Supply Chain Governance

SSON Supply Chain Learning Series
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Who We Are

ScottMadden is a management consulting firm with more than 30 years of deep, hands-on experience.

We deliver a broad array of corporate and shared services consulting services—from strategic planning through implementation—across many industries, business units, and functions.

EXPERIENCE

Our experienced team has been a pioneer in corporate and shared services since the practice began decades ago. We employ deep, cross-functional expertise to produce practical, measurable solutions.

SCOPE

We have completed more than 1,100 projects since the early 90s, including hundreds of large, multi-year implementations. Our clients range across a variety of industries from entertainment to energy to high tech. Our areas of expertise span the spectrum of middle and back office corporate and shared services.

SERVICES

We have helped our clients with business case development, shared services design, shared services build support, and implementation.

Our corporate and shared services knowledge, expertise, and experience are unmatched—no other firm has helped more clients with more unique solutions.
## Capabilities and Areas of Focus

### ASSESS & PLAN
- Strategic planning
- Feasibility analysis
- Benchmarking
- Leading practice assessment
- Performance evaluation
- Project planning
- Leadership education and buy-in
- Staff evaluation
- Change readiness assessment
- Site visits

### DESIGN
- Current state analysis
- Future state design
- Business case development
- Service delivery model design
- Work scope delineation
- Sourcing evaluation
- Organizational design
- Technology evaluation
- Transformation planning
- Implementation planning
- Change management

### BUILD
- Project management
- Service and transaction center build
- Detailed organizational design
- Staffing
- Process redesign
- Technology design, selection, implementation, and support
- Education and training
- Facility design and setup
- Change management
- Sourcing implementation

### IMPROVE
- Analytics setup and deployment
- Operations improvement
- Governance
- Service expansion
- Cost reduction
- Process redesign
- Technology upgrade
- Merger and acquisition integration
- Field resource development
- Customer satisfaction measurement
- Metrics and performance management

### HUMAN RESOURCES
- Staff evaluation
- Change readiness assessment

### INFORMATION TECHNOLOGY
- Performance evaluation
- Site visits

### SUPPLY CHAIN
- Project management
- Service and transaction center build

### BUSINESS ADMINISTRATIVE SERVICES
- Technology design, selection, implementation, and support

### FINANCE AND ACCOUNTING
- Performance evaluation
- Site visits
What We Do In Shared Services

We are the leading shared services management consulting firm.

Decide  Design  Build  Improve
# Transitioning to a Shared Services Delivery Model

Moving from a “reactionary state” to a “future state” shared services model is a challenging endeavor. The graphic below highlights the key differences between these two states.

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Reactionary State</th>
<th>Future State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply chain focus</td>
<td>Transactional</td>
<td>Channeled – strategic and transactional</td>
</tr>
<tr>
<td>Relationship with business areas</td>
<td>Independent</td>
<td>Partner</td>
</tr>
<tr>
<td>Sourcing practices and knowledge</td>
<td>Location-specific, limited</td>
<td>Centralized, centers of excellence leveraged</td>
</tr>
<tr>
<td>Roles and responsibilities between supply chain and business areas</td>
<td>Unclear, flexible</td>
<td>Well-defined, enforced, accountability-based</td>
</tr>
<tr>
<td>Processes and procedures</td>
<td>Location-specific, inconsistent</td>
<td>Integrated, well-defined</td>
</tr>
</tbody>
</table>
Transitioning to a Shared Services Delivery Model (Cont’d)

Creating the type of service delivery model we covered during the previous article in the Supply Chain SSON series necessitates a keen focus on understanding business unit needs, an ability to align the work to be performed with the necessary skills, and managing information flows and issue resolution in an effective manner.

**Issue Resolution**
- Issue resolution
- Vendor performance

**Assisted Support**
- Build central call routing for clients and vendors
  - Interactive voice response call routing
  - Case manager issue capture, tracking, and closure
- Central transactions (purchase orders, vendor maintenance, AP, T&E, etc.)
  - Automated and measured

**Self-Service**
- Enable portal self-service
  - Invoice monitoring, reporting, policies, etc.
  - Vendor portal

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**Customers**
- Suppliers
- Purchasing Departments
- Line Managers and Purchasers

**Service Delivery**

**Policy and Programs**
- Procurement Strategy
- Purchasing Policy
- Supplier Diversity Program
- Accounting and Reporting
- Strategic Sourcing
- Supplier Relationship Management
- Performance Management

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**Customers**

**Policy and Programs**

**Service Delivery**

**Assisted Support**

**Self-Service**

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**Customers**

**Policy and Programs**

**Service Delivery**

**Assisted Support**

**Self-Service**
Effective governance is one of the overarching requirements for shared services success.

**Strategy**
- The shared services strategy must be in alignment with the organization’s overall strategy
- It should be clear what services are to be performed, for whom, and for what reason

**Governance**
- Clear guidelines should exist regarding who has responsibility for policy development, monitoring, enforcement, and arbitration
- Appropriate structures should be in place to provide these governance functions

**Performance Management**
- Performance should be benchmarked against external service providers
- KPIs should be identified, tracked, and communicated
- External best practices should be monitored routinely
- Outsourcing opportunities should be periodically assessed

**Enabling Technology**
- Technology is used to streamline and push administrative activities to cost-effective channels
- Technology enables the shared services organization to track and report on the metrics and manage the business
“Governance” Defined

Governance...

“The process of directing the behaviors and decisions of the people who are part of an organization. Governance is exercised through three key processes: *legislative* – making the rules; *executive* – monitoring and enforcing the rules; and *judicial* – arbitrating the rules.”

Firms with superior governance have at least 20% higher profits than firms with poor governance, given the same strategic objectives.

Source: Harvard Department/IRU School Press, 2004
The Case for Governance

A governance model is created to ensure that the shared services organization is held accountable for providing a consistent level of service to its customers (e.g., the business areas or corporate divisions). The model also provides structure for evaluating requests or arbitrating issues between the shared services organization and its customers.

The level of governance required is often based upon the culture of the organization or the trust towards the shared service center.

- From internal customers:
  - Resistance to let go
  - Belief that “we are different”
  - Desire for high customization
  - Resistance to pay for services

- From shared services:
  - Desire to take on too much too fast
  - Poor perceived service
  - Allowing no customization for exceptions
  - Poor reporting practices

Little formal governance is required when the potential for conflict is minimal, and the potential for conflict increases as the number of customer groups and services increase.

“He who governs least, governs best.” — Thomas Jefferson
Components of an Effective Governance Model

- A formal structure to manage the process
- Clear demarcation of decision roles and responsibilities
- Clear goals and principles
  - Goals outline the purpose for the shared services organization
  - The principles establish the ideals or values upon which the organization operates
- Well-articulated policies, processes, procedures, and standards
  - Policies, processes, and procedures define how decisions are made, how issues are escalated, and what criteria are used to govern the process
  - Standards determine what is expected and to what level of service the work is performed

Organizations, like individuals, may see the same issue from very different perspectives, and without effective governance, it can be extremely difficult to find the right path forward.
Formal Governance Structure

The formality and participating members in a governance structure is influenced by factors such as size of the organization, the number and complexity of services, organization culture, and hierarchy.

Governance Board is comprised of executives from key business units, the head of shared services, and support organization leads (e.g., Supply Chain, IT, etc.)

- Functional Advisory Panels for each support organization are comprised of support organization and key business unit managers
- Board has strategic vision, service alignment, and high-level issue resolution responsibilities while the Advisory Panels handle tactical performance direction and issue resolution/escalation activities

Governance Characteristics

<table>
<thead>
<tr>
<th>Key Benefits</th>
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<tbody>
<tr>
<td>Shared services organization obtains representation among senior management for key business decisions</td>
</tr>
<tr>
<td>Business unit customers are able to strongly influence the direction of shared services and ensure that shared services are responsive to business unit needs</td>
</tr>
<tr>
<td>Advisory Panels create a formal process to control spending, prioritize initiatives, and integrate with other business initiatives</td>
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</tbody>
</table>
Roles and Responsibilities

Each governance structure group should have key responsibilities identified within the overall model.

<table>
<thead>
<tr>
<th>Responsibility</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Govern**     | - Approve projects and funding  
                 - Endorse policies, processes, and practices  
                 - Define service levels  
                 - Serve as arbitrator for disputes |
| **Oversee**    | - Monitor, assess, and evaluate performance versus standards  
                 - Perform independent analysis of performance, trends, forecasts, and variances  
                 - Review and approve recommendations to ensure policy boundaries are maintained  
                 - Review and evaluate action plans to close gaps vs. governance standards and performance goals |
| **Support**    | - Provide value-added, supplemental resources or services to those performing the work, e.g., technical expertise, guidance, staff support, etc. |
| **Execute**    | - Develop plans to achieve the results required by governance standards and performance goals  
                 - Execute plans and do the work  
                 - Maintain functional competence and capability that compare favorably to industry standards |
Goals and Principles

Guiding principles represent the shared vision around which decision rights, policies, and standards will be established.

- **Business Management**: Manage the service like a business, not a fixed cost.
- **Market Responsiveness**: Provide service levels desired by the Department/IRU.
- **Continuous Improvement**: Identify and deploy best practices quickly and globally.
- **Process Standardization**: Develop streamlined process standards that can be maintained and improved quickly.
- **Service Culture**: Treat the Department/IRU like customers, offering valued services and charging for each.
- **Price Transparency**: Each Department/IRU determines how much service it wants at that price.

Source: Shared Services: Management Fad or Real Value? Booz-Allen Hamilton
Policies, Processes, Procedures, and Standards

Governance and operational rules should be documented and communicated in some manner.

- **Relationship Governance**
  - Executive leadership

- **Commercial Management**
  - Contract/pricing, SLAs, department development

- **Operational Performance Management**
  - Day-to-day operations and relationship management

- Governance focused organization
- Performance management focused

- Clear issue escalations mechanisms
- Linkages to business unit plans
- Effective policies and guidelines

- Communicate benefits
- Executive sponsorship

- Policies
- Processes
- Procedures
- Roles and responsibilities
- Service level agreements
- Incentives
- Performance scorecards
Effective Governance requires establishing adequate methods for monitoring performance

- Shared visibility to both service providers and Business Unit customers
- Information updated on a real-time or near real-time basis

### Policies, Processes, Procedures, and Standards (Cont’d)

#### Summary

<table>
<thead>
<tr>
<th>PROJECT PRGTnnnn</th>
<th>Implementation</th>
<th>MONOLITH STATUS REPORT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description:</td>
<td></td>
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</tbody>
</table>

#### Performance Reports

<table>
<thead>
<tr>
<th>Project Characteristics</th>
<th>Time</th>
<th>Cost (Euro)</th>
<th>Open Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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#### Dashboard

<table>
<thead>
<tr>
<th>F.G.P.</th>
<th>PROJECTS DRIVING BOARD</th>
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<tbody>
<tr>
<td>Date</td>
<td></td>
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#### Risk Map

- Low
- High

#### SLA Tracking

#### Service Delivery Scorecard

<table>
<thead>
<tr>
<th>Supplier:</th>
<th>Impact:</th>
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<tr>
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#### Costs Detail

<table>
<thead>
<tr>
<th>Cost Category</th>
<th>Details</th>
<th>Budgeted</th>
<th>Actual</th>
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Governance Lessons Learned

- Mandates do not typically work well
  - Must find effective ways to make decisions as a team and move forward
  - Best to build and prove shared services from the bottom up
  - Must include all the stakeholders in the P2P process
- Executive sponsorship and commitment reinforce the importance of process alignment
  - If not structured properly, governance models can conflict with existing budget structures
- Communicate results and celebrate successes
- Multiple governance models can be used for different types of decisions – the key is to develop an effective method to set strategic direction, monitor performance, and arbitrate issues that Advisory Panels or project teams cannot resolve

The key is to develop an effective method to set strategic direction, monitor performance, and arbitrate issues.
Supply Chain Topics

The ScottMadden and SSON Supply Chain Series includes the following topics:

- **Topic 1: The Enterprise Supply Chain**
  - The key characteristics of the enterprise supply chain will be the focus for this topic. A discussion of each area (i.e., planning and forecasting, strategic sourcing, procurement, logistics, materials management, and accounts payable) will include notable characteristics of leading practice supply chains as well as key “pain points” ScottMadden has observed that keep companies from achieving an optimized supply chain.

- **Topic 2: How Purchase-to-Pay Fits Within an Enterprise Supply Chain**
  - This topic will focus on the key attributes of a successful P2P transformation and the role technology plays in enabling the capture of the synergies and savings associated with P2P in a shared services delivery model.

- **Topic 3: Supply Chain Governance**
  - This topic will explore the key building blocks of effective supply chain governance models including decision rights, performance metrics, service level agreements, and issue escalation/resolution. We will also present methods to create alignment across an enterprise for a consistent supply chain strategy that clearly differentiates transactional efficiency from higher-value, strategic activities.
For more information, please contact us.

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