Implementing the Engineerin Vendor Partnership Model

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Strong communication is crucial to the success of nay client-vendor relationship, says Dmitry Stillermann.

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While the global economy attempts to extricate itself from the aftermath of the Great Recession while trying not to fall into another recession in the process, the financial sector is still struggling to deal with the consequences of 2007. Firms are striving to adapt to this new reality in which markets are becoming less lucrative and much more competitive, squeezing profits as a result. Neither buy-side nor sell-side is immune to these new hardships. A recent example from ***The Economist*** describes changes to the fund management landscape where the proliferation of ETFs, smart-beta funds and other low-cost passive strategies are contributing to the commoditization of the asset management market. Established firms now have to respond to this by optimizing their operations, both in terms of cost and overall efficiency.

Many tools can be applied to these tasks and deferring to outsourcing is certainly not a new one. Deciding on an outsourcing partner is not solely a matter of cost, but a decision involving a multitude of factors, including requisite expertise and people with necessary, sometimes rather niche skills; flexibility in terms of headcount; and efficiency in execution as a result of deep experience in the industry.

With the renewed need for efficiency and effectiveness, the question most outsourcing users ask is – how do we get the most out of a partnership with a service provider?

This series of articles considers this question in the context of software engineering services and provides our vision of a framework for managing and sustaining such a partnership, with the focus mainly on longer-term engagements as opposed to one-off, short-term initiatives.

Establishing Governance Framework

To sustain any but the most trivial vendor engagement, you need to put a robust governance framework in place. This usually boils down to a proper distribution of roles and responsibilities and properly planned and**executed communications** between those who fill those roles.

Managers on both sides should spend their time steering the engagement. Functional vendor relationships do not come free of charge – what the actual project team does is only part of the whole picture and, without sufficient investment in management oversight, can risk going awry very quickly. **At DataArt**, we find the following organizational structure to be the most effective, although slight adjustments to it may need to be necessary for larger engagements. Note that each role exists on both the client and the vendor sides of the relationship.

- **Executive Sponsor:** This is usually a C-level executive or a senior partner, who, whilst not managing the engagement on an ongoing basis, is responsible for setting the strategic business goals and assessing how well they are achieved. Executive Sponsors should not need to touch base very often, however a review, driven by Engagement Owners, every three to six months is usually necessary.
- **Engagement Owner:** Typically, this is a senior manager who is ultimately in charge of the engagement's success, implement the strategy set by Executive Sponsors or clients' senior business stakeholders, and are the key decision makers with veto power on most matters pertaining to the engagement, including commercials. Engagement Owners, together with Delivery Managers, should hold extensive monthly status reviews in which they assess all aspects of an engagement, such as human resources, metrics, and outstanding issues and risks.
- **Delivery Manager:** This special role may be fulfilled by one of the other managers, but we recommend assigning a special person for it. The domain of a Delivery Manager (DM) is all things operational, but the main area of responsibility is providing resources and removing all obstacles, so projects can move forward unimpeded. They too should be relatively senior managers, albeit within the operational rather than business divisions. DMs should be part of the Management Reviews, as they will likely be in charge of many of the actions planned during them.
- **Project & Program Managers:** Depending on the size and nature of the engagement, there may be one or more people fulfilling these roles. Project Mangers (PMs) focus on achieving the goals of a specific project and program, leading the teams, and driving execution. At the PM level, all usual processes and routines of a selected project management methodology apply, whether a project uses an agile or a more traditional framework. If the overall engagement is led by one Senior Project Manager or a Program Manager, they should be part of the Management Review. Those comprised of multiple smaller-scale teams may include a community of PMs instead, in which case, a separate regular forum should be set up where the information exchange between PMs can be facilitated.

Once the foundation of the relationship has been set, it is important to engage in ongoing relationship management with the engineering vendor.

Manage Vendor Teams as Part of Your Own

The vendor's ultimate role is to solve its client's business problems; however, the team that will deliver the results consists of human beings, and thus the "people management" should ideally become a joint responsibility between the vendor and its client.

Start by establishing a centralized resource management process that covers the whole team, including people employed by the client and any of the involved vendors.

Once you have a unified view of your resource pool, start to look periodically over your project pipeline and perform a firm- or division-wide resource planning exercise. We find it useful to organize such planning around three main questions:

- How many and which kinds of people do we *actually* have in each project or work area *right now*?
- How many and which people do we *really* need now, given the immediate business goals of the client firm?
- How many and which people will we likely need in each area *in three, six, nine and twelve months* from now, given the client firm's current business growth targets?

The planning exercise above can be done as part of the regular Management Review. For larger engagements, the resource planning can be performed at the level of individual project by the respective PMs, with inclusion of DMs.

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Typical human resource management practices apply within the context of a partnership as much as they do within a single firm. It is the responsibility of each employer to care about staff retention and personal development, but in a **client-vendor relationship** these can be managed much more effectively if management from both sides is involved. To succeed here, establish an effective channel through which PMs and/or DMs can gather this performance information, review it on a regular basis, distribute praise, and plan corrective actions if necessary.

Manage Dependencies, Avoid Lock-Ins

Rotation is a crucial aspect of staff retention. Knowledge workers often get bored if assigned to a single work area or project for too long. While it is possible to persuade a worker to stay on the same task for some time, ultimately they can become so tired that they may even consider leaving the employer for good. Rather than losing people, it's much better to transfer them between projects within the same client context. DMs and PMs should plan in advance for such rotation and look for signs of burnout in team members.

As a client, you don't want to be overly-dependent even on a perfect vendor or on a key person. All available communication tools and routines should be employed to share knowledge within and across teams. Rotating people between projects and setting up mixed client-vendor project teams is a very efficient approach here. Make sure that for each system, process or area there is at least one person both within your and your vendor's team who can get things fixed and ramp-up quickly in case of an emergency occurrence, a team member leaving her job, or even a need to part ways with the vendor.

Track and Measure Health and Progress

Any even remotely mature project management framework will give you tools for gathering standard metrics such as the expected time to deadline, budget utilization or number of unearthed defects. In addition, less tangible, qualitative things must still be measured and tracked in order to ensure sustainable success of an engagement.

Degree of satisfaction is where you can start. The usual "customer satisfaction" level is important to assess, but it often helps to measure it twice. Firstly, a client's IT should measure the satisfaction level of their own business users and share the findings with the vendor. Secondly, both a client's IT and the vendor team should mutually assess their own satisfaction with the way a relationship evolves. Symmetry is key here: while we still remain within the context of a client-vendor relationship, very useful signs of a potential problem may be discovered by listening to the vendor teams' concerns.

Also monitor the level of the vendor's team knowledge and integration within the client firm's IT and**business environment**, at both the engagement level (e.g. how well the vendor team as a whole is knowledgeable and integrated) and the individual team member level (e.g. what are the specific team member's strong and weak points). This assessment should be driven by the client's management. A powerful technique here is to measure the degree of the vendor's proficiency against a sequence of progressively more complex work areas or types – from the simplest ones (e.g. generic or popular, off-the-shelf systems) to the ones most idiosyncratic to the client's business (e.g. large, internally developed legacy systems requiring tons of unique and proprietary business knowledge).

Finally, you should measure your progress in overcoming and mitigating the issues and risks that are problematic for the engagement team. Watch how the impact or the probability of an issue or a risk changes over time and, based on that, judge how well the joint management team addresses those issues.

You will seldom achieve an improvement or eradicate a problem after a single iteration, so expect to discuss these in your Management Reviews a few times before they are properly and completely addressed.

This is the first in a two-part series. In the second part we will look at ways to grow and evolve the vendor relationship in the longer term.