CHERUB

IT sourcing for maximum value

Sourcing Management: Beyond outsourcing

CONTENTS

PREFACE

This paper is the third in a series of three Cherub white papers on the subject of Sourcing Management.

The three papers in the series are titled:

- Sourcing Management: What's the Problem
- Sourcing Management: Prepare for excellence
- Sourcing Management: Beyond Outsourcing

The series presents insights into Cherub thinking on the subject matter and précis our approach to helping our clients establish the mechanisms and disciplines necessary for effective management of sourced services.

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Succeeding in the digital world

Introduction

In the first two papers of our tri-part series we identified that the key to achieving excellent results from outsourcing deals and realising sourcing strategy objectives is excellence in the discipline of sourcing management.

The problem we all too often encounter is a lack of appreciation as to what holistic sourcing management really entails.

As found in a study by Vantage Partners et al[1], at least 30% of the total outsourcing contract value is at risk if the deal is not well managed.

Figure 1 The sourcing management function and stakeholder groups

Six capabilities

We presented our view that the sourcing management function is comprised of six capabilities:

- Performance Management;
- Communication Management;
- Financial Management;
- Contract Administration, Risk & Change Management; and
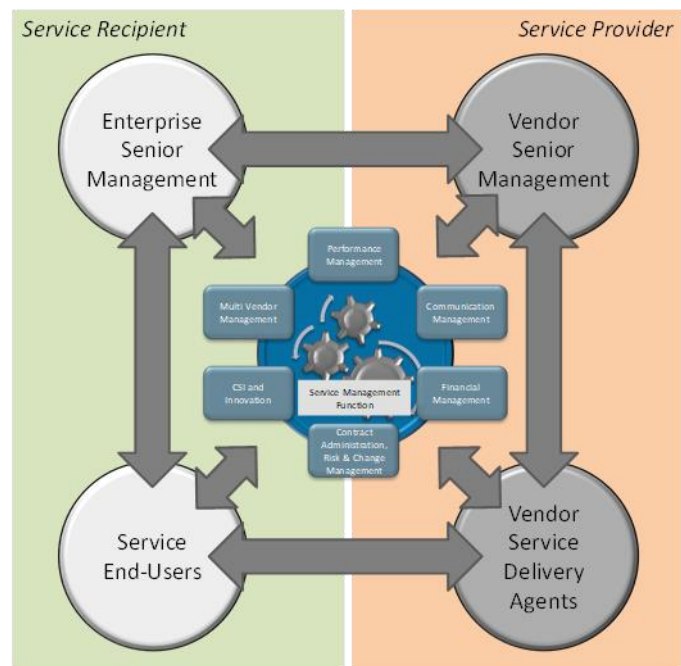- Continual Service Improvement & Innovation; and
- Multi Vendor Management.

Four stakeholder groups

We identified that effective sourcing management interacts with and influences both the service recipient and the service provider.

There are therefore four main stakeholder groups to be managed:

- Enterprise senior management – the persons sponsoring and responsible for the sourcing strategy;
- End user community – the persons within the enterprise who actually use the contracted services on a day-to-day basis;
- Senior management of the service provider – the persons responsible for profitability of the deal at the vendor enterprise; and
- Service delivery and support agents of the provider – the persons responsible for the day-to-day operational supply of the contracted services.

Two fundamental aims

In addition, we identified two fundamental aims for the sourcing management function:

1. Ensure that sourcing arrangements deliver to desired outcomes and objectives.
2. Foster, facilitate and channel open communication between the four stakeholder groups.

Figure 1 depicts the communication paths between the four groups and the sourcing management function.

We also presented an overview of the key competencies we believe sourcing management practitioners must be proficient in if excellence in the discipline is to be attained. For convenience, Figure 2 reproduces the competency map from our second paper of the series in this document.

Where else may a sourcing management capability be used?

We would like to round off our discussion of the sourcing management function by identifying where else such a capability may be used to great effect.

Sourcing management, as an enterprise capability, need not be only applied in relation to traditional outsourcing arrangements.

If a holistic sourcing management capability can be used to great effect where services are sourced from an external vendor, then it can also be used to great effect where services are sourced from an internally owned entity.

That internally owned entity may be a service department of an enterprise, such as the Information Services[2] (IS) department; or it may be an entity established and jointly owned by several enterprises or autonomous entities such as State or Federal Government departments.

Regardless of the sourcing model – in-house, shared or external provider – the fundamental issues and challenges for successfully managing the holistic relationship and achieving the target outcomes and objectives are largely the same. Despite differences in who the stakeholders may be; who the provider is accountable to; what form the service contract takes; and so forth the issues and challenges will respond well to a management model that applies the six capabilities we have defined.

Whilst the services in question may be IT related or business process related, in this paper, we will take a look at the IT in-house service and shared service models as they provide the most complete and mature examples to date.

We will explore how and why the force of business demand for greater IT cost efficiency on the one hand, and greater business value-add from IT on the other, makes an excellent, holistic sourcing management capability ever more necessary.

Note: *We define Sourcing Management as applying to all sourced services, be they internally provided services from the* **IS** *department, internally provided services from other departments, and externally outsourced services.*

Figure 2   Key competencies map

Key Competencies	Sourcing Management Capabilities					
	Performance Management	Communication Management	Financial Management	Contract Administration, Risk & Change Management	CSI and Innovation	Multi Vendor Management
Focusing on results	✔	✔	✔	✔	✔	✔
Planning, prioritising and administering work	✔	✔	✔	✔	✔	✔
Behaving commercially	✔	✔	✔	✔		✔
Building relationships/ team working	✔	✔	✔	✔		✔
Influencing and persuading		✔	✔	✔		✔
Principled negotiating		✔	✔	✔		✔
Understanding business practices and approaches		✔	✔			✔
Understanding business organisation, politics and culture		✔		✔		✔
Understanding and analysing the competitive situation			✔		✔	✔
Focusing on customers	✔				✔	✔
Resolving conflicts and problems	✔	✔				✔
Understanding existing systems and technology	✔				✔	
Designing and developing applications					✔	
Applying procedures, tools and methods	✔				✔	
Understanding emerging technologies					✔	
Thinking strategically					✔	✔
Being adaptable		✔				✔
Managing projects				✔		
Managing change in the business from IT applications					✔	
Communicating/listening and gathering information						✔
Leading, inspiring and building trust						✔
Thinking creatively and innovating						✔

* Please note that the list of competencies is <u>not</u> intended to be exhaustive.

Business forces shaping the need

Figure 3   Pressures on the IS Department
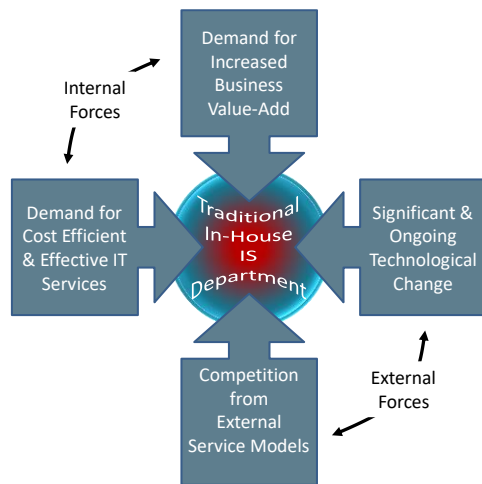
Since the late 1980's there has been increasing pressure placed upon what was the traditional, in-house enterprise IS department. Today see four main forces at work, creating that pressure:

1. Business demand that the IS department become highly cost efficient in its internal processes and that it provide the business with effective, cost efficient IT infrastructure.

2. Business demand for more effective and sophisticated services from the IS department. As the competitive business cycle has accelerated, so too has the demand for new or enhanced application functionality to be rolled out ever more rapidly. As personnel on the business side have grown more technology savvy, Business has increasing looked to the IS department to provide greater business value contribution. Business expects the IS department to work closely with it to identify how it may better exploit IT and enhance or transform the value chain.

3. Significant and ongoing technological change resulting from innovations such as cloud delivery models, distributed systems platforms; internet technologies and web-based applications; service-orientated applications architecture; new applications development tools; and so forth.

4. Competition from external service and applications delivery models such as outsource services, application service providers, software-as-a-service vendors, etc.

Two of the four forces we see today – competition from external services and increasingly and ever more technology savvy business users – were first identified as working to reshape the IS department in 1991 by George Cox in the Wentworth Research Program paper *"Time to Reshape the IS Department?"*.

The theme was subsequently taken up and expanded upon by Stamford, USA based IT research and advisory firm, Gartner in the mid-1990s and onwards.

Gartner has produced a number of research reports and presentations on the topic to date and refers to reshaped role of the IS department as 'IS Lite'.

Source: *"Time to Reshape the IS Department?"*, George Cox, Wentworth Research Program, 1991
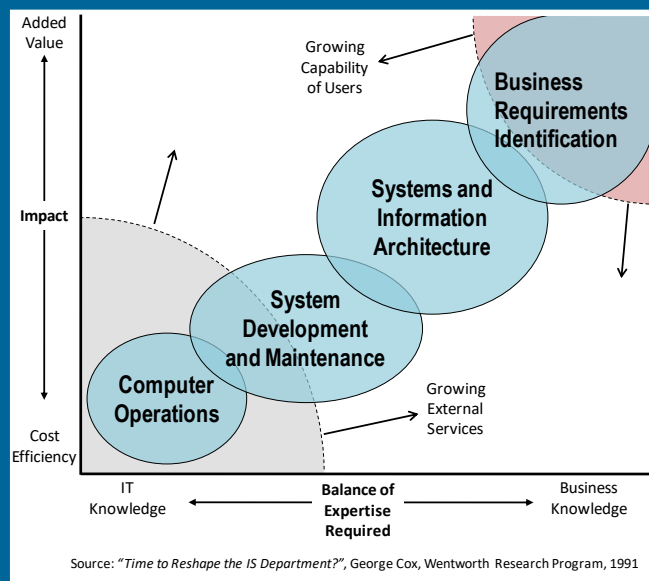
In response to these pressures, the traditional in-house IS department has evolved significantly.

That evolution has been both in culture and in organisation structure. In some situations it has been accompanied by amalgamation, rationalisation and transition to a shared services operating model.

The old style in-house IS department has traditionally been technology orientated and internally (that is, IS department) focussed. The organisation structure was siloed with the functional units reflecting the technical domains of operation and staff technical competencies.

Figure 4 **Traditional technology orientated IS department structure**
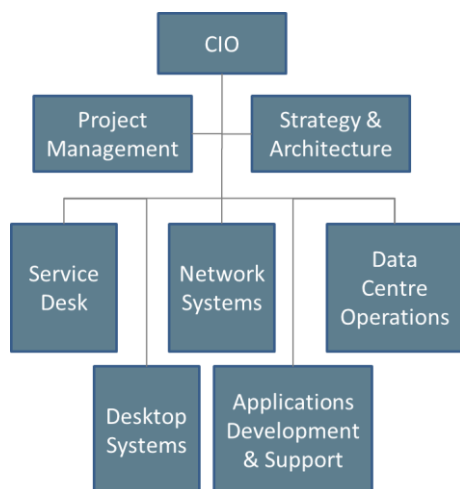
The newly evolved IS department has a service orientated, customer focussed ethos. The organisation structure reflects the new culture with the technical silos dissolved; replaced with functional units organised around service delivery and support capabilities.

Figure 5 depicts the common elements found in the typical new IS organisation structure. While the detail and nomenclature will vary from one IS organisation to the next, the main structural elements remain the same.

Figure 5 **Service-orientated, customer-focussed IS department structure**
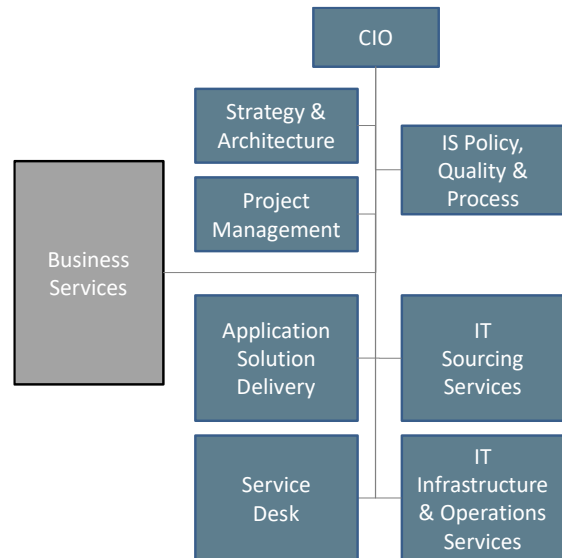
Three aspects of particular note with this new structure are:

a) The establishment of a Business Services unit as the point of contact and interface between the Business and IS. Typically, the Business Services unit provides business analysis and requirements definition services to the Business. Some, many or even all of the business analyst personnel may in fact be embedded in the business units they serve. Others may report to the various business units but be embedded in the IS Business Services unit. In addition, the Business Services unit has ownership of and responsibility for the relationship between the Business and IS.

b) The prominence given to delivering application solutions through to the Business. The emphasis is no longer on applications development (and support) but on acquiring and delivering the required functionality through to production operations.

c) The establishment of a functional unit devoted to developing IS policy and service and service processes and to ensuring the quality and integrity of those processes.

The new IS structure and culture is backed by new service-orientated IS processes and sourcing management mechanisms which include:

- ITIL[3] industry best practice service delivery and support processes;
- A defined portfolio of business-relevant IT services replete with a published service catalogue containing statements of works, responsibility matrices, etc.;
- Outcomes defining Business and IT objectives. Outcomes should be measurable, allowing the customer and vendor to readily measure success;
- Written and approved Service Level Agreements defining the required service performance levels and any attendant penalty or reward clauses;
- Written and approved Operating Level Agreements (OLAs) between each of the functional units of the IS department, as and where required to ensure effective end-to-end service delivery through to the Business. In some instances, OLAs may also be in place between the Business units and IS functional units depending upon the responsibilities defined for each party in relation to particular IS services;
- Regularly conducted customer satisfaction surveys; and
- IS service cost identification, allocation and if appropriate, recharge, back to the consuming business units.

Regardless of whether the operating model is that of an in-house department or a shared service we are seeing the same fundamental IS organisation structure emerge time and again. Not surprising, given the common pressures faced.

Cherub recognises the new IS culture and structure as representing current industry best practice.

Managing in-house services

The technical-silos IS department frequently suffer from having none or limited controlled or controllable paths of communication between itself and the Business. Requests for action on IS initiatives could and would come from all levels of the Business and often be directed to whichever level of the IS organisation deemed best able and likely to respond.

As a consequence IS resources were often subject to monopolisation by those business units with the greatest political or financial clout.

Programme and project priorities would become skewed, as would the IT architecture. Effective overall management of IS resources would break down. All of which would inevitably increase the pressure from the Business for the IS department to either lift its performance or be replaced by externally sourced services.

In some instances attempts were made to control the workload by attempting to channel all contact from the Business through the IS service desk and/or the project management office and/or the office of the CIO. In the absence of a service-orientated, customer focussed culture, with attendant lack of a defined and published service catalogue, written and agreed service level agreements and mature end-to-end IS service processes, these attempts often resulted in bottlenecks and delays (or worse) in response to, and follow-through with, the business units; and so usually failed.

The new IS culture and organisation structure which we have seen evolve in recent years uses the capabilities of the Business Services unit to manage the communication between the Business and the other functional units of the IS department. Direct communication

Figure 6 Managed communication paths between Business and the evolved IS department


= Official Paths of Communication
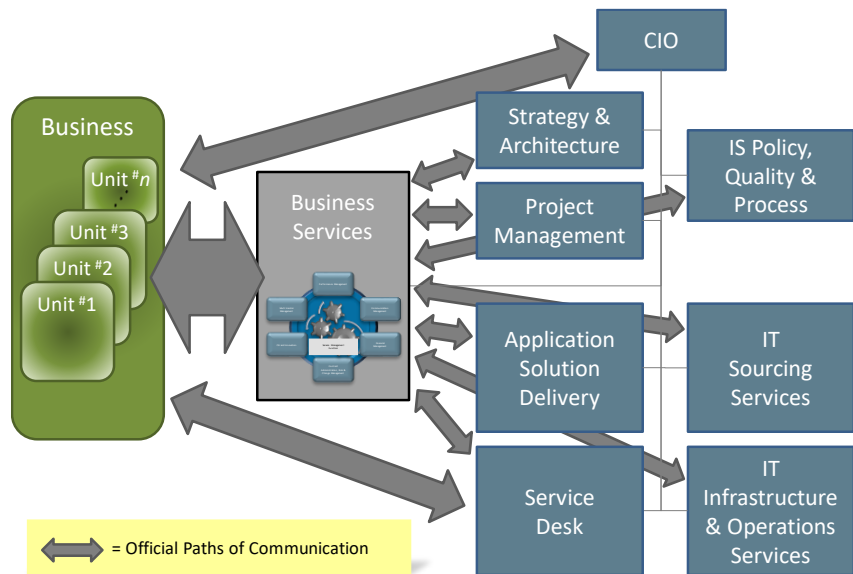
should and does occur between those other IS units and the Business, but with the knowledge of and coordination and guidance from Business Services. The only usual exception to that being confidential discussions between the CIO and senior management of the business units.

If the enterprise operates an in-house IS department that is:

a)   service orientated and customer focussed; and

b)   structured along the lines shown in Figure 6; then having an effective Business Services function is crucial to the success of the IS culture and overall organisation.

Figure 7 Multiple paths of communication between Business and the traditional IS department

= Official Paths of Communication

= Unofficial Paths of Communication
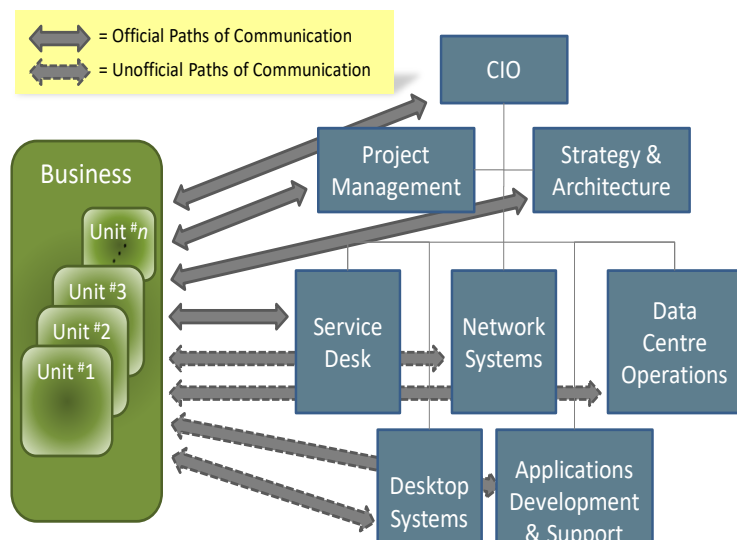
The six capabilities we have identified for effective sourcing management are essential capabilities of the Business Services function if it is to succeed and excel. The key competencies that underpin those six capabilities are therefore also required. Of course, they will not be the only competencies required. The Business Services function also needs appropriate and proficient competencies to generate capability in the service delivery and support tasks of the unit. For example, business analysis, requirements definition, business process improvement, workflow engineering and other such tasks.

In the introduction to this paper we reiterated the four stakeholder groups to be managed through the sourcing management capability. For those services which the enterprise continues to source in-house there remain four key stakeholder groups for the IS sourcing management function to influence and manage:

- Enterprise and Business Unit senior management – the persons upon whom the enterprise's IS department relies for ongoing political support and funding; the persons who ultimately decide to be or not to be customers of the enterprise IS department;

- End user community – the persons within the enterprise who actually use the services provided the IS department on a day-to-day basis;
- The CIO and the senior management heading each of the IS department's functional units – the persons responsible for ensuring cost efficient, highly effective IT services are delivered through to the Business; and
- The IS department's service delivery and support agents – the persons responsible for the day-to-day operational supply of the agreed services to the agreed performance levels.

Figure 8 maps which of the stakeholder groups would benefit from effective application of each of the six capability domains that comprise the sourcing management discipline. It clearly illustrates the importance of having appropriate proficiencies in the six capabilities if the enterprise is to foster, facilitate and channel open communication between the stakeholder groups and make the service orientated, customer focussed ethos work.

Figure 8 In-house IS: Sourcing management capabilities mapped to stakeholder groups

Stakeholder Group	Sourcing Management Capabilities					
	Performance Management	Communication Management	Financial Management	Contract Administration, Risk & Change Management	CSI and Innovation	Multi Vendor Management
Enterprise and Business Unit Senior Management	✔	✔	✔	✔	✔	
End User Community	✔	✔			✔	
CIO and IS Functional Unit Senior Management	✔	✔	✔	✔	✔	✔
IS Department Service Delivery and Support Agents	✔	✔			✔	✔

Managing shared services

As we noted earlier, in some situations the pressures on the traditional in-house IS department have led to amalgamation, rationalisation and transition to a shared services operating model. Typically this has been the response in environments where there are two or more autonomous or near-autonomous entities that operate as part of some over-arching organisation and which have similar IT infrastructure and services needs (perhaps of differing scale however). Examples can be found in commercial enterprises where individual companies are subsidiaries of a larger entity and in Government departments at all levels of government.

In the shared services model it is usual for the entities which are establishing the model to set up a separate company to provide the shared IT services. That new IS service entity takes over provision of those IT services deemed suited to the shared model from the internal IS department of each participating entity. The new IS organisation inevitably is required to be service orientated and customer focussed in culture and organisation. Figure 9 illustrates our view of generic IS organisation structure and the communication paths through to the participating entities.

Figure 9 Managed communication paths between Business and Shared Services IS entity
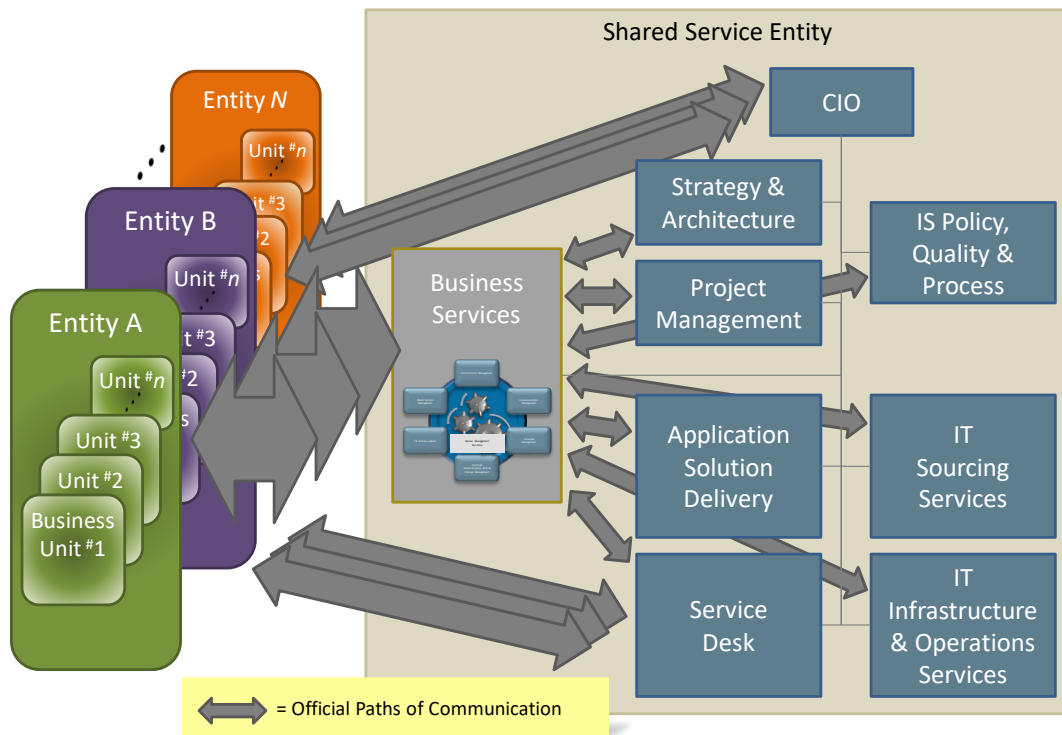
It is immediately apparent from Figure 9 that the task of the Shared Service entity is considerably more challenging than that of an in-house IS department in a single enterprise. In particular, the functions of the Business Services unit are considerably more challenging due to the multiplicity of the participating entities and the complexity of the resulting communication paths.

Further challenge arises if there is significant variation in the scale and political or financial clout of the participating entities.

Despite the significant complicating factor of multiple participating entities, there are still four key stakeholder groups for the IS sourcing management function to influence and manage:

- Enterprise and Business Unit senior management of each participating entity – the persons across the entities upon whom the shared IS entity relies for ongoing political support and funding; the persons who ultimately decide to be or not to be customers of the shared service entity;

- End user community of each participating entity – the persons across the participating who actually use the services provided the Shared IS entity on a day-to-day basis;
- The Shared IS entity CIO and the senior management heading each of the IS entity's functional units – the persons responsible for ensuring cost efficient, highly effective IT services are delivered through to the participating entities; and
- The Shared IS entity's service delivery and support agents – the persons responsible for the day-to-day operational supply of the agreed services to the agreed performance levels.

As was the case with the evolved in-house IS department discussed in the preceding section, having an effective Business Services function is crucial to the success of the shared service model and to the success of the internal culture and organisation of the Shared IS entity. The additional challenges posed by stakeholders from two of the four groups being distributed across multiple, largely autonomous participating entities make an effective Business Services function even more critical to success.

Again, the six sourcing management capabilities are essential capabilities of the Business Services function if it is to succeed and it follows that the key competencies that underpin them are also required.

Figure 10 maps which of the stakeholder groups in a shared services context would benefit from effective application of each of the six capability domains that comprise the sourcing management discipline. It too clearly illustrates the importance of having appropriate proficiencies in the six capabilities if the enterprise is to foster, facilitate and channel open communication between the stakeholder groups in a shared services model and make the service orientated, customer focussed ethos of the Shared Services IS entity work.

Figure 10 Shared Services IS: Sourcing management capabilities mapped to stakeholder groups

| Stakeholder Group	Sourcing Management Capabilities					
	Performance Management	Communication Management	Financial Management	Contract Administration, Risk & Change Management	CSI and Innovation	Multi Vendor Management
Enterprise and Business Unit Senior Management	✔	✔	✔	✔	✔	✔
End User Community	✔	✔			✔	✔
CIO and IS Functional Unit Senior Management	✔	✔	✔	✔	✔	✔
IS Department Service Delivery and Support Agents	✔	✔			✔	✔

Conclusion

Cherub's definition of and approach to the sourcing management discipline provides a sourcing management capability that may be applied and used to great effect regardless of whether you source services in-house, externally, or through a shared services arrangement. Equally it is applicable regardless of whether the services in question are IT services or business process services.

From our examination of the pressures on the traditional IS department and the new style of service orientated, customer focussed IS culture and organisation structure that has evolved, we have seen that it is the Business Services unit, with responsibility for providing the interface between the Business and the IS (or business process) service entity, that needs the holistic sourcing management capability in order to succeed and excel.

Excellence in the sourcing management discipline will enable your enterprise to obtain maximum benefit from its sourcing strategy and deliver enhanced value through to the business.

Figure 11   Sourcing management capability excellence delivers to target objectives
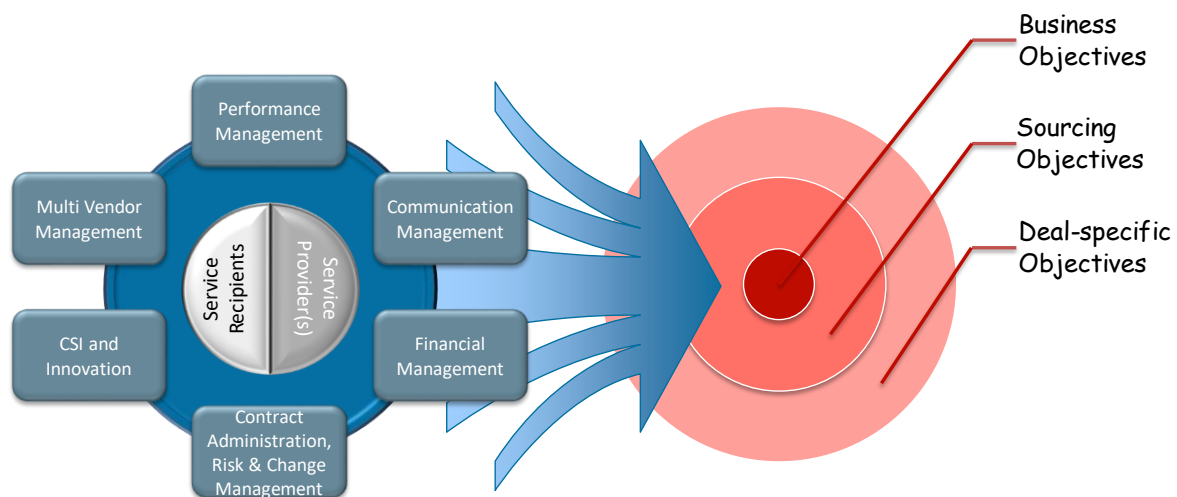
CHERUB

ADVISORY & CONSULTING

Cherub is a Sourcing Advisory and Consulting firm that specialises in providing practical and actionable insight and consulting spanning the entire sourcing lifecycle.

Our single-minded focus is on understanding the Australian IT Sourcing marketplace and leveraging our unrivalled practical experience and market perspective to provide our clients with pragmatic and actionable sourcing advice, solutions and consultancy and help you answer critical questions such as:

- Am I getting value for money today from my current deal?
- Is my strategy optimised to business needs?
- How can I get the right vendor, with the right services, backed by the right deal?
- How do I realise the goals and objectives of my strategy?
- What should I do to ensure success?

We know that the sourcing journey has many stages. Our Lifecycle Solutions Framework is pivotal in helping our clients to understand each stage of the journey and where their sourcing initiative fits into the overall sourcing journey.

It provides a platform from which clients can have a clear and informed view of the foundational activities and steps that have preceded the journey to date; as well as understanding what activities and steps need to follow to ensure success.

At the heart of our Lifecycle Solution Framework is Advisory Services which is the foundation of everything Cherub does and delivers. Our understanding and appreciation of both the 'hard' and 'soft' aspects of Advisory means that we are able to extend 'thinking' into 'doing' through the application of our best practice approaches, methods and tools.

Figure 12   Cherub's Lifecycle Solutions Framework
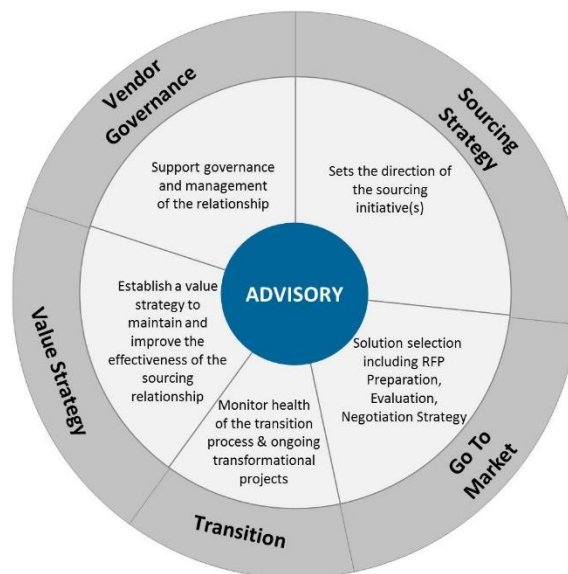
This is achieved through our Consulting Solutions that can be used to complement a client team's capacity or capability. Alternatively, a client may opt for a targeted sourcing consultancy where Cherub delivers an end-to-end solution. Such sourcing consultancies can focus on some or all aspects of the sourcing lifecycle, including:

- Sourcing Strategy to set the direction;
- Go To Market to select the solution;
- Price Benchmarking to evaluate the deal, set the price baseline and inform the business case;
- Transition to monitor the health of transition and ongoing transformational projects;
- Value Strategy to review, refine, and if necessary, undertake rectification of a service contract to help maintain and improve the effectiveness of the sourcing relationship between the customer and the supplier; and
- Vendor Governance to support excellence in governance and management of the relationship, including where required, the design and establishment of the vendor management office and toolsets.

We pride ourselves in our flexibility to either "roll our sleeves up" and work closely with clients; or to simply provide expert guidance in a more advisory role.

We believe it is our many years of real world experience combined with our deep functional expertise that provides lasting value to our clients.

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[1] Study completed in 2010 by Vantage Partners and Outsourcing Institute, comprising approximately 250 outsourcing buyers, 350 outsource providers, influencers and attorneys at the leading firms advising buyers and providers in outsourcing deals.

[2] ...or Information Systems, which has become the less commonly used title in recent years.

[3] IT Infrastructure Library - ITIL is best practice in IT Service Management, developed by the UK Office of Government Commerce and supported by publications, qualifications and an international user group. ITIL is the most widely accepted approach to IT service management in the world.