

In-House, Outsourcing, or a New Hybrid Approach to Advisory Services: the Corporate Governance Project in the Balkans

IFC uses (at least) two types of approaches for implementing advisory projects. One way to ensure implementation of services is by taking an in-house approach to project delivery. This is based on IFC staff both managing the project and undertaking comprehensive substantive work directly with clients. The approach is tailored to projects that require a highly intense dialogue with different counterparts where narrow expertise is needed. These projects are accordingly staffed with people possessing the relevant skills.

The other way is by taking an outsourcing approach to project delivery. This is based on IFC staff only managing the project, with the extensive use of outside consultants to deliver specialized work and advice to clients as needed. In these cases, there are fewer IFC staff involved in projects, and the approach is used in those regions where there is a sufficient consultancy basis capable of delivering specialized advice. This SmartLesson will propose a third, hybrid approach that can be used for delivering advisory services projects. It is a model relying on two pillars: creation of regional teams of IFC staff who are both involved in project management and delivery of services on the ground, and progressive empowerment of local consultants to ensure sustainability of IFC efforts.

BACKGROUND

Advisory projects in the Europe and Central Asia region have historically relied more on the in-house approach because projects were rather complex and programmatic in nature and involved providing assistance to various types of clients both in the private and public sectors. This assistance was often provided through cross-fertilization of knowledge and experience of project staff that continuously worked with companies, academic institutions, government entities, and regulators, and used what they learned with one set of clients to inform work with or provide examples for the others. This model was particularly characteristic of corporate governance projects.

In Southern Europe, many projects were structured to use the outsourcing approach. Launched in 2005, the corporate governance project in the Balkans had the goal of improving the corporate governance

practices of companies and banks in the region (Albania, Bosnia and Herzegovina, FYR Macedonia, Montenegro, and Serbia). This goal was to be achieved by providing direct support to companies and banks in implementing good CG practices, developing an effective CG regulatory framework, strengthening the training capacity of educational institutions, and increasing public awareness of CG issues, effectively a programmatic approach.

As we moved to the implementation phase, the team began to see a mismatch between the project's goals, which were extensive, and project staffing, which envisaged only one staff member for each of the five countries (one project manager sitting in Belgrade, and four project officers sitting in Albania, BiH, FYR Macedonia, and Serbia, with the project officer in Serbia also covering Montenegro). Thus, the project model was programmatic in its substance (delivering

a comprehensive approach to working on CG) but was based on the use of consultants in its delivery. From this, various challenges began to emerge, with the biggest one related to working with potential client companies.

Throughout the whole region, there were very few reliable consultants who could deliver CG services that would be up to IFC standards. The project advertised for consultancy services several times, but only a handful of companies applied, out of which only two were assessed to be able to perform the work. However, these companies were not able to internalize IFC's CG methodology and deliver results as needed. Because of this, project officers spent approximately half of their time on additional work that involved commenting and rewriting assessment reports prepared by the consultants. In addition, clients were not always satisfied with the final product from the consultants, and it took project officers additional time to ensure that the reports were accepted by clients and that implementation of recommendations took place.

As a result, the team started thinking about the introduction of a hybrid model for delivering advisory services. Namely, the project officers would become more deeply involved in company-level work, delivering the technical assistance to clients. Staff would take on the assessments, prepare the reports, and assist clients in implementing recommendations. At the same time, the project team made a conscious decision not to abandon the modest consultancy base. Rather, we understood that building their capacity would provide for sustainable delivery of services in the future. A decision was made to partner with them—to involve them in the work as much as possible, and to see them as depositories of CG knowledge and skills.

Two key lessons were learned by the CG Balkans team from its experience with the hybrid approach.

By progressively involving consultants in the project work, you allow them time to internalize the approach that sometimes seems obvious to project staff.

LESSONS LEARNED

1) Form regional teams of staff with complementary skills.

The project's regional team had only one project officer per country, which allowed for territorial coverage that would ensure the daily presence of IFC staff in each of the countries to manage the day-to-day implementation of the project. Also, it happened by chance that all team members possessed different knowledge and experience. One project officer is an expert in external and internal audit; another in law; a third in business development and management; and a fourth in finance and public policy. It would be rare to find a consultancy company in our region that could put together a truly multidisciplinary team such as we had with our project staff. With staff stretched to deliver more to clients, and with the commitment to turn chance into competitive advantage, the project manager and regional business line leader encouraged the team to think of themselves as a regional resource, able to deploy staff as needed throughout the region, based on the needs of the projects and clients.

This was successfully done by several IFC projects in the Balkans. But what can make it an even more successful model is to consciously select project staff during the project inception phase who are located in different countries and have different and complementary skills. You then have a mini-matrix in which people territorially cover certain countries and functionally cover specific project areas.

INTRODUCING THE HYBRID APPROACH: THE ELEKTROPRIVREDA BiH CASE STUDY

A client from BiH, the electric utility company Elektroprivreda BiH, expressed its interest in a full-scale assessment of its CG practices. Because EP is the second-most profitable company in the country and a big market player, we faced a situation in which we needed to find a way to work with a client that had a potentially broad demonstration effect and to ensure that high-quality services were delivered. We realized that the consultants we had at our disposal would not be able to take on this kind of assignment, so we decided to “test” our new regional team.

The project manager, together with the project officers from BiH and Albania, would jointly conduct this assessment. There was some hesitancy and anxiety about the ability to work with such a high-profile client. But the program manager had confidence in our abilities as staff, which was crucial to ensuring that we were motivated and understood how important it was to deliver.

Presenting the assessment report to the company was the turning point that built our confidence. The board of EP immediately asked when we could start assisting the company in implementing recommendations. The whole CG team became involved in the delivery of training for the board of directors and management. This required each of us to explore and research concrete areas in which EP required additional advice. This meant a good deal of additional work but also allowed staff to specialize in niche areas—for example,

in the development of remuneration policies, the drafting of CG codes, and the assessment of internal audit and control frameworks.

Over the period of a year and a half, IFC helped EP to identify weaknesses in its CG, develop a set of recommendations to overcome key deficiencies, and organize training activities for relevant staff. As a result, EP introduced new policies and procedures for internal audit and control; improved disclosure tools for shareholders, using the company Web site; developed a CG code; and amended its charter to ensure that the board of directors and management operated in line with better governance standards. The first impact results from our work are visible: the decision-making process in EP is improved, the internal company structure is streamlined, and internal control processes are advanced.

The results at EP significantly inspired the project to start involving and establishing lasting relationships with relevant institutions in each country that would act as key depositories of knowledge and skills in CG. Hence, when the project signed its next mandate, a local consultancy—Advantis Broker from BiH in this case—was made a partner in the assessment by participating together with the project staff in interviews with company representatives, commenting on the assessment report, and assisting the company in implementing recommended changes.

In developing a regional team, it is important to be strategic in the selection of project staff. Try to find people who possess skills that are complementary so as to ensure that if there are tasks that require different expertise, there is a team ready to take on the challenge.

2) Partner with consultants and continue to build their capacity, even if you cannot use them immediately for independent work.

Based on the initial structuring of the project, consultants were crucial to its success—first, for work on the ground and second, for sustainability purposes. From the very moment when the hybrid approach was conceived, it was understood that in our cooperation with consultants, we wanted to take the best from the consultancy approach and then identify and overcome its limitations. We decided to create what we believed was an even more sustainable format of cooperation with consultants by involving

them progressively in the concrete work with client companies with vigilant oversight. Through this, we were transferring not only the knowledge but also the philosophy behind IFC's CG methodology. This was not always easy when we were relying on consultants alone to deliver services. Very often, consultants would listen but would not understand exactly what the IFC CG methodology was all about. For example, they would not always appreciate why it was important for training to come after the assessment and not before it or they would not focus enough on the workshops with the working groups in companies that implemented the recommended changes. Because IFC staff were now leading the work with the clients, we could ensure that the IFC CG methodology was being followed and by involving the local consultants in this work, they could learn through our example.

By progressively involving consultants in the project work, you allow them time to internalize the approach that sometimes seems obvious to project staff. Treat consultants with respect and understanding, but use them in ways that are most appropriate to the market situation. Do not allow their approach to result in products that could compromise the overall IFC methodology of work and product quality.

CONCLUSION

In our case, the hybrid approach was created out of necessity. We believe that it has a chance to grow into a specific format for delivery of IFC advisory services. It is neither better nor worse than the in-house approach or the outsourcing approach. However, it does provide a new more flexible avenue that IFC can use to deliver high-quality services to clients, while creating opportunities for development of staff and building sustainable relationships with consultants.

ABOUT THE AUTHORS

Merima Zupcevic Buzadzic, Associate Operations CG Officer for Bosnia and Herzegovina.

Kiril Nejkov, Associate Operations CG Officer for FYR Macedonia.

Katarina Djulic, Associate Operations CG Officer for Serbia and Montenegro.

Sonila Bicaku, the Associate Operations CG Officer for Albania.

APPROVING MANAGER

Motria Onyschuk-Morozov, Principal Operations Officer, Regional Business Line Leader for Corporate Advice, IFC Advisory Services in Europe and Central Asia

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