# IT Service Management
# GLOBAL BEST PRACTICES

*Collector's Edition*

# Demand, portfolio and sourcing

# 3.1 Introduction

Over the last twenty years, business has been confronted with an increasing dependency on IT, as well as an increasing complexity. Subsequently, the need to be in control of IT delivery and IT provider(s) and suppliers has grown. Over the last five years this has resulted in an outburst of concepts, models and processes that promise business control, such as "governance", and "demand management". Many companies have also developed best practices, examples of which are included in this book.
While the previous chapter was focused on governance, IT strategy and policy making in the business domain, this chapter focuses on how to link this strategy to operations – IT management in the provider domain.

The first three contributions in this chapter look for better ways in which to connect strategy with operations. They all begin by trying to understand what links strategy and operations, and focus on different service management processes that can help to make better decisions on IT initiatives. Those processes include:
- *Service portfolio management* deals with controlling the service portfolio and adopts the perspective that services are defined in terms of business value. Questions include how to prioritize the needs of external and internal customers, how to optimize your applications, and how to standardize the delivery of business services.
- Although many companies do not distinguish between the two, portfolio management is not the same as demand management. The *demand management* process is installed to gain insight in - and control of - the services requested by the customer in relation to capacity issues. The core question here is how optimally to match demand and supply.
- Effective IT requires very close co-operation between demand and supply**.** A crucial role in this composition is *functional management*. This is the aspect of management concerned with supporting users and specifying the functionality required by the business. Functional management is primarily responsible for the contribution of information services and information processing systems to the success of the company. This makes functional management core to the demand–supply co-operation.

From this information management responsibility position, the business has to decide on how the required information service will be provided. This introduces a field where the business is particularly keen to be in control: *sourcing* - the key topic of the second part of this chapter. Sourcing of IT services has developed into a favored strategic business option. The performance and availability of IT services today depends on a complex mix of in-house, outsourced, virtualized and service-oriented resources. Many organizations are struggling to find service management approaches to this challenge.

Companies now consider all of the options to maximize cost-efficient production, and are increasingly outsourcing their IT in order to reduce costs and improve performance. Outsourcing has become commonplace; big outsourcing deals have become regular news items in the press. Unfortunately, the problems involved are just as commonplace. In practice, sourcing turns out to be a complicated exercise that organizations don't always get

right the first time. But as sourcing is here to stay, organizations will need to find a way to make it work.

One of the problems is caused by organizations increasing need to apply a *multi-supplier strategy* in order to meet complex business requirements. In order to deal with the situation, organizations make use of multiple specialized IT providers. Despite the advantages of using multiple providers (such as the lower cost through competition, supply continuity, wide access to markets and technology, and low dependency on suppliers), many challenges are involved. Delivering quality services that depend on multiple in-house and outsourced services turns out to be a complex proposition.

It is difficult for companies to see the complete picture when it comes to the service they are delivering; this results in them being unable to deliver their service to their users effectively and efficiently. In order to regain the control lost by outsourcing, and to gain insight into the quality of delivered services, companies need to address service management in a different way.

With the change in the dynamics of IT departments, there is an increasing need to build a relationship between the businesses and their multiple service providers. Underestimating governance processes has led to many outsourcing deals failing to meet expectations. Research has shown that outsourcing relations often fail due to a lack of *effective outsourcing governance*. Understanding the importance of managing outsourcing relations is essential to success, and the focus on governance is a key step in the maturity of outsourcing. Nowadays everyone seems to be fully aware of the need for more professionalism regarding the governance of outsourcing, but when it comes to the actual form and content, opinions are very much divided.

The last two articles in this chapter deal with the complexity of outsourcing and the problems involved. Providing practical solutions to the problems, they focus on two trends in outsourcing today: the increased level of multi-sourcing and the increased focus on governance.

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## CONTENTS

This chapter contains five contributions that cover management processes, which deal with aligning IT strategy with business needs:

## SHORT SUMMARIES

In his article, **Stofberg** explains how effective IT requires very close *co-operation between demand and supply,* comparing it with the performance of a soccer team. He introduces functional management and shows how business, functional management, and IT need to co-operate in order to make the company successful. If business, functional management and IT act in an extremely complex and dynamic environment, then process or chain-oriented co-operation will not lead to success. This article describes how a company should organize its business demand and IT supply, in order to optimize the contribution of information provision and information technology to the success of the company.

**Verniers** presents *service portfolio management* as the process to connect the strategy and operation of IT. The article in the "IT Service Management Global Best Practices" book is based on experiences with implementing service portfolio management in several organizations, and shows how this can prove to be very difficult. The article covers several topics in relation to business service management, such as what are *business services*, service portfolio management, making added value visible, business services and the value of IT, managing business services. Verniers ends the article with suggestions on how to overcome the difficult first period of working with business services and service portfolios.

In their article, **Aalbers, Acda, Liefers, Richter and Ververs** provide a useful approach towards the implementation of cross-division IT performance management. Based on a case study, a step-by-step approach is presented for successfully embedding IT performance management at multiple levels within the organization. An important starting point relates to shaping the demand organization and its relation to the supply side. This article covers the key building blocks, as well as the main challenges involved.

The article by **Halfhide** covers the management of the supply organization. This task is becoming increasingly important as more and more organizations decide to outsource their IT services. As a consequence, governance from the demand organization will have to increase. This article explains what outsourcing governance exactly entails, when and how customers should organize their sourcing management timely and effectively, how to formalize it, and which positions the parties involved should adopt.

In the last article, **Whalen** explains how problems with multi-supplier outsourcing situations originate with IT organizations, who are traditionally oriented towards delivering IT services from within their own (internal) domain. Consequently, the tooling they use is also designed with that assumption in mind. With the evolution towards multiple outsourced providers, and technologies that cross supplier and customer domains (e.g. web services and SOA), management "black holes" are arising that cannot be quickly filled. This results in the ineffective use of IT resources, and excessively long mean time to repair (MTTR). In his article, Whalen presents both a theoretical approach to managing IT services that are composed of multiple complex technical services and suppliers, as well as practical examples of companies that have employed *Business Service Orchestration* as a means to regain the control lost to IT sourcing.

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# 3.2 Demand on demand

*In the coming years, Gartner expects that a significant number of leading companies will split their IT in two departments: demand and supply. Gartner suggests that this is something new. Bart Stofberg explains how this has already been common practice in the Netherlands for many years. Based on (both good and bad) practices, and focusing on co-operation, he gives practical guidelines, to help companies to organize their business demand management towards IT-supply.*

Companies often concentrate on the efficiency of their IT, when the effectiveness of IT would actually contribute considerably more to the success of the business. However, optimizing the effectiveness of IT is also considerably more difficult, particularly as no one takes responsibility for this aspect.

Effective IT requires very close co-operation between demand and supply, a co-operation which is similar to that seen in a team sport. The Netherlands has more than 15 years experience of adopting a specific "business composition". A crucial role is played in this composition by "functional management[1]". Functional management is primarily responsible for the contribution of information and information technology to the success of the company. Consequently, functional management is at the core of the demand–supply co-operation between business and IT. This article introduces functional management, and shows how business, functional management and IT co-operate (in a manner which is similar to that of a soccer team), in order to make the company successful.

## INTRODUCTION

The last ten years we have focused on co-operation in a process- or chain-oriented way. Participant A delivers his contribution, hands over the result to participant B, who delivers his contribution and hands over his result to participant C, etc. This kind of co-operation works if it is neither too complex nor too dynamic, as it might be in a peanut butter factory: participant A grinds the peanuts, B adds other ingredients, C mixes the components, D puts them into a jar, E adds the lid and F attaches the label. It works because each step is a repetition of a few simple activities, and the environment is relatively stable. However, if the environment becomes dynamic and is constantly changing, then the process steps, and therefore the workforce, need to react constantly to the changing situation. If subject and environment are also complex, then the co-workers need to be mature, loyal, confident and co-operative. If the environment is extremely complex and dynamic, as it is in IT, process-focused co-operation is no longer sufficient. In this situation, at least some of the process steps will require team co-operation, where workers work **_with_**, react to, and contribute constantly to, each other, as in a successful soccer team.

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[1] *In the Netherlands this role is called Information Manager, but internationally this name would lead to confusion.*

Most companies have grown into extremely complex organisms. Discovery of the optimal contribution of information and information technology is a very complex issue, which can only be answered by close co-operation between business demand and IT supply. However, since it is the responsibility of business to contribute to the mission of the company and the responsibility of IT to deliver reliable IT services, a third party is also required, who will be responsible for ensuring that information provisioning and information technology contribute optimally to the success of the company. Such a role is known as "functional management". The prime responsibility of functional management is to ensure that information provisioning and information technology contribute optimally to the success of the company.

If business, functional management and IT are acting within an extremely complex and dynamic environment, then process- or chain-oriented co-operation will not lead to success. Compared to demand–supply co-operation, the co-operation which exists within a soccer team is relatively simple. However, even the most successful of soccer teams do not have processes such as "defending", "conquering the ball" and "scoring a goal", as unpredictable opponents constantly frustrate the process. Consequently, team co-operation is very different from chain- or process-oriented co-operation. Team co-operation requires that a player is prepared. It requires that the players, as a team, know what to expect, both from opponents and from each other. It requires clear concepts and clear structures. It also requires a lot of independency, to a much greater degree than with process co-operation. It requires that players think and act for themselves. In this article a soccer team is used as a metaphor for team co-operation, partly because we can learn a lot from soccer teams, but also because this metaphor enables us to share the Dutch experiences with this kind of co-operation. This article describes how a company should organize its business demand and IT supply, in order to optimize the contribution of information provision and information technology for the benefit and success of the company.

## MARKET TRENDS

In his book "The world is flat[2]," Thomas Friedman (2005) predicts that a significant proportion of current companies will not survive the next five years. Innovation is essential for western companies to be successful. According to Friedman, the quality of co-operation within the company is the prime critical success factor for companies that want to survive into the coming decade.

Gartner[3] (2006) acknowledges this, and points out that effectiveness of IT is the major discriminator between successful and unsuccessful companies. Creative co-operation, which is based on trust, is necessary for effective information provision and IT.

In its yearly innovation monitor[4] (2006) the Erasmus University of Rotterdam indicates that successful innovation leads to 25% more cost effectiveness, 20% more turnover growth and 10% more profit growth. Top critical success factors of innovation are "social innovation", "room as a condition for creativity" and "intensive co-operation".

In a response to these conclusions, Gartner expects (2006) that in the five years a significant part of leading companies will split their IT in two departments, one responsible for demand and one for supply. Gartner suggests this is something new.

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[2]  *Thomas L. Friedman: The World is flat. A brief history of the twenty-first century (2005).*
[3]  *Gartner Symposium ITXPO 2006: The drive for productivity and growth.*
[4]  *Erasmus Innovation Monitor 2005, Rotterdam Erasmus University (2006).*

However, in the Netherlands this has been done for more than 15 years. In the Netherlands, business IT co-operation is supported by creativity, room for innovation, and trust in each other. The Dutch practices are very valuable knowledge for the rest of the world.

## CHARACTERISTICS OF SUCCESSFUL TEAM CO-OPERATION

Team co-operation has very specific characteristics. Successful teams have a clear, shared objective. The players have, as a team, a burning ambition to become successful and meet the objective. Each player has clear and acknowledged added-value. There is a clear concept and a clear composition. There is a line-up where the added value of all players is optimally exploited. The players have clear responsibilities, accompanying authorities, and clear agreements about their co-operation. Coach and players do not have a choice; they have to trust each other. All of this combines to enable them to adapt constantly to changing situations (opponents, the pitch, the weather, the referee, individual contribution of the players).

In order to ensure optimal effectiveness of IT, we must organize internal company co-operation in the same way. The participants in the co-operation need a clear, shared objective, and a burning ambition to be successful. Each participant needs to have a clear added value and the line-up must ensure that we exploit the capabilities of each person to optimize their added value in order to meet the objective. Each participant must be given a clear responsibility and accompanying authority.

If management and participants want to be successful, they have no choice but to trust and rely on each other. Combined, these characteristics enable them to adapt to constantly changing situations (market behavior, new business ideas, technological possibilities, etc).

Demand–supply co-operation is similar to a team sport like soccer, and like a soccer team, it requires:

1. Fundamental issues:
   a. A clear and shared objective, for instance becoming champion or qualifying for an international tournament.
   b. A burning ambition to be successful in meeting the objective.
   c. Global tactics (defensive/offensive play, technique- or power-based, etc.).
2. Composition:
   a. A line-up (4-4-2, 4-5-1, in Holland 4-3-3, with a clear goal and added-value for each position (goalkeeper, left defender, midfielder, striker, etc.).
   b. A clear set of assignments for each position (rights, obligations).
3. Being a successful team:
   a. Solid agreements between the players (no drinking and smoking before the match, training twice a week, always being on time, etc.).
   b. Local tactics – the way we are going to play together (switching positions, local agreements, etc.).
   c. Training (theory, exercising, practice contest, playing test matches, etc.).
   d. Playing the Match (trying to achieve the objective, changing positions, changing players).
   e. Evaluation (evaluation of the match, the tactics, the players, etc.).
   f. A proper selection: the right person on the right spot, knowing and applying the added value of each player (good header, hard worker, brilliant technician).
   g. Good facilities (good shoes, good training facilities, etc.).
   h. Team building (meeting, discussing and socializing).

Each principle will be discussed in a separate section.

## FUNDAMENTAL ISSUES

### Objective

A shared objective is important because it enables the participants to direct everything they do towards the objective. In order to obtain effective IT, the objective of the co-operation between business demand and IT supply must be:

*Information provisioning and information technology contribute optimally to the success of the company*

From now on, everything we do in the demand–supply co-operation will be compared with the objective. Agreements must contribute directly to the objective. Only activities and results that truly contribute to the objective will be carried out and delivered. A solid objective determines the direction of every detail in the co-operation.

### A burning ambition

Intensive co-operation is only possible if all participants have a burning ambition to meet the objective. A burning ambition is the fuel for continuous improvement, and thus to successful co-operation. In soccer, a burning ambition determines the difference between a winning team and a recreational team. In global economics, it determines the difference between success and failure, between survival and downfall. And since a burning ambition is so vital, companies should manage it properly.

### Global tactics

A successful soccer team has clear global tactics, well known to all the players. The global tactics define the way the team is going to meet the objective. It defines the co-operation within the team, the composition of the team, and the qualities that the team requires from the players. Consequently, every statement in the remainder of this article is defined by the global tactics.

Throughout the world, soccer is played with a maximum of two strikers, except for the Netherlands where we usually play with three strikers. Based on a different vision on soccer, Dutch teams (sometimes!) are surprisingly successful: winning prizes with magnificent soccer.

According to Gartner, all over the world everyone who works with information technology works in the IT department. This is not the case in the Netherlands. In the Netherlands, we have utilized functional management for more than 15 years. Functional management is positioned within the business (unit) organization, with the specific responsibility to ensure the effectiveness of the IT. And very often, it is with very successful results: better decisions, more consistency among decisions, and more long lasting decisions. The functional manager becomes part of the business management team, and thus IT has become business, as long there are business consequences attached to it. Through the functional manager, business managers develop much better relationships with IT than previously existed. Finally, users have trusted and reliable representatives and contacts.

As a soccer team is divided in three lines (defense, midfield and attack), each with specific responsibilities and added value, the co-operation for effective IT should be divided into three lines, each with specific responsibilities and added-value:
- Business: contribute successfully to the mission of the company.
- Functional management: ensuring that information provisioning and information technology contribute optimally to the success of the company.
- IT supply: delivering IT that contributes optimally to the success of the company.

Dutch practice has shown that global tactics for effective IT should be:
1. Organize the co-operation between business and IT as a team sport.
2. Place functional management in the center of this co-operation, with specific responsibility for successful business IT co-operation and effective IT.
3. Realize that the team can only be successful if the players can rely on each other.
4. Make sure that the players can handle continuous change by giving them enough authority to take the necessary decisions and actions.

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## COMPOSITION

Making a good line-up for a soccer team is a matter of balance. For example, there must be a balance between offensive and defensive interest, between strength in the center and strength on the wings, and between creativity and robustness. Depending on the reactions of the environment and the delivery quality of the moment, this balance varies tremendously throughout the season and during the match.

For the same reason, balance is essential for effective IT. Information provisioning and IT only contribute optimally to the success of the company if there is good balance between:
1. The different local (business units, staff units) demand interests of the company. Local entrepreneurship should be supported optimally and should not be restricted unnecessary by information provisioning and IT.
2. The corporate demand interest of the company.  Information provision and IT should support synergy (higher quality, lower costs because of scale advantage) where useful.
3. The possibilities of supply. Demand and supply need fairness in delivery. If we expect IT to deliver more than they can, they will probably actually deliver less. Equally, the company cannot afford to be too lax with IT supply.

### The line-up
In a soccer team we have different roles per line. In business demand–IT supply co-operation we also have different roles per line:
1. Business:
   a. CEO
   b. business unit management
2. Functional management:
   a. CIO
   b. functional manager general interest
   c. functional manager of a business unit
   d. operational functional manager
3. IT:
   a. main contractor
   b. subcontractor

*Figure 1 The line-up*

We will discuss these roles in the next chapter, in reverse order. The environment of the different functional management roles can be characterized as follows (figure 2):
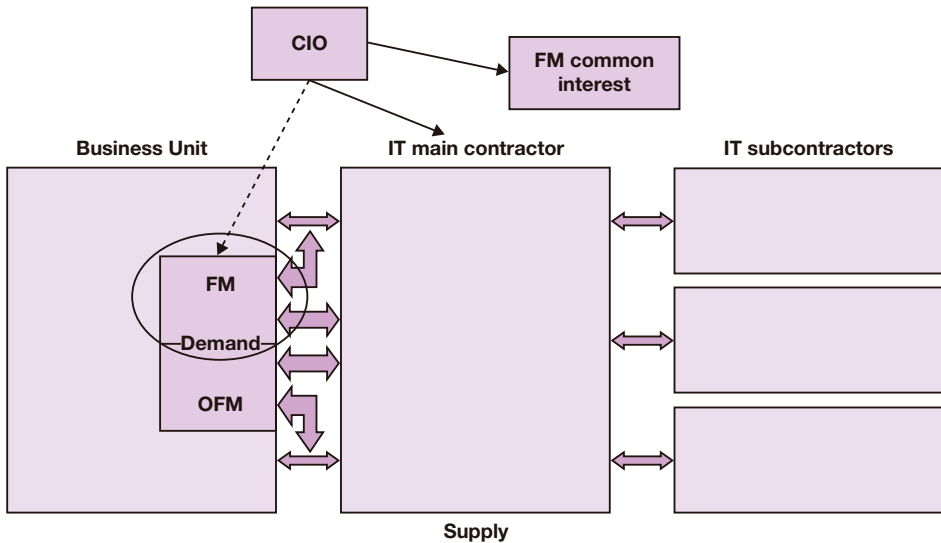


*Figure 2 Composition of the co-operation*

### IT subcontractor
IT subcontractors deliver a part of the IT, under governance of the main contractor. Main contractor and subcontractor have a demand–supply relationship with each other, where the main contractor plays the demand role. The added value of an IT subcontractor is defined very specifically, and is based on product leadership (superior product quality),

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operation excellence (synergy) or customer intimacy (adaptive to customer demands), while the contribution of the IT subcontractor is completely based on the defined added value. Of course, IT subcontractors can have direct contact with the business and/or with functional management, but only within the governance structure that is agreed with the main contractor. IT subcontractors can be both internal and external.

### IT main contractor
The IT main contractor is responsible for the overall supply. The main contractor is responsible for the behavior, the quality of work, and the cost level of all contractors. Furthermore, the main contractor is responsible for co-ordinating and assembling the work of all the contractors.

Additionally, the main contractor must ensure the delivery of IT that contributes optimally to the success of the company. This requires that the main contractor follows business and functional management. Since the IT main contractor plays a very important role in the co-operation process, and as contributing to the success of the company should be the main contractors only objective, it is usually necessary for the main contractor to be internal. If properly governed, this guarantees that no other objectives obstruct the necessary co-operation.

### Operational functional management
Operational functional management always represents a (business) unit within the company, and it must ensure that information provisioning and IT contribute optimally to the day-to-day success of that unit. Operational functional management responsibilities are always tactical/operational, such as: user support (provisioning of user guides, functional helpdesk, organizing user trainings), management of business information (setting of functional parameters, controlling data conversions, ordering the starting up of batch jobs), composition of maintenance releases, and organization and management of user tests. Operational functional management represents the business in ITIL® processes such as problem management, availability management and capacity management. Operational functional management reports to the functional manager, and is therefore part of the business organization.

### Functional manager of a (business) unit
The functional manager is responsible for ensuring that information provisioning and IT contribute optimally to the success of the (business) unit that they represent, both now and in the future. Functional management is positioned at the strategic/tactical level. The functional manager must be part of the business unit management team, as the majority of strategic issues have information components. The qualitative responsibility of functional managers gives them the right to act (within their responsibilities) and to speak. They can engage with everyone as long they do so on behalf of information effectiveness. Within the (business) unit they are responsible for determining which IT services are needed, making agreements with the supply organization about the products and services that suppliers should deliver, and making sure that supply really delivers the IT services that are needed. In order to do this they must also deliver products and services, such as analyses reports, governance of programs and projects, architecture and the products and services of operational functional management.

Wherever they are, within the unit or outside of the unit, they always represent the interest of their unit on the subject of information provisioning and IT. The functional manager of a unit reports to their line (business) unit manager, whilst also reporting (functionally) to the CIO. Within the unit, the functional manager has to balance the needs of local interest within

the unit, and also the corporate interest of the unit, just as the CIO does for the company. Functional management handles all strategic/tactical information issues within the company.

### Functional manager corporate interest

A company consists of different units that, together, make the company successful. If there was no synergy (higher quality, lower costs because of scale advantage) between the units, why would they stay together and why would there be board meetings at all? But, of course, synergy does exist between the units, usually to a great extent. The responsibility of the functional manager (corporate interest) is to make sure that information provisioning and IT contribute optimally to the corporate interest of the company. They have to analyze the possibilities, suggest improvements and initiate and manage change. The functional manager (corporate interest) has the same responsibility, the same authorizations and the same activities as the functional manager of a unit, except that their unit is the corporate interest. The functional manager (corporate interest) reports to the CIO and must be able to escalate to, and discuss or even argue with, the COO or the CEO. Often, when a corporate interest is defined, companies formalize the corporate interest, for instance within a staff unit, such as Human Resources or Finance. If that happens, the corporate interest transforms into a specific local unit interest.

In most companies, corporate interest is not formalized and/or institutionalized. Usually IT supply fosters the corporate interest. Local business interest is usually organized in business units, whilst local IT is not often found. This leads to the following situation (see table 1):

|  | Business | IT |
| --- | --- | --- |
| Local | X | - |
| Corporate | - | X |

Table 1 Business – IT or local - corporate

A serious discussion between local interest and corporate interest (horizontal focus) is often interpreted as a business–IT discussion (vertical focus), and one which is usually won by business. But in reality, local interest wins the discussion, and after several years like this, the company will find that it has missed many opportunities for synergy. This conflict results in increased complexity, with poor time to market, lack of agility, lack of stability, and high cost level as a consequence. Without formalization of corporate business interest, including a functional manager (corporate interest), the problems will continue to increase, and solutions will not be effective.

### Chief Information Officer (CIO)

The responsibility of the CIO is to ensure that information provisioning and IT contribute optimally to the success of the company. If information (technology) is a critical success factor for the success of the company, then the CIO must be a member of the board. On the board, the CIO is responsible for the critical success factor information (technology), and this gives them the right to act and the right to speak. This gives the CIO a strong mandate and a very important responsibility on the board. Thus, the CIO has their own (virtual) management team consisting of the different functional managers and the manager of the IT main contractor. In their management team, all local demand interests are present, together with the corporate interest demand manager, and the supply. The CIO has only to make sure that everyone represents their interest well and to manage the balance:

1. between the different local demand interests, if the different units have a conflict of interest

2. between local interest demand and corporate interest demand, if one or more units have a conflict of interest with corporate interest
3. between demand and supply, if demand requires the impossible or supply delivers poor value

If there is a conflict of interest, the CIO ensures that everyone gets the chance to present their vision and arguments, and that all relevant information is presented in the discussion. If this happens, the CIO can and must take the decision.

### Business unit management team

The management team of a (business) unit is responsible for optimal success of the unit, in order to contribute optimally to the success of the company. Their main focus is business success, and towards this end, the functional manager handles information provisioning and IT. However, since IT has to support business goals, the management team has to ensure that their unit contributes optimally to information provisioning projects and programs. If information (technology) is a critical success factor for the business unit, the functional manager must be part of the management team.

### The Chief Executive Officer (CEO) and the board

The CEO is responsible for the success of the company. The board should be the team that makes the company successful, by shaping the co-operation between the different business and staff units. However, often the board is a meeting of self-interested parties. In this situation, the CEO has to manage the balance between the different local interests and the corporate interest. In the same way that the CIO manages information provisioning and IT, the CEO must manage the business issues. This makes the CEO the ideal escalation point for CIO decisions. After all, there are two ways to convince someone: convince them or convince their manager. If one of the (local and corporate interest) functional managers or the main contractor really objects to a CIO decision, they can escalate the issue to the board. After a firm discussion, the CEO can order the CIO to change their decision. Information issues are always subordinate to business issues. With the possibility of escalation, everyone will remain reasonable: functional managers and the main contractor will only escalate if there is a severe business issue at stake, and the CIO will weigh all of the business issues before taking a decision.

## A SUCCESSFUL TEAM

### Solid agreements

A team cannot function well without solid agreements concerning the way in which the players act and co-operate. For instance, a soccer team might agree that each player has to participate in at least two training sessions each week, that the players do not drink or smoke before the match, and that players are always on time. In the co-operation between business and IT, it might be agreed that one specific relation administration is used within the company, that open and meaningful discussions are cherished, and that the type of platforms to be used are specified. In general, we need a common and shared dictionary to ensure that we all speak the same language. We need a common and shared set of maps to ensure that we have a common view of the world that we work in. We need a common and shared legislation to ensure that we can trust each other. And we need a common and shared development plan to ensure that we all go in the same direction. Within IT, the dictionary, map, legislation and development plan are, together, what is known as architecture. Architecture is the complete set of all the agreements of the team. In soccer terms, it is the

combination of global tactics, solid agreements and local tactics. It contains agreements on subjects such as organization, culture, staff plans, location specific agreements, processes, products and services, finance, applications, data and infrastructure. In other words, it is everything that is required to make the team more successful. Without solid agreements a team lacks a solid basis for co-operation.

### Local tactics

In a soccer team, coach and players also make small, local agreements in order to shape the specific, local co-operation. For example: "if the left wing defender has the ball, then the midfielder should take position over there and the left wing striker should take position there"; "this is the way we switch positions"; "this is the way we organize our corner defense". In a company, we also have to shape and specify the local co-operation. For example: We need to define and organize the deliberation structure (goal of the meeting, fitness for purpose, agenda and participants), processes, procedures, manuals and escalation procedures. Local tactics are the fulfillment of the detailed and local co-operation between local groups of players in the team.

### Training

Ambitious soccer teams wisely spend more time on training than on matches. In training exercises, players rehearse technical actions over and over again, until they achieve the desired skills that they can utilize in the match. Co-operation within soccer teams is based on general concepts, continuous benchmarking of other/better teams, and is worked out in training exercises, where players rehearse and develop co-operation in specific situations, like scoring free kicks and one-two passes.
Where useful and possible, everything is tested in practice matches.
Professional soccer teams observe their opponents in order to be as well prepared as possible, by knowing as much as possible about what to expect. In team meetings, the coach discusses the co-operation with the players; he adapts the composition and the line-up to the anticipated dynamics.

Within companies we should do the same. It is useful to train specific skills, in addition to normal production activities. The productivity of co-operation within companies would be much higher if we managed to ensure that employees made most of their mistakes in training exercises, rather than in real business situations. We can use concepts like models, to ensure that everyone speaks the same language. We should try to recognize relevant trends, and we can benchmark our results with competitors. Increasingly, we should exercise the co-operation in dry-runs and simulations. We test applications, so why not test processes and complex co-operation such as co-creation and meetings? We have to ensure that we prepare ourselves optimally, by observing forthcoming "opponents", in order to find out what to expect, to define what would be the best composition and to identify which players would be the most appropriate. We can prepare ourselves in team meetings only if we know what kind of dynamics to expect. And we should not forget that complex co-operation is a team sport like soccer, and that we act accordingly. Training enables the team to apply trial and error, to try and sometimes to fail, without severe consequences.

### Playing the match

There are a lot of matches in a soccer season. In each match, players try to ensure that the result of the match contributes optimally to the team's (season) objective. In the match, players have the freedom to fill in their role within the agreed concept, using the agreed local tactics and the exercised skills. They do not have the time to consult their coach or other players in the middle of the action, and there is very little time for much organizational

consulting with other players. Thus, it is very important that the players know and adopt both the global and local tactics, because this will increase their chances of success. On the other hand, players need to be confident, independent, trustful and have enough authority to take the right decisions themselves. Where appropriate, the coach initiates (small) changes and substitutes players. At no time is the short term focus (winning the match, scoring/preventing a goal) more important than the season objective.

A company's year consists of many working days. Each day, the players in the team try to ensure that today's result contributes optimally to the objectives of the team. If the environment of the co-operation is very complex and very dynamical, as in IT, it is very important that there is a firm and clear architecture that gives the participants in the co-operation enough clarity to know what to do and what to expect from fellow players. On the other hand, players need to be confident, independent, trustful, and have enough authority to take the right decisions themselves. Where appropriate, the team must be able to initiate (small) changes and substitute players.

At no point is the short term focus (incident management, KPI's, foot stamping managers) more important than the season objective. We do not want to win the battle and lose the war, but it is acceptable to lose the battle and win the war. Playing the match enables the team to ensure that day-to-day activities contribute optimally to the overall objective.

### Evaluation
After a soccer match, the players meet each other at the bar, where they look back at the match. In a real team, they do not look back in order to blame someone or to honor the hero (well, okay, maybe a little, to work on confidence). The main reason for looking back is actually to look forward. The two most important question areas are:
1. What went wrong? How can we ensure that that negative aspects are not going to be repeated?
2. What went very well? How can we ensure that the positive aspects are going to be repeated?



*Figure 3 Positive evaluation is the basis of improvement*

Answering these questions will address any lack of skills and will therefore lead to a plan to improve these skills. Sometimes these questions will lead to misunderstandings in the team, mostly because of different interpretations of the agreements, environment, plans, and ideas of fellow players. It is very important that a team takes these "I thought that you thought that I thought …" discussions very seriously, and that these discussions are maintained in a positive, ambitious atmosphere. Such discussions will lead to improvement, whilst inspiring innovation. Within companies, we can use models such as Deming, Lean Manufacturing and Six Sigma to shape these discussions, but we must not forget that attitude is the main critical success factor. Evaluation helps the team to transform their experiences into improvement and innovation in order to meet the objectives.

### A proper selection

The more ambition that a soccer team has, the more time it spends on "recruiting" the right players, in order to assemble the best possible team. In complex co-operation the individual quality of the team members determines the (maximum) end result. Of course, the co-operation is decisive. But without excellent players, it will not work out. Soccer teams are very much aware of this, much more than are companies. Every player must have specific added value that makes him ultimately eligible for his task and for the co-operation. In companies, in complex co-operation, we should do the same. Only the best is good enough. Optimal contribution of information provisioning and IT to the success of the company is a very critical success factor for the company, and is very complex in a very dynamic environment. This places high demands on the players in the team.

On the other hand, if someone is not good enough, the team cannot afford not to act. In a soccer team, the player who is not good enough is usually the first to know that he is not capable, and he develops a strong desire not to be involved in the play, especially not if it is important or crucial. It is better for the team and for the player if we give him another position or place him in a lower league team. In other kinds of complex co-operation it is much the same, provided that we know what someone's contribution is to the success of the team.

In a team it is very important that each player possesses added value and that the different added values complement each other and are (therefore) in balance.

### Facilities

In a professional soccer team equipment is not an issue. Only the very best is good enough. Success can be frustrated by many things, all of them very different to manage; so the team will not allow things that are easy to manage to cause even the slightest problem. A professional soccer team ensures that the players have the best shoes, the best training facilities, the best medical facilities, etc.
In companies, it should be the same. Since effective IT is crucial for the success of the company, the company must ensure that the demand–supply co-operation receives splendid tools, and the best equipment, facilities and support. A team cannot afford to give its time or attention to equipment or facilities that may damage the end result.

### Team building

Team building could very well be the one thing that companies do better than professional soccer teams. However, within companies, team building is focused on local teams, such as a particular demand team, or a part of the supply team. To make the demand–supply co-operation successful, the demand–supply team must be successful, and therefore team building must focus on the demand–supply team. Since the demand–supply team is a critical

success factor of the success of the company, the company itself (CEO, CIO) must ensure that the demand–supply team is an ambitious, competent and strong team.

## CONCLUSION

Complex co-operation cannot be organized in a process or chainoriented way. Complex co-operation is a team sport and requires a different organization from that of processes or chains. Ensuring company effective IT, requires a tremendous team effort from the demand–supply co-operation. Thus the company must organize demand–supply in a similar way to that of a team sport; to ensure that supply delivers on demand; and to ensure that demand "demands on demand". To make sure that business can focus on business success, supported by a superb demand–supply co-operation.

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- The graphics in figure 1.1 and 1.4 are made by Dick Heins, Oosterhout, the Netherlands.

# 3.3 The art of Business Service Management: A rebellious service portfolio practice

*The success of IT is directly related to the ability to deliver value to the business. Maximizing the business value of IT requires careful management of the alignment between business and IT strategy, and how they are operationalized. In an earlier article, Wim Teunissen and Han Verniers presented service portfolio management as the process to connect IT's strategy and operation. This article illustrates experiences in implementing service portfolio management in practice.*

## INTRODUCTION

This article shows that the route to service portfolio management and business services is long and far from simple. Firstly, the benefits are generally achieved only in the medium term, which means that implementation and priorities are often challenged because of short-term issues and projects that the IT-organization faces. Secondly, the inherent complexity scares the organization away from implementation and towards continuing business (and IT) as usual. Some pretty significant steps are required. Getting the organization on the track of implementing service portfolio management can prove to be very difficult. Therefore a good business case is required, showing "the business value" for each individual step.

The journey hasn't ended yet. The quest for the holy grail of business-IT alignment isn't finished, but we have definitely made significant progress!

This article is based on experiences, with several organizations, implementing service portfolio management. In a previous article (summarized below) we showed how SPM can help create a portfolio of services that are aligned to the IT strategy (Teunissen, 2005). An important prerequisite, which we mentioned briefly in our earlier article, is to know the value of each service and IT as a whole. When discussing value with customers (end-users or economic buyers), we found that most organizations have a problem since their services are still very much technological services for which value is indirect (at best). Furthermore, "service portfolio" is an abstract concept that needs to be made concrete and tangible (especially to the business). We found that moving towards customer-oriented business services and the implementation of a business service catalog resolved both of these issues.

In summary, this article covers several topics in relation to business service management, such as:
- what are business services?
- previous research on service portfolio management
- making added value visible
- business services and the value of IT
- managing business services

## SETTING THE SCENE FOR BUSINESS SERVICES

### Business services

To discuss IT with the customers and their organization means that IT needs to move away from technology and talk business. A desktop PC may be an IT service, but for a user it is just part of an integrated package that provides access to the company's IT resources, information, and applications. Likewise, non-availability of a server is irrelevant to users, as long as it doesn't interfere with their work. But if it does, it doesn't matter to the user whether it is the main application server or the remote access server through which they happen to access the company network.

From a business perspective, business services have the following important characteristics:
- **Integrated** - Bringing together (technology) components or component services into a single, discrete service that is recognisable to the user.
- **End-to-end** - Meaning that the service is defined and supplied in an end-to-end fashion for which the IT organization is fully accountable.
- **Differentiated** - Tailored to be fit-for-purpose, different options and combinations are defined to satisfy different customer segments.

### Business service catalog

The business service catalog is the perfect marketing and sales tool for the IT organization. Implemented properly, it should be the one-stop shop for customers (end-users and economic buyers) to find out about what services are offered, their "relevant" service levels, what they cost, who is eligible for each service, and how they can be acquired.

> Selecting a dish from a menu, asking the waiter for some specifics, like a salad on the side - ("... and can I also have ...").

Together, business service and the business service catalog are the "business interface" of SPM. They facilitate the communication about the services, allow standardization and simplification of operations, support the identification of business relevant service requirements, and the forecasting of demand. This is where the value is created. The following sections of this chapter will elaborate on how to measure such value.

### Business service management? Oh no!

With business services comes business service management, as responsibilities must be assigned to manage the business services. This is where organizations start to worry: "This is too complex; it adds another (unwanted) organizational layer; it will diminish flexibility". Though valid concerns, it should not prevent IT from being implemented. In fact, the complexity of the organization generally doesn't increase; it just shifts from managing exclusively technological services to managing both business and technological services. This results in a better focus on customer demand and offers a possibility to balance supply and demand.

> Let's be honest, you wouldn't expect the cook to take your orders; or – heaven forbid – the waiter to cook your dinner?

So, the basic message is: do you want to run a good restaurant or a fast-food shop?

**THEORY OF SERVICE PORTFOLIO MANAGEMENT
TRANSLATED SUMMARY OF EARLIER ARTICLE: IT SERVICE PORTFOLIO
MANAGEMENT: SMARTER MANAGEMENT OF IT (VERNIERS &
TEUNISSEN, 2005)**

*In 1968, the Boston Consultancy Group introduced the BCG matrix to establish a way
of governing a portfolio of products (Henderson, 1973). Healthy organizations, it was
suggested, need a well-balanced portfolio of stars, cash cows, question marks, and dogs,
representing the products in their various stages of the lifecycle and potential added value.
Key to the BCG approach is the need to manage the products as a group (holistically) rather
than as separate products.*

*In our article, we transformed this idea to the world of IT services, and argued the benefits
of adopting a similar holistic view in order to provide a balanced set of IT services, both in
definition as well as delivery. For this, we have introduced the IT service portfolio and its
management: IT service portfolio management.*

*As IT plays an increasingly important role in business, there is a growing need to manage
the IT service portfolio in order to align with the business portfolio (see figure 1). IT services
must be fit for purpose, individually and as a portfolio to maximize value. Therefore, we
argued, changes in business strategy, products or processes (from "as is" to "to be"), are
to be evaluated in relation to the IT service portfolio. Changes to the IT service portfolio
may be warranted, such as to postpone the introduction of new technology or to extend
a service's lifecycle. A set of projects to bring about these changes must be budgeted,
resourced, and implemented. More and more organizations adopt a portfolio approach in
order to prioritize and manage their projects. In literature, IT portfolio management in most
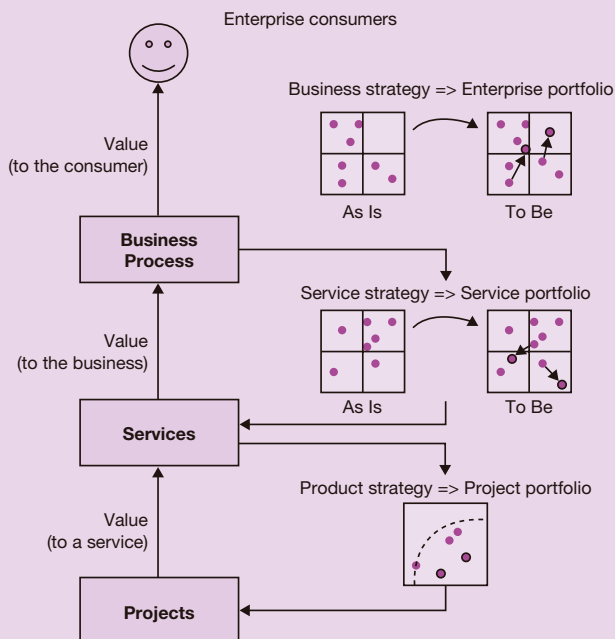cases refers to IT project portfolio management.*



*Figure 1 shows the
relationships where the
strategies and portfolios
can be used to define the
changes that must occur
to deliver the value that
the organization is looking
for. (Note that IT projects
deliver business value only
indirectly, through the IT
services that are delivered).*

*The portfolio approach can
also be used for internal
assessment of the IT
organization, to balance
the services, their delivery,
the resources, finance, etc.
Several matrices, each with
different dimensions, can
be created to model the
portfolio.*

*Figure 1 Alignment of portfolios that generate value*

## EVOLVING OUR MODEL: MAKING ADDED VALUE VISIBLE

### The value of IT: from a purely cost-based focus ...

Before an organization can deliver value to its customers, it needs to know what the customer defines as valuable. Many books and articles have been written, and many conferences were held on this subject, but few have been successful. Peppard (2003) states: "The majority of organizations treat IT services as an administrative expense and not as an investment, and manage them as such." Experiences are only slightly different. Organizations do prepare business cases to support the final go-ahead decision for projects. However, these business cases are generally financial evaluations where a positive ROI is calculated based on cost reduction. Very seldom are these business cases related to strategic targets of business or IT. It is most likely that there are actually two reasons for this. Firstly, organizations tend not to spend enough time operationalizing their strategy statements into concrete, measurable goals and deliverables. Consequently, and this is not just an issue for IT, a disconnection between strategy and operations is inevitable. Secondly, *"due to the intangible nature of (IT) services, it is difficult to appraise the value the business derives from any spend."*

So, why is this a problem? Using cost reduction or productivity increase to the exclusion of anything else, leads to what can be called *incremental* or *delta thinking*, where projects and other change initiatives are evaluated by computing the difference in cost or productivity between now and after the project has completed. It is like managing on the basis of continuous improvement without a general sense of direction and purpose. An organization needs to have a view of what it wants to achieve – effectively defining what it is that constitutes value for the organization at that time. Only then can an organization think of how to implement these goals, which projects are needed, and in what order they should be executed. For IT, this would require a roadmap where the service portfolio is migrated from its current state to the desired state. A project portfolio management approach can be put in place to carefully manage the need for human and financial resources in the allocated time.

### ... to a richer evaluation on utility and benefit

Peppard's (2003) framework can be used to assess the value of IT services and how they can help an organization to achieve its goals. He distinguishes two types of value:
1.  **User utility** - Which is defined as the benefit a user or community of users attaches to a particular service, based on the usefulness of the service to them in the performance of their jobs.
2.  **Organizational benefit** - Which is based on the extent to which the service supports the organization in achieving its business objectives.

Table 1 shows some examples of each value type, for different types of IT services.

| Value | | |
|---|---|---|
| | **Utility** | **Benefit** |
| Infrastructure services | | • Scalability <br> • Connectivity <br> • Flexibility <br> • Future proofing <br> • Providing options for the future |
| Operational services | | • Infrastructure maintained <br> • Reduce possibility of outage <br> • Optimize capacity <br> • Configuration <br> • Managing impact of technical changes |
| Application services | • Making job easier to do <br> • Productivity increase <br> • Provide support for roles and responsibilities | • Enable business process changes <br> • Cost reduction speed of response and increased flexibility <br> • Define strategy |
| Value-enabling services | • Comfort <br> • Support in job <br> • Solve problems <br> • Defining opportunities | • New ways of working <br> • Problem resolution <br> • Support specification of new applications <br> • Avert problems <br> • Reduce risk of security breaches |

*Table 1 Example sources of value from IT services (Peppard, 2003)*

Distinguishing between the two types of value is crucial as it helps in understanding that the notion of value differs depending on the target group. End-users will be looking for utility, and business managers for organizational benefit (and possibly some utility as they are users as well). Typically, the benefits will receive the most attention when defining a company's service roadmap. Utility, however, shouldn't be underestimated as it largely determines IT's effectiveness. An application can have all the necessary functionality, but if it doesn't appeal to the users who need to operate it, the result (its value) will be nothing more than a less powerful, but user-friendlier application. The support desk is another case in point: the user's utility will be directly related to the speed and ease with which questions and issues are processed and resolved. But higher utility means higher cost, and thus lower organizational benefit.

In their search for value, both IT and the business should look for "what" service should be delivered, rather than "how" it should be delivered. IT services should be presented in business terms, showing how they can be used to their maximum potential, rather than in technical terms. Additionally, the IT organization can determine "how" as efficiently as possible.

This is where business services come in.

## BUSINESS SERVICES AND THE VALUE OF IT

Even after more than twenty-five years of IT, many organizations experience significant tension between the IT organization and its customers. The customers (business and users), are not sure if they are getting value for their money. IT tries its best, but the customers feel it's just not good enough. The result is that both sides are not satisfied and that neither side can actually be blamed for this.

Much of this problem can be traced back to the fact that communication on IT generally is at the wrong level. Historically, IT, its services, service levels, SLAs, and its performance, are defined at the technological level. Businesses buy or build applications and want IT to run them on tailored platforms, accessing them through proprietary interfaces and tools.

It is as if you would tell the cook not only what you wanted to eat, but also which ingredients to use and how to prepare your meal.

In an organizational context, this defeats the principle of allowing each organizational entity to do what they are good at. For example, the business needs to reach its business objectives and needs IT to support it. So, they should capture the requirements for what they expect IT to deliver. Next, IT should determine how it can best deliver.

The use of (IT) business services to better define the interface between Business and IT will resolve this dilemma. As such, a business service is defined as:

*A **business service** is a business-oriented, end-to-end service that – from a customer perspective – is requested and delivered as a single service/event*

### Business services characteristics

From this perspective, business services can be identified by the following important characteristics.

#### Integrated

Business services are "business-oriented" to the extent that they are phrased in business terms. For example, their requirements must be directly related to business use: how the service contributes to the user performing a task. Also, performance indicators must be defined in user-relevant metrics. A consequence is that business services are typically built from several traditional IT services and offered as a single integrated service. This removes the burden of the customer organization to do the integration.

*Example*
Figure 2 shows such a breakdown, mapping business services from a retail bank to information and infrastructure services.

Along the left-hand side, the names of the business processes are listed. For the sake of the example it is assumed that the IT business services are segmented in the same way, the business service carries the name of the process. Each of the business services is then defined as a combination of information services, which are mostly represented by IT application systems. The different colors represent different owners or suppliers of the lower level services. Apart from application systems, infrastructure related services are also needed to complete the definition of the business service. The mapping is captured in the colored

| Business Productivity Retail Banking | Information Services | Pay Trans System | Mortgage & Loans | Multi-Channel Distr. | CardEx System | Intermediate Services | Business Enabling | High Avail. Enabling | Office-in-a-box | Data Management | Data Sharing | ERP/SAP | DBMS | Facilities Services | Retail Workplace | Bulk Printing | External Vault Service | Business Service Desk | Application Support Desk | Request Service (MAC) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Private Account | | | | | | | | | | | | | O | | | | | | | |
| Cards | | | | | | | | | | | O | | | | | | | | | |
| Prime Clients | | | | | | | | | | | O | | | | | | | | | |
| Mortgage | | | | | | | | | | | O | | O | | | | | | | |
| Loans | | | | | | | | | | | | | | | | | | | | |
| Savings | | | | | | | | | | | | | O | | | | | | | |
| Money Transfer | | | | | | | | | | | | | | | | | | | | |
| International | | | | | | | | | | | O | O | | O | | O | | | | O |

Figure 2 Breakdown of business services for retail banking

cells or white cells of which some denote choices (containing an "O" for optional), showing which of the building blocks along the bottom of the matrix are used to build each business service.

**End-to-end**
Furthermore, it allows IT to deliver an end-to-end service, where it can take full accountability for the entire service-chain, from start to end. In turn, this can greatly simplify the business-IT interface as it deals with a smaller set of integrated services. Also, it allows the IT organization to choose the "best" form of delivery, as long as the business requirements are met.

**Differentiated**
In addition, business services are perfectly suited to discuss and justify differentiation. While designing the business services – and considering the mapping between user and service – it is only natural to look for fit-for-purpose solutions. A simple example may clarify this.

The workplace of a regular office worker can be perfectly built around a desktop PC, fixed telephone, desk, etc. A mobile worker needs a laptop (possibly lightweight), a mobile phone, and may only require regular support. However, a traveling salesperson may require the mobile workplace as well as high level support, including quick response and replacement of malfunctioning equipment. A proper cost-benefit (= value!) analysis will show that the possible loss of revenue outweighs the additional cost of the support.

**From characteristics to value**
Table 2 shows these three characteristics of business services, and how they may contribute to value, i.e. user utility or organizational benefit.

| | Value | |
|---|---|---|
| | **Utility** | **Benefit** |
| Integrated | • business service catalogue for single ordering<br>• Improved communication and use of<br>• No hassle<br>• Productivity increase | • Improved communication<br>• Link to business events<br>• Improved demand management<br>• Improved capacity management |
| End-to-end | • Single point of contact (service desk) | • Improved alignment with customer goals and service levels<br>• Clear separation of responsibilities, no finger-pointing<br>• Improved control<br>• Ability to outsource |
| Differentiated | • Fit-for-purpose<br>• Presented in user's language | • Better balance between cost reduction and standardization versus higher cost to deliver variety |

*Table 2 Characteristic of business services and their contribution to value*

## Business services and user utility

### Integration: consumer experience
From a user point of view, the improved consumer experience resulting from  integrated business services is one of the main sources of utility. This experience starts with the initial contact, when a service must be requested, to operating the computer or application, and ends with the ultimate replacement/retirement of a service. Who doesn't remember the situation when a new user enters the organization and a host of actions needs to be initiated to get the user "online". The request process is often cumbersome, requiring several requests to be issued. And more often than not, one or more items are forgotten. It is not uncommon that a user is already working for some time before his workplace has been set-up satisfactorily.

### Integration: combining service, support and request
For a user, a service should be a package deal, comprising of (1) the product, (2) its warranty and support, as well as (3) a way to place a request for, or changes to, (parts of) the service. When a business project needs a business application to be hosted, they need an end-to-end run-and-maintain service that runs the application according to the required service levels. Furthermore, if things break, support is needed to bring the application back online. To complete the offering, the service must be accessible by the project manager for ordering, modification, or (when at the end of the life cycle) retirement.

*Example*
In one instance, this breakdown was complemented with a segmented view resulting in the following 3x3 matrix (see table 3.)

### Bringing it together: the business service catalog
One of the most important ways to bring business services to the user is by means of the business service catalog. This actually brings together neatly the request part of the business services and combines it with an easy-to-use interface that presents the services in a recognizable way, facilitating the user's choice. It also enables organizations to implement

| | User oriented | Business oriented | IT for IT oriented |
|---|---|---|---|
| Products | • Workplace<br>• Mobility | • HR processing<br>• High integrity solution | • Application enabling<br>• Top-processing platform |
| Support | • Single-service desk<br>• Prime support | • On-site support<br>• Team support | • Application service desk<br>• Consultancy & innovation |
| Request | • Workplace MAC<br>• Identity management | • Office or plant MAC<br>• Disentanglement | • Application MAC (move-add-change)<br>• New project |

*Table 3 Example of segmentation showing a group of services in the portfolio*

demand policies by enforcing the fact that certain differentiated services are only allowed to be shown or selected by the intended user-segment.

In fact, the business service catalog can be used not only as the single portal for requesting IT services, but also for user-relevant information about services. So, it shows what services are or are not offered, who is eligible for a service, who should approve a request, when services may become available, whether one service is preferred over another, services which are obsolete, etc. Note that with the advent of ITIL v3 (2007), service strategy, the (business) service catalog and service automation have gained much attention. They have received the proper attention as a means to support the interface between Business and IT.

### Business services and organizational benefit

**Improved communication**
The introduction of integrated business services enables a significant improvement in terms of the communication between business and IT. Moving away from the technical details forces the business to really think about what service (functionality, quality, quantity) they need and what they are prepared to pay. In particular, it is easier to identify the benefits of a service when they are defined in recognizable language. For example, the proper level of service differentiation can really only be decided by looking at the total package deal. This holds true when a business needs to decide whether to ask for a differentiated workplace for the traveling salesperson, or for a "non-stop" application service to support critical business processes. Note that, especially for the latter service, IT taking end-to-end accountability is another prerequisite to deliver real benefit to the business.

When introducing business services, one of the most important changes in communication experienced, has been the shift from discussing SLA's and IT's performance to service content and planning. This means that meetings change from parties blaming each other or looking for excuses, to constructive sessions where the past is used to provide lessons for the future, and where the service is used to manage and improve the value of the relationship between business and IT.

**Demand management: link to business events**
With business services expressed in business terms, it becomes easier to link the demand for these services to business forecasts. An increase in staff will mean an increase in the demand for personal productivity, which IT will translate into the demand for the required components. This is a first step in improving and simplifying demand management.

The next step requires more effort, but brings bigger rewards. Instead of the business needing to think about the bits and pieces, they can refine the demand through

segmentation. For example, business processes should be segmented depending on the criticality; business users could be categorized into office, mobile, VIP, critical, etc. By breaking down demand and forecasting in relation to these specific segments, it becomes possible to keep a much closer view on how the segments develop, manage their relative sizes, reduce cost, etc. Ultimately, this process can develop as the key instrument through which to manage the segmentation, properly balancing cost, and value (preferably combining benefit and utility).

## MANAGING BUSINESS SERVICES

As stated earlier in this chapter, along with business services comes business service management. Activities and responsibilities must be assigned, tools are needed, and governance principles must be defined in order to start managing business services. But where to start and what is needed? Table 4 outlines the most important focus areas and briefly lists a number of goals or ambitions that will bring business services management closer, step-by-step.

| BSM focus areas | Examples of ambitions |
|---|---|
| Service portfolio | Define the business service portfolio structure. Put together the portfolio content by using current services (bottom up). Put together the portfolio on basis of customer segmentation/experience (top down). Start managing the portfolio within common management cycle. |
| Service catalog | Develop a business service catalog both the structure and content. Build a tool to be used in requesting new and changed services. |
| Service lifecycle | Develop a service lifecycle with different stages and different management activities. Design and start using a services development methodology. Build a dashboard to monitor the service lifecycle in different stages. |
| Service roadmap | Create a service roadmap for midterm planning of service changes. Align service changes (roadmap) with other disciplines like architecture. Build dashboard to monitor and track progress of service changes. |
| Quality | Develop and implement service portfolio processes. Assure process management and improvement. |
| Organizational change | Develop roles, capabilities and skilled human resources. Support, improve, learn, … people to implement business services management. |
| Governance | Build a service portfolio community. Define accountabilities and responsibilities. Develop clear governance processes and decision making structure. |
| Finance | Develop a financial structure for pricing and billing of business services. Build fulfillment and request to pay processes. |

*Table 4 Focus areas related to business services management*

To ensure success in implementing what is listed in table 4, be sure not to start all activities at the same time. A serious discussion is needed to identify the proper priorities that fit with the current IT strategy. Some of these activities are worked out (but not extensively) in the following paragraphs.

## Service portfolio: putting things together

When building integrated services, it is inevitable that this will need more translations than the simple breakdown that was shown in figure 2. That example showed the breakdown from business services used in a retail bank environment to application services as well as for a retail workplace service. To be able to build the total integrated end-to-end business services, all these have to be put together as a set of building blocks. Figure 3 shows the structure of such translation but now at the workplace level.
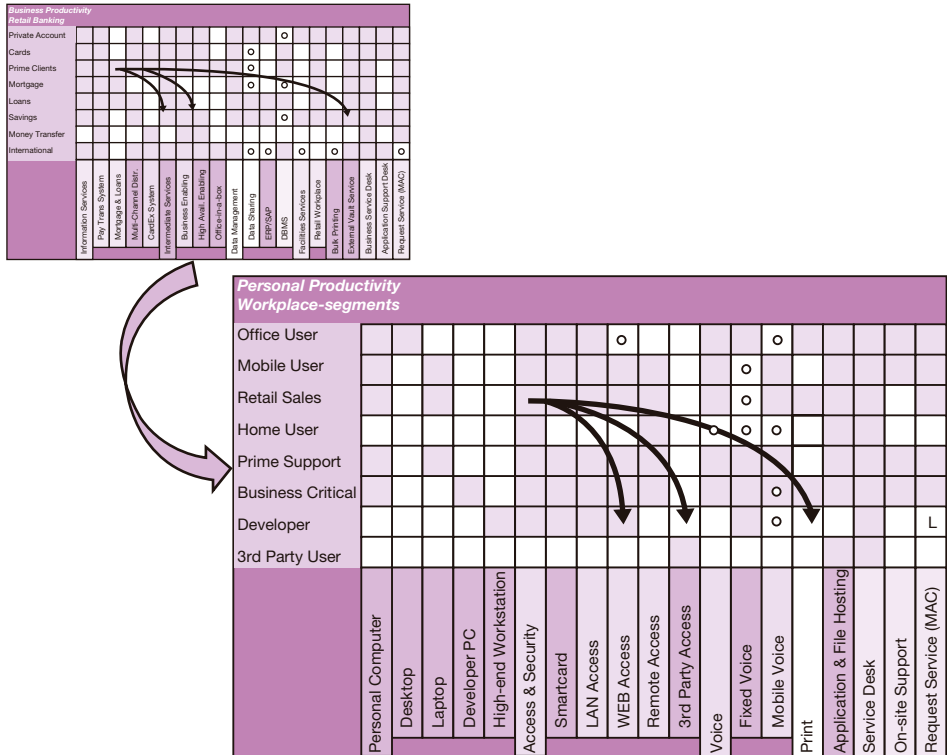


Figure 3 Breakdown for workplace service from the level of business services

The left part of the list is the set of defined workplace segments, of which the retail sales workplace is one as used in the retail banking services. In this example the bottom row lists the components or components services as delivered by different internal or external "service partners."

The current tendency in IT to outsource or even insource IT services or components is a typical reason for demonstrating the need of a clear portfolio and translation. This could raise the question "why not leave this to suppliers in the case of an outsourced environment?" The answer is that someone must do the translation from components or basic services as delivered or procured, into the final business services. Because IT suppliers are not involved enough to understand the business needs, this translation has to be a retained capability.

## Service portfolio: building the structure

In fact, IT organizations have to decide where to make a split, or break into different service groups or layers, as demonstrated in the previous examples. There can be several reasons for this. The most practical way is a split that exists due to the delivery of different services by different independent organizations. This is very common in outsourced environments, especially in multi-sourcing settings. But there are other reasons which can lead to a split of services into different layers. These include: different boundaries in responsibilities, geographical separation, existence of knowledge, and so on. A well-known issue for the IT organization is the existing legacy in terms of either applications or infrastructure, with a high level of sharing of these components by several services. In addition, organizational behaviors (tradition, common use, and skill level) can be designated as "legacy."

Figure 4 shows a common structure of the total service portfolio. At the top are the business owners, such as the economic buyers  within the business processes of an enterprise, who need to be provided with a number of integrated business services. Either a business department or preferably the IT department will provide the business with a set of services of a lower, often more basic, level of services (a service chain). This makes one or more translations between the levels necessary and leads to the creation of some service layers.
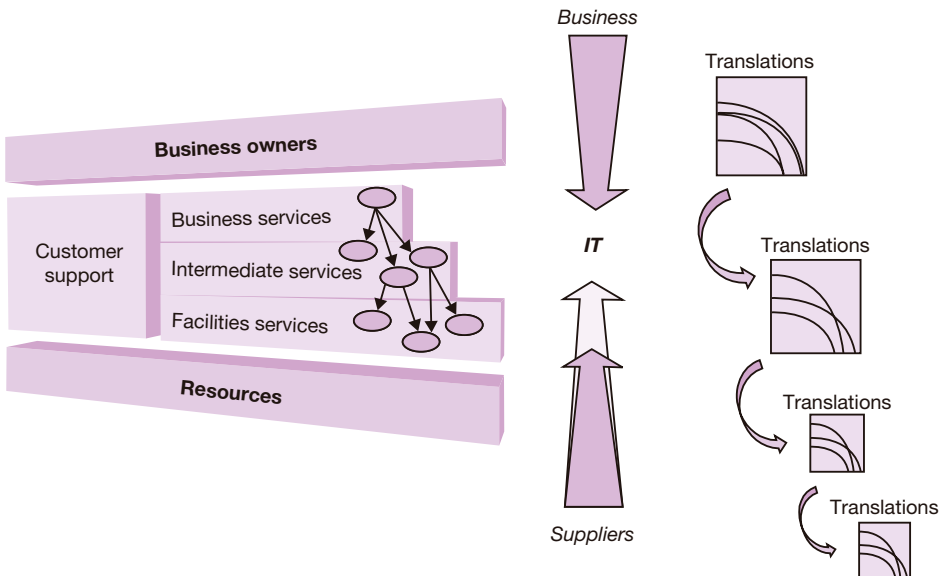


Figure 4 Portfolio structure and breakdowns across service layers

Some business services can generate complex breakdowns (decompositions), especially in large or IT-intensive organizations. In such cases, the breakdown must be done thoroughly in the first instance if IT wants to commit itself to the integrated delivery with full end-to-end accountability for the total chain of services.

It is also possible to work bottom up, because such "facilities services" can be grouped easily into recognizable commodities, such as network or workplace services. This is a much easier but riskier approach because it may never bring the desired level of integration and end-to-end accountability, and therefore end up delivering no business value.

## Organizational change: different levels need different roles

Most of the current IT organizations are "stovepipe" oriented and have service managers who are responsible for a single or group of mostly technological or application related services. If these services have to be integrated as discussed, someone with sole responsibility like a Business Service Manager (BSM) is needed to take full accountability for the business service. This BSM should not focus on the operational issues of the delivery, but should assume control over those responsible for the delivery of the independent services that are currently delivered (see figure 5). The BSM must listen attentively in order to translate business needs into IT requirements. A BSM must focus on relationships and play a role in the process of (high level) escalation.
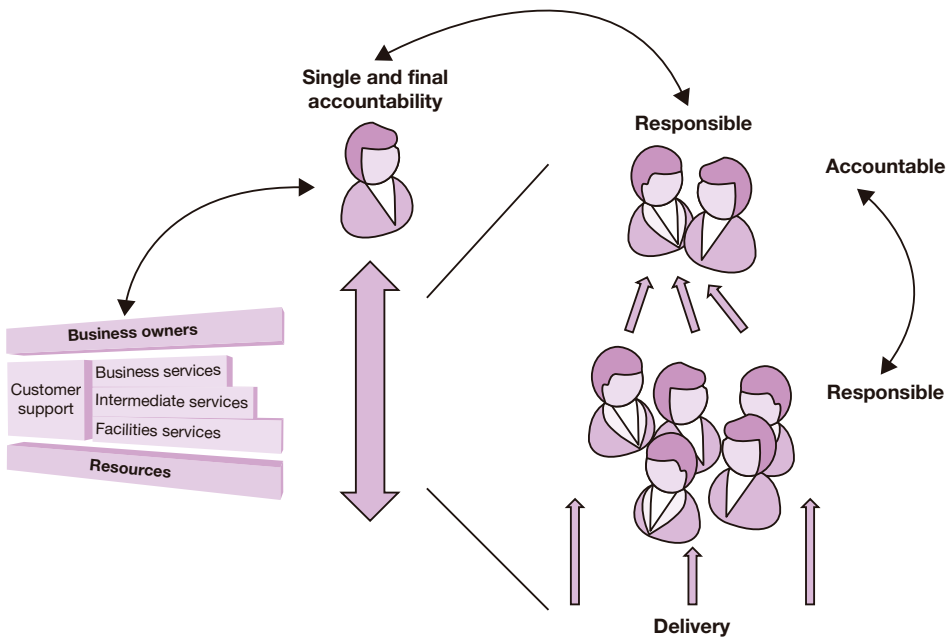


Figure 5 Delegating responsibilities but keeping single accountability

Just as with the breakdown of services into the several service layers, there are different levels of accountability and responsibility throughout the service chain. This is most common when suppliers or third parties are involved and assurance is needed. However, this shouldn't be an issue as long as, in the end, there is single and final accountability to the business. In this case, the art of business service management needs an element of "business service engineering" to prevent the duplication of demand and supply roles at each of the different levels of the chain.

*Example*
Table 5 contains some details of the job description of a business service manager compared with a service (level) manager.

| Role | Contents |
|---|---|
| Business Service Manager (BSM) | Accountable for:<br>• definition of business services (the business service portfolio)<br>• quality of services and its service levels as agreed with the business<br>• development of user-segmented services, recognizable in terms of business transactions<br>• translating business requests together with the SLMs |
| Service (Level) Manager (SLM) | Responsible for:<br>• delivery of the services against the service levels as agreed with the business<br>• reports to the BSM about the delivered quality against the agreed SLAs and KPIs<br>• takes part in escalation in case of delivery malfunction |

*Table 5 Differentiated roles in chain of service management*

### Governance and power

Nowadays, a lot of organizations have discovered that sourcing can help to improve IT's operation. Partial or total outsourcing solutions have became common during the last decade. Typical activities that have stayed in the retained (IT) function concentrate on strategy, relationship management, planning and assurance. This has tended to muddy the waters in terms of the boundaries for responsibility and accountability. It has also highlighted the need for properly defined governance processes and authorities. Who is allowed to make what kind of decisions? Who will do what kind of activities? Using the service portfolio can be beneficial in this process. It allows boundaries to be set by (groups of) business services, together with the way they are composed and who will have end-to-end responsibility. The BSM, being the single accountable representative for business services, plays a vital role in this. But, as Steward (1997) made clear "a long time ago", relationship management, such as the BSM, needs to build on trust and leadership rather than power and rules.

*Example*

Having started to address integration in a strongly stovepipe oriented IT organization, a BSM must then overcome the next issue. On one side, the BSM has to convince the IT organization to listen carefully to the business and encourage IT towards an integrated delivery. This requires a change in behavior (talking business) rather than knowledge. On the other side, due to the current lack of integrated delivery by IT, business departments may have developed their own approaches to integration. They may have started to "buy" IT products and construct their own services. Shifting to integrated business services will diminish the business department's control over the level and speed of integration. This may well lead to conflict. A solution to this is to define a principle whereby business departments only take care of the "what", while the IT organization will take care of the "how" on business services. Subsequently, complying with this principle is a major step towards a professional way of working.

### LESSONS TO LEARN

Overtime, current practices and lessons learned will evolve into best practices. Yet it is time to learn and there will be new opportunities for innovative service management! Some suggestions from time spent working with business services and service portfolios can possibly help others:
• **Take your time** - Don't expect that the organization will adopt immediately, it is a long way to go, and we have just started.

- **Prove it first** - Identify initial, small steps that are convincing. Some suggestions: build on your current catalog and transform it into a portfolio, or simply start to uncover the components and costs for those components that make up the basic level of services. Realize that cost (reduction) is not the easiest driver for business services to start with.
- **Be prepared** - Talk, talk and talk… Be strong in your vision and way forward before you start the journey. Create visibility and become visible yourself.
- **Be aware that the best may not work** - The best (most professional, well considered, high quality) solution will usually not work immediately. Be prepared for those who say "yes" but act "no or I'm not convinced yet." Find out how to join forces.
- **Be aware of "not now" attitude** - Things work well in an environment open to change. Unfortunately, this can also become counter-productive when it turns to a "not now" attitude. Be aware that agility is on the agenda of many IT organizations, so try to make "speed of change" a key improvement.
- **Motivate!** - Motivate the staff responsible for driving the change and implementation: It's a hell of a job… Take measures to keep the change agents happy and create opportunities to unload pressure. Celebrate (small) victories.

Finally, be sure you are on the right track and, with others, be convinced that "there is no way back". Business services and service portfolio management are here to stay!

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# 3.4 Next generation IT performance management
## *Performance management in the IT demand organization*

*T*o date, IT performance management has tended to focus primarily on the operational level of the IT "factory". However, as many companies turn to creating a stronger demand-supply organization, a new approach is required. Based on an inspiring case study, this article provides a useful step-by-step approach to the implementation of cross-divisional IT performance management.

## INTRODUCTION

Over recent years many IT organizations have redesigned their structure, partly as a result of the recent and ongoing focus on outsourcing elements of their IT service portfolio to third parties. In many cases the outsourcing resulted in a structure made up of the outsourced "IT factory" and the "retained IT organization". The latter would often become responsible for balancing business demands with IT supply: the IT demand management organization. With the demise of the IT factory as part of the company, the traditional IT performance management structure became more or less obsolete, since the metrics were all too often overly focused on a dedicated IT factory. Hence, the restructuring of the classic IT department into an outsourced IT factory and a retained IT demand management organization caused the need for a rethink in terms of monitoring the performance of the newly created IT organizations. But rethinking and restructuring IT performance management to match the need of the IT demand management organization is not an easy task. It will need to incorporate two worlds as a result of the bridging function that IT demand management introduces: namely the business world and the IT world. This bridge can be created by ensuring that IT performance management with a focus on IT demand management is very strongly linked to the strategic drivers of the organization.

This article will provide an insight in the balance that is needed between "IT strategy KPIs" and "IT factory KPIs", in order to obtain a KPI set and thus a means for the optimal management of the IT demand function within organizations. Following this, it will set the context for "traditional" IT performance management. The "IT demand-supply management" section elaborates on the concepts of the IT demand and supply organization. Based on these concepts, the need for the next generation of IT performance management is presented in the section "Next generation IT performance management". To underline the business need of a more demand-oriented implementation of performance management, the section "Case: Implementing the next generation model" will present a study of a large Dutch insurance company. The article concludes with some closing thoughts on the benefits of demand-oriented IT performance management.

## RETROSPECT: TRADITIONAL IT PERFORMANCE MANAGEMENT

For years, CIOs and IT managers have been confronted with the question "How can I, as an IT representative, make better decisions in order to achieve the strategic objectives of my IT organization?" Previously it was the IT manager who had to:

- determine the focus in the achievement of financial and non-financial objectives
- have a set of key performance indicators for monitoring the achievement of these objectives
- receive, at regular intervals, consistent management information on strategic, tactical and operational level
- draw up monthly forecasts and initiate future-oriented action
- use performance as a guideline for communication within the IT or business organization
- promote a result-driven culture

Even today, IT organizations often don't have enough understanding of, and control over, their performance. In order to determine which areas of performance are relevant to be able to manage and control the IT organization, it has always been important to determine the role of the IT organization within the organization as a whole. In this respect, the role can vary from being a part of business management with a focus on IT management, to being the management team of the IT supply organization. Depending on this role within the organization, the required level of IT performance management could be defined.

### The balanced scorecard

An instrument which has proven to be an excellent guideline for the implementation of IT performance management is the balanced scorecard of Kaplan & Norton. This instrument, which was developed in the mid 90s, gives IT managers a clear view on the current performance of their IT organization and the direction it is heading. This gives them the opportunity to adjust the course of the IT organization in the right direction.

The balanced scorecard (see figure 1) translates the mission and the strategy of the IT organization into concrete objectives, structured along four different perspectives: the financial perspective, the customer perspective, the internal processes perspective, and the innovation and learning perspective.
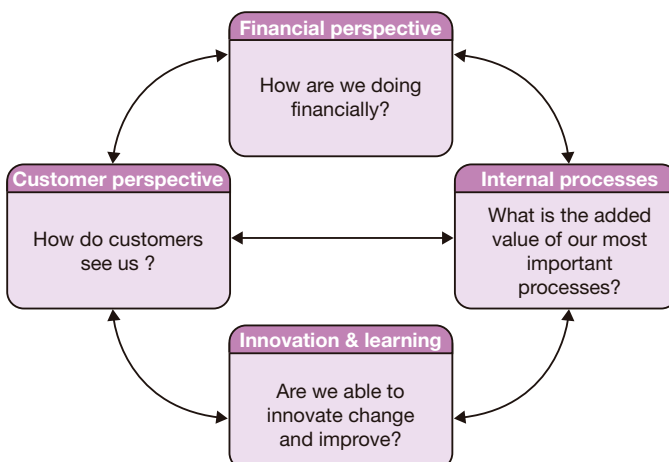


*Figure 1 Balanced scorecard (source: Kaplan & Norton, 1996)*

### Translating IT strategy into actions

As IT performance management always aims to optimize the performance of the IT domain within the organization, it is evident that a strong link exists between IT performance management and the IT mission and strategy of an organization. The process of translating the IT strategy into measurable key performance indicators (KPIs) is graphically shown in figure 2.
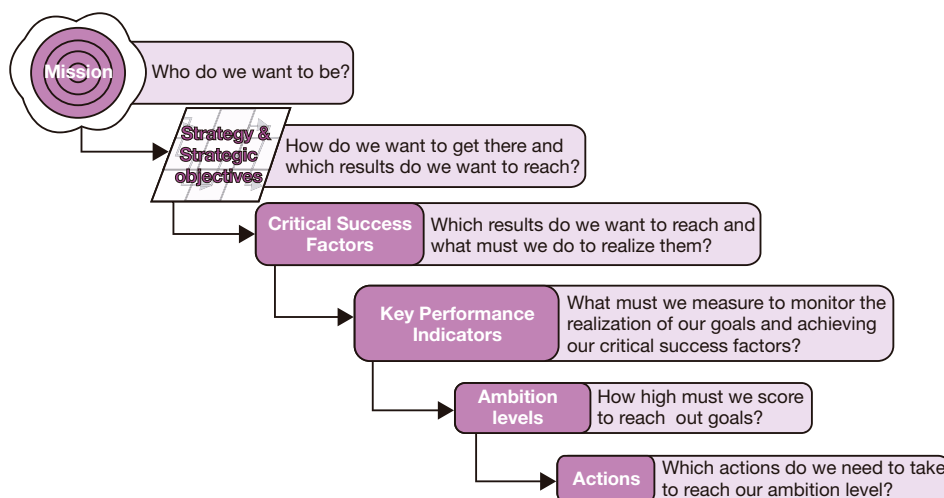


Figure 2 Translating strategy into actions

In the following list a step-by-step description of this translation process is provided.

1. **Defining the mission** - The translation process starts with defining the mission of an IT organization. The mission tells us who we want to be. For successful performance management a clearly defined mission is a must. If this can't be clearly defined, the ultimate measurement system will probably not become a success. For each of the following translation steps it should be pointed out that if the previous step isn't clearly defined, then the final set of KPIs will not be effective in measuring whether the IT organization is successful in achieving its mission.

2. **Defining the IT strategy** - Once the mission is clearly set, the next step will be to translate this into an IT strategy. If our mission statement defines who we want to be, the strategy should provide the way to get there. So the IT strategy is the direction the IT organization should follow, and the strategic objectives are the specific goals that need to be attained to realize the mission.

3. **Defining critical success factors** - Once the IT organization has clearly defined its strategic objectives, it can start to define its critical success factors (CSFs.) "CSFs are a limited number of areas in which the results achieved, if they are satisfactory, ensure that the organization is successful" (Rockart, 1979). In short, this step defines the key focus areas in which the IT organization needs to perform well to realize its strategic objectives. Examples of CSFs are: optimal cost control, optimized human resources, balanced application portfolio and high availability of core systems. This step secures the strategic objectives through the day- to-day operations.

4. **Defining key performance indicators** - Each of these CSFs are then translated into a set of operational and tactical key performance indicators (KPIs); what must we measure to

monitor the realization of our goals and achieve our critical success factors? KPIs need to be quantifiable measures. They need to be of a certain value that can be compared with a pre-set target in order to determine its contribution to the overall success of the organization. It thereby provides the organization with actual measures that monitor the performance of the IT organization and quantify the added-value to the business.

5. **Defining ambition level for KPIs** - For each of these KPIs an ambition level or a target needs to be set; how high must we score to reach our goals. Reaching these targets will enable the company to be successful in completing its mission.

6. **Defining actions** - The final step is to determine the extent to which the current actions are contributing to the realization of these ambition levels. Are they sufficient or are additional actions needed? This can be done, for instance, by evaluating all current projects and stopping all initiative that are not contributing to the IT strategy. This evaluation can also unveil gaps in which new actions need to be taken.

Carrying out these steps will result in a set of KPIs that are measures for the success rate of the IT organization's strategy. It is important that in the process of translating the IT strategy into a set of quantifiable measures, a balanced set of measures that cover all significant areas of the organization is created. As indicated earlier in this section, the balanced scorecard should at least cover the following four perspectives: financial, customer, internal processes, and innovation and learning. In this way, all key performance indicators will provide a balanced view of the IT organization. It should be noted that a definitive set of KPIs will never exist. The KPIs will always differ from branch to market sector, and from organization to organization; they should, therefore, always be linked to the IT organization's own mission and strategy.

### Practical hindsight

The essence of traditional performance management within IT organizations is that their successful management is based on a specific and limited set of perspectives and indicators. However, measuring the effectiveness of the day-to-day operations in fulfilling this strategy has proven to be a tricky operation for many organizations. Experience shows that in order to create a management vehicle that actually enables performance monitoring and steering which adds real value to the IT organization, then all the key performance indicators need to be explicitly derived from the IT strategy of such an organization,. Nowadays we see IT organizations redesigning their structure, creating a balance between IT demand and supply, which will lead to a new perception of IT performance management. Additionally, a thorough understanding of the demand-supply interaction that exists within an organization is crucial in establishing successful performance management.

### IT DEMAND-SUPPLY MANAGEMENT

IT demand-supply management refers to the interaction between the IT organization and its main customer, the business. For many years, IT has been viewed as an organizational model that statically provided IT infrastructure and application development without interfacing with the business in relation to business and market requirements. In the old days requirement alignment was easy, with each business unit more or less having its own IT estate. However, as these traditional decentralized IT activities are increasingly being centralized or even outsourced, business units are becoming ever-more aware of the need to organize their interface with the new IT organization in a different manner. In addition, more and more organizations acknowledge the added value of a professional, flexible and proactive IT organization that helps the business to gain competitive advantage by providing flexible solutions to the business or by increasing their operational excellence.

## Definition of IT demand and IT supply

Throughout the years, several models have been established to deal with the relationship between IT demand and supply. One of the earlier models was drawn up by Atos Consulting. The core of this model comprised the IT demand- supply curve. This model provided a generic growth model for the maturity of IT demand management organizations and showed the interdependency between both IT demand and IT supply side maturity. An important message of this model is the benefit of establishing an IT demand-driven customer organization. The most effective mode of operation regarding IT demand-supply proved to be the business-focused mode.

**3**

**SUPPLY**

| | Operations | Incidents Problems | Changemgt Projects | Service Delivery | Research & Development | Strategy & Policy |
|---|---|---|---|---|---|---|
| **Business driven** | no longer an issue | no longer an issue | flexible on time & customised | integrated demand-supply | no longer an issue | IT is strategic weapon |
| **Customer driven** | aligned with business processes | optimised with customers via proactive management | added value for business central | optimisation agreements in conjunction with customers | integral development & maintenance business & IT | joint strategy planning |
| **Service oriented** | optimised volume flexibility | standardised and integrated services | optimised: streamlined and accelerated process | processes set up, measurable, for supply start with cost management | flexibility & optimisation in consultation with users | up to date information planning & architecture |
| **Controlled** | scheduled, in control | incident- & problem management processes in place | change & config mgt process in place | service catalogue, start with SLM, availability & capacity management | stable, processes use of standards | general direction decided with little input from the business |
| **Technology led** | no standards, no schedules, lots of incidents | unstructured ad hoc action | no overview | no agreements | reactive, no project-based approach ad hoc | no formal policy |

**DEMAND**

| | Application and Operations mngt | (User) support | Project mngt & changes | Service Level Management | Innovation & trend watch | Strategy & policy | |
|---|---|---|---|---|---|---|---|
| | no longer an issue | no longer an issue | no longer an issue | no longer an issue | focus on innovation | ICT is strategic weapon | **Customer directs** |
| | optimised operations | stability is joined responsibility | changes assessed from business perspective | focus client group with insight into consequences of demands and wishes | integrated programme management based on strategy | joint strategy planning | **Customer is owner** |
| | clear distinction between tasks of customer & IT | agreements on level of support and task allocation | involved in decision-making | negotiate basic service provision | requirements/ wishes mutually agreed | IT strategy tailored to business strategy | **Customer decides** |
| | approach points partly in place | support largely structured | participation in important project | under-standing that IT has to be managed | parti-cipation in important projects | client chooses main points from ICT strategy | **Customer chooses** |
| | ad hoc | own solutions measures | do it self | none | none | not related to IT | **Customer follows** |

*Figure 3 The Atos Consulting IT maturity model*

The Atos Consulting IT maturity model shows an important mind shift regarding the shaping of the IT demand- supply relationship. As the lower stages in the model show, the traditional view on the IT organization is that of an IT factory which is only in place to deliver solutions to the business from a strong technology-push point of view. Interaction with the business on business needs such as flexibility or time to market are seen as trivial. As organizations progress in the model, the IT demand management organization flourishes as a key representative of business needs and a point of reference for IT requirements, resulting in solutions that better suits the business and market needs – which in practice results in better margins and happier end-customers. As organizations establish a more professional business-IT interface, an important mind shift is established, triggering IT organizations to look further than the common mode of operation.

Introduced in 2000, the Gartner IS Lite model elaborated on this viewpoint, taking four trends as points of departure:
1. a clearer division between the executing of centralized versus decentralized IT activities
2. specialization via centers of excellence
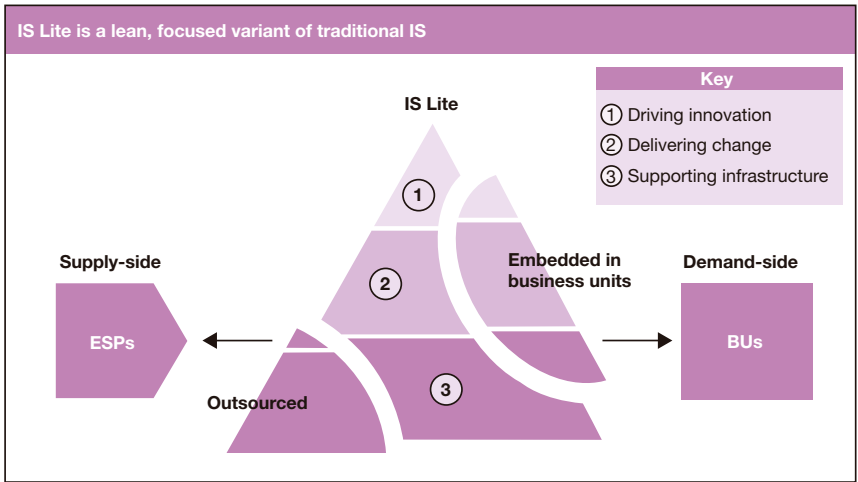3. process-oriented operations
4. outsourcing

**IS Lite is a lean, focused variant of traditional IS**

**Key**
① Driving innovation
② Delivering change
③ Supporting infrastructure

IS Lite

Supply-side

Embedded in business units

Demand-side

ESPs

BUs

Outsourced

*Figure 4 Gartner's IS Lite model*

In contrast to the traditional IT factory approach, where process-orientation was trivial and IT activities were performed by the IT factory itself, IS Lite took off by forcing the IT organizations to reorganize themselves. This might be to retain a competitive advantage by, for instance, redefining the activities that should be positioned in the IT organization versus activities that could be sourced to external vendors, or should be incorporated in the business organization. This resulted in the positioning of the IT organization as a broker between external vendors and the business units.

**IS Lite must retain five roles**

**Key**
**Five key roles of IS Lite**
① IT leadership
② Architecture development
③ Business enhancement
④ Technology advancement
⑤ Vendor management

Driving innovation

Delivering change

Supporting infrastructure
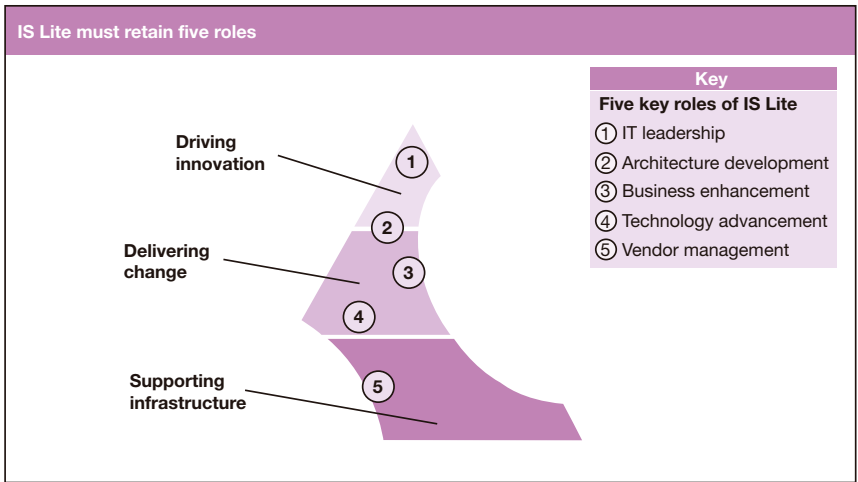
*Figure 5 The retained organization and its roles*

A number of roles (innovation management, change delivery and infrastructure support) were identified by Gartner as likely to be transferred back to the decentralized business units. In a later publication of IS Lite these roles were further nuanced, since in reality the transfer of them to the business appeared to be less in evidence than had been expected.

This was partly the result of further professionalizing within the IT organization via centers of excellence and the introduction of ERP suite systems, which obstructed the proposed clean cut between business and IT. Nevertheless the view of a retained organization and the division between business and IT were further established by IS Lite as shown in figure 5. Roles like IT leadership, architecture development, business enhancement, technology advancement and vendor management were believed to be the spine of the retained IT organization of the future (see figure 5). Needless to say, this posed a new challenge to the former IT factory, as a broker role towards the business and external vendors once more required different competencies and a different mode of operation. An additional consequence was the duplication of certain roles which now seemed to appear in both the business and the IT organization.

### Limitation of the models
Both the Gartner model and the Atos Consulting IT maturity model were limited to addressing IT demand-supply governance without identifying the actual activities that were required to effectively shape the IT demand and supply function within an organization. Although only looking at a specific area of the whole IT demand-supply playing field, the BiSL framework filled this gap by making explicit all functional maintenance activities that are required from the business. The view on IT demand and IT supply management nevertheless remained rather static, as it failed to distinguish the impact of different business drivers on the actual design requirements for both the IT demand and the IT supply side.

### New vision on demand management maturity
As reaction to this, the Atos Consulting IT demand management model was constructed (figure 6). In this model, the dynamics and consequential large changes within organizations are exposed, requiring a clear definition of the actual IT demand management activities. These are to be positioned in the business, depending on the overall business requirements. The added value of the Atos Consulting model is that it identifies different modes of organizing the IT demand organization based upon the overall organizational/ business requirements. In other words: the optimal IT demand management organization depends on the situation, every stage has its own issues and characteristics.
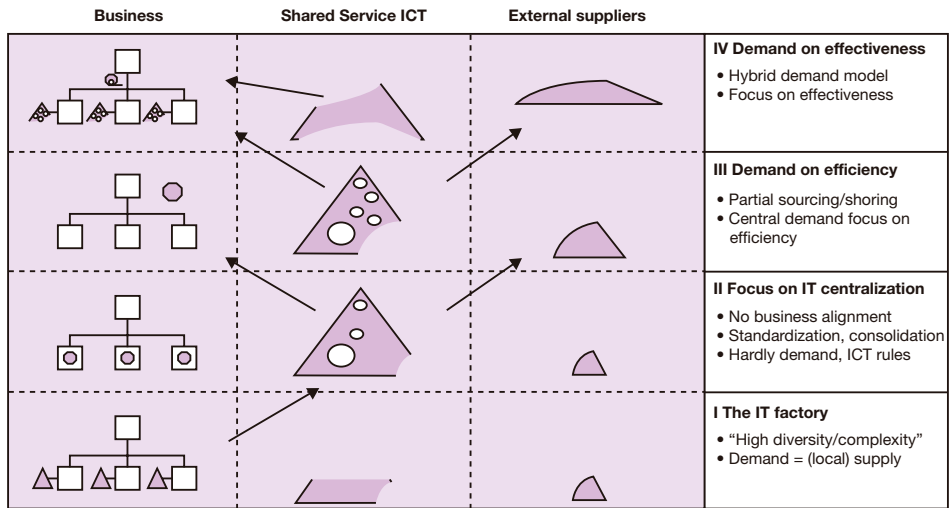


Figure 6 The IT demand management model

Establishing an effective IT demand - supply interaction requires an organization to know what it is striving for. Where the first stage in the Atos Consulting model still implies a traditional decentralized IT factory, the consecutive stages increasingly take into account the business needs, resulting in a gradual shift in IT focus and activities from operational to a more strategic level. In general, these IT demand management activities can be divided in the following three categories: operational, tactical and strategic. As an organization progresses towards a stronger business orientation via phase II to IV, new activities on both demand and supply side are required. Consequentially, the need appears for a different steering mechanism on the IT demand side regarding the IT supply activities. This shift requires a different set of IT performance management metrics as opposed to what was common in the earlier phases of the IT demand and supply management model.

## NEXT GENERATION IT PERFORMANCE MANAGEMENT

### Importance of organizational maturity

The maturity of the IT organization plays an important role in the determination of the desired KPI set. As IT organizations become more mature, a development in the usage of the IT balanced scorecard can be observed. This process is shown in figure 7.
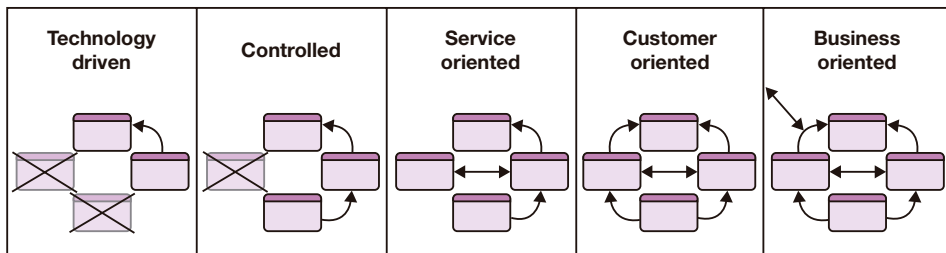


Figure 7 Maturing process of IT BSC perspectives

The development process as depicted above shows that, when the IT organization is becoming more mature, the focus on topics that need to be in control tends to shift from internal to much more external, or in other words from a technology focus to a business oriented focus. Also, when maturity progresses, more focus areas are measured and managed. So, more balanced scorecard perspectives are defined and measured. In table 1 typical KPIs are grouped by the stage of maturity.

**3**

| Stage | BSC perspectives in scope | Typical KPIs |
|---|---|---|
| Technology-driven | Financial perspective<br>Internal processes perspective | Mean time to repair, availability of systems, cost to budget ratio, asset value |
| Controlled | Financial perspective<br>Internal processes perspective<br>Learning & growth perspective | Cost center to budget ratio, IT process effectiveness, R&D spend |
| Service-oriented | Financial perspective<br>Customer perspective<br>Internal processes perspective<br>Learning & growth perspective | Earnings per service, ratio internal/ external staff, IT staff training spend, SLA coverage |
| Customer-oriented<br><br>*Stronger linkage between perspectives* | Financial perspective<br>Internal processes perspective<br>Learning & growth perspective<br>Customer perspective | Profit per service, profit margin, ratio management/ direct personnel, employee satisfaction, customer satisfaction. |
| Business-oriented<br><br>*Stronger linkage between IT BSC and business BSC* | Financial perspective<br>Internal processes perspective<br>Learning & growth perspective<br>Customer perspective | Ratio IT cost/ business cost per unit sold, business effectiveness of new IT services, business enhancement as result of training, improved IT leading to shorter time to market |

*Table 1 KPIs by stage of maturity*

## Breaking the maturity trend line

The introduction of IT demand management focused thinking, and the related implementation of IT demand-supply organization structures has led to a breach in the maturity trend line.
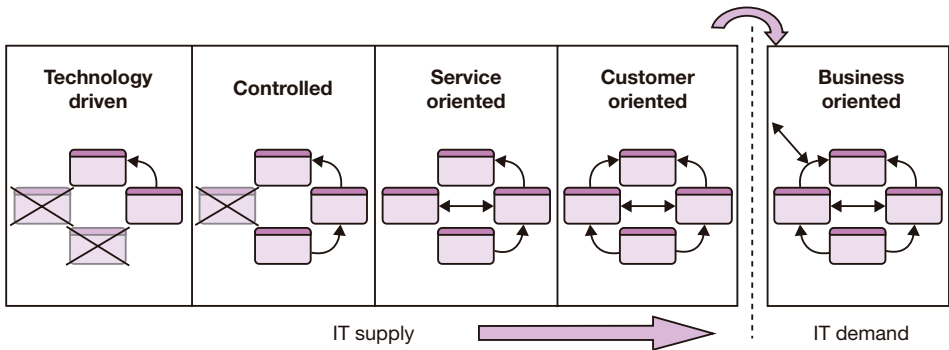


*Figure 8 Maturing process of IT BSC perspectives IT demand organization*

In earlier days, the IT organization itself could build on experience, grow in maturity and hence improve and expand their IT balanced scorecard step-by-step. But in an IT demand-supply organization the main responsibility will move, for the greater part, from the IT supply side to the IT demand side of the organization, because of the responsibility that IT demand management now has to assume in terms of monitoring the quality and the costs of IT from a business perspective.

In many cases the design and implementation of an IT demand management organization happens within a timeframe of less than a year, forcing the development of an IT balanced scorecard to skip several stages in order to arrive at the business oriented stage

straightaway. This stage requires the design of an IT balanced scorecard containing CSFs and KPIs that are tactically and strategically oriented, and which build upon all the typical IT-type KPIs.

The question is of course; what should they look like? The following table provides some high-level suggestions for these types of CSFs and KPIs:

| Financial | Merely measuring the cost of IT is no longer sufficient. The business focus requires CSFs that contribute by providing an insight into the effective deployment of IT. Cost KPIs are in that case a tool but not a means in itself. This translates into financial KPIs that link the degree of business innovation to the IT expenditure by e.g. comparing the ratio of total IT costs versus the degree of IT project costs. Also the degree to which IT investments contribute to the lowering of the overall costs of the organization is a key example of the shift in mindset from traditional IT costs as a "lump sum financial KPI" on the bottom line towards a contributor to the overall business effectiveness. |
|---|---|
| Customer | Projects are a key counter of the degree of innovation as they are typically put into place to implement novel ideas, concepts and/ or applications or to structurally improve a business process given a limited timeframe. Since the business needs to know if the IT projects will deliver, KPIs that measure project success ratio's are mandatory. Although perhaps less transparent to the business, the establishment of a solid and reliable application portfolio is also a CSF that is key for business success. A key benefit of pinpointing the "performance" of the application portfolio, measured in portfolio cost and availability, is that it can also help in reducing the complexity of the IT organization, thereby reducing risks on the primary business process. A nice added value is that it can also help in reducing the costs of the IT organization and thereby by the overall costs of the organization. |
| Internal processes | The quality of the internal processes is essential for keeping the project success rate up and project management costs in control. Whereas the IT organization could suffice in measuring the quality of for instance the ITIL® processes, the IT demand management organization should measure the quality of the IT supply organization. Typical KPIs could be the ratio of usage of standards and policies (such as PRINCE2, Information Security and Architecture Design Guidelines) by the IT supply organization. |
| Innovation and Learning | The IT demand management organization should be the catalyst for IT-driven business innovation. Hence CSFs should revolve around the improvement of innovative behavior. Related KPIs could measure the amount of money spent on innovation projects or on R&D activities. |

*Table 2 Possible demand management focussed KPIs*

The next section outlines the implementation of the next generation of IT performance management at Achmea, a large Dutch insurance company.

**Demand, portfolio and sourcing**
Next generation IT performance management
183
3

## CASE: IMPLEMENTING THE NEXT GENERATION MODEL

### IT demand management

Spring of 2006 saw the merger of Achmea and Interpolis, both large insurance companies in the Netherlands. With the merger a new governance model was designed and implemented. This governance model incorporated several divisions which are fully accountable for their profit and loss, and various shared service centers (HR, Facilities, Finance, IT) that hold a demand-supply relationship towards these divisions. In addition, several small, high-quality corporate group staff functions were created. These group staff functions have a functional relationship with similar staff functions within both the divisions and the shared service centers.
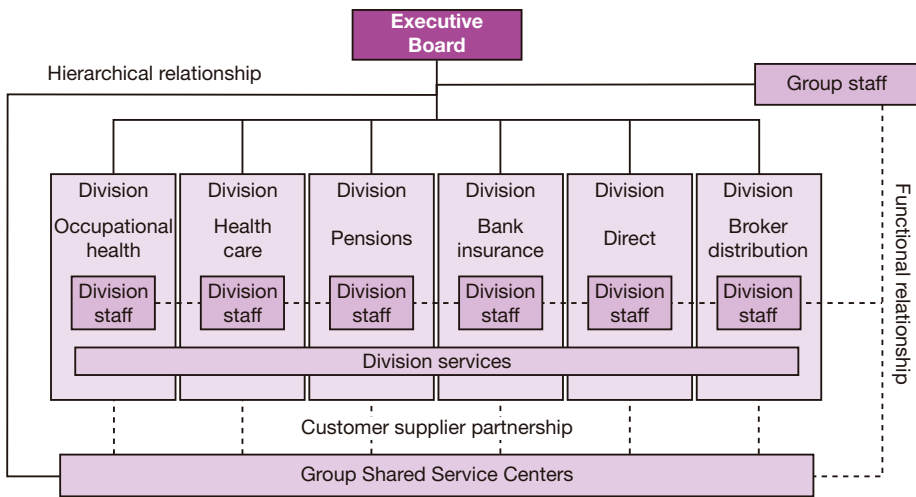


Figure 9 Achmea's governance structure

With the merger and the subsequent introduction of the new governance model came the opportunity to redesign IT supply and IT demand more or less from scratch. The vision of the senior IT leadership within Achmea was to reuse the full potential of the combined companies according to the latest powerful management vision on the organization of IT.

So, across the organization, new information management departments (called DIM departments) were formed within each of the six large divisions, as well as in the shared service centers. The divisional information management departments were expected to focus on added-value for the business: foster innovation, improve business process alignment and reduce complexity. These expectations were to be realized through incorporation of the following areas of expertise within the DIM departments: strategic information planning, project management, project portfolio control, information security management, contract- and service management, and functional application management.

IT supply was to be concentrated in a central IT delivery and operations organization: Group IT Services (GITS). This centralized IT department was supposed to operate as a demand-driven internal supplier, focusing on the delivery of IT services with a pricing structure that conformed with the open marketplace.

The DIM departments were to be supported by a group staff function: Group Information Management (GIM) (figure 10). This department would be responsible for the governance of IT demand and supply at the group level. GIM had the following areas of expertise: enterprise architecture, business information planning, project portfolio control (group level), information security and IT compliance, project management and consultancy, and IT performance management. The latter became responsible for the start-up of a project, which resulted in the redesign and implementation of an information management-focused balanced scorecard as a means for performance measurement and management.

Within the IT governance design of Achmea, the information management board acts as an important counterpart of the Executive Board. The IM Board will counsel and decide on strategic information management topics and is able to do so since members of the IM Board are representing DIM, GITS and GIM.
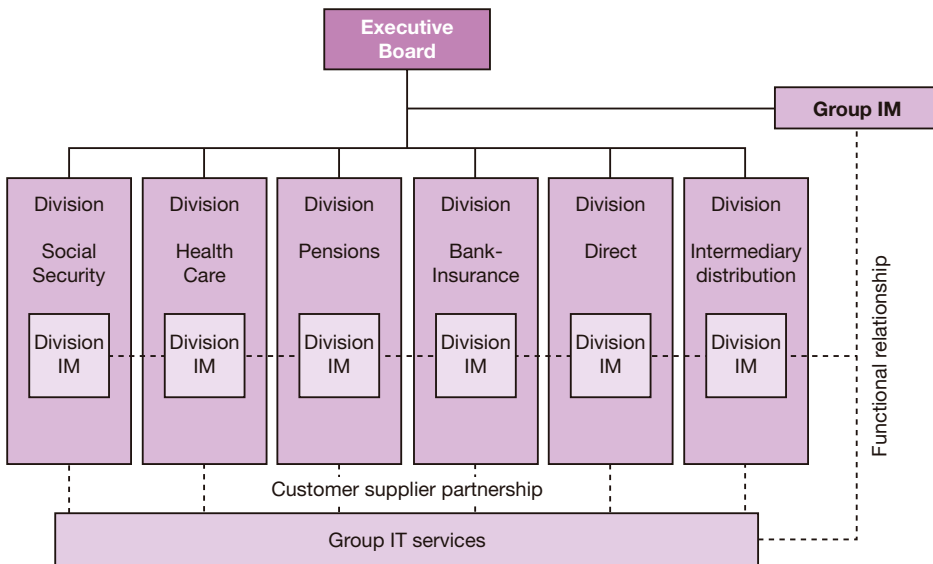


Figure 10 Functional relationships

### Business case for the implementation of IM/IT performance management

With the merger came a separate IT strategy, this was derived from the Achmea business strategy. This information management strategy contained ten key points, which individually are to be viewed as separate critical success factors. The IM Board expressed the need for a regular measure of the progress on the realization of these key points.

Revenues       Costs
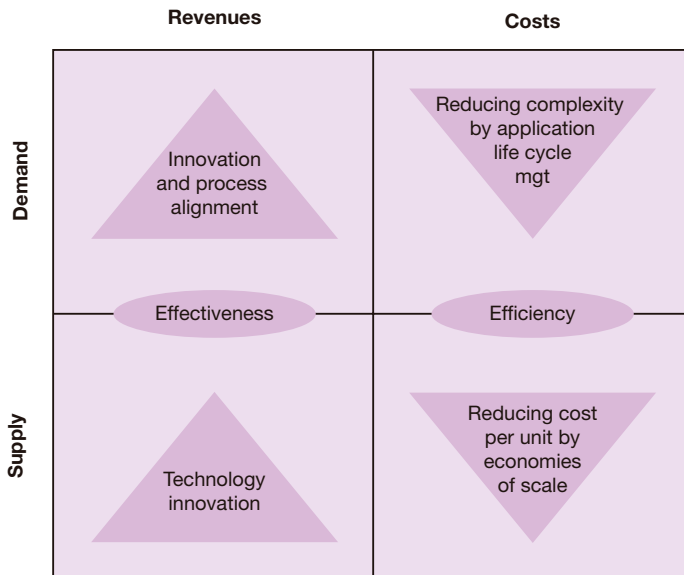
Figure 11 Basic roles and targets of IT demand and supply

### Project goals

In the late summer of 2006, a series of workshops were held, focusing on the requirements for a newly designed IT performance management way of working. The workshops lead to the commission of a small project team, which comprised several Achmea staff and consultants of Atos Consulting. After initial investigations the team produced the following key requirements for IT performance management:

- enable ongoing measurement of the ten key points as outlined in the IM/IT strategy
- ensure an integrated way of measuring both the regular performance as well as the results of implementing the guidelines of the "Future organization structure information management"
- reuse of existing KPIs and performance measurement tools
- create an optimal fit with the existing corporate stakeholder value management approach
- ensure that the performance management approach is based upon the well-known balanced scorecard theory of Kaplan & Norton

### Design of the IM balanced scorecard

When designing the IM balanced scorecard, it was obvious to the design team that KPIs had to be created that would strongly link the business strategy with the IT strategy. A main strategic theme for Achmea was obtaining tangible results of the merger with Interpolis, for instance by cutting cost since the redundancy in business processes and IT systems was clearly visible. The design team attempted to capture this by designing KPIs that, for example:

- **Monitor the influence of IT cost on the business cost -** Within Achmea common business KPIs exist, such as cost per unit sold, e.g. an insurance policy. From an information management point of view the IM&IT cost, as a part of the unit cost, should become transparent. When the IM&IT cost per unit sold is identified, it may become clear what the contribution of IT is to the success of the business. The level of success of the IT contribution can be measured by tracking the reduction in business operation cost.

- **Monitor the strategic spend of the IT budget -** Achmea is a company with a long history of mergers and acquisitions, so the company also has an extremely varied and expensive application landscape. To free up the money that is involved in the maintenance and exploitation of the systems, it is necessary to measure the IM&IT cost and to create a separation between the cost of IT change and IT operations. The evolution of the IT change cost can be monitored by plotting these against high priority initiatives, such as business process improvement projects and application reduction projects. Reducing the number of applications will, amongst other things, decrease the budget spent on application maintenance and hence reduce the IT operation cost.
- **Avoid IT factory KPIs where possible -** A number of KPIs are specifically designed for use within an DIM unit. So, relatively new KPIs such as "ratio of IT project costs/total IT costs" and "# projects according to architecture standards" were included. Typical IT-type KPIs, such as "# of MIPS used" or "incident mean time to resolution" were not incorporated.

Table 3 shows various KPIs brought in, together with some of the associated strategic IM/IT key points.

| IM/IT key point | Possible KPIs |
|---|---|
| Improve business & IT alignment | • Contribution to cost leadership strategy of Achmea<br>• Transparency of IT cost (change & operations)<br>• Effectiveness of IT change<br>• Quality of IT operations<br>• Customer & user satisfaction |
| Create synergy | • Status of synergy-driven projects |
| Improve application landscape | • Status of application reduction projects |
| Improve project execution power | • Status of projects in general (time, money & quality measures) |
| Create a professional information management function | • Staff planning & development<br>• Projects and activities compliant with corporate guidelines (e.g. PRINCE2, architecture, security) |
| Reinforce security, compliance & business continuity | • Score on internal audit and progress on remediation |

*Table 3 IM/IT key points and possible KPIs*

Based on the stated requirements, an initial IM balanced scorecard (figure 12) was designed that comprised the following elements:
- **Performance focus areas** - Stakeholders (financials), customers (customer focused KPIs), performance (internal process KPIs) and employees (learning and growth KPIs).
- **Improvement focus areas** - Specially designed performance indicators covering the improvement goals of Achmea information management (process and organization).
- **Notes & comments** -  A blank field intended for capturing remarks on progress of KPI scores.

### Implementation project
After completion of the initial design and following approval from the information management board, the IM balanced scorecard was implemented within a pilot environment, in one of the divisional information management units of Achmea. The experiences of the pilot environment were used as input for changes to the design and the subsequent roll-out

process. On completion of the pilot stage, a project plan was developed for the roll-out of the IM-BSC within the remaining eleven IM units.

The goals of the implementation project were:
- Implement the IM balanced scorecard as an IM/IT performance management tool for the management team of each of the respective DIM units, through which the various management teams can gain improved views on performance and decide on the direction to be taken, thus enhancing management decisions.
- Create a consolidated IM/IT performance management report at a group level, which acts as a means for managing decision making with regards to the information management strategy, thus avoiding the creation of a report for the purpose of settling goals and targets.
- Temporarily embed the ownership of the design of both the KPIs and the performance management process within the IM performance management team of the group IM department.



Figure 12 Achmea IM balanced scorecard

### Design of the consolidated report
Alongside the implementation of the IM-BSC within the divisions, a design for a consolidated group performance management report was developed and tested using the inputs of the DIM reports as test data. As a result of the project, IM balanced scorecards were (partially) implemented within all twelve information management units as well as a powerful consolidated report at a group level. This consolidation effort lead to a first group level report, which elaborated on project portfolios, application reduction, operations quality, the professionalizing of the IM function and project management, IS architecture and staffing.

### Further enhancing the implementation
From July to December 2007, both the implementation of the reporting structure on division level and the consolidated group level report were further enhanced. For 2008, a migration from the MS Excel-based scorecard to a more mature business intelligence

environment is planned. In addition, the ownership of the KPIs will be embedded within the appropriate bodies within the organization, such as the information security committee, whilst the ownership of the IT performance management process remains within group IM/IT performance management.

### Lessons learned

In summary, we can learn the following lessons from this relatively large design and implementation program:

- **Keep the primary goal in mind** - Focus on the achievement of the strategic goals by the DIM unit, not primarily on reports at group level.
- **It takes time to move from gathering data to understanding** - Recognize that the scorecard itself has its own maturity process and that it takes time to further develop it from the "data gathering phase" to the actual "understanding and steering phase".
- **Emphasize the learning aspect of the balanced scorecard** - It can help in decision making and should not be a tool for rewarding or penalizing.
- **Ensure strong support from general IM/IT management** – Get strong management support, as in the case study example with the information management board, and do not hesitate to escalate buy-in issues to the general IM/IT management boards.
- **Create maximum buy-in across all units involved** – This is important as the quality of information at a group level depends heavily on the value and attention that the local IM management gives to the scorecard.
- **Be reluctant to use the group standards too strictly** - During the implementation ensure there is sufficient flexibility for adopting local standards, anomalies, etc.
- **Ensure a thorough and transparent change process for the design of KPIs** – Know when KPIs are to be implemented across twelve units and when consolidation still has to be made possible.
- **Migrate to a more mature (BI) tool when possible** - The reporting and consolidation still makes use of MS Excel, which takes quite an effort in keeping the design stable and the consolidation reliable.

### CONCLUSION

Organizations are still looking for a means to monitor the quality of the IT services delivered to the business, in combination with a better grip on the costs of IT, regardless of organizational structures that keep evolving over time. In this search for transparency of both the IT demand and the IT supply organization, the balanced scorecard theory still proves to be of value. The shift towards an IT demand-supply structured organization has shown that a new approach regarding IT performance management is necessary. This "next generation IT performance management" requires a clear set of indicators that are much more directly derived from the strategic drivers of the business organization. Nevertheless, with the IT demand organization as the bridge between business and IT, the indicators should also still encompass indicators that are deeply rooted in the IT factory.

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## 3.5 Outsourcing: To be, or not to be in control, that is the question
### *The purpose and organization of outsourcing governance in practice*

*Outsourcing governance is the latest buzzword in the world of outsourcing. According to experts there is a close connection between the concept of outsourcing governance and other trendy concepts such as retained organization, sourcing management, demand/supply management, multiple vendor management and IT governance. In outsourcing there is no one who does not recognize the importance of outsourcing governance, but when it comes to form and content, opinions are very much divided.*

### INTRODUCTION

To all involved parties, outsourcing is a complex and often uncertain matter. The key question is: "How do I succeed?" Research has shown that one of the most important reasons for the deterioration and the breaking up of the outsourcing relationship is the lack of effective outsourcing governance. The consequences are far-reaching. The customer will have to put in increasing amounts of effort to get delivered what has been agreed upon at an earlier stage. Meanwhile the relationship between customer and supplier will deteriorate rapidly with a lot of emotional stress involved and at the end of the contract it is highly unlikely that the supplier will get another chance. Even if they do, it requires considerable effort to repair and restore the outsourcing relationship. In brief: everybody loses. This is a prospect that neither party will relish, even more so because parties may be contractually committed to working with each other for many years to come. If customers fail to hold the reins during outsourcing and do not behave professionally then there is every chance that they eventually lose their grip on the outsourcing relationship and subsequently will not be able to restore it anymore. "Get ready for rush hour."

This article explains what outsourcing governance entails, when and how customers should organize their sourcing management in a timely and effective manner, how to formalize it and which positions the parties involved should adopt.

### OUTSOURCING IN CONTEXT

In Europe the outsourcing of IT is, comparatively speaking, immature. In general its first experiences in the eighties and nineties were not very positive; in fact they were rather disappointing. The number of outsourcing transactions was limited, including the contractual volume. Compared to Western-Europe, the US outsourcing market is a lot more mature. In terms of percentage, US outsourcing transactions take place more often and on a larger, often global, scale.

The motives or reasons why companies outsource are varied. The most important reasons to outsource IT are: cost reduction, economies of scale, access to the supplier's expertise

(competencies, capabilities and resources), continuous improvement and innovation of the IT services. But one should not forget about the possible disadvantages which are: a loss of valuable IT knowledge; increasing dependence on IT suppliers and "IT being too strategic".

### Why companies outsource

| Manage cost | Manage risk | Accelerate |
|---|---|---|
| reduce cost | transfer risk | accelerate speed to market |
| apply money to core business | access to skills | enable business transformation |
| predictability of cost | technology refresh/change | access to new skill set |
| impact balance sheet | free up cash for investment | mergers and acquisitions |
| improved cost effectiveness | avoid IT capital investments (non-core) | focus on core business |
| spreading of initial investment cost | | improved quality of service |

Figure 1 Company's reasons to outsource

The growth and maturity of the IT outsourcing market in Europe has developed rapidly as a result of the growing globalization of companies, products and ongoing services, the increasing pressure on costs and a larger volume of deals. There is an urgent need for standardization, modularity; flexibility and independence.

Outsourcing seems to be a popular, although perhaps, diffuse concept. In this article we use the following definition of outsourcing.

> *Outsourcing is:*
> – *the transfer of ongoing services and – if applicable – staff and resources to a specialized service provider;*
> – *subsequently, during the lifecycle of the contract, the customer receives in return ongoing services on the basis of a level of quality that has been agreed upon and for remuneration.*

Outsourcing can be applied to IT processes and/or business processes. For this purpose projects and/or ongoing services can be procured. In practice, the ongoing IT services that are typically procured and contracted (either completely, partially or in combination with other services) are: integrated desktop management, (LAN-management, workstations, print and file management) service desks or call centers, technical or infrastructure management, application management and application development. At the business process side, a wide variety of forms also exist, such as HR, F&A, Insurance, and Pensions. Prior to the decision to outsource, similar customer business processes can be concentrated and bundled into a performance responsible unit, a so-called Shared Service Center. This approach to bundling, consolidation and disentanglement not only enables future outsourcing of these business activities to an external supplier, it also makes it easier and less risky.

Outsourcing: Facts and Figures[1]
– Outsourcing deals are becoming larger, more complex, more strategic and more experimental and creative.
– The outsourcing market is still growing, although its growth is decreasing.
– Globalization of demand and supply will continue in the years to come.
– Customers (principals) are becoming mature. They will develop specific knowledge and capabilities with regard to outsourcing governance, sourcing management, and IT procurement of projects and ongoing services.
– From a direction point of view, outsourcing governance and sourcing management will become more crucial and will claim a more dominant position on the CIO agenda. More and more, the CIO takes initiative to initiate and evaluate outsourcing deals.
– In the case of outsourcing, deal management is still insufficient and leaves much to be desired.
– Customers are experimenting more and more with (the composition of) the bundling of projects, products and ongoing services to be outsourced, in order to get the best value for money at an acceptable risk.
– Using IT in outsourcing situations is becoming a business return issue (return on capital).
– Two out of three outsourcing contract yield less than was originally estimated.
– Generally speaking, the quality of IT contracts is clearly sub-standard in relation to content and flexibility.
– Less than a quarter of the outsourcing contracts come to an untimely end.
– Reletting (extension of the contract period with the current supplier) is a trend.
– There is an obvious connection between customer satisfaction and reletting.
– Of the main Key Performances Indicators "quality" (that is achieving the SLA) scores the most points. A competitive market price together with relation management is of secondary importance. Achieving the SLA and a competitive market price cannot be considered as satisfiers.
– Suppliers are specializing and making fundamental decisions about what exactly they are good at. A decreasing number of suppliers are choosing to deliver all possible ongoing services rather than differentiating.
– The so-called "all-in-one" suppliers have less satisfied customers.
– Suppliers are faced more often with a shortage of key staff and competences. They will join forces with other suppliers more frequently (consortia).
– Future outsourcing contracts will be performance, risk and value based, including some perceived soft factors. They will also tend to choose performance related pay from their suppliers. Depending on the agreements that have been made, they can bring in independent arbitrators for binding advice. Both the success and the contribution to the cooperation will become more and more central (shared risk and reward mechanisms.)
– Offshore is on the rise.

Table 1 Outsourcing: Facts & Figures

However, the above-mentioned findings show that – despite the growth in outsourcing – there is no reason to sit back and relax. There are still plenty of items left that need improvement. Success in outsourcing doesn't come naturally and there are no guarantees.

**Outsourcing is the outcome of the tendering process**
The tendering process for outsourcing can be divided into four different phases: initiation, negotiation, transition and operations (see figure 2).

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[1] *Sources: Forrester, Gartner, Coopers & Lybrand, Giarte & Morgan Chambers and supplement with own experiences*

If a customer chooses to outsource its internal IT Delivery, this automatically means that prior to the decision to outsource, there has been a process of identifying the problem and its possible solutions.

In the **Initiation Phase** customers take the time required to finish all the necessary preparations before they involve suppliers with their outsourcing questions. Given the various interests and disruption that are associated with outsourcing, preparations are often made in a closed circle.
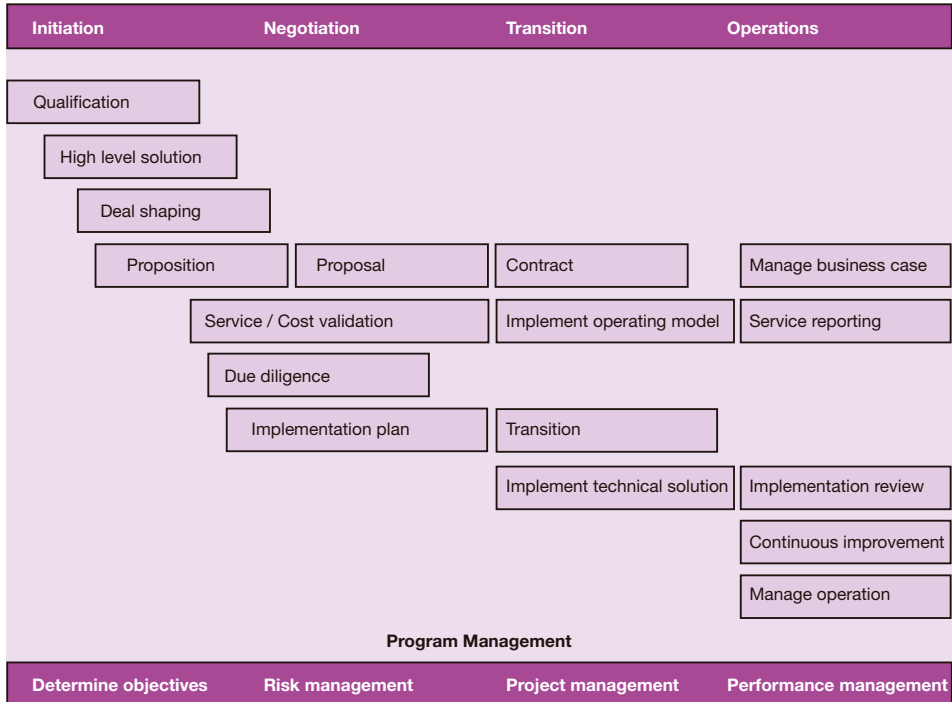
| Initiation | Negotiation | Transition | Operations |
|---|---|---|---|
| Qualification | | | |
| High level solution | | | |
| Deal shaping | | | |
| Proposition | Proposal | Contract | Manage business case |
| | Service / Cost validation | Implement operating model | Service reporting |
| | Due diligence | | |
| | Implementation plan | Transition | |
| | | Implement technical solution | Implementation review |
| | | | Continuous improvement |
| | | | Manage operation |

**Program Management**

| Determine objectives | Risk management | Project management | Performance management |
|---|---|---|---|

Figure 2 Phases in contract life cycle (source: Halfhide, 2004)

A prerequisite for outsourcing is that the problem and the cause are unambiguous and recognized, and there is an awareness that outsourcing is the best possible option.

*The initial reasons for outsourcing are often the high costs of IT and its inflexibility. Calculating the advantages of outsourcing is rather simple. Far-reaching standardization and the use of cheap technology leads to an immediate decrease in IT costs. When, in practice, outsourcing doesn't have the desired effect, a closer investigation will have to follow to tackle the true problem. This often shows that although the costs have dropped, the flexibility and maneuverability have remained the same, or even worse, they have deteriorated. This is because the organization is too bureaucratic and divided along lines (silos) to such an extent that they are incapable of adapting to changes in the market. IT has become a replica of the unwieldy and bureaucratic procedures. On balance we could say that the costs have dropped but the maneuverability has remained exactly the same. In conclusion we can say that IT is not the real problem, which means that the organization's real problem still has to be solved. This is a typical case of treating the symptoms and not the problem.*

In this phase of the tendering, the goals and strategy are narrowed down. This means in the case of the strategy that the question as to which ongoing services are to be performed by third parties is pursued, and important topics like business processes, core competencies and market forces are considered.

Strategy-determining situational factors that should be considered are:
- the extent to which the outsourced element is a core competence
- the extent to which this can be defined in an unambiguous and formal manner
- the measurability of the performance levels
- the extent to which an external market supply is at hand
- the ability of the organization to change and learn
- the capabilities of the organization's management

Next, the target domain is defined by mapping the scope; the extent; the preconditions; the risks and advantages of outsourcing. Everything will be calculated and tested to see if it realistic, feasible and desirable. Finally, a cost-benefit analysis and a stake holder analysis are carried out. From an organizational point of view, arrangements are made to ensure the governance of the outsourcing.

As soon as the customer has determined their scope, the involved objects, and the context of the outsourcing, they have to decide on the type of outsourcing they require. Table 2 shows the options they can choose from.

Each option has its own characteristics that need to be translated into scope, requirements, risk factors and the delivery strategy.

| Variants in sourcing | |
| --- | --- |
| Source internally | The customer organization executes all activities itself, internally. |
| Source knowledge | The customer is problem owner as well as problem solver and obtains external knowledge and skills on ad hoc basis. |
| Source capacity | The customer is problem owner as well as problem solver and structurally obtains capacity from one or more suppliers. |
| Source delivery | The customer is problem owner and both customer and supplier are problem solvers. Predefined activities are executed by the supplier under responsibility and management of the customer. |
| Source result | The customer is problem owner and defines functionality. The supplier is problem solver and determines how, where and which people are delivered. |

*Table 2 Variants in outsourcing (source: Davids, Nagtegaal, 2004)*

The **negotiation phase** focuses on both the selection of the best solution/supplier as well as determining and strengthening the negotiation position. During this phase preparations are made to execute the so-called tendering. If necessary, a due diligence and appraisal of the takeover of staff, processes and resources is carried out using a short list of suppliers. The outcome is used in the negotiations as well as the bid evaluation. An optimal proportion between prices, risk and quality requires that the element of competition is maintained for as long as possible in order to keep suppliers and customers alert when it comes to making informed decisions.

In the following **transition phase** – fixed in advance on a set period of time – negotiations are finalized. Contracts are drawn up, additional delivery and control conditions are set, and the ongoing services are planned and implemented. On the customer side a gradual and formal transfer to the supplier of the tasks, responsibilities and authorities in the service domain takes place in accordance to the plan.

Finally, the **operations phase** focuses on meeting the outsourcing targets (benefits); fully utilizing, improving and innovating the cooperative outsourcing relationship; and managing the contract and its risks during the life cycle of the contract. The operations phase is also known as the contract monitoring phase.

### Interests and interest groups in outsourcing

Knowing your stakeholders and their interests is paramount in outsourcing; otherwise the risks are high from the very start. There are approximately five relevant stakeholders who interact in various ways. On the customer's side there are: the board of directors; business management and IT management. On the supplier's side we find: vendor sales and vendor delivery. The power relations and the behavioural aspects of the parties involved can be determined by using the "five parties model" in order to weigh and evaluate the mutual interests.

The main interests of the board of directors are: securing the outsourcing targets, focussing on the main activities and staying in control (command). To business management it is of the utmost importance to secure the functionality, agility and flexibility of the business, and to maintain its own autonomy (to keep their dependence to a minimum). The interests of IT management are: securing the planning, management and control of the vendor delivery, building strong business relationships, maintaining their autonomy and establishing an effective collaboration with vendor delivery. The aims of vendor sales are achieving its sales targets (market share, image); long-term profit-making, and building and maintaining an excellent customer relationship (customer intimacy). Ultimately, the main interests of vendor delivery are: sales, employment of qualified staff, and effective use of the means at their disposal (operational excellence).

The impact of an informed decision to outsource and to enter an outsourcing relationship can result in changes for all five stakeholders to a lesser or greater extent. The impact depends on the selected sourcing variant, the complexity and insecurity, and the volume of the outsourcing deal. These changes often involve areas like organization, processes, contents, human resources and culture. Examples are changes in focus, role or competence, processes, process relations and process responsibility, communication, decision making and communication lines. Furthermore, outsourcing becomes more complex if staff and resources are taken over as a part of the "dowry".

The stakeholder analysis must be followed by a thorough risk analysis. The overall delivery strategy, including the most important aspects of decision making, has to be formulated, and the customer organization that will be dealing with, and managing, the outsourcing has to be set up.

### The future lies in outsourcing

In practice, the outsourcing of IT services and processes has become widely accepted by customers and suppliers. Not only do customers decide to outsource more often, they also experiment more frequently with different forms, volumes and bundles. They also
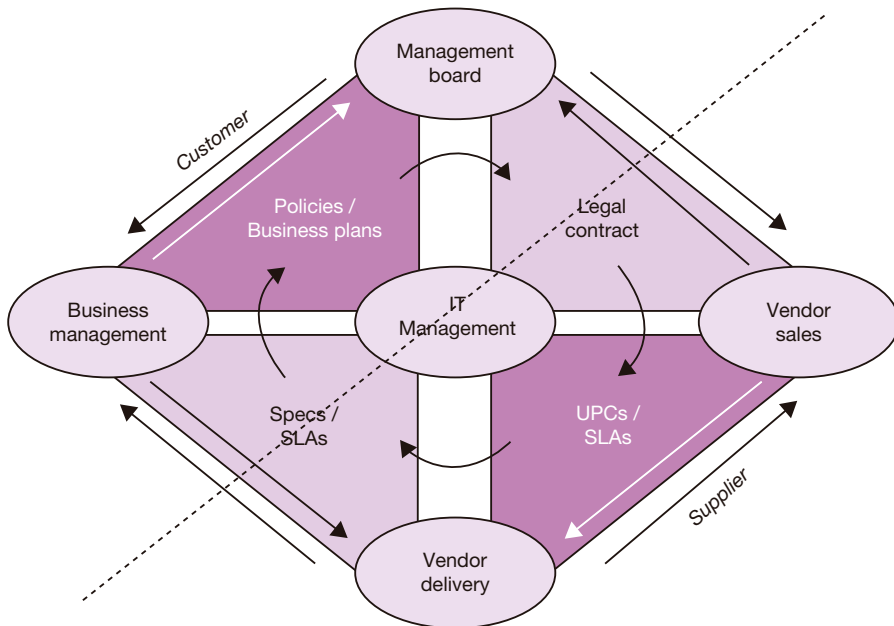
*Figure 3 Five parties model per playground (source: E. van Leeuwen and W. van der Windt, 2000)*

choose more commonly to go for a cooperative strategy in conjunction with external parties based on complementarity in order to gain competitive and comparative advantages on all components of the value chain. Customers are becoming more competent in associating, assembling, integrating and learning from a control and retained management perspective. The nature of outsourcing decisions has become more strategic and such decisions are handled from a business and economic point of view. Here common ratios such as return on capital, cost benefit analysis and the well-known, and widely accepted, business case are being used.

Given the fact that the pressure on the price and the quality is increasing in all phases of the contract lifecycle, suppliers are searching frenetically for solutions that will enable them to reduce their prices or increase their margin (i.e. by using off- shoring). At the same time they are seeking to increase the added value in the delivery chain and retain the favor of their customers. Prospective customers are well aware that suppliers are willing to make concessions to win the deal, which explains why customers take a hard line in the negotiations. As long as the increasing demand does not cause scarcity, customers will keep exploiting this situation and the pressure on prices will remain high. On the basis of research, the conclusion can be drawn that even if suppliers meet their service level agreements, customer satisfaction is not automatically guaranteed. On top of this, communication between customers and suppliers is often difficult because both parties are operating in different business contexts in which each uses its own terminology.

Since many customers are dissatisfied about their current outsourcing contracts, they will seize the opportunity offered by the fact that their current contracts are expiring to renegotiate in the coming five years. On average three out of five customers are dissatisfied about the outcome of their outsourced IT services. They are particularly disappointed by the delivered quality and the actual cost savings. Customers feel that the IT processes

and the quality of service are not significantly improving and still leave significant room for improvement. Even the outsourcing process itself is a bitter disappointment because it takes much longer than expected. It is a lot more complicated than they had assumed.

Gartner (2007, 2005) have predicted that outsourcing will remain the most important growth market in the years to come and that the European outsourcing boom has only just begun.

## OUTSOURCING GOVERNANCE: THE NEW CHALLENGE OF IT

The concept of governance is definitely not something new. By definition, governance is not just linked to outsourcing, and will be concerned with non-outsourced activities and processes performed by the customers themselves. This article, however, focuses on governance from an outsourcing point of view. Customers, who choose to outsource certain activities, will still want to have a grip on the outsourcing situation. As a responsible and decision making authority, they should aim – without interfering in the execution of the service delivery – to strengthen and professionalize the cooperative outsourcing relationship.

Outsourcing governance is based on a cooperative strategy, which covers a coherent framework of goals, principles, structures, procedures and rules for engagement. These are intended to manage the outsourcing relationship with external suppliers of outsourcing services effectively during the contract lifecycle, in such a way that IT is used and utilized effectively.

As a result of recent studies into the quality of governance in outsourcing, it is frequently in the spotlight. Table 3 shows the main result of these particular studies.

*Outsourcing Governance: Facts and Figures*
*– In 2005 IT outsourcing grew by 20% in the Netherlands. In 2008 the growth continues (e.g. in Finance and Accounting) especially in organizations that have experience with outsourcing already. Infrastructure is the largest bundle in IT that has been outsourced. Over the next few years the focus will change to application management and end-user management. Governance proves to be the main problem in managing simultaneously the supply and the business demand.*
*– Governance is focusing on operational issues such as monitoring Service Level Agreements.*
*– According to CFOs and CIOs, governance of the demand (by the business units) and supply (suppliers) is inadequate.*
*– The more suppliers are involved, the more the costs of governance will rise.*
*– Multi-vendor or multiple sourcing may pay off, but without better governance it is rather risky and unforeseen costs will rise.*
*– In outsourcing projects little attention is often paid to governance which will cause anxiety and lead to an increase of costs.*
*– A direct relationship exists between the quality of governance and the maturity of IT management.*

*Table 3  Outsourcing Governance: Facts & Figures (source: Gianotten & Wijers, 2005[2] ). Outsourcing Performance 2008 (source: Giarte and Morgan Chambers)*

[2]  *This report discusses the research results of more than 200 CFOs and CIOs in the Netherlands, who were involved in outsourcing deals and included a more detailed examination of the 40 largest outsourcing contracts in the Netherlands.*

During the procurement process little attention is paid to outsourcing governance which prevents it from reaching maturity and also hinders its success. By now customers are aware that they are part of the problem. Issues such as: "When and how governance is applied in outsourcing and who are actually responsible for the implementation and development?" need to be tackled early in the outsourcing process.

**Rationalization, disentanglement and entanglement**
As soon as organizations decide to outsource their IT, questions arise such as: "What is going to happen when an external supplier takes over these activities or processes" or "What should a cooperative model looks like". These questions will be dealt with on the basis of the following example.

> *An internal IT department is responsible for first and/or second line activities and delivers IT services and projects to its own business. The internal IT department purchases (if possible) products, ongoing services and projects from external parties (third line activities). The business primarily regards its own internal IT department as a mere IT supplier, with the intention to outsource all executive services in the short term.*

The internal situation will immediately start to change when the outsourcing decision is communicated. A period of commotion together with emotional and rational insecurity affects all parties involved. During this period of uncertainty, there is an urgent need for frequent information sessions about the background and the individual consequences of the outsourcing decision. The openness of directors and line organization towards their staff is an absolute must to keep business going and survive during this turbulent period. One thing is for certain: the primary right of existence of the internal IT department, in performing first and/or second line activities will cease to exist. What other options are left?

A number of staff will soon no longer be employed by their current employer. At this stage employers cannot guarantee that people will keep their jobs because the future supplier will have a say in this matter. As soon as agreements have been made, employees may be transferred to the external supplier. Depending on their specific customer knowledge and skills, some employees will be utilized to provide ongoing services to the original customer organization that they used to belong to themselves. All IT employees involved are expected to commit themselves fully to help with the preparation and execution of the transition, with no upfront guarantees.

On the other hand this period of insecurity also offers new opportunities for the internal IT department that must be downsized. This so-called **retained IT organization** will have to focus on its new role, objectives and identity.

Therefore the retained organization will have to focus on other activities and processes like supply management and demand management. In practice this means coordinating, developing, and managing supply as well as business demand at a strategic, tactical and operational level. Depending on the authority that it has been granted or claimed, the retained organization will act, on behalf of the business, as a delegated business authority of the customer demand. It has to unlearn and eventually erase completely its former role of supplier. At the supplier management side, the retained organization should design, operationalize and maintain the supplier relationships. This means not only the implementation of effective supplier management, but also assessing the quality of service and determining if the delivery result meets the customer needs and expectations. On the

demand management side the retained organization has to be capable of managing and maintaining the business relationships and to think from a business process perspective when choosing an optimal IT solution to meet the customers' needs.

*Sourcing management is the primary responsibility of the retained organization which ensures optimal management, control and fit of (outsourced) IT to the business targets. Sourcing management is the operational management view (how) of outsourcing governance.*

Sourcing management is, like outsourcing governance, inextricably bound up with the retained organization. In practice, terms such as outsourcing governance and demand management get mixed up.

In figure 4 the process through which the downsizing and transformation of the IT department takes place is shown, together with its new focus on outsourcing governance.
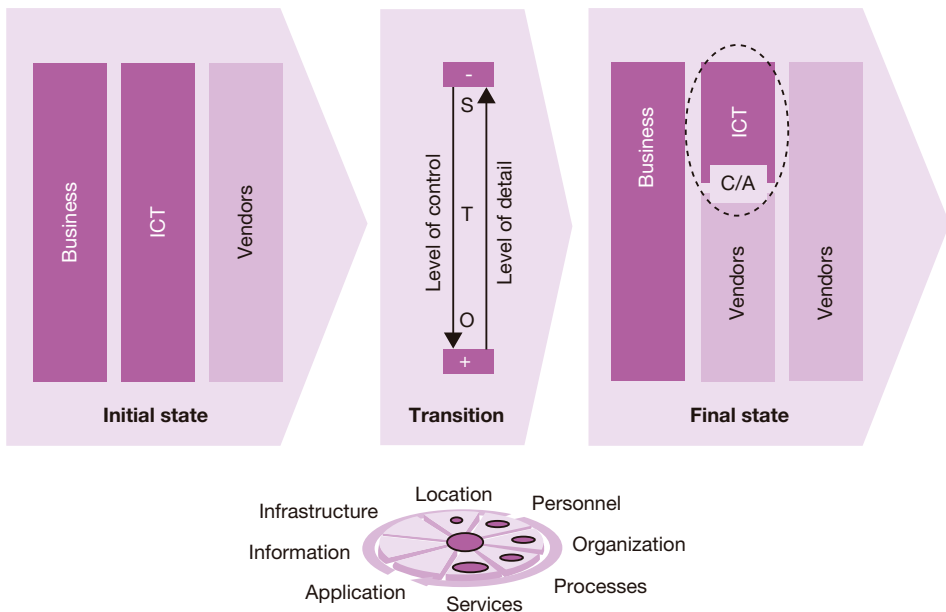
Figure 4 From service delivery to sourcing management (high level) (source: Halfhide, 2004)

Outsourcing governance has various angles, that is: customer-oriented, supplier-oriented and an ongoing gearing of vendor supply and customer demand. This makes the concept of outsourcing governance even more diffuse and complex to manage. From an organizational point of view the retained organization can be subdivided into three domains: a corporate, a supply management and a demand management domain.

The following best practices model helps to view the organization and realization of outsourcing governance in a proper context and offers, at the same time, a sourcing governance framework for rationalization, disentanglement and entanglement of business, retained IT and IT.

The model is intended to raise the cooperative level between customer and supplier substantially.

| Business | Retained organization | Supplier |
|---|---|---|
| | | |

Strategic:
- BPO
- B/IT Strategy Planning & Policies
- ICT Valuing
- Program Mgt
- BA Planning
- BPRM

- Account Mgt
- Vendor mgt
- Strategic sourcing
- Financial mgt
- IT Program mgt / Benefit mgt
- ITA Planning / IT Governance
- Risk mgt
- I

- Account mgt

Tactical:
- SCM Procurement
- Information mgt — II
- Portfolio mgt
- IT Procurement
- III
- Supply Chain mgt
- Business/Customer Service mgt
- Service Provider mgt
- Delivery mgt

Operational:
- Functional support
- Change/Release mgt
- Requirement mgt — IV — Order handling
- Operational delivery

| Business | Supplier |
|---|---|

*Figure 5 The retained organization: organization structure, domains, processes and competences (source: Halfhide, 2004[3])*

In the supply management domain (II) the objectives are mainly of a tactical and operational nature. Activities in this domain may vary: a focus on managing the business case of outsourcing; controlling an effective and transparent delivery; controlling costs; managing supplier relationships. In this respect outsourcing governance mainly focuses on IT and suppliers. It includes the whole range of tendered and procured products, projects and ongoing services relating to IT.

The capabilities and knowledge which are required for the supply management domain (II) concern IT procurement (asset management, contract management, and purchasing), service provider management, and IT portfolio management. A strong interaction exists between roles/processes in this domain and the service actors, for example between the service provider manager and the delivery manager who is responsible for servicing the customer effectively. This domain focuses on managing and controlling the entire vendor supply; managing the customer – supplier relationship and innovation, and stimulating investments by the supplier. These actions should lead to a saving in costs and enable the monitoring of the agreed service levels against a minimum cost base.

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[3] *The presented reference model is the result of case study research and the bundling of a large sum of outsourcing best practices supplemented with personal insights.*

The demand management domain (III) has tactical targets which focus on the so-called scoping (requirements); validating and managing the business demand; ensuring the delivery of business value; managing customer satisfaction as well as managing the customer relationship and the retained organization on different steering levels. Here on the business side outsourcing governance focuses mainly on information management and the divisions (customers) which include the entire range of business products, projects and ongoing services.

Adequately serving the business entities requires essential capabilities and knowledge like: information management; business/customer service management; information portfolio management; and requirement management. A strong interaction takes place between the roles and processes in the demand management domain and the business actors, such as the division directors, information managers and functional support organization.

The nature of the goals in the corporate domain (I) is strategic and focuses on visioning, developing and enforcing strategies, policies and planning. The aim of outsourcing governance in this domain is to have a grip on the business' planning and control cycle; to execute program management; to guard the balance of power; to develop and control business critical knowledge and expertise; and last but not least to maintain customer – supplier relationships at a strategic level.

The corporate domain requires elementary capabilities and knowledge in areas such as: business-IT strategy and planning; financial management, program management; risk management; benefit management; architecture management; IT governance; vendor management; and account management. The roles and processes in this domain strongly interact with the business and service actors at a strategic level (decision authorities).

In addition, there are some overlapping areas of interest between domains in the retained organization which focus on rationalization, integration, leveraging and synergy. The knowledge and skills which we are referring to here are: supply chain management; portfolio management; and change/release management. Apart from the fact that the retained organization needs to ensure service continuity and quality, there has to be sufficient capacity available when needed to implement reforms in a quick and controllable manner (innovation).

Handling three separate domains from a retained perspective leads to a compelling, though sound, field of tension between demand and supply. Separating the customer demand for as long as possible from the solution (i.e. IT supply), will prevent the organization from jumping to solutions when the customer's demand is not clearly defined yet. This approach enables the retained organization to put the customer's needs and technological developments into perspective and evaluate them from a return on investment point of view. It also increases the effectiveness and minimizes the chance of sub-optimization by bundling, separating or simplifying activities where possible. This is primarily the target area of the portfolio management process. It regularly weighs up the development and delivery of projects, ongoing services and products and, at the same time, considers the coherence, risks and added value.

Depending on its scale, the customer organization may bundle certain delivery capabilities and knowledge of the retained organization and eventually decide to transfer them either to the business divisions or to a service integrator. In time and when they have reached a certain degree of maturity, some specific areas of the retained organization lend themselves

perfectly to be placed into the business's supply chain. These are in particular: risk management, financial management, program management, procurement and supply chain management.

Figure 6 The thirteen core competences for the retained organization (source: Halfhide, 2004)

```
                    B/IT Strategy & planning
                    Financial management
                    Program management[1]
                    Architecture management[2]
            Account management    Vendor management
                    Portfolio management
                    Supply Chain management
                    Change/Release management
    Information management              Procurement[3]
    Business/Customer service management[4]    Service provider management (ITSM)
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[1] Program Management = Program Management, Valuing, Risk Management, Benefit Management for projects and services
[2] Procurement = Purchasing, Order Management, Contract Management, Asset Management
[3] Architecture Management = Architecture Management (development, exploitation), IT Governance
[4] Customer Service Management = Customer Service Management (development, exploitation), Requirement Management

*Figure 6 The thirteen core competences for the retained organization (source: Halfhide, 2004)*

When the design and realization of the retained organization takes place, a direct interface between the supplier organization and the end-user organization is of vital importance. In that way both parties (business and supplier) can agree on actual, content based performance targets without any form of filtering. Processes between business and supplier are to be drastically optimized and leveraged to achieve an effective performance based delivery. But it is the retained organization's duty to guard and develop the service level agreements, service quality and performance, and the service relationships. If necessary, the retained organization becomes an escalation channel of the functional support organization, enforcing an adequate solution at tactical level in conjunction with the delivery management of the supplier.

When outsourcing governance is being designed and implemented, one should bear in mind that three different models are possible: a central model, a decentralized model (=local) and a federative model. In **central outsourcing governance** the position of the retained organization is between the suppliers (internal and external) and the business; its function is that of a delegated customer and an agent in supply and demand. In **decentralized outsourcing governance** there is little or no central control and the various business units can make autonomous decisions on their outsourcing strategy and enter into cooperative business relationships. In **federal outsourcing governance** a central unit makes the

contracts with suppliers; within certain limits these apply to each individual business unit. These rules stipulate whether a business unit is allowed to negotiate directly with its suppliers and whether it is responsible of independently maintaining the customer-supplier relationship.

| The targets of the retained organization: |
| --- |

– Cost performance rates
– Controlling returns and benefits (Return on Capital)    *How to control my IT supply?*
– Variability of quality and value
– Qualitative and Quantitative service levels    *How to deliver on demand?*
– Measure, measurements and reporting
– Risk Management    *How to deliver sustainable business value?*
– Planning & Control
– Connection, optimizing and rationalization    *How to develop the customer-supplier*
– Maximizing the advantages of governance    *relationship?*

*Table 4 The retained organization: the new challenges*

The design and implementation of outsourcing governance already commences in the initiation phase. Based on an appointed task, a blueprint combined with a roadmap form the main tools to define the position of the retained organization; these tools help to determine the real priorities and to accentuate the intrinsic, process and relational levels relating to the desired cooperation (stakeholder model). At the same time, various aspects are drawn up, such as: positioning; targets; level of ambition; strategy of growth; balance of power; and development. On the basis of the blueprint, the demand management side must decide what is important to hold on to or to let go; and additionally the required level of control and the extent of detail it strives for. The retained organization always works in accordance with their role of delegated principal. This requires that the targets, the results, the mutual division of roles and tasks, the processes (including the logical process separators between organizational entities), cooperative strategy and communication, decision making process and earlier agreed agreements should all be balanced. Figure 5 serves as an excellent framework for communication or validation and offers specific and explicit starting points to assist in a controlled implementation and transition. It is advisable to consign the overall responsibility of the retained organization to a CIO.

**The new challenges**
The retained organization will have to prove itself to the business entities, the directors and suppliers. An explicitly agreed and communicated task description will be useful in tuning the mutual expectations of stakeholders in the future. The business will hold the retained organization accountable for delivering business value (reward), balancing the risks and the effectiveness of the outsourcing governance relationship.
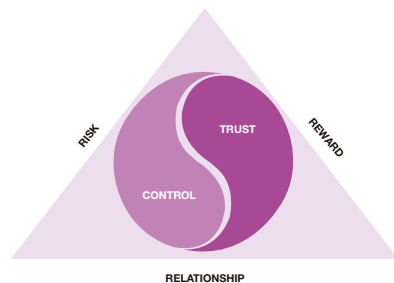


The aim of effective outsourcing governance should primarily be to maximize the advantages of outsourcing and minimize its risks. Outsourcing governance has several risks; most of them have to do with escalation of costs, decline of services and a loss of crucial knowledge and expertise.

**The transformation process heading towards outsourcing governance**

To meet the challenges of the retained organization, a rationalization has to take place at task description and domain level of the required capabilities and knowledge of the current IT organization. The downsizing and transformation of the internal IT department into a retained organization only offers new opportunities to a very limited set of employees. Only those who have the right knowledge, capabilities (skills) and attitude will be able to take advantage of the dynamics of supply and demand. Separating and encapsulating retained capabilities and knowledge at an early stage in the process can enhance the effectiveness of the retained organization.

The effectiveness of the retained organization is determined to a considerable extent by having employees with the required knowledge and skill at one's disposal. Organizations frequently underestimate the fact that employees who will form part of the retained organization require a set of additional capabilities and skills over and above what they possessed when executing their former delivery role. The new role will involve fundamental changes in their mode of thought and how they perform their jobs (mindset). For instance: intrinsic technical knowledge and skills at the operational level and the use of delivery methodologies such as ITIL are no longer indispensable because these are now the supplier's responsibility. Additionally, not all employees are capable of, or willing to, switch over from executing activities themselves to managing and controlling them.

*1st step: Unfreeze*

The transformation starts in the initiation phase. It is important to pre-select, isolate and supervise the employees who will either be transferred to the supplier or be part of the retained organization. This requires the employees in the retained organization to be provided with, among other things, refresher courses and retraining, particularly in areas such as internal and external information and communication with stakeholders. The improvement targets and motives should be expressed clearly and people have to be convinced about their purpose and necessity. This step highlights rationalization, standardization and disentanglement of the former tasks, cooperative relationships, agreements, processes and competences. By hiring employees with the required knowledge, capabilities and skills, the retained organization can partly compensate for possible deficiencies in the short term. Unfortunately, hiring the right employees is difficult, with the result that there is a slow start to the transformation.

*To step up the implementation of the retained organization through the use of an independent third party can be a serious and practical alternative. It will compensate for the lack of capabilities and knowledge in the short term. In addition, parties are stimulated to learn from each other, be complementary to each other and contribute jointly to the team effort. In this way both parties fill in a part of the same retained organization based on their capabilities. If desired, and depending on priorities and capabilities, parties may divide their responsibilities and authority. Making use of mature sourcing governance increases the chance of successful outsourcing relationships. A similar approach is also known as co-sourcing or smart-sourcing, and activities in the field of service integration are particularly suitable for having a cooperative strategy.*

At the beginning of this stage, a blueprint with a roadmap for the retained organization has to be developed. This design requires a balance between the hard and soft factors, complete with sufficient depth for realization and embedding. Examples of hard factors are business strategy, structure and systems. Soft factors are, for example, culture, skills, staff, relations and management style.

*2nd Step: Reconfigure*

The next step, using the road map as a base, is to define and implement small and short term changes and to set up the retained organization in controllable stages with regard to staff, processes and resources. Here the focus lies in carrying out the desired organizational change, including the implementation and operational execution, using the new guidelines. This is to be facilitated and controlled by the line organization who should set the right example in terms of attitude and behaviour. It is vital that employees have the opportunity to get accustomed to their new roles.

*3rd step: Refreeze*

The third step in the transformation process focuses mainly on embedding the organizational change and transformation results, once the transformation effects have worn off (completed) and been evaluated. In the implementation this means entanglement and embedding of the new structures, tasks, cooperative relationships, processes and competences.

At this stage it is possible to once again define new improvement goals or targets, in order to start a new cycle of continuous improvement.

**Rules of thumb for acting and behaving as a professional principal**

Successful outsourcing governance requires that the retained organization operates as a professional principal. Below, thirteen basic rules of thumb are presented, which combine intrinsic, communicative, relational and procedural elements, to achieve successful outsourcing governance (table 5).

Rules *of thumb for a professional principal*
1. *Make sure that the information and business strategy and plans are geared to each other, and that the sourcing strategy forms a part of the IT policy.*
2. *Establish a strategic vision on procurement and tendering, which focuses on creating tangible added value, risk management and portfolio rationalization. A precise and commercial procurement policy enables the retained organization to make the right choices from various forms of tendering and contracting. Be clear in your phrasing and focus on output.*
3. *Make sure that there is no misunderstanding about your own role in the entire procurement and delivery process and communicate on these topics on a regular basis with the stakeholders. Give accounts regularly to both the business and the functional support organization of your own performance, the achieved results and your targets for the next period. Evaluate frequently the contents and assignment of the task description of the retained organization.*
4. *Develop a draft cooperative demand/supply model of the retained organization (blue print and road map) which can be used for communication purposes in the Negotiation phase to clarify and synchronize mutual expectations. This is followed by drawing up and embedding the mutual agreement. The cooperative demand/supply model has to be agile, adaptive and scalable ("structure follows strategy").*
5. *It is essential that outsourcing governance forms an integrated part of corporate governance. Make sure that through the implementation of outsourcing governance the way of working is structured, transparent and process-based and that it focuses on flexible and innovative processes, products and ongoing services. In the Transition phase you have to make sure that, by having working instructions and procedures, a clear demarcation exists between the control and management tasks of the retained organization and the delivery tasks of the supplier. Organize reporting and*

*communication structures at strategic, tactical and operational levels and enforce an escalation mechanism to bring serious issues with your supplier under control. Ensure you have organized horizontal and vertical supervision in your own organization with periodical assessment and adjustment. Arrange, with the help of your supplier, that you have underlying metrics in place which will make delivery and its performance transparent and measurable. Best practices such as ISPL can be used for structuring and controlling your activities during the different phases of the contract lifecycle and professionalize your outsourcing governance and outcome.*

6. *Develop a new businesslike attitude, which focuses on cooperative strategy, trust and control (professional principal and craftsmanship). Always take the initiative (especially in case of doubt), operate goal-oriented, be visible and active on risks, and communicate effectively and regularly at the various steering levels.*

7. *Make sure that you have sufficient IT knowledge available in the retained organization to achieve a clear demarcation of tasks and responsibilities to be executed by the suppliers.*

8. *Control, plan and evaluate sessions to exchange and share knowledge on a regular basis between customer and supplier, at the various organizational levels and between various target groups. Use these sessions to discuss and tune relevant business and technological developments (innovations) and strategic and tactical plans and get to know each other better. Challenge each other, and if necessary, make arrangements and evaluate them.*

9. *Get to know your suppliers and learn from them. Allow them to have a reasonable margin and do not strive solely for the lowest price.*

10. *Let your suppliers have a free rein to take their responsibilities, hold your distance, be clear, approachable, and deal with them in a professional manner based on delivered performance and generated added business value (the customer's success should be placed central). Be careful not to step into the shoes of your supplier.*

11. *Make it possible to engage in long-term relationships, for instance by using quality and innovation as selection criteria in the tendering (this enables a shift from a product approach to a portfolio approach) and include your supplier in relevant business and integration matters.*

12. *Formulate, manage and develop systematically the customer- supplier relationship on the basis of mutual ambitions and strategic and cultural fit (use maturity models).*

13. *Look after a combination of both hard and soft factors in order to have a realistic and balanced impression of actual and experienced quality. Possible examples are: the extent of professionalism, customer satisfaction, structural quality improvement, achieved synergy effects (by optimal fine tuning and alignment), using the knowledge and creative talents of your stake holders, integrity and socially responsible entrepreneurial behavior.*

*Figure 5 The thirteen rules of thumb to act as a professional principal*

The cooperative outsourcing relationship and mutual allocation of tasks and resources have to be shaped in a way that is based on your mutual targets, strategies and ambitions.

Collaboration requires a balance between the individual and cooperative success.
The cooperative relationship is dynamic and has to cope with a lot of situational and environmental pressure in an increasingly globalizing world. During the delivery process the outsourcing relationship is constantly tested and cultivated. In the meantime new ideas and improvements emerge which have to be validated and executed. Performance in this domain

requires vision and strong leadership. The more mature and loyal the individual party is, the less its general interests needs to be protected.

If mutual trust is the starting point of the cooperative outsourcing relationship, emphasize controlling and managing the Critical Success Factors (CSF) where mutually agreed values are essential and beneficial. This version operates on a constructive and risk-taking basis, with shared risk and reward and equality, and with the partners determined to be successful together and to assist each other as and when necessary.

However, if mutual distrust is the starting point for this type of cooperative outsourcing relationship, then controlling and managing the Key Performance Indicators (KPI) is absolutely essential. This version operates on a mainly reactive and risk avoidance basis, and has strict termination clauses incorporated. Unfortunately, the agreements for many of the current sourcing deals are based on mutual distrust.

In practice, a mix of CSFs and KPIs has proved to be the best guarantee for both parties, giving them sufficient insight into the achieved performances and keeping them alert as well. When you start designing and implementing your control strategy for the retained organization, make sure you cover at least key topics such as goals, results, content, form, roles and the degree of formality and frequency.

There will always be discrepancies in maturity between the customer and supplier organization that may affect the balance of power of the customer-supplier relationship. In itself this does not have to be a problem, as long as the least mature entity is well aware of this discrepancy. Parties must be able to discuss the matter and, if necessary, take appropriate measures to achieve greater balance. For that matter, discrepancies can be functional in certain phases of the tendering process.

These days another discrepancy in maturity can exist between the customer and the supplier organization. The frequency of tendering by the customer organization is limited. The moment outsourcing has started the long range contract will become effective. Since they are unlikely to tender again before the end of the contract period, the odds are that at the customer's side, capabilities and knowledge of procurement and tendering will slacken or become rapidly obsolete. On the other hand, at the suppliers' side this is part of its core business and day-to-day practice, which makes the approach and process familiar. These commercial processes are routine to suppliers, they know the ropes and how to avoid risks in all phases of the contract lifecycle.

Discrepancies in maturity between entities are likely to diminish in the future, since the expectations are that customers will outsource more often. In addition, they will experiment more with the composition or bundling of the deal in order to achieve a maximum return, to balance the risks and to avoid vendor lock-in. As a result customers pass through the learning curve more rapidly, which will compensate for their lack of knowledge and experience in time. However, the extent to which these capabilities and knowledge will actually be embedded, shared and maintained remains a point of conjecture.

### The costs of sourcing governance
You can put a price on everything. It is rare, however, that the costs of outsourcing governance are estimated by organizations, or that they keep track of these costs. Recent studies indicate that the costs associated with outsourcing governance equate on average to

around 7% of the IT budget. For minor outsourcing deals between 1 and 2 million Euros the amount is roughly 5% of the overall contract value. In medium-sized outsourcing deals the amount rises to 8%, while the costs for major outsourcing deals over 25 million Euros drop to a little over 5% of the overall contract value.

These costs are determined by three main factors, that is: the size of the outsourcing deal; whether an organization has a multi or single vendor strategy; and the level of capabilities and knowledge of the retained organization (level of maturity). The demands of a complex multi vendor situation on governance or the use of substantial off shoring are significantly higher than is the case when managing and controlling a limited number of vendors. Consequently, the costs and risks increase correspondingly.

The general expectation is that the expenses of realizing effective outsourcing governance will be recovered quickly. Outsourcing governance enhances the  cooperative outsourcing relationship and improves systematic working in line with agreed plans, thereby achieving increased efficiency and delivering added value. To put it briefly: significantly more is delivered with structurally less.

## CONCLUSIONS

In practice the success of outsourcing is limited. Two out of three outsourcing deals yield less than was previously estimated and about a quarter of the contracts will be ended prematurely. According to customers, suppliers do not meet the expectations when it comes to the main KPIs. Achieving the service levels specified in the SLA at a market competitive price is no longer a satisfier in itself. Customers can partly be blamed for a lack of success of outsourcing. One of the main causes is poorly implemented governance at the customer side. Often little attention is paid to outsourcing governance, the preparations are inadequate and consequently this will have severe consequences that affect the entire contract period. However, everybody now agrees on the importance of outsourcing governance. The industry is maturing and learning fast.

Customers or principals who are involved in outsourcing projects quite rightly focus on selecting their supplier and on transferring staff, resources and processes. However, additional attention should be paid to the preparations preceding the tendering phase regarding the set-up and installation of a retained organization with mandated service and contract authorities. The internal IT organization that stays behind will be isolated, downsized and transformed into a retained organization with a clear new assignment and new challenges. Inevitably factors such as rationalization, standardization, and at later stage disentanglement (defreeze) will occur. This concerns aspects such as tasks, competences, organization, processes, cooperative (outsourcing) relationships, communications, agreements and decision making. Generally speaking, outsourcing governance requires additional competences to those of the former IT delivery organization. Breaking free from its former role is pre-conditional for future success. The unavoidable transformation process is far-reaching and requires good management guidance. The retained organization has to develop itself permanently to be of solid and unquestioned value to its customers in the area of dynamic tension between demand and supply. The business can assess the retained organization based on delivered added value and entrepreneurship. The retained organization ensures professionalizing the cooperative relationships. In this respect, effectively controlling and managing a seamless pragmatic alignment between business and suppliers is merely a precondition. Strangely enough the retained organization that plays an important part in the

demand/supply process, receives very little attention in practice. Under these circumstances carefully aimed investments to raise the level of cooperative outsourcing governance are essential.

The lack of a well-oiled retained organization responsible for effective sourcing management makes outsourcing extremely risky. As a result the original business case, developed in the project phase, and its pre-calculated benefits will never be evaluated, adjusted or achieved, based on the experiences in the operational or contract monitoring phase. The chances of the supplier continuously operating in line with the customer's need during the contract period will substantially reduce. Soon communication will turn to escalation, followed by irritation, putting the cooperative outsourcing relationship at risk. Increasingly, control, communication and cooperation will be based on distrust (destructive) instead of trust (constructive). In short, the situation will be out of control. It will take a massive effort, to restore the situation in the course of the contract, and it will prove to be an intrinsic, emotional and relational strain. This is a prospect that neither contractual party will relish, particularly since both are mutually committed for the duration of the contract. Fortunately, this article has provided you with a way to prepare for, and prevent this from happening.

Successful outsourcing is no sinecure. It requires balanced and effective outsourcing governance especially from the customer's side. From a behavioural perspective this means being and acting as a professional principal. This means assuming responsibility for entering into, maintaining and developing a true and high value cooperative customer-supplier relationship. It requires active management and control, combined with a constructive, professional attitude. Ensure that there is consistent validation, keep your promises and fulfil your obligations as completely as possible. The thirteen rules of thumb for acting as a professional principal will help the retained organization and its customers to stay in control, to shift focus where necessary and guide the cooperation, and if necessary to stimulate and innovate. Suppliers should prove to be solid and trustworthy vendors, taking the customer's success as their main starting point. They can visibly stand out by generating added business value, and demonstrate creativity and empathy in all phase of the contract lifecycle. Topics that the customer organizations view extremely positively are: establishing value add partnership, risk-taking entrepreneurial behaviour, business enabling technology innovation, and suppliers who spontaneously comes up with structural cost-saving measures. This kind of behaviour that will win and increase the customer's trust and, in the end, it will enhance the supplier's chance of being selected the next time around.

As always, a thorough preparation forms the basis for achieving success. Both customer and supplier have to make economically good use of the scarce available time at all stages of the procurement process. They have to be well prepared in the Initiation phase so that they know exactly what they need and for what reason. Design and develop the cooperative outsourcing governance upfront, using a predefined blue print and road map, which involves the desired priorities and accents. Go for a phased implementation of the model covering the demand and supply between customer and supplier. For example, the negotiation phase is a suitable moment to negotiate the desired cooperative outsourcing governance. Ensure that the outsourcing governance is operational on the customer side at an early stage , as this will help to not only maintain your grip on the outsourcing contract but also to strengthen it at the same time during the tendering process and contract monitoring phase. Specific external guidance can positively influence the learning curve and the results.

Given the interests that are at stake, it makes sense to deal with outsourcing governance in a structured and methodical manner by using methods such as ISPL[4].

Successful outsourcing is definitely a choice. Mature outsourcing governance and a retained organization that acts as a professional principal will significantly contribute to a lasting and successful cooperative customer-supplier relationship. These factors are not only indispensable in outsourcing situations but at the same time add to the success of the customer and the involved suppliers over the course of time. In conclusion we can say that this means a win-win situation to all parties involved. Fulfilling the preconditions mentioned earlier in the article will help to ensure that outsourcing will be a positive experience rather than a recurring curse. You're on top of the outsourcing situation, and are visibly in control which means that there is a negligible risk that you will be hit by unforeseen problems.

In practice: organizing effective and professional outsourcing governance will prove to be a productive instrument to help manage and control your business' risks and generate sustainable value. This measure fits alongside European and US rules and legislation concerning risk management and operational management, such as the Tabakblat Code, SOX and Basel II.

To put it briefly: given the benefits of outsourcing governance and the long term outsourcing contracts that are involved, it should a main topic on the agenda of the highest management level.

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[4] *ISPL stands for Information Services Procurement Library and is developed by the European Commission to organize customer-supplier processes in a professional matter. This systematic approach uses best practice knowledge in complex and large scale customer-supplier relationships and offers a wide range of books, tools and services to help customers and suppliers managing in managing the acquisition and delivery of services and systems in different situations and to make clear deals. ISPL encourages customers and suppliers to control their costs and planning schedules, to effectively control their risks and structurally improve their mutual understanding. For instance ISPL assists in drawing up tender documents like RfPs, and organize risk management and decision making. The approach offers many useful rules of thumb for preparation, transaction, management and completion, especially regarding services and projects. Many of these rules also apply to sourcing relations. The past five years ISPL has become widely known and has been used more often in Europe.*

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## 3.6 Business Service Orchestration: Delivering single-source performance in a multi-source world

*Business Service Orchestration is a relatively new concept designed to address a relatively new challenge in the IT service management world: how to manage the performance of, and ensure the availability of, applications (IT services) delivered to the business that are composed of multiple in-house and outsourced IT services. In his article, Andrew Whalen addresses how to manage the performance and availability of these IT services.*

3

### OUTSOURCING IN THE NEW WORLD: BIGGER ISN'T ALWAYS BETTER

Outsourcing has become so commonplace that we don't blink an eye when we read about the next big outsourcing deal in the press: "Major bank sells IT department," "Government signs 10-year IT deal," "10,000 seat application delivered via Internet." Just as commonplace as outsourcing are the problems associated with it. As attractive as mega-outsourcing deals appeared ten years ago, time and practice have shown that outsourcing is not the ultimate answer that businesses had hoped for.

#### The history of outsourcing

Although IT outsourcing has become a well-accepted practice, outsourcing remains in its infancy in the business world. It wasn't more than ten years ago that the vast majority of businesses operated IT using a simple buy, build, and manage process. What happened to change all of this? In the 1990s IT hit the peak of the client-server revolution, and Internet access was introduced into many businesses. Remote access exploded, and applications became more complex. In fact, IT became far more complex than most businesses could handle. New technologies overwhelmed IT staff, and businesses became increasingly dependant on IT. The time had come for IT to be delivered as a standardized service, and many businesses looked to their telecom providers to provide such services. (They were already used to buying this kind of service from their telecom providers.)

#### The problems with single-source IT

Telecom providers stepped up to the opportunity and delivered network services instead of simple phone or communications lines. Similarly, large systems integrators and vendors also realized the enormous potential for offering managed services, and instead of selling, building, and maintaining IT infrastructures, they offered to keep ownership of the infrastructure and deliver it as a service. The brief period of mega outsourcing deals had begun, and companies such as IBM, EDS, and BT closed deals worth billions of dollars to manage entire IT departments. In an effort to reduce management complexity, and to get a hold on spiralling IT costs, businesses outsourced entire IT operations to one or two suppliers.

The problems with single-source IT deals, however, quickly became apparent. Many mega-deals ended in contract breaches due to extreme complexity or inexperience. Many suppliers simply did not have enough experience in-house to cover all the necessary technical areas required to make such an outsourcing deal a success. Additionally, businesses had lost leverage over their suppliers, as suppliers were keenly aware of the fact that it was not possible to easily "swap" IT service providers overnight.

### The evolution towards multiple suppliers

In order to rectify this situation businesses began (and are still turning to) multiple specialized IT providers to solve the aforementioned problems. By using specialized IT providers, businesses ensure that their suppliers have the right skills and experience to be able to handle their contracts. Additionally, businesses regain leverage over their suppliers by being able to compare, contrast, and, relatively easily, "swap" providers as necessary. This is made possible by technical standardization, and the sheer size of the outsourcing market. For example, it is much easier today to have two data center providers, two network providers, and two Internet providers. These all communicate via IP, are transparent to the end-user, and in case one of the providers goes bankrupt or defaults on its contractual obligations, applications can easily be moved to a new data center or provider.

The flexibility, speed, and negotiating advantages associated with using multiple suppliers are quickly taking the business world by storm. The flipside of these advantages, however, are now also becoming apparent: If there are IT service problems, which provider is responsible? There are multiple monitoring portals available, which one should I look at? Can I trust my provider's service monitoring information?

## TAMING THE TIGER: TRYING TO MAKE YOUR APPLICATION APPEAR AS ONE

Because of the flexibility and control associated with using multiple providers, most businesses have committed themselves to this mode of operation. Yet despite the advantages, there are many challenges associated with using multiple providers. Most businesses are just now starting to appreciate the gravity of these challenges, and the potential impact these can have on their revenue, profits, and even their ability to survive.

### Managing application performance: why is it important?

What is the central challenge associated with using multiple providers? Application performance. Where applications are the defining interface between IT and the business, performance is the defining interface between business users and the IT services they consume. What do we understand by the term "application performance"?: Application availability, response time, capacity and, in the case of failure, the mean time to repair (MTTR).

Application performance is of critical importance to success or failure in a multi-supplier environment because it is the users of an application that determine if an IT service works or not. Regardless of the SLAs that have been negotiated, the price that has been agreed upon, or the technical excellence of the infrastructure that is delivered, the end-result as determined by the users of an application is the determining factor. If application performance is not made central to the delivery of IT services, it is not possible to determine the answer to practical operational questions such as "What should this service cost?", "Which incidents do I need to focus on?", and "Which services do we need?" Without determining performance needs and their impact on the business, there can be no context for managing or delivering IT services.

### Challenge #1: what is performance?

But what is performance, and how do you define it? Each service provider has their own definition of performance, and their own technical language by which to describe it. These definitions are tied to the type of service they deliver, and perhaps even the technology they use to deliver their service. In the world of network service providers for instance, performance is often described in terms of "round trip time," "jitter," and "packet loss". In the world of hosting, performance is often described using terms such as "host uptime", "CPU utilization", or "network utilization".

How these performance characteristics relate to end-user application performance is more often than not a mystery. End-users describe performance in terms of the amount of time it takes to complete a certain task, and whether or not the application they use is actually available. (See figure 1.)

The risk associated with this challenge is that if you are unable to align service provider performance characteristics (SLAs) with end-user performance characteristics, you will never know why or when your application will perform acceptably.
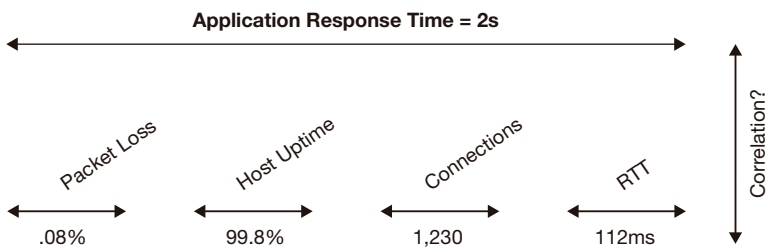


Figure 1 Provider metrics vs. user metrics

### Challenge #2: where is the problem?

The next performance-related problem is the question "Where?" Although not intrinsically a problem related to using multiple providers, the problem is aggravated in such an environment. Each provider has (hopefully!) their own portal monitoring the performance of their own service, but how do the performance statistics that these portals display relate to the overall performance of your application? (See figure 2.) In many organizations where an application or parts of an application have been outsourced, responsibility for end-to-end application performance has either been overlooked or is partially delegated to external suppliers. (And probably the supplier that is closest to the application, for example hosting provider, software provider.) This leads to a situation where, when performance problems occur, no one really knows where to start looking for the cause, with the result that the mean time to repair in multi-provider environments tends to be a serious problem.

### Who is responsible for the problem?

In a multi-provider environment the question of "where" leads almost directly to "who". Once it has been identified where the problem is, it is usually simple to determine who owns and is responsible for the affecting service or infrastructure component. In practice, however, the situation is far more complex. Even if you have identified a particular service provider as the source of a problem, if the service provider's own instrumentation doesn't indicate a service level failure, your claims may fall on deaf ears. Additionally, if you don't have your own instrumentation to prove what you have identified as a problem, most service providers will not even entertain your service request.
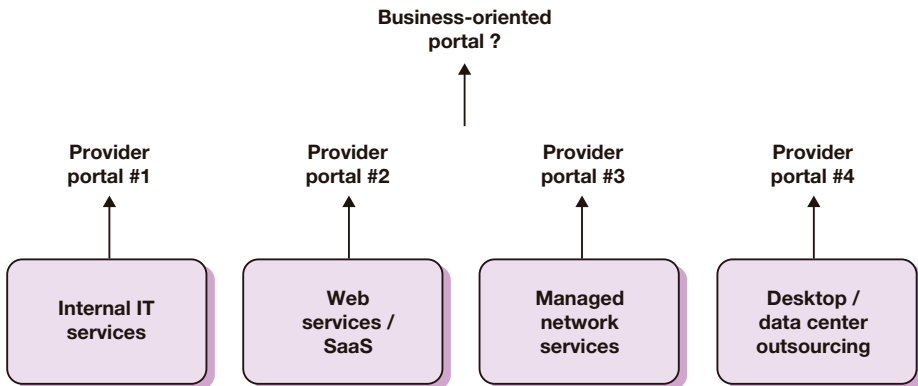
Business-oriented
portal ?

| Provider portal #1 | Provider portal #2 | Provider portal #3 | Provider portal #4 |
|---|---|---|---|
| Internal IT services | Web services / SaaS | Managed network services | Desktop / data center outsourcing |

*Figure 2 Which portal should I use?*

## THE REAL WORLD: WHAT HAPPENS WHEN IT BREAKS

In my work role I have come across numerous examples of businesses where outsourcing went wrong. Fortunately, I have also seen these same companies learn from their problems and adapt to the operational realities of using multiple service providers. The following scenarios describe two of these businesses, and what the situation was like before they changed.

### Customer scenario #1: the national insurance company

The first customer scenario involves one of the largest health insurance companies in the Netherlands. Their national infrastructure covers more than sixty locations including their head offices, local brokerages, and back office processing centers. When we came in contact with them they had outsourced their WAN, and the management of their application servers. Their application delivery infrastructure was based on Citrix, and that was insourced to one of their internal IT departments, of which they had many. (See figure 3: in this figure each grey box represents a different internal or external provider.)

Claim

Claims processing

| Remote office | WAN | Data center | Data center |
|---|---|---|---|
| Citrix client | MPLS network | Citrix servers | Application servers |
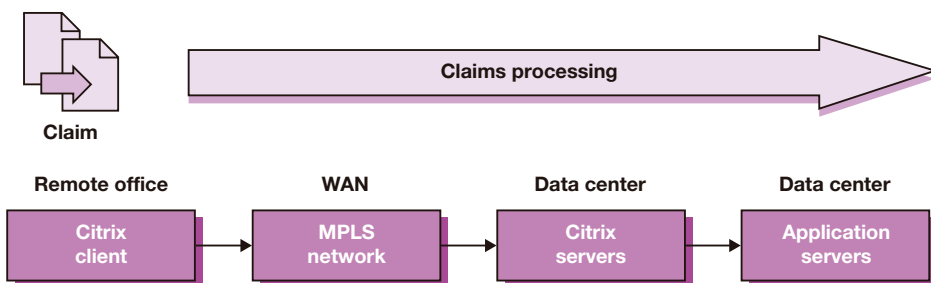
*Figure 3 National insurance company - before*

### The situation

The situation when we arrived at the company was very simple, and yet very painful. Claims processors were unable to keep up with their workload because the document management system that they were using had become very slow. Instead of routing a document within the allotted 45 seconds, processing times had skyrocketed to 2-3 minutes.

The document management system used by this company was installed on a series of application servers in the company's data center. Next to these application servers was a Citrix server farm. A copy of the document management client software was installed on each Citrix server, and these servers were accessed by claims processors in remote offices.

**The approach**
When the call first came into the helpdesk that processing times had climbed beyond an acceptable level, the trouble ticket that was issued was first routed to the internal IT department. Those responsible for the Citrix servers were called, and they investigated the performance of these servers. After finding no issue with the Citrix servers, the external management company was called to investigate the application servers. After finding no issue with the application servers the internal network department investigated the data center network. And again, after finding no issue with the local data center network, the WAN provider was called to investigate the WAN. Most of these actions occurred in sequence, until the urgency of the problem was such that 4 different providers (both internal and external) were working simultaneously on the problem.

**The result**
The result was very unsatisfactory! Because there was no owner of the problem, changes were being made and tests were being run against different parts of the infrastructure at the same time. The results of these actions were not effectively coordinated, and the problem resolution time extended into weeks instead of hours or days. Similarly, each provider used their own management tools that looked exclusively at their own technology and service quality. The metrics and reports generated by these tools had little or no correlation with the end-user experience of the application. The result was that each provider shouted "green lights!" while the user was seeing only "red"!

**Customer scenario #2: the international semiconductor machines company**
The second scenario involves a global manufacturer of semiconductor fabrication systems. In contrast to customer scenario #1, this customer had 24-hour operations including manufacturing, customer support, and sales offices in 60 different locations, 14 countries, and 3 continents. They had outsourced their WAN, and external security (firewall and VPN) to different providers. External security is of critical importance to this customer as they work very closely with external partners, suppliers, and customers. The company's data centers and applications were managed in-house.

**The situation**
Similar to customer scenario #1, this company was using Citrix to deploy and manage their mission-critical application: SAP. SAP was extensively used to manage orders and service requests - the two most important processes at the company. Any delay in either of these processes resulted in massive losses as orders were typically in excess of one million US dollar, and late response to service requests resulted in penalties. (You can imagine the cost of a semiconductor factory that is unable to produce processors for an entire day.) Recently the company had decided to migrate from native SAP clients to Citrix-based clients. Although extensive testing had been done beforehand, after rolling out the application random complaints began to appear across the globe of poor application response times. The response times were so poor in some cases that the users were unable to use the application.

### The approach

In this particular case the approach was more organized than in scenario #1. There was a single problem owner and that was the SAP application manager. However, in practice this didn't directly lead to a more efficient solution to the problem. The problem affected both internal and external users of the application, and was spread across multiple provider domains: the internal network department, the internal server team, the WAN provider, the Internet provider, and the VPN provider.

Again, each provider was contacted and the problem was explained. Each provider checked their own management tooling, and subsequently came back with the same answer: we can't see any problems with our service.

### The result

The result, just like in scenario #1, was disappointing. After many weeks of investigation, the company was no closer to an answer than in the beginning. The end-user response time was still (randomly) poor, money had been spent on experts to examine each part of the infrastructure, and many users were struggling to do their work. And although there was a single problem owner, he was unable to point the finger at a particular provider and say: "It's your problem, fix it."

## BUSINESS SERVICE ORCHESTRATION: TAKING BACK CONTROL

Obviously the situations described in the preceding sections were unacceptable. Each company lacked the complete picture regarding the service they were delivering and, as a result, were unable to effectively and efficiently deliver their service to their users. Outsourcing compounded the problem as there was little insight into exactly how each outsourced service was performing (apart from simple metrics provided by the provider), and each provider was approaching the problem from a completely different perspective. In order to regain the control lost to outsourcing, to gain an insight into the quality of delivered services, and to minimize service interruptions, both of the companies described previously adopted a new form of service management called Business Service Orchestration (BSO).

### Ignore the leg and feed the body

BSO is the (near) real-time alignment of IT services in line with business-oriented goals. Instead of taking a technology-oriented approach to managing and delivering services (for example CPU utilization, application queue size, disk access time, etc.), BSO focuses purely on the impact that the performance of such services have on the business. (For example: what effect does 53ms network response time have on the response time of my application transactions.) (See figure 4.)

In a traditional IT management environment, technical indicators and thresholds are the primary means of determining if a particular IT service is performing well. Alternatively, when using BSO, the only indicators that are used are user-oriented metrics that relate to the work at hand. (For example: how long does it take to complete a business transaction, is the service available to submit business transactions to it, etc.) Using BSO, companies are then able to identify seemingly good performance from a technical perspective (e.g. 1% packet loss is within the limits of the SLA that I have signed with my network service provider) that is actually the cause of poor end-user performance. This provides enormous advantages as companies are able to focus on only those technologies and providers that are having the greatest impact on business-oriented performance, as opposed to having each provider (be

it internal or external) focus on optimizing their own technology and service independent of the business' actual needs.
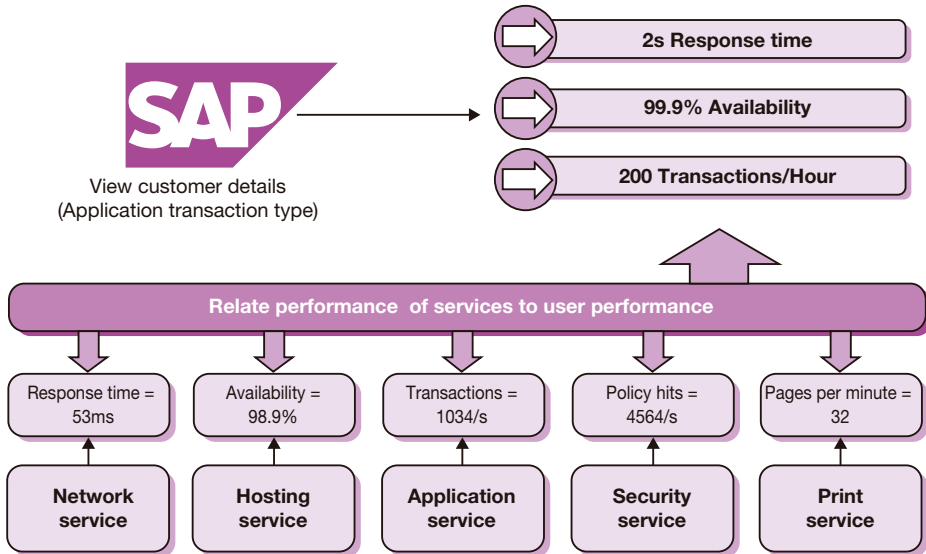


*Figure 4 Business Service Orchestration*

### The four stages of Business Service Orchestration

BSO is a continual service management process that can be broken down into four important sub-processes: monitor, analyze, optimize, and provision. The goal of the entire BSO process is that IT services and resources are continually aligned (= optimized) in line with current business needs. As the business needs change, so should the IT resources and services employed by the business. The following describes each sub-process within BSO.

### Monitor

The BSO monitor process involves monitoring your IT resources and services from a vendor- and technology-independent perspective. Instead of monitoring server utilization, bandwidth utilization, pings, or other technical metrics, the BSO monitor process identifies and presents metrics that describe all user interaction with IT services. This means that the primary objects to be monitored are business users, business transactions, business locations, and transaction service providers. Additionally, an essential part of this process is setting and monitoring user-oriented goals. The output of this process is user-oriented metrics such as transaction response time, service availability, or transaction service capacity, and the percentage of time that these metrics matched the goals set.

### Analyze

The BSO analyze process involves creating and maintaining business service profiles. Business services represent the usage of one or more business transaction types (For example: "Place order," or "Look-up customer details") by a user. What the user does with these transactions provides a service to the business, and thus the name "Business Service". A business service profile correlates the business-oriented performance measured during the monitor process, with the technical performance delivered by IT service providers. The output of this process is a list of IT service metrics that directly impact the performance of

a business service. (For example: network utilization in the data center, queue size in the application server, etc.)

### Optimize

The BSO optimize process involves assessing the effectiveness of the IT service elements discovered during the analyze process in achieving the business-oriented goals set in the monitor process. An important input for this process is the value placed by the business on the transactions that are being monitored. This may be expressed in terms of money, a custom index, and any other scale. During the analyze process the actual performance of the goals set by the business are compared to the performance and cost of the IT service elements from the analyze process. The output of this process is either a recommendation to change the properties of an IT service (e.g. assign more bandwidth to a particular application, tune parameters), or to provision additional, new, or reduced service capacity.

### Provision

The BSO provision process involves translating the output of the optimize process into actionable service requests. Because the IT service elements identified during the optimize process may involve multiple service providers, or even services that are not yet being used, the provision process has the important role of identifying which service providers can or must (due to contractual obligations) fulfil the new requirements. After new service elements have been added or changed, the provision process is also responsible (in coordination with the monitor, analyze, and optimize processes) for ensuring that the new services that have been provisioned actually fulfil the requirements identified by the optimize process.
The output of this process is one or more service requests to be fulfilled by one or more service providers, and an effectiveness report identifying if the newly provisioned services are actually meeting the requirements set for them.

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## THE REAL WORLD: WHAT HAPPENS WHEN YOU ORCHESTRATE

By applying business service orchestration, businesses are able to re-assert control over outsourced services and the entire service delivery chain. The customers described earlier in this article did just that, and are continuing to discover the benefits of a new approach to delivering and managing IT services.

### Customer scenario #1: the national insurance company

The need to quickly resolve problems, and to ensure that such unexpected service disruptions didn't occur again was the stimuli for the insurance company to implement business service orchestration.

### The new approach

The new approach to managing services began with new insight. First a new monitoring system was installed that monitored service utilization and performance across the entire infrastructure. This was an important first step as previously the company had to rely on a mixture of in-house and service provider dashboards. A single service dashboard, independent of vendor or technology, was an essential ingredient in being able to see at any given moment what the quality of delivered services was. (See figure 5.)
The next step was to assign a single point of contact for a given IT service. This person became the coordinator for all issues surrounding the delivery of that particular service – regardless of the technology or vendor involved in delivering the service.
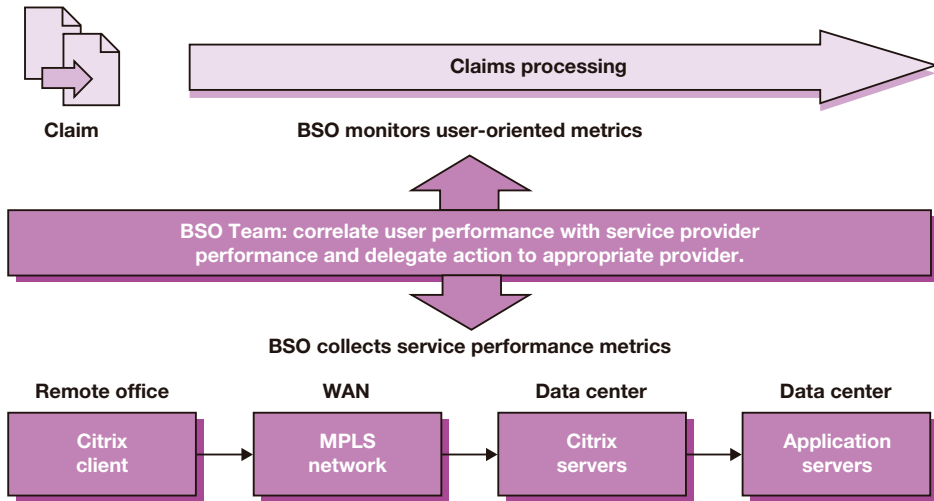
*Figure 5 National insurance company - after*

### The new result

The result was that the quality of IT services was now measured from an end-user perspective as opposed to a provider or technology perspective. This meant that because monitoring more closely represented the actual experience of the users of the service, real problems were detected more quickly. Instead of focusing on the quality of the underlying technology services, the new business service orchestration team could focus on correlating end-user performance to the activity of the infrastructure. This enabled the customer to see, for instance, that despite all the "green lights" reported by their providers, twenty percent of all sites in their infrastructure were reporting severely degraded Citrix performance. This was then correlated with minor (what the service provider considered to be "minor") packet loss at those sites. It quickly became apparent that even though SLAs were being met, the performance of the network was greatly impacting user performance.

With a new single point of contact in place for the document management service, it was possible to present a unified and strong case to the service provider that their network was the cause of significant business impacting events.

All of this led to shortened problem resolution times, increased user satisfaction, and greater control over their outsourced services.

### Customer scenario #2: the international semiconductor machines company

The semiconductor machines company was stuck between growing user complaints, and a set of dashboards and providers that reported "good" service. Business service orchestration was the answer they needed to bring together the chain of services and technologies used to deliver their mission-critical SAP application.

### The new approach

Just as with the insurance company, insight was the first step to solving the problem. A new business service orchestration monitoring platform was deployed that monitored service utilization and quality from a user perspective. As opposed to taking a bottom-up approach to monitoring service quality, a top-down approach was taken. Service delivery managers no longer focused on the SLA reports delivered by in-house and outsourced service providers,

but instead used their own monitoring system to determine if services where performing well or not.

Because there was already a single point of contact for each IT service, it was not necessary to create a new role or organization. Instead the responsibilities and the capabilities of the service delivery managers were expanded. The service delivery managers were given a monitoring system that enabled them to verify the quality of the service that they were responsible for, and also correlate that performance with the performance of their service providers.

### The new result

The result was faster resolution time for problems, and far better control of outsourced service providers. Problems were resolved faster because the new monitoring system indicated which part of the service delivery chain was contributing the most to poor service quality. This meant that only issues that were actually affecting service performance were addressed, instead of chasing errant technical issues or alerts. Additionally, the monitoring system detected issues that weren't being monitored by the service provider. Most service providers only monitor and report on technical indicators that are part of the SLA that they have agreed upon with you. However there can be problems in the infrastructure of a service provider that can severely affect your service performance, but that are never displayed in their SLA dashboard. In the case of this customer, the network cards on a firewall were wrongly configured, and this caused erratic packet loss. The SLA, however, only monitored uptime, connections, and throughput. The BSO monitoring system quickly showed that users of SAP via the firewall had dramatically worse response times than other users of the application.

The final result of applying business service orchestration for this customer was better control of their service providers. In the past the network service provider had recommended upgrading bandwidth because the lines were full. However with the new monitoring system in place, it became clear that bandwidth was not being used by SAP but by other non-critical applications. This resulted in the re-negotiation of their network service contract, thus saving the company in excess of a million US dollars.

## BUSINESS SERVICE ORCHESTRATION: THE ORGANIZATIONAL IMPACT

Like any new method, tool, or process, business service orchestration has an impact on your IT organization. To ensure that you realize the benefits of business service orchestration, it is necessary to ensure that you have the right people, processes, and structure in place to make it a success.

### Today's IT organization

There simply aren't enough pages in this book to describe all the different types of IT organizations that exist today. Instead a brief review of the common characteristics of IT organizations will help to clarify where BSO matches and doesn't match existing management structures.

First of all, many IT organizations implement ITIL® or other similar sets of best practices to organize their activities. These guidelines provide a set of best practices that describe how to handle incidents, contracts, problem resolution, and the financial management of IT services. Typically, ITIL processes are implemented by various internal IT departments. Each department is usually organized around a particular management domain. (For example: servers, applications, networks, contracts, security.) Each of these departments is then

organized by a management structure coordinated by a single head of IT (CTO, CIO, etc.). Similarly, external providers are also required by many companies to implement ITIL, so that there is some way of aligning internal and external processes.

A brief look at this kind of organization, however, reveals the limitations of this kind of structure in providing BSO-type services. Because there are individual departments concerned with the delivery of domain- or technology-specific services, each department is unable to see beyond its own service and technology. Even SLA managers or IT managers are focused on delivering their own products: SLAs, or technology-oriented services.

### Tomorrow's IT organization

In order to move beyond the traditional technology-oriented manner of delivering services, it is perhaps helpful to take a step back and restate the obvious: IT is responsible for translating a company's business requirements into functionality (e.g. IT services) that meets these requirements. Whereas in the past this meant doing a "build or buy" evaluation of hardware and software, the case today is much more complicated. (And yet full of amazing options!) A multitude of services are available to IT organizations to meet business requirements. Be it simple infrastructure-oriented services (e.g. network, security, servers), or more application-oriented services (e.g. SaaS, web services), the menu of available options has never been so varied – or complicated.

### The service orchestration organization

In order to bring together the entire web of provider services that make up the services delivered by IT, a new way of organizing IT is required: the service orchestration organization. Although it is possible to re-organize the entire IT organization, or simply add a BSO team to your existing organization, the goal is the same: all IT activity occurs within the context of the current requirements of the business. This means that whatever the activity or process that is being executed by the IT organization, it should always be considered from the perspective of the business user.

An IT organization that focuses on service orchestration as its primary mode of operation will always be able to answer the following questions:
* Who uses the service I deliver?
* What are the exact requirements for the use of this service from the perspective of the business? (For example: transaction response time, service availability, transaction throughput.)
* What is the value to the business of each transaction?
* How do I prioritize resource and service conflicts?
* Who provides which elements of my service?

In practice, being able to answer these questions and to take action based on the answers means having one or more individuals responsible for the BSO process. A BSO team may be made up of the following roles:
* **BSO Manager** - The BSO manager is responsible for the overall coordination of the BSO team. He/she ensures that the BSO process is correctly executed, and that its operation is aligned with the business and the rest of the IT organization.
* **BSO Architect** - The BSO architect is responsible for collecting, documenting, and maintaining the business requirements used to direct the BSO process. The architect should have a good understanding of how the business operates, and the requirements that the business has for the services that it uses.
* **BSO Engineer** - The BSO engineer is responsible for collecting, documenting, and maintaining the list of provider service elements used by each service delivered to the

business. The engineer should have a good understanding of technology, and of the services provided by service providers.

**The Service Orchestration process**

Once an IT organization has decided to apply BSO to its operations, the BSO process needs to be created and executed. The following loosely describes the role that such a process plays in the IT organization, as opposed to looking at the actual tasks executed by such a process. (These have already been described in the section entitled "The Four Stages of Business Orchestration".)

The most important aspect of applying BSO is the role it plays in your IT organization. In order to maximize its effectiveness, it is important that BSO occupies a central position in both your operational and strategic planning processes.

BSO aims to simplify and optimize the delivery of services, not rigidly force organizations into becoming "service factories". Because businesses want to be flexible and adapt to changing market and customer needs, an IT organization that wants to keep up with the business needs to reflect this method of operation. The BSO process is designed with this in mind.

The BSO process should take the role of the real-time heart of your IT organization. Changes to business requirements flow into the BSO process, while service incidents and requests are assessed by the BSO process to determine priority and who should handle them. And that's it. Like the conductor of a symphony, the BSO team verifies that IT activity (be it in-house or outsourced) is always aligned with current business requirements. And even if contracts with providers restrict you in your ability to adapt to changing business needs, the BSO process ensures at least that the rest of the organization is aware of such limitations.

## BUSINESS SERVICE ORCHESTRATION: THE TECHNICAL IMPACT

The right tools are just as important to BSO as the right people and processes. Without the right tools, your BSO team will need to manually correlate and monitor all services and service elements. This would be, without a doubt, an unworkable situation.

### Today's IT management tooling

Today's IT management tools fall typically into one of the following categories:
- **Vendor-specific** - These types of tools are produced by vendors, and are used to monitor and manage technology from a single vendor only.
- **Technology-specific** - Technology-specific tools are vendor-independent, and yet technology-specific. For instance server management, network management, or application management tools.
- **Process-specific** - Process-specific tools implement well defined processes. Examples of these tools are help desk, change management, SLA management, or business service management.

Although there are many excellent and very useful tools available on the market, they all have a specific limitation when it comes to implementing BSO: They are  domain-specific. This means that they are ideal for assisting users in their specific roles (network administrator, SLA manager, Cisco engineer), but they lack a complete end-user focused picture of the entire web of services that make up modern IT services. A consistent, vendor- and technology-independent view of service performance is needed in order to successfully orchestrate business services.

### Tomorrow's IT management tooling

A new breed of IT tools is needed to perform service orchestration. Although some existing tools can be used to meet these needs, some requirements have yet to be completely addressed by vendors. The following describes the most important requirements for a business service orchestration platform.

### Business application policy repository

A business application policy repository lists the application-oriented services delivered by IT, who is allowed to use them, and what are the performance expectations of these users. Additionally, the repository contains information that identifies the business value of each application transaction type and associated group of users, so that if application transactions are competing for resources, it becomes possible to prioritize according to business needs. Business application policies are the critical starting point for ensuring that all management of the infrastructure is done in line with business objectives. Whether it is determining if projects are in line with business needs, incident management has the right priorities, or optimizations have the right effect, the repository is the central place where common goals are set in a language that is understandable to both the business and IT.

### Technology and vendor independent

A technology and vendor independent management platform is needed to help reduce the amount of knowledge required by your BSO team. Such a platform hides the implementation of the technology (vendor-specific names and identifiers, technical topologies), and yet brings the essence of the technology to the surface.

A true vendor-independent platform enables your BSO team to focus on the service being delivered by the technology (connectivity, computing power, etc.), instead of how the technology is delivered. This in turn gives your team the power to determine what has the greatest impact on a service without understanding explicit technical details, and yet have enough information to delegate the optimization/repair of the service to the appropriate provider.

### Real-time Configuration Management

Real-time configuration management (RCM) is the ability to monitor network traffic, application transactions, system usage, and device configurations to determine precisely which components and services are being used by a particular application or user at any given moment in time. The result of RCM is that your IT staff will always have an up-to-date view of exactly which parts of your IT infrastructure (hardware, software services, files, etc.), or provider services, are being used by an application. This is essential to always having a complete and up-to-date picture of which service elements are in use by a particular application service.

## LOOKING INTO THE FUTURE: GETTING AHEAD OF THE GAME

BSO is not only effective in tackling today's tough IT issues, but also in preparing you for the future. The changing reality in the IT and business world means that a more flexible, and more business-oriented approach to IT is needed if businesses are to cope with the increase in complexity that is approaching. The following are just some of the major trends in business and IT that BSO can help you to cope with:

- **Service Oriented Architecture (SOA) and utility computing** -Despite the many benefits of a SOA approach to applications, the impact it will have on infrastructures is tremendous. Applications will most likely be spread across more providers than ever

before, thus increasing the need to have a clear insight into who is affecting performance, and how. Utility computing will have a similar effect where transactions will be handled by the best provider – in real-time. BSO helps by providing a dynamic platform that continually catalogues and monitors the provider services used, and needed, by your applications.

- **Mergers, acquisitions and divestures** - As companies transform from "do it all" giants to smaller organizations that focus on their core operations, mergers, acquisitions and divestures are becoming a more common occurrence. As the market for a particular product or service changes, IT has to be able to quickly merge or separate its infrastructure and operations in a period of months. BSO helps by cataloguing and understanding exactly what is needed by each service before and after such changes, ensuring that business operations are not affected during transitional periods.
- **Risk management and compliance** - Modern commercial law focuses more and more on accountability. It is no longer acceptable in the IT world to say "I didn't know that". BSO helps by eliminating management black holes created through outsourcing IT services. By creating and maintaining a complete view of user-oriented performance, and which service providers are affecting such performance, companies can always keep ahead of preventable problems and provide a complete insight to company controllers and administrators.

## CONCLUSION

Delivering application-oriented services that depend on multiple in-house and outsourced services is a complex, time-consuming, and costly proposition. The standard practices and tooling used by many IT organizations today are unfit for the purpose as they focus on delivering individual technical services, and they lack a consistent technology- and vendor-independent view of end-user performance. These issues, compounded by trends such as SOA, utility computing, compliance, and mergers and acquisitions have created the need for a new approach to managing and delivering IT services: Business Service Orchestration. By employing BSO, businesses have a (near) real-time picture of service performance, regardless of who owns or operates the infrastructure. Additionally, as business requirements change, BSO enables businesses to ensure that incident handling and service changes are optimized in line with these new requirements.

BSO achieves all of these things by taking a new approach to IT service management. All activities in the IT organization pass through the BSO process, which acts as a real-time heart for the IT organization. BSO is unique in that it takes a purely user and business-oriented approach to management, while simultaneously acting as a bridge between the business and IT service providers.

Whatever approach you choose to managing and delivering IT services, I wish you luck in the ever-changing and always exciting world of IT!

*Andrew Whalen (The Netherlands/Canada) is CTO of NetDialog and has many years of experience assisting multi-national organizations to deploy and deliver complex IT infrastructures as services.*

# Colophon

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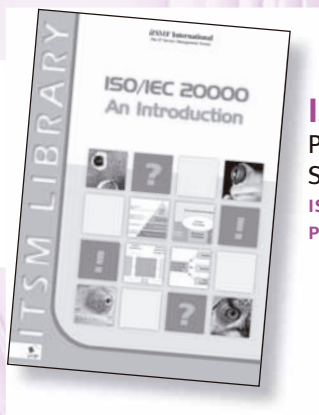
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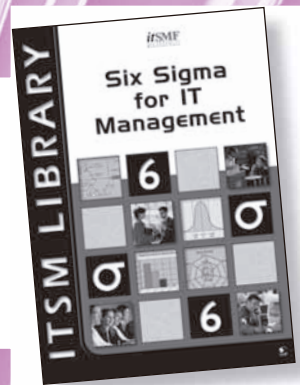
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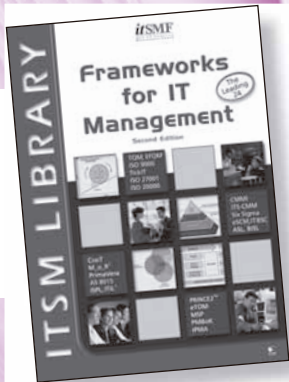**PRICE €39.95 EXCL TAX**

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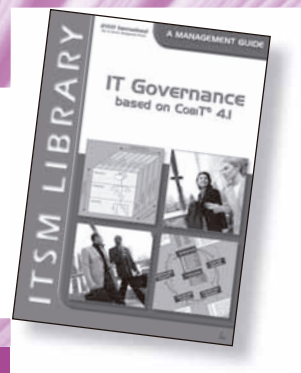**PRICE €39.95 EXCL TAX**

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