



Who Controls Sourcing? – Governance and Strategic Sourcing And in the extended enterprise, what is the role of HR and Purchasing?

Jim Everett, Think180

With greater emphasis and reliance being placed on external resources, and with many companies forging closer partnering relationships with vendors, the nature of the organization has changed.

At one time, HR hired employees, and Purchasing engaged vendors. Now, the distinction is not so clear. And the front line Delivery Managers feel the effects as they manage vendors. Executive oversight and greater planning is required for companies adopting extensive external sourcing.

Delivery Managers are a key indicator of how well a company structures its external sourcing. These are the employees who have the day-to-day job of managing and integrating the work done by vendors and partners. If these Delivery Managers are struggling, or projects are going off track, then this is a symptom of a larger problem.

They may be facing projects where the agreements and metrics do not match the work to be done, and do not give the Delivery Manager the leverage they need in controlling the project and vendor. They may not have the contractual tools they need to manage and adapt to changing requirements. They may feel they have been thrown into the role, without the experience or training they need.

Sourcing outside expertise is not a new concept. Companies have brought in experts and additional resources, as long as there have been companies. Ancient governments and military forces have also used external craftsman and labor resources. Companies use Purchasing or Procurement Departments to manage the engagement of vendors.

The term "procurement", meaning, "to obtain or get by care, effort, or the use of special means" is 700 years old and still used today, along with "purchasing". In many companies, this historic mindset still influences how the role is seen. At the very least, it still reflects a military model where it became a functioning department.

For some time, outsourcing has been a response to (or a means of) "downsizing." Companies that are now smaller than before must look for ways of doing the same work, or more, with fewer employees. Further impetus over the past 20 years has come from the burgeoning growth of companies in the high technology industry.

In the last decade or so, outsourcing has become one of the top avenues of providing flexible capability for many organizations. The leveraged business model has quickly become a strategic tool.

But today's business model has crossed a threshold. It is a new era. And the people who feel the greatest effects of how business is done this way are often those employees who now have to directly manage the external resources.

Outsourcing is also a result of a shift in mindset. The traditional notions of "the corporation" have changed. There is a new more dynamic business model where the permanent workforce makes up only the core or nucleus.

For some companies and organizations, or particular departments within companies such as IT or Customer Support, 80% of the work may be done by resources from outside the company. The concept of the "virtual corporation" has emerged to address the changing resource needs.

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Increasingly, external expertise is used in specialist areas, once the exclusive province of employee professionals. Yet for many companies, their management models and development activities are still geared towards the traditional employee model.

This article looks at functions such as Purchasing departments who have traditionally taken a contractual and commodity approach towards engaging specialized vendors on behalf of other departments within the company, and at Human Resources whose efforts around recruitment, management development, and organizational change, are focused exclusively on employees.

Like many corporate functions today, Human Resources runs the risk of functional stereotyping along with a legacy mindset created by its earlier roles. HR is seen as focusing on the employee work force while the external resourcing decisions are left up to the business units. Purchasing risks being relegated to supplier-buyer role, where departments will get clever at bypassing Purchasing processes and practices.

In today's more complex business model of external sourcing, these two groups may be seen either as enablers, or as obstacles. In some cases they can simply be irrelevant to the productivity and integration of outside resources. Or, HR and Purchasing can work to become strategic partners with business units in the company, in increasing the effectiveness of work done through vendors and external partners.

The role that Purchasing takes may be driven by where it is functionally located within the organization. If it is part of the Finance department, then it will likely take a cost-savings approach, driven by budget. If it is part of the Legal department, it will be strongly driven by the contract, agreement, and the terms and conditions.

One key reason for involving both Human Resources and Purchasing in this model is that employees are paid through the Human Resources department; vendors are typically paid through the Purchasing department. Both these departments are strategically and operationally tied to what is done in other parts of the company.

Even so, there is another level beyond this. This is what has traditionally been called OD, or Organizational Development. The purpose of OD is to look at the overall company, how it is organized, shaped, and how it operates dynamically. Areas of focus have been corporate culture, team building, managing change, organizational structures, growth, job design, and management style.

With the emergence of practices such as partnering with vendors, and co-sourcing so that vendors are stakeholders in the outcome, the distinction between vendor and employee becomes blurred. The two greatest differentiating factors are how work is controlled and who "owns" the person doing the work, and who pays the individual.

The IRS lists as a key differentiator between employees and contractors that there is more immediate control over the work of employees. Managers may direct the day-to-day work of the employees, their behaviors, and how the work is done. With vendors, clients (Delivery Managers) may only exercise control over the outcomes and end results, milestones, or specific behaviors that are part of agreed service levels.

Outsourcing takes numerous forms. In each, there is a process to select the most suitable vendor. This may not always be the "best" vendor (i.e., the most highly qualified), so much as the "best fit" for the situation. It may not be the vendor with the lowest bid.

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Let's look at the elements in selecting a vendor where that vendor (contractor, consultant, 3rd party) works directly with employees on:

- An internal project (e.g., product development, training design), or
- Delivering a service to a customer (e.g., product training, systems development)

In these cases, selection goes beyond the technical, professional or industry expertise. The "personal style" or "cultural fit" of the vendor becomes one of the deciding factors. This type of selection falls more into the area of expertise of Human Resources, but it is typically Purchasing who gets involved.

Service groups, such as HR and Purchasing, at a minimum need to understand four distinct forms of outsourcing, as defined by Think180. These are: team partner; delivery partner; delivery vendor; facilities vendor. Understanding these is important for selecting and managing vendor performance and relationships effectively and efficiently.

<http://www.think180.com/Pages/RIPs/matrix.html>

Purchasing Role

Historically, vendor selection has been treated as a "supply management" issue because of the contractual considerations. Purchasing's involvement was usually limited to providing managers with a list of "preferred" vendors, assisting in the execution of the contracts, and approving payment of vendor invoices.

The number of vendors and extent to which company resources are leveraged is important to how a business is assessed financially in the marketplace. So in many companies, Purchasing acts as a gatekeeper, to contain the spread and proliferation of vendors. But this can also have an internal downside.

Many departments who use vendors may view Purchasing as an obstacle to rapid engagement for meet the changing needs of a dynamic company. Payment to vendors may be delayed through overly complicated processes for approval of work and invoices. This gets in the way of effective operations, and may also add conflict or a combative tone to a relationship.

As the emphasis on outsourcing grows, one way Purchasing can add value to the organization is to identify and select vendors that support the strategic and cost-effective objectives of the outsourced project. To begin the partnering process, Purchasing needs to develop:

- A partnering relationship with the project or program manager
- A sound understanding of the vendor selection requirements against department goals

Human Resources Role

Human Resource departments feel the ground shifting under their feet and are looking for new footholds. Pressure is building for HR to redefine relevance. The profession that has been the champion of bringing in people and ensuring they stayed is now under the threat of being outsourced. Areas such as recruitment, benefits administration, and training are handled by outside companies.

Nimble HR departments are redefining their own competencies to ensure relevance and influence in companies of the new millennium. Preparing organizations to effectively work with coalitions is key, and it is a major opportunity for the business-savvy HR professional to make a substantial impact.

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HR departments and professionals can define their core competencies by recognizing, understanding and utilizing their unique strengths around people, performance, selection, culture, organizations and management.

Add to this an essential knowledge of the business, a place on the executive team, an effective network within the organization, and a reputation for results, and Human Resources stands to be in a prime position to deliver significant value to their company in the future. For example, at strategic levels, the HR and Training executives can ensure the organization builds capabilities that the customer wants and values – and this is good for the business.

Many internal training programs include topics such as negotiation, and conflict management. When a company or department, utilizes external resources extensively, that becomes an area where skills are needed in a specialized way. Training and Development functions need to ensure that, at the very least, case studies and situations around vendor management and various forms of external sourcing, are included in the training.

If a company or department is highly leveraged, then there is likely great value in HR offering courses specifically aimed at negotiating with vendors and handling conflicts when managing work done by external resources.

For groups and departments where a large part of employees' jobs is managing the delivery of services by vendors, the performance review system needs to reflect the necessary skills needed to do this, as well as measurement and assessment of the employee based on the outcomes delivered by the vendor they manage.

At the vendor selection stage, it is very helpful to have an understanding of the competencies and capabilities required to perform outsourced work, the relative value of these in the marketplace, and what is a fair and reasonable amount of work to produce the outcomes. This is where Human Resources has expertise that can be brought to bear, in some cases more than a traditional Purchasing department.

Selecting a vendor requires an understanding of selection criteria. Even though selecting an employee (the traditional role of HR), is slightly different, the mindset of establishing clear selection criteria, assessing against these, doing reference checks, and making a final decision, is familiar to HR.

Organizational Development Role

Organizational development groups (OD) are typically focused on change management, restructuring, and team development for employee groups. Some companies, or departments, have more resources outside the base of employees than internally.

Where there is much interaction between employees, internal delivery managers, and staff from vendors, then those external resources (in effect) become part of the team, department, and the organization. This concept of the "shadow pyramid" or extended organization is often overlooked in organizational development and change management initiatives.

This interaction between company employees and vendor employees, and integration of the efforts of both companies, has a major impact on the culture of the client organization. OD specialists and Human Resources can play a large part in assisting the integration of employee efforts with that of vendors, and the protection or growth of a corporate culture that delivers the outcomes required while maintaining the essence of the client company.

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Given that the employees of the vendor, the ones delivering the results, are part of an alternative organization, then the infrastructure and overhead costs of that organization (the vendor), needs to be taken into account.

It is important to be able to tell when a vendor is padding a job, or the scope of work is over-engineered for the results and budget that the client wants to produce. This does not mean that the vendor is necessarily cheating, but their infrastructure may rely on larger teams of highly specialized expertise.

The result of this is that many different individuals are assigned to a single problem or project, requiring an extra layer of management and additional cost.

In some cases, the client may be better served by a vendor who can provide a smaller, cost-effective set of broadly skilled generalists without the need of larger (more costly) teams. This solution falls somewhere in the court of HR, OD and Strategic Sourcing to understand and guide selection, and how the project is resourced.

Strategic Sourcing Executive or Group

Often, when planning outsourcing and engaging vendors, the emphasis for those negotiating with the vendor is on "the deal", followed by the contract. Often, and unfortunately, it is not focused on the resources, customer, impact on organizational culture, the integration of the work, how it is managed, or the results.

Some forward-thinking companies have created positions of Strategic Sourcing executives or groups, whose job it is to look at and plan for how large numbers of external resources are engaged and utilized.

The role of these executives is often somewhere between Human Resources and Purchasing. Or it may be given a strong charter – one that has executive responsibility for the overall governance of outsourcing, and specific major projects.

For starters, this emphasis on high-level governance must:

- Ensure a strategic fit of outsourcing undertaken by the company and departments
- Involve key stakeholders, and heads of departments who will own the projects
- Review the way in which results are to be created and delivered
- Plan for and put in place outsourcing processes and practices for the lifecycle of projects
- Ensure robust mechanisms for monitoring both the value and quality of work delivered
- Ensure and oversee the readiness of departments to take on and manage outsourcing
- Implement a plan to develop and train Delivery Managers and Department Managers
- Ensure effective programs for change management, and team effectiveness, for the extended resources of the department and the vendor
- Oversee the structuring of deals, expectations, scopes of work, and agreements

When companies operate with a model of highly integrated external resources, often referred to as partnering, or co-sourcing, special care is required in contracts and deals when selecting and engaging. Often it is more than the executive or manager responsible for the group is skilled to do.

This is where an OD practitioner (often from Human Resources) can play a significant strategic role. One of the key issues is around the different business models that are interfacing, or even meshing. Given that it is usually an expansion, it really is an organizational change and growth that needs to be planned and carefully managed.

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One of the challenges is that this whole process is outside the usual scope that HR will deal with. The way of setting up service level agreements (SLAs), milestones, and other performance metrics, is different from employee performance review. Purchasing departments may have some expertise in this area, given their history of involvement with engagements of external services.

However, the emerging complexity of partnering and co-sourcing, means that it is a whole body of expertise – one that requires a combination of skills of HR and Purchasing, and the new field of partnering with vendors. So this is where the role of "Strategic Sourcing" takes on a new significance in organizations.

Summary

External resourcing requires company-level governance, planning and preparation. This includes care in creating agreements, organizational planning, and preparation of those who will manage the vendors.

When outsourced work must be integrated with internal activities and the vendor deals with employees or customers as part of the project, good selection must take into account factors beyond "best price" and "greatest expertise."

Purchasing and Human Resources professionals can play a key role in selecting and integrating vendors to fit a situation, and become part of the extended enterprise.

When the resources and activities are highly integrated in large projects with high impact on company operations, or the customer experience, then the broader strategic resourcing model and lifecycle becomes critical.

And if all the higher level elements and quality of the agreements and relationships are solidly in place, then the day-to-day role of the Delivery Manager becomes clear, and not based on turmoil, conflict and continuous renegotiation of service levels pricing and deliverables.

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Think180 is a training and consulting partnership, based in Los Angeles. We have extensive combined experience in human resources, recruiting, working with vendors, managing projects and programs that involve external partners and resellers. We also have qualifications and experience in organizational growth and team building, financial management, and executive-level corporate experience in managing the delivery side of large professional services projects. We have provided training workshops and consulting to a range of high profile clients around "Managing External Resources".

Author: Jim Everett, Principal Partner
Advisor: Jane Dixon, Partner

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www.think180.com
310.694.0414