

Improve Sourcing Capability Through IT Service Management

WHY IT TRANSFORMATION CAN ENSURE SOURCING SUCCESS

Markets for products and services are forever changing, and current economic conditions accelerate that change. For any business, this can result in the transformation of core business processes, products and services.

The IT Service Management Experts at Align provide solutions to achieve business results and exceed customer expectations.

For most non-technology businesses, the role of the CIO is the first thing to change. In the past, actively managing the “technology” at an organization meant building and supporting applications, infrastructure and facilities. Today, this role must transform into one that can be more accurately defined as a Service Provider. IT leadership must shift focus to innovation, supporting the organization’s ever-changing business model beyond just product, services and operations.

IT leadership must shift their focus to innovation that will support the organization’s ever-changing business model and that innovation must go beyond just product, services and operations.

A cultural change is necessary for the entire IT organization, shifting its focus from managing servers, networks or software applications to a focus on delivering IT services. The success of your organization will depend on how well it accepts this transformation.

THE NEW CIO: A SERVICE BROKER

By using multiple service providers – internal insourcing and external outsourcing – to deliver services the business requires, CIOs can be more efficient and effective than ever before. Implementing new technological developments, taking advantage of competitive pricing and reducing internal overhead costs are advantages a “service broker” can deliver while improving the quality of IT services to the organization.

To be a successful service broker, the CIO must first understand the organization’s capability to properly evaluate and manage service options. Then, initiate a plan to shift the organization and culture from managing internal technology to one that manages services.

STAYING AHEAD OF THE DEMANDS FOR IT SERVICES

The introduction of new technology and services over the past few years like Software as-a-Service (SaaS) and Cloud Computing are part of the reason IT organizations need to shift toward a service management culture. Regardless of the size of your organization, it is now possible to see significant cost reductions while improving IT service delivery.

Services like SaaS and Cloud Computing offer additional benefits for their client organizations:

- Flexibility
- Faster-to-market opportunities
- Lower capital investment
- Pay-for-what-you-use cost models
- Reduces in-house infrastructure
- Reduces resources, facilities and management structures

While the responsibilities of inhouse resources are freed from day-to-day issues, the internal IT Organization still has an important role to play managing any external service provider but allows more focus on service improvements, innovation and ensure IT services are aligned with business processes and strategy.



The next wave of technology and service innovation will provide challenges and opportunities for any organization. The degree to which a CIO effectively leads this transformation will directly impact the success of the organization now and in the future.

MANAGING EXTERNAL SERVICE PROVIDERS

CIOs and their organizations find themselves faced with the question of how to succeed on their own in an environment that is becoming bigger and more complex all while dealing with economies of scope, scale and skills.

For an organization to understand their capability in selecting and managing service providers, IT must understand the following four service delivery areas:

People	Do I have the right people, with the right skills?
Processes	Do I have the right processes in place?
Technology	Do I have the technology now to support my needs?
Suppliers	How can I leverage suppliers to help achieve my goals?

Most services, even non-IT services, require a vision and executable strategy to address the questions and challenges within each of these four areas.

The real challenges are not with specific people, processes, technology or suppliers; they are with acquiring and maintaining the internal “capability” to manage these four areas successfully. Whether you have one or multiple service providers, the internal IT organization is ultimately accountable for the delivery of IT services to the business. Therefore, there needs to be effective capability levels in each of these areas to ensure success.

Whether an organization plans to use external service providers, they must continually focus on their own ability to understand, leverage, change and manage their capabilities within these four areas in order to deliver the IT services that the business requires. Understanding your capabilities before selecting a service provider will lead to better sourcing decisions, transitions and overall transformation success.

INTERNAL TRANSFORMATION WILL LEAD TO THE BENEFITS IN A SOURCING STRATEGY

When a company makes the decision to source IT services from an external service provider, the business, along with the CIO, must have a clear vision on how these services will be provided and to what extent the internal organization will manage them.

Driven by selective sourcing or multi-sourcing models in use today, this need for a clear vision is more important than ever. An organization will typically outsource various elements of IT services to several different service providers, whereas 5 to 10 years ago, most organizations either outsourced IT or provided the services fully in-house. To gain a competitive advantage, companies are now retaining certain key IT services internally and employing best-of-breed service providers.

There are varying degrees of how the internal organization will “integrate” with an external service provider. Understanding this crucial, sometimes subtle way of working is paramount to the success of a new relationship.

The CIO and their IT managers may have very different perspectives on the expectations of the relationship and services being provided. These perspectives can cause a strain on the relationship with the supplier, unhappy employees on both sides, degradation in services, loss of benefits and lots of finger-pointing.

The biggest challenge for an organization may be how to make the necessary internal change or transformation to ensure the success of any sourcing strategy.

Even the approach and decision criteria for selecting a service provider can be different between an IT organization that understands their own transformation strategy versus one that addresses the internal impact after selecting the service provider. This situation can lead to gaps within the contract or contract changes resulting in more cost.

When an organization’s internal capabilities are immature in terms of governance and service management processes, it will find managing supplier relations in the multi-sourcing space a significant challenge.



This internal management is one of the most critical elements to address since this capability cannot be outsourced and ownership must stay within the organization. Organizations who can adapt themselves can take full advantage of an effective sourcing strategy.

HOW TO BEGIN THE CHANGE

The best place to begin any important initiative is to leverage and adopt proven frameworks that already exist within the industry.

IT Service Management (ITSM) best practices like ITIL® v3 and IT Governance are a culmination of successful processes that many businesses use to change, improve and transform IT organizations with consistent, demonstrable results. Typically, this helps to improve the maturity of their Service Management capability.

One of the values of ITIL® v3 and IT Governance frameworks is that it provides a foundation to begin transformation. Start with the assumption that these best practices may be used within an organization and then develop them into a set of internal processes that will fit best.

These frameworks allow companies to partition IT services into a more effective structure and can ensure that the interrelationships between service providers are effective, efficient and bring real value to the business organization.

While it may not be easy, an organization that can begin to improve their IT Service Management practices will attain more mature capabilities to address evolving business demands, products and services.

ITSM FRAMEWORKS

ITSM frameworks like ITIL® v3 can help an organization begin to understand its capabilities related to our four areas: People, Process, Technology and Suppliers. The framework is predicated on a Service Life cycle and if used effectively, can help to address numerous challenges and questions during any transformation.

So let's address some key questions for each of our four areas along with some pitfalls and recommendations.

PEOPLE – Are the right people with the right skills in place to effectively deliver IT services from an external service provider?

Perhaps the most significant challenge for an IT organization can be the transition of technical roles to roles that manage IT services, ensuring the organization has resources with the right skills to manage service providers.

Organizational transformation is the biggest challenge when moving to use external service providers. Often, the assumption is made that the person who has been managing an internal technical team can instantly make the transformation to manage a service provider.. This is not always the case.

INFRASTRUCTURE MANAGER TO SERVICE MANAGER

Infrastructure managers who have made a career in directly managing technology and the organizations who support them have real challenges in shifting themselves into the role of a Service Manager. Because these managers usually have a passion for their discipline and a vast knowledge base, they often show resistance to fully adopting the processes and methods of an outside service provider.

This resistance might manifest itself into an antagonistic relationship where the provider abandons their efficient methods just to make the manager happy, certainly a lose-lose situation.

To be efficient, the Infrastructure manager must make the shift to Service Manager and realize that contracting the services of an external Service Provider includes buying services, not technology.



If an organization has made the decision to externally source an IT service, it can expect to get the operational management component included with the price. If not, this is not outsourcing. Hiring contractors for an internal team to manage directly will negate the real savings opportunity. Two key reasons to externally source IT services are to improve operational management capabilities while delivering more cost efficient IT services.

Organizations who are successful with service providers transform their organizations into what is becoming commonly known as a Service Management Organization (SMO).

e-business opportunities and take advantage of different marketing and sales channels. Technology innovation typically supports these opportunities.

As stated earlier, SaaS and Cloud Computing are just two of the many new technologies that today’s CIO can incorporate within the business’ IT portfolio. If the IT organization does not have the technical or resource capability to deliver a new service, then the short (ROI) and long term investment (TCO) to internally provide this new IT service may not be achievable. Sourcing this service externally may be a good option.

PROCESSES – Are effective and efficient processes in place that provide the business flexible, consistent and reliable IT services to facilitate the achievement of business goals and objectives?

Processes affect both the business and IT organization. Companies will continue to enhance the efficiency of their business through process improvement or business transformation efforts. This becomes a challenge for the IT organization because new or different business processes usually demand IT service improvements (e.g. application changes, better infrastructure availability and capacity increases).

When sourcing, it becomes even more critical to understand current capability and begin to employ service management processes that are effective and efficient. The IT organization must continually seek its own process improvements in order to provide real value to the business and not be seen as an obstacle, but as a partner that adds value and is flexible and economical.

TECHNOLOGY – Does the organization currently have the technology to support business demands?

As organizations try to improve business processes, they are also looking for ways to increase market share, leverage

CRITICAL SUCCESS FACTORS

Communication and Organization are two key critical success factors for any sourcing initiative to be successful.

Communication – Communicating the plan or strategy (assuming there is one) across an enterprise at the beginning minimizes confusion, frustration and supplier resentment.

Organization Roles & Responsibilities – Addressing the necessary changes in roles and responsibilities is very important at each point in the sourcing initiative.

When an internal organization is clear on what is expected as it prepares for this transformation, the cultural shift will be smooth and popular, encouraging its people to embrace it and call it their own.

SUPPLIERS – Can a supplier deliver the needed services effectively and efficiently?

The requirement of a service can be summarized into two components:

Utility – The service meets all of the business requirements, is usable and its functionality meets expectations.

Warranty – The service is available when needed and is reliable and secure.

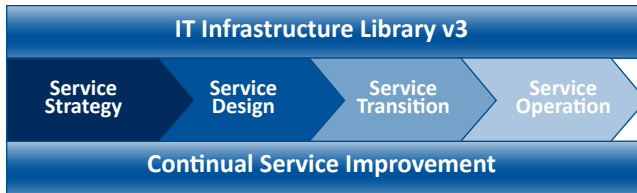
Unfortunately, no supplier may ever meet 100% of both. This is a challenge when evaluating suppliers.

The objective is to understand the trade-offs the business is willing to make with regard to utility (functional requirements) and warranty (availability requirements) before beginning to evaluate suppliers, eliminating those unable to meet your organization’s needs.

ITIL® V3

Developed over two decades ago in the UK, the Information Technology Infrastructure Library, ITIL® v3, has been considered the “de facto” industry standard since 1999 for IT Service Management processes.

The second version, v2, of the best practices framework was first published in 2001, with the Service Delivery and



Support books being core of a seven book library. Since then, members of the IT Service Management community realized the industry had changed, so ITIL® v3 was initiated in 2004 and a new Version 3 was published in May of 2007.

While there are many similarities between V2 and V3, there are important structural differences and additions that can help address the challenges of using external Service Providers.

The five new books in the ITIL® v3 life cycle include Service Strategy, Service Design, Service Transition, Service Operation and Continual Service Improvement.

THE FIVE CORE ELEMENTS OF THE SERVICE LIFE CYCLE ARE:

Service Strategy (SS) – Understanding business needs and IT organization capability to provide IT services that create value for the business.

Service Design (SD) – Provides the architecture and foundation to enable the IT organization to realize the necessary service capabilities to meet the needs of the business.

Service Transition (ST) – Enables the transition of services from design to operation. Service Transition ensures that the changes provide value to the business, integrate with other existing services and that both the business and IT are prepared to employ best value.

Service Operation (SO) – This is where value is finally realized. Service Operation provides guidance on how to manage services in the live environment. It works with the other aspects of the Service Life cycle to ensure quality of service through design, transition and continual improvement.

Continual Service Improvement (CSI) – Creates and maintains the value of IT services by measuring, enabling

and engaging a sound improvement ('Plan-Do-Check-Act') cycle on existing services, including service retirement.

Most people think that ITIL® v3 only provides a framework for managing the life cycle of technology. The framework addresses all aspects of providing an IT service from day one through designing, transitioning, operating and improving that service. People, process, technology and suppliers are considered in every stage of the service life cycle.

Our focus is on the first two books - Service Strategy and Service Design - because this is where the design process and sourcing decisions begin.

SERVICE STRATEGY

One can think of Service Strategy as the phase that dictates how much a service should cost, the business limitations for resource capability (development and support) and limitations on technology capability for all aspects of the service as it progresses through its life cycle. This is important because one doesn't need to design and build a million-dollar service when a fifty -thousand dollar solution is suitable.

If the organization feels they have effective and cost efficient life cycle capabilities, they can opt to internally deliver a new service. The consideration of an external Service Provider may provide a better option for the business. However, the decision should not be made until the Service Design is complete and different service design options have been evaluated.

An internal organization, even if they insource the service, must still go through these stages of the Service Life cycle. Depending on the strategy, the journey can be different. This is why the frameworks within IT Service Management complement each other. While there are a number of processes and activities outlined in Service Strategy, IT Governance processes provide input and receive output from this phase of the life cycle. Governance is integral to this phase of the life cycle.

Admittedly, Service Strategy is one of the most challenging parts of the framework for an organization to adopt. However, if an organization is using external Service Providers,

it becomes one of the most critical sets of processes and guidelines to adopt for successful sourcing engagements.

SERVICE DESIGN

Now that the Service Strategy phase has provided the direction and expectations, it is up to Service Design to decipher how it will transition, operate and continually improve. Service Design considers our four areas - People, Processes, Technology and Suppliers. Keep in mind, this phase is designing a service solution reliant on technology.

During this phase, it is within the activities of Service Design that an organization understands if an external Service Provider is the best option. Service Strategy policies may dictate that outsourcing is the first choice. However, when following the framework to achieve effective and efficient IT services, one may let the output from Service Design provide an optimal recommendation that may not have been considered previously.

The Service Design phase must consider all of these aspects and design the right solution that will deliver this service based on the guidance and expectations from the Service Strategy phase. This may yield one or more alternatives and ultimately an IT Governance process will approve a solution. If the best solution is to select an external Service Provider, then the activities within Service Design will further refine the requirements for all aspects of the service including operation, support and continual improvement.

A key advantage of following this approach is that an organization will have all of the information needed to develop a sound and comprehensive Request for Proposal (RFP).

ITIL® V3 FRAMEWORK BENEFITS

ITIL® v3 can provide benefits to the organization in the following key areas:

- Industry proven processes
- Measurable
- Drives continual improvement
- Provides a common language

IT GOVERNANCE

Most organizations have Corporate Governance processes that should include IT Governance participation since IT plays a pivotal role in the success of business.

IT Governance should not just be an IT initiative. It is part of the overall governance of the enterprise with a specific focus on improving the management and control of Information Technology for the benefit of the organization. Ultimately, the Board of Directors is accountable to ensure that IT, along with other critical activities, is adequately governed.

The purpose of IT governance is to direct IT initiatives to ensure that:

- IT is aligned with the business strategy and delivers the expected benefits
- IT acts as an enabler to the business by exploiting opportunities and maximizing benefits
- IT resources are used responsibly
- IT-related risks are effectively managed

A decision to use an external Service Provider for one or more IT services is an IT governance output and is accountable to manage the performance and costs of the services of the external service provider.

Once the organization embarks on a sourcing initiative, it will need to consider an additional set of responsibilities (and capabilities) that govern the supplier relationship. This set of responsibilities, roles, objectives, interfaces and controls is required to anticipate change and manage the introduction, maintenance, performance, costs and control of the services provided by the external service provider.

IT Governance is the responsibility of the Board of Directors and executive Management. It is an integral part of enterprise governance and ensures that the organization's IT sustains and extends the organization's strategies and objectives.

IT Governance Institute Board Briefing, 2003 (C.5)

The client and service provider must adopt this outsource governance process to provide a common, consistent and effective approach that identifies the necessary information, relationships, controls and exchanges among the various stakeholders across both entities. The level on which this governance model is implemented may differ for each relationship, but should not exclude any of the responsibilities for good outsourcing governance practices.

Common high-level governance processes include relationship management, service delivery management and contract management. Across these are more detailed processes including:

- Policy processes acceptance, development and implementation
- Compliance
- Dispensation
- Performance management
- Business control
- Change control
- Environment management
- Billing analysis and review

ORGANIZATION TO GOVERN SERVICE PROVIDERS

It is necessary to define a governance “organization” responsible for activities such as decision making, ensuring delivery meets contractual obligations and escalating issues. These activities integrate to form an approach that manages risk and ensures the activities undertaken by both parties are articulated and transparent.

IT Governance should ensure this type of organization is in place and given the correct levels of responsibility, authority, access and visibility so it can carry out their duties effectively. Effective governance of Service Providers must be explicit and have committed executive sponsorship.

CONCLUSION

To begin framing a sourcing strategy, IT leadership must seek answers to the following questions:

1. Can the next-generation of service providers be leveraged?
2. Can the existing internal Service Management capability be transformed to effectively manage service providers?
3. Can the internal IT professionals transform into roles that focus on service, not technology?
4. Can a business survive if “YES” is not the answer to the questions above?

Unfortunately, there are probably far more sourcing failures than successes within all industries. Those organizations that have success consistently look internally to improve their sourcing management capabilities across their organizations. It is not easy. Learning and continually making improvements internally with regard to people, process, technology and suppliers are the keys to success.

Employing IT Service Management best practices like ITIL® v3 and IT Governance is a great way to ensure these areas are addressed, leading the organization to an effective sourcing strategy.

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