-triggered notifications.

## 3. ACTIVELY MONITOR AND REVIEW SERVICE DELIVERY PERFORMANCE

The quality of service delivered to the customer is essential to the success of the customer-supplier partnership. Service must be monitored and reviewed in terms of delivery against the agreed service level metrics. Effective, accurate reporting and the use of business service management tools will enable you to understand trends and work with your supplier to address any issues.

## 4. CONSIDER THE IT ECOSYSTEM INTERDEPENDENCIES

The effective management of interdependencies between each supplier contract within your IT ecosystem can have substantial implications for the successful delivery of the individual contracts. These interdependencies should be modelled so they are clearly understood and subsequently managed by means of Operating Level Agreements (OLAs).

## 5. PROACTIVELY MANAGE OPERATIONAL CHANGES

As soon as you sign a contract changes will occur within your environment. You need to ensure you have a robust change management process in place and that you focus your supplier on being able to effectively deliver change. Put in place change management dashboards to identify and resolve issues.

## 6. IMPLEMENT EFFECTIVE COMMERCIAL GOVERNANCE

Commercial governance includes budgeting, invoicing and business case management. It is critical that you put in place effective processes to enable you to forecast and budget for expected costs, validate invoices and track and report on business case benefits.

## 7. CREATE AND MANAGE A CONTRACT RISK REGISTER

Throughout the contract term there will always be risks and issues that need to be identified, evaluated, mitigated and managed effectively. The governance structure should foster a top-down culture of proactive and accountable risk and issue management. A summary of the key risks, issues and mitigation actions should be managed and made available to all stakeholders.

## 8. CREATE, POPULATE AND ACT UPON A SUPPLIER SCORECARD

Effective governance performance is facilitated by the timely provision of the appropriate management information. Supplier scorecards should be developed at an operational, management and strategic level to report into the different governance forums. Focus on a small number of key metrics that are aligned to your business objectives.

## 9. IMPLEMENT A CLEAR COMMUNICATIONS STRATEGY

Implementation of a managed service or outsource contract should be viewed as a major

change programme. You should identify all stakeholders who will be impacted by the change and put in place a clear communications plan. You also need to ensure that a contract handbook is developed and contract education is provided for all stakeholders who were not involved in negotiating the contract.

## 10. PERFORM REGULAR CONTRACT ASSESSMENTS

In the course of a three or five year contract it is easy to get caught up in the operational aspects of the contract and not take time to review the original objectives and contract intent against changes in the business environment. It is recommended that regular contract assessments are performed to review whether the contract is still meeting business requirements and is market competitive.

## ABOUT US

Wavestone is an international consultancy that provides connected thinking, insight and capability to industry leading organisations. We work collaboratively with our clients to plan strategic business transformation and seamlessly turn strategy into action.

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