

CHAPTER I

IN WHICH WE ARE INTRODUCED TO WINNIE-THE-POOH AND SOME BEES, AND THE STORIES BEGIN

HERE is Edward Bear, coming downstairs now, bump, bump, bump, on the back of his head, behind Christopher Robin. It is, as far as he knows, the only way of coming downstairs, but sometimes he feels that there really is another way, if only he could stop bumping for a moment and think of it.

And then he feels that perhaps there isn't.

In order to reduce spend and improve access to the latest technology and approaches, many organisations are outsourcing the provision of their information and communications technology. While these arrangements are sometimes successful, this article explores some underlying organisational and process reasons for failure from a systems thinking perspective. Alongside this diagnosis of systemic failure, we provide analysis of how these problems might be addressed; successfully implementing the recommendations herein is, of course, a difficult task.

The core elements of outsourcing failure identified are set out below.

Different cultures, in terms of approaches, expectations, styles, behaviours, and even symbolism. This needs to be made visible, explicitly addressed, and expectations set where cultures diverge.

The 'silent conspiracy' of those procuring and those bidding to 'turn a blind eye' to the customised/bespoke requirements of the client, which would render the process uncommercial on both sides, which sets both sides up for later disappointment as the true complications, and costs, emerge. This is complex to fix, requiring both a surfacing of the true requirements, through due diligence and greater openness, and the outsourcing provider to structure itself with the realistic expectation of specialist client requirements and capability to meet them and learn through doing.

Incoherence of the new outsourced service as a business in its own right. The new service, as a business, needs its own culture and standards, management that looks beyond contractual management information, and the adaptability to plan for the future. It is quite common for the service to continue to provide basic services through sheer organisational inertia, while no longer being capable of working as a coherent organisation - like a plane running on autopilot long after the crew has bailed out.

These organisational failures can create vicious cycles:

- lack of management supervision due to the outsourced management focusing on sales, new requirements, fire-fighting, or pacifying clients, which takes more time away from supervision and creates more crises;

- lack of co-ordination within the outsourced service because the account is structured by reference to the outsourcing company's requirements without sufficient planning to make the outsourced service coherent in its own right.

The former requires well-structured governance and allocation of enough resources to manage and make changes at all levels. The latter requires intentional design of the new service as a coherent business, which should be checked by the buyer when entering into the contract.

Relationships created on treacherous foundations by the sales/procurement process which lead to a breakdown of trust and increase in relationship costs as predictable problems occur due to lack of realistic expectations. This requires the establishment of governance at multiple levels, with shared, realistic expectations.

Failure of basic technology operations processes which are usually based on ITIL (in the UK at least). It is common for only a subset to be implemented and for integration to be weak. The missing processes are often the ones seen as 'back-office' but which offer most potential for improvement and cost reduction. This causes serious inefficiencies and poor handover management.

In our experience, one or more of these problems occurs in information and communications technology outsourcing, almost without exception. Rather than walking with eyes open into this series of bear-pits, much must be resolved at the time of outsourcing if cost and frustration are to be minimised. And as well as investing in specifying and procuring with awareness of these systemic issues, organisations conducting outsourcing and those providing outsourcing services need to be clear that they need to invest in the capacity to diagnose, fix, and improve organisational and process issues.

The irony is that it is clearly in the interests of both parties to get the relationship, management, and service provision right. And yet, if both sides sat down and designed an approach to generate cost, frustration, and relationship breakdown, they would be likely to design something that looks very similar to current approaches.

If we followed the systems thinking maxim 'the purpose of a system is what it does', we might conclude that outsourcing of information and communications technology purposefully and predictably increases costs and frustration and reduces satisfaction. The fact that the industry continues to survive is testament not to human stupidity, but to the underlying potential of this kind of relationship, and to the intelligence, hard work and bloody-minded determination to deliver despite the system of the many dedicated professionals involved in outsourcing, provision, and at the delivery level in our organisations.

CHECKLIST

A checklist for existing users and new procurers of ICT outsourcing - 'do the opposite' of what might be expected. If your outsource is in place and not working, then review the points below as a basis for a renegotiation

- 1) consider whether there an in-house transformation could provide an alternative to outsourcing that would offer the same quality and financial benefits
- 2) ensure that your culture and expectations and those of the bidding organisations are audited and that a plan is in place for the delivery organisation to successfully merge or align these core organisational elements
- 3) avoid the 'conspiracy of silence' and ensure that the true complications and costs of your bespoke requirements are being discussed, and the provider is prepared to properly cost and deliver these
- 4) make sure that the outsourced service is being considered and set up as a viable business in its own right, with effective management and supervision and the ability and capacity to plan for the future
- 5) plan and cost for effective governance at each level
- 6) make sure attention is paid to all aspects of technical process management, and there is fully qualified capability on each side to manage this
- 7) invest more than you think you need in management and change capacity, and insist the provider does the same
- 8) ensure your provider is planning to make a long-term viable profit on the work and limit their incentives to drive additional sales
- 9) perhaps most importantly, plan to look worse at the start of the contract (higher prices and lower promises), rather than looking good at the start and progressively worse as reality dawns; invest early in clear-eyed pessimism, not late in disappointment

HOW OUTSOURCING CAN FAIL AND HOW TO FIX IT

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INTRODUCTION

Many organisations are choosing the outsourcing model for the provision and support of their Information and Communications Technology (ICT) services. It is widely believed that this offers the best solution to getting value for money as well as access to the latest technology and approaches. When it works, this is indeed the case, and the large businesses that provide outsource services certainly have the capacity and capability to provide this.

However, outsourcing is not always successful – it depends on the size and nature of the ICT services being outsourced. Outsourcing can also be successful or unsuccessful based on the precise nature of the services and on the identity of the client and outsourced service provider. Underlying this are a number of issues that can occur in any situation – although perhaps more prevalent in some – and this paper attempts to address them so that they may be avoided or, at least, mitigated.

Why ICT outsourcing can fail is a big subject. Of course, not all ICT outsources do fail, but many have inherent problems that take a long time to fix. In this paper, the focus is on medium/large ICT outsources, and on structural and process issues. Many of these will exhibit at least some of these points of failure.

Failure means different things to different parties: for the client organisation it usually means that the delivery of ICT services is not up to the standard expected; for the outsource supplier it usually means that the account is not (sufficiently) profitable, and may even be loss-making.

Underlying these outcomes is a wide range of organisational and process failures. It is rare for these to be the 'fault' of individuals – indeed, many individuals in both organisations can spend their whole working days struggling to mitigate and compensate for these failures. An investigation of the underlying systems and processes can help to identify remedies and preventative actions where such are possible.

It should be stressed that although many of the fixes can be described in a single sentence, implementing them can require a considerable commitment of time, resource and expertise.

Finally, this paper does not address the issues that arise in multi-supplier outsourcing environments. Generally speaking, as well as new possibilities for failure, the failures discussed below can all still occur but the consequences are frequently worse, the failures more severe in their impact on the client, and the fixes harder to achieve.

ORGANISATIONAL CULTURES

One of the first things that become apparent when any part of an organisation is outsourced is that the two new partners frequently seem to be at cross purposes, with different expectations. It is as if they spoke different languages.

In reality of course, they do: Different organisations can have very different cultures – in the form of terminology, behaviours, standards, quality, structures etc... This often comes as a surprise, as it can be very hard to imagine how a different organisation might be if you have not worked at various levels in the hierarchy of several different ones.

There are often different expectations of quality systems – for example in the level of record keeping, minute taking, documentation, approval mechanisms, and care in following standards.

There may be differences in communication style – the nature and frequency of meetings, amount of honesty in communications e.g. *does Yes mean Yes – or maybe*, willingness to accept suggestions up the hierarchy, professionalism of communication material, the commitment to speak with ‘one voice’. When a deadline or target is set, is this a commitment, or is it something that can largely be allowed to pass without any great surprise or concern?

Even more serious are deeper issues – how hierarchical a business is, the willingness of managers and staff to take criticism, the level of honesty expected in appraisals, the use or otherwise of 360 feedback and mechanisms for continuous improvement.

If there is an assumption that some or all of these will be the same in the outsourced service provider as in the client, then the client is likely to be in for a rude shock! Many of these misalignments can give rise to major issues, especially in the early days and years – for any transitioned staff, for the expectations of the outsourcing client, and for the client’s customers.

How to fix this:

If organisations are different in these aspects –and they will be – then it is unlikely that either organisation would be able to change. However, awareness of these issues can at least anticipate the problems they may cause.

- Some of these points are so serious that they really should be addressed in the contract, although it is rare for this to be the case.
- To make sure these are addressed, due diligence should be carried out by the client – who may wish to employ a third party with particular expertise in this area.

In this way, expectations can be clarified and where appropriate, the client expectations documented.

STANDARD VERSUS BESPOKE SOLUTIONS

Once the relevant parts of the client ICT department have been transitioned over to the outsourced service provider, the provider starts to transform the services into their standard technical and process solutions. At this stage it is frequently discovered that large proportions of the infrastructure and applications are not quite as standard or as up-to-date as were anticipated. The transformation stalls, costs escalate, performance falls, the client and service provider both end up unhappy.

There are two extremes of outsourcing – which graduate into each other:

1. At the simpler end is the case where a discrete, standard service is outsourced to a single supplier. An example of this might be a telephony service: Such services can generally be 'bought off the shelf'. Domestically we do this all the time, when we buy an internet service, or a computer, or a piece of software – we're buying a standard service offering. In general, and complaints about ISPs notwithstanding, this is usually a more successful tactic than trying to build any of these services ourselves!

What largely characterises the success of these services is that they are standard – we all buy the same, or at least a similar, service with little or no customisation. As the purchaser, we do not interfere with the service provided, or see the need to closely monitor the service provider: The provider can therefore 'do it their way' and focus on economies of scale.

2. At the other extreme, a large organisation might outsource its whole ICT department and expect to have its whole, customised and bespoke, set of applications, infrastructure and business knowledge managed for it – but of course at lower cost and with higher performance and professionalism! The outsource provider is expected – and expects – to do this successfully by applying its own, standardised infrastructure and application development resources. Herein lies the first problem:

If the highly bespoke and customised requirements are clearly defined in the request to tender, then any realistic bids are likely to be too high to get the work.

Fortunately (?) however, those involved in pricing the bids don't usually have the understanding of the costs incurred when there is a move away from the standard solution, so they underbid and their bid is accepted. Thus is the work allocated and the contract finalised!

So, at the start there is frequently a conflict of expectations. Once the outsource provider's technical and business people get involved, they can find themselves in a cleft stick. They're trapped between the requirements of the client – sometimes described in the contract - and the standard approaches they are expected to use by their parent organisation to deliver the economies of scale on which the price was based: It can't be done.

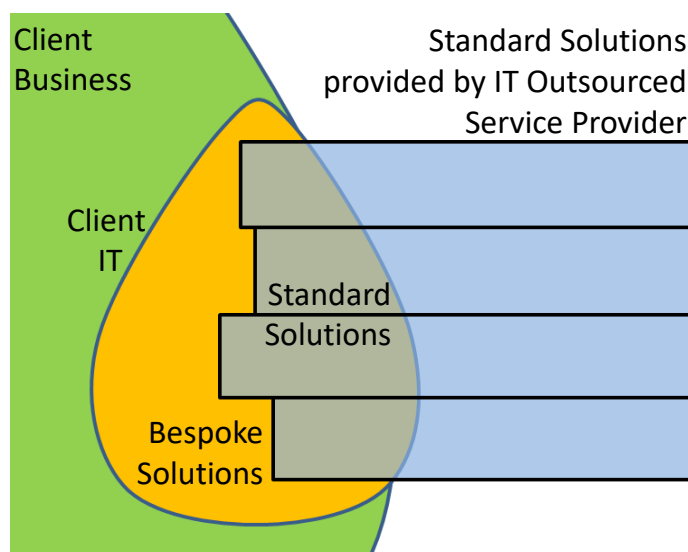


Figure 1

The Standard Solutions provided by the ICT Outsourced Service Provider cannot fill the needs of the Client ICT. There is still a gap that requires some bespoke solutions, even if not described as such

The diagram shows that the outsourced service provider has to provide enough resource or capability to fit the client's bespoke requirements, as well as the standard requirements that they were expecting. Many providers simply don't have the available resource and don't do this adequately.

Additionally, even as little as 10% of non-standard services can more than double the cost of delivering a contract. This seems to be unknown to most sales professionals and contract negotiators, so even if they do recognise the non-standard nature of some services, they don't appreciate the scale and cost of the impact. They exacerbate this blind-spot, frequently failing to carry out the necessary due diligence with the servicing arms of their own organisation, or worse, incorporating capabilities without the associated costs in pursuit of an acceptable bid price.

How to fix this:

- The outsourced service provider should have a clear and structured portfolio – including both standard services AND the cost of supporting bespoke and customised services. These can then more easily be matched to requirements – and realistically costed.
- The outsourced service provider should perform due diligence on contract details – as should the client – prior to final contract signature, not afterwards.
- The outsourced service provider should challenge all bespoke requirements in the Request for Tender – indicating the true costs.
- The client should challenge the outsourced service provider to ensure full understanding of the services required and conduct their own due diligence of the response.
- Finally, and critically,
- The outsourced service provider should invest in groups of staff able to support bespoke and customised infrastructure, applications and other services – probably including transitioned staff for each account initially.

Behind these fixes is a bigger one – the outsourced service provider needs to become a learning organisation so that the lessons of unsuccessful contracting are correctly learned and measures, such as those above, are put in place to make future contracts more successful. However, for some outsourcing organisations, changing from a 'we reinvent wheels' to a learning organisation mode is just too big an Ask. Culture at this level is VERY hard to change.

BUILDING A BUSINESS FROM SCRATCH

The new service provider is delivering the outsourced service; everyone is keeping their heads down and doing their job delivering to the client. Under the surface, however, all is not well: Staff are not sure who to ask about things, the tooling is not behaving, their role may be growing but there is no way to get additional resource; they are not rewarded for working long hours and may not even be sure who they report to. Demotivation is growing and key staff are starting to leave for greener pastures. The posts they vacate are not filled. Managers don't have the information they need to be sure things are running smoothly, don't know how many staff they have or who they are and increasingly frequently a nasty surprise arrives which cannot always be kept from the client. The more forceful and aggressive managers (the 'heroes') begin to take control while everyone else feels as though they are wading through a swamp. This is all because the support organisation has not been assembled properly.

So, this second issue for focus is perhaps less obvious and more variable between outsourced service providers: it is to do with the structure and organisation of the outsourced ICT department – or Account – from the perspective of the outsourced

service provider. This applies whether the outsourcing is of standard or bespoke services, so long as the support organisation is large enough.

An account may be a substantial organisation in its own right – especially if supporting a government department or large private business. However, unlike large commercial organisations, it will usually have been created, or recreated, pretty much from scratch.

In the real business world, organisations grow – partly planned, partly ad hoc – some slowly, some fast. Poor organisational structure and process can be the cause of business failure. Therefore those businesses that succeed have, by definition, organisations that at least suffice to support the business. There is no such opportunity for weeding out poor account organisations in the outsourcing world.

Successful organisations have two key, mutually integrated, characteristics: they are stable and they are adaptable, and they can change themselves. The absence of even a single component in the spectrum of characteristics, due to poor design, can cause a rapid proliferation of errors if the wrong button is pushed and catastrophic failure then ensues. It frequently pushes the organisation into a new operating mode which is even less adaptable.

Structural Viability

It is surprisingly common for outsourced ICT to carry on delivering an adequate service even when the organisation around it is functionally almost non-existent. This, of course, can only occur while the original – outsourced – ICT staff are still around. Everyone keeps their eyes down and focuses on their job. Hence the stability requirement is being maintained.

If anything bigger than their job comes up, that's when the problems arise. This is normally when the adaptability requirement becomes evident. If the structures and processes aren't there to handle unexpected variety in demand from clients, then the problems start. In the next parts, some of these structures and processes are discussed:

A major purpose of any organisation is to ensure that the work its staff do – the delivery – is aligned. This is maintained by various types of communication which are partly driven by a set of organisational systems that are needed at each level of management. At higher levels of management there may be whole departments for each of these – at lower levels, a single individual may need to carry out all of them in parallel!

Just Managing

Management need a system for directing and requesting work, for providing the resource for that work and for measuring how well it is being done. This is well understood and is what most people think of as management.

However, for this to work there need to be a number of things happening:

- Managers need to receive Management Information, i.e. the information they need to understand how well the work is being done. This can involve considerable forethought to ensure that the right information is summarised for the manager and at the right level of detail. Agreeing a common format, structure and flow for this monitoring information can save a lot of time. If an essential feature of the work is not summarised in the management information, then it is invisible to the manager and can go badly awry before it is detected, causing major problems.
- Management need to make sure that they don't just review the Management Information, but they make decisions based on it to remedy issues and make improvements. This sounds obvious, but is too frequently not done – especially with less experienced managers.

- In many cases, there need to be regular meetings of a manager with their group of staff managers to present and review the monitoring information, allowing comparison of actual results with capability expectations. This allows unclear information to be discussed and clarified before decisions are taken. It also makes sure that the staff managers are aligned in their thinking and planning. Time needs to be allowed in the diary for these meetings to happen.
- These regular meetings should be arranged to that they happen up and down the organisation in a sequence over a time period – such as a week, a month or a quarter. This provides a heartbeat for managing the organisation and needs to be adaptable to the transactions carried out by different departments, as well as the criticality of particular contractual elements to the client.
- For this to be most effective, the system should ensure that decisions are taken by the management at the appropriate level of the organisation. Without this, senior management find their whole time taken up with operational minutiae. This is a significant cause of organisational failure: Senior managers cannot have enough insight and knowledge to make the right decisions on detailed operational issues and will get many wrong; senior managers doing this will not spend enough time on the more strategic matters they should be addressing.

Management by walking about

There is another, related but subtly different system: It is most commonly known as *management by walking about*. Although this is most commonly seen as a management style, it is actually a quite different system all together. All the parts of *Just Management* assume that the information being provided is relevant, complete and truthful. In the real world, it is common – indeed perhaps even normal – practice for managers to gently mislead their bosses about the success of their particular unit. This is a form of gaming. It is about presenting the good news and hiding the bad. At worst the reporting systems are corrupted to make sure this happens; the information selected for management reporting excludes the difficult and problematic factors. This is so common that little is seen to be wrong with it, and this behaviour frequently arises in organisations where there is ‘fear’ of passing bad news upwards, or where the messengers are (metaphorically) shot.

As a result, managers receiving such filtered information do not have the basis to make the right decisions. They can largely pre-empt this dangerous situation by using a *management by walking about* approach. They take the time to look round the organisation and talk to the operational staff – bypassing their immediate staff management – to find out what is really happening. This is a form of monitoring and can be amazingly effective. It not only ensures that they are better informed, it also motivates the operational staff, who now know that their concerns are reaching those who can act on them. Even when the manager is satisfied that the management information they are receiving is accurate and representative, this still has value and often represents the only safe upwards ‘feedback’ mechanism, a true ‘vox populi’ for the organisation’s staff.

Common Standards and Practices

A second system that management need is one that provides standards and practices for the subsidiary groups to use to make sure that they all work in an aligned and joined-up way. This reduces the tendency for teams or departments to ‘go their own way’ – each developing their own preferred ways of doing things. Although there may be a place for this, it is important that many things are done the same way.

Imagine, at an extreme, an international company where each department decided on a different core language to work in – the departments wouldn’t be able to communicate with each other. In organisations that have been formed by amalgamation – and that can include outsourced staff working for a new set of managers – business language and its interpretation can be quite different. The adoption of IT Infrastructure Library (ITIL) guidelines by so many working in ICT is often an attempt to reduce this issue, although it’s critical that ITIL is used

consistently, otherwise the terminology and approach can result in different barriers and 'cliques', sometimes between ITIL adopters and other staff.

Other standards can include financial reporting standards, process standards, salary policy – the list is endless and most modern companies just assume this happens. However, when an organisation is set up from scratch – like an Account – it is not uncommon for some standards and practices to be missing and this, again, can cause things to go awry.

Planning the Future

The *Just Managing* system and the *common Standards and Practices* system both have focus on the organisation as it is now, on making sure it is delivering what is required. However all organisations also need to plan for the future, look out for what is coming from outside, ensure that there is research and development going on, and that development is responding effectively to changing demand from the service provider's market place and clients.

In outsourced ICT this function is fulfilled by two groups. The first is the architects who are looking for new technological initiatives – from both inside the main outsourcing organisation and also from suppliers. The second is normally fulfilled by sales or business relationship managers, by whatever name – these look into requirements from or possibilities in the client business. In both cases the aim would be to generate new programmes of work to bring new services to the client.

A third group also has a focus on the future – this is the improvement group who are looking for opportunities to improve existing services through reorganisation, redefinition of processes, revised services, new tooling etc.. Again the aim is to get the client to approve new work programmes. In exceptional cases where reduced costs are expected, the outsourced service provider could provide the resourcing itself.

PROBLEMS DERIVING FROM ORGANISATIONAL CHOICES

Organisational problems of the First Type:

The first type of problem arises when the outsourced ICT is not structured according to the systems described above. This is surprisingly common because although some of these management systems are well known, others are not.

The system that is nearly always left out is *management by walking about*. This results in unreliable data being used for decisions, untempered by insight, and a leadership team who think everything is rosy when it clearly is not. As a result, nasty surprises can occur!

This is exacerbated when the *Just Management* system is only partly working– usually when the management information is inadequate or out of date, perhaps the meetings to discuss it are irregular, too brief or even don't occur at all. Quite frequently the decisions that are needed to remedy the problems that the poor data reveal are not taken, or are not resourced or championed adequately when they are taken.

Ironically, these problems occur most frequently when the focus of the outsourced ICT leadership team is on the client – perhaps because they are firefighting or maybe because they have a sales mentality, either from natural preference or from corporate policy and incentives. There is not enough time available to spend all one's time in client meetings and to try to manage a failing organisation.

A vicious circle can occur here – poor organisation results in occasional but serious issues that come to the attention of the client; the client demands more of the

leadership's attention in meetings and managing remediation; the leadership have less time to manage the ICT outsourced organisation; the poor organisation results in more, occasional but serious, issues.

Failures in the *Common Standards and Practices* systems are also common but will be discussed below in the section on ITIL. Failures in the *Planning the Future* system normally arise in the improvement area – especially when the attention is on firefighting problems.

How to fix this:

- The outsourced service provider must focus on effective governance in all these areas.
- Ensure that client/outsources governance meetings take place at all levels in the organisation (ladder governance)
- Ensure that escalation routes are clear for all processes – in the client and the outsourced service provider
- Regular meetings with pre-agreed agendas, structured management information to review
- Ensure that there are clear and interlocking Roles and Responsibilities for all staff – not in too much detail, the emphasis is on clarity – manage to these
- A heartbeat of meetings and informal networks up and down, and across the organisation so that problems are resolved at the appropriate level; and without having to escalate everything,
- Clear decisions and documented follow-through
- Expectation to allocate resource to fixing the organisation – staff won't do it in their spare time!
- Outsource Leadership team to allocate time to walk about and find out what is really going on,
- Outsource Leadership avoid being pulled into endless meetings with the client – if necessary delegate these meetings or, if not possible, delegate the management of the outsource organisation
- Build a proper management system, based on a common-understood model of the organisation; not just a quality system in a specialised ghetto, but one that everyone recognises and uses.
- Ensure that there are proper mechanisms for upwards feedback; ones that utilise walk-about contact, but also create other opportunities for the ideas and frustrations of staff to be heard.

Behind these fixes is a bigger one – the outsourced service provider should appoint someone or even a team to own the organisational system – governance, operating model, processes as well. This team may be in the architect groups or part of the improvement activity and can ensure that all the important systems are in place.

Organisational problems of the Second Type:

The Unit Lead seems to have her own agenda and regularly misses Account board meetings. Communications go out without reference to or agreement from other Account leaders. She only gets really involved when the allocation of profits to the Solution groups is discussed. Staff working on the Account can seem rudderless and demotivated because their team leader is remote and otherwise engaged. The different Solution groups use their own reporting tools, making it hard to gather management information for the Account leader. It doesn't feel as though the Account is pulling together.

This second type of problem arises when the outsourced ICT is not structured according to the client but to the internal structure of the outsource parent organisation.

Outsource suppliers tend to be structured to provide bespoke services to large clients or vanilla services to a range of clients. This point was made at the start. Again, these are extremes and many fall between these.

The bespoke service provider usually has the outsource supplier structured principally organised by 'Account' – i.e. client. At the extreme, each client has a dedicated Account organisation which manages all the staff servicing that client. The benefit here is that each client gets a highly dedicated service; the weakness is that it is difficult for the outsource supplier to get economies of scale, to have flexibility in staff allocation, to provide access to the latest developments or to ensure consistency of approach and delivery. However, from an organisational point of view this structure is relatively straightforward as the structure simply (!) needs to follow the guidelines of organisational systems as detailed above.

The provision of vanilla services is also relatively straightforward: In this case the outsource supplier does not provide a client-based organisational structure at all, but organises itself on a technical, geographical or some other basis. The client focus is provided by some form of business-relationship manager whose role is to ensure that the vanilla services on offer meet the client needs and to deal with any issues arising. In reality this becomes an almost impossible role as the supplier's vanilla service nearly always gets modified for the client, and the organisational structure struggles to manage this; the more diverse the clients, their size, sectors and demands, the worse this becomes.

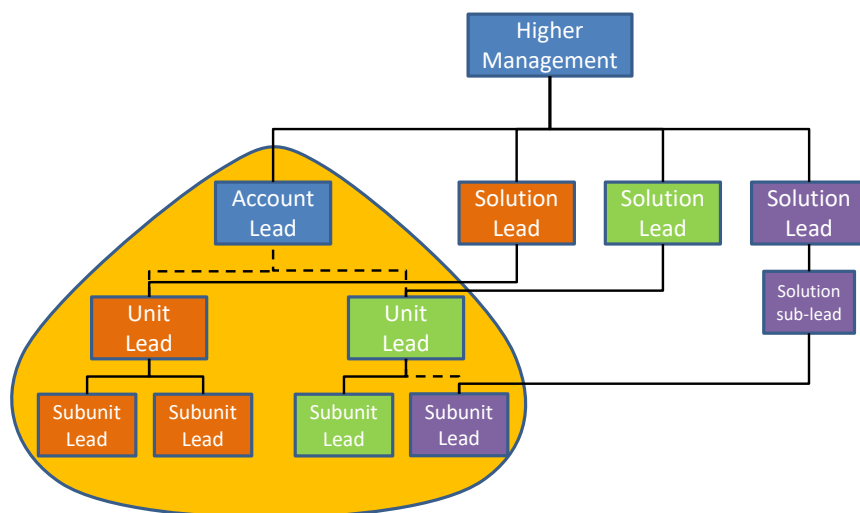


Figure 2
The Outsource Service Provider organises solutions centrally and does not give the Account Lead any line authority over them – even when they are operating within their Account.

The vast majority of client/outsourced service provider relationships, and hence outsourced service provider organisational structures lie in between these two extremes. This may mean that the need for the account to provide a viable organisation which can meet the bespoke client needs is compromised by the outsource suppliers 'centralised' organisation. Hence the staff who are nominally in the account actually report to someone else (in their technical, geographical or some other organisation). This makes it almost impossible for the account leaders to control or even influence the performance of the operational staff - with inevitable consequences.

Another complication is that the account leadership team may include 'leaders' of operational staff who don't report to the account leader in any other respect and who behave with a degree of independence and autonomy that can be damaging to consistent development and delivery of an account strategy.

To put it simple, the account is operationally and managerially neither fish nor fowl; its purpose is unclear and the result is confusion, demotivation and poor customer service.

How to fix this:

- The outsourced service provider needs a clear view of which organisational model it is following and the consequences
- The outsourced service provider may develop parallel models of delivery and adopt one or the other depending on the size and nature of a contract
- If direct management responsibility for operational staff on the account is not with the account leadership, then clear indirect routes to manage performance must be developed and used
- Clear organisational accountability for delivery should be established as the delivery model is developed, and regularly reviewed during the lifecycle of the contract
- The client should identify how the outsourced service provider intends to resource and control the resources in a contract, before it is signed

The benefits of 'economies of scale' in ICT are often more often mythical than real. This is not made easier by the difficulty of measuring productivity in the ICT sphere. It is highly possible that an 'Account' model for medium and large accounts, using staff contracted-in from 'capability homes', provides not only the best client service, but also a cost-effective solution.

THE RELATIONSHIP

Although it is not unheard of for the client organisation to have just a skeleton team receiving management information from an outsourced service provider, it is rare for this structure to survive. More typically, contracts specify a series of governance boards which may be specified to review so many reports that, where they do it conscientiously, would mean the participants spending all day every day in such meetings!

Additionally, most contracts start off on the wrong foot: To win a contract the outsource provider frequently has to offer a price that often leaves the contract breaking even or perhaps making a loss. The aim is to make up for this by selling-on additional services, however, the effect this selling has on the client is to reduce trust. Frequently, there is little understanding of the time lags and causal relationships between an initial sale, incremental sales, gross margin at point of sale, subsequent cost of sales, and expected contract profit expectations at various stages of the contract's lifecycle.

Should any large failure occur – in the technical service or the business processes – it provides a strong motivator for the frequent review of performance and management information. The outsource service provider's leadership team can rapidly find themselves in crisis meetings and spending large amount of time and money in remediation projects. This occurs because the governance structures have been unable to prevent the dissatisfaction and failures at an earlier stage.

Trust has vanished and increasingly onerous controls are put in place, the client recruits staff whose main role is to keep an eye on the outsourcer – costs start to rocket. In addition, costs of failure, service recovery and goodwill mitigation with clients are very often poorly understood, if not hidden altogether from financial scrutiny.

If all this can be pre-empted it leads to a much happier and successful relationship: The contract may be used to define a ladder governance structure – client roles are

created to mirror each layer in the ICT support organisation. Their function is to ensure that processes are followed, performance meets expectations and management is effective. They meet regularly with their peers where they review only the appropriate amount of information. Concerns are escalated and so the senior teams only become involved only if the lower rungs of the ladders have failed to resolve an issue.

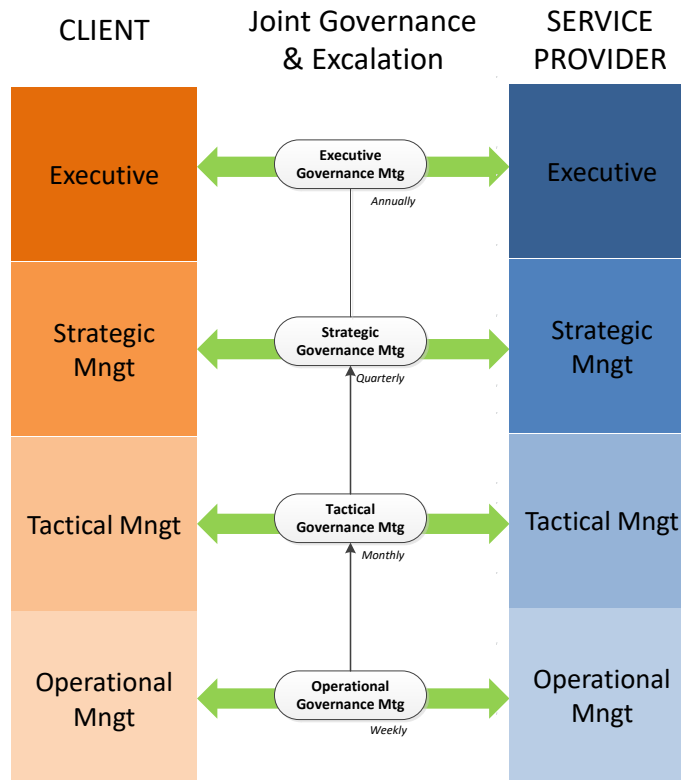


Figure 3
Ladder Governance allows issues to be resolved at the lowest possible level and only issues that cannot be so resolved are escalated to higher rungs on the governance ladder

PROBLEMS DERIVING FROM PROCESS IMPLEMENTATION

The processes here are typically operational and development processes as opposed to the management process discussed above. When considering process in ICT support – at least in the UK – one is inevitably talking mainly about ITIL processes. These are defined in five books and, in the latest versions, cover everything from strategy to operations with design, delivery and improvement in between.

The roots of ITIL’s guidance lie in operational processes and these are the ones that are most frequently implemented.

So as to avoid explaining the whole of ITIL, which is not the role of this paper, it will be assumed that the reader has some familiarity with ITIL processes so that comments can be made without the recourse to reproducing the five ITIL books here.

Typical operational ITIL implementations include Incident Management, Request Fulfilment and service desks (a function in ITIL, not a process) which provide a customer face. Service Level Management is usually also implemented, although not

always automated, as this is the basis of most contractual obligations through monitoring the performance of the customer-facing processes.

In the warranty space, there is usually some form of availability management which, coupled with monitoring, also provides information for the availability and ICT performance service levels. It is usual for Security Management and ICT Service Continuity Management also to be active.

Finally, some form of Change Management is essential to ensure that the live service remains uncompromised, although this is frequently only active in the operational (i.e. not the development project) area.

This selection of processes frequently provides the minimum used when implementing support of ICT services. Even when others are specified in a contract, they may not be effectively implemented. There are many important processes missing from this list and the following discussion will attempt to identify the key ones.

Partial Implementation

Problem management is one of the processes which is likely to be agreed contractually but not implemented effectively. Problem management is important for both client and outsource provider alike as it provides a gradual fixing of problems which results in improvements to the service, the reduction of incidents and hence the reduction of costs.

If an outsource provider is paid on a 'per incident' basis, then this immediately reduces motivation to implement effective problem management. Problem management is a process which the client should insist on, and keep a close eye on – direct measurement may not be easy, but the reduction in incidents for a given service should be more so.

For the outsourcing service provider, one element often missing is the meta-level problem management to identify common problems across multiple clients and, where this is missing, can result in fixes being developed in silos, resulting in waste and squandered learning.

Configuration management is the second process that is likely to be agreed contractually and not implemented effectively. Frequently configuration management is seen as a 'background' process and therefore a cost by the service provider, and one that is not directly measurable. This is a big mistake: without configuration management, all the operational processes listed above are more expensive to carry out and overall control of services is much weakened. Configuration management tells the provider what the overall service looks like, what the components are, how they interact – it gives the ability to manage the service. Without configuration management, support teams are often shooting in the dark.

The client needs to ensure that promises to deliver configuration management are met and, again, this needs to be closely watched so that a spreadsheet of servers used (for example) is not presented as being a configuration management system – which it is not! One of the commonest problems with configuration processes is that the quality of data; inventory and records, is frequently compromised by the need for a client service provider to keep contract lifecycle costs to a minimum, or simply a lack of effective data quality governance, creating problems for not just one but many of a service provider's clients.

Capacity management is a key sister process to availability management and allows for planning and the prevention of performance deterioration. It is not just the ongoing measurement of capacity for reporting purposes, but should be used to drive intervention before capacity limits are met. Poor capacity management results in failures in availability and performance for the client and excessive costs for service providers.

Good tools and automation allow availability, capacity and performance monitoring to be carried out largely resource-independently. They also allow integration to the service level management process allowing low-cost, high-quality reporting. *Monitoring* allows events to be detected and pro-actively managed – and the automatic creation of incidents and provision of data for problems.

All outsource providers use tools, but they are not all as integrated as they could be, nor are they always set up to do these things even if they can be. It is up to the client to ensure that the provider is doing all they can in this respect. Further, this is another area where bespoke requirements, such as non-standard operating systems on servers, can have a major impact on the automation capability.

Missing Processes

ITIL still hasn't got everything clear – there are a several areas in the operational space where significant processes are under-emphasised – and hence may as well be missing for the average implementation.

The main one is called by a number of names – significant change and non-standard requests are two. This essentially covers requests that are not absolutely standard & provided in a user catalogue. They may require change approval or may require a mini-project to implement them. There is actually a range to the size of these requests and some organisations categorise them as minor, medium and major change requests – even more categories may be considered useful in some environments.

If no processes are designed for these request types there is a tendency for these to all go through the project route, and in this case the cost of fulfilling the requests is very frequently more than their value. They can also escape from the constraints of a contract if they were not anticipated and this can also cause dissent and disagreement between client and service provider, as well as resulting in escalating costs for demand that doesn't easily fit into unsuitable categories or processes.

Asset/software lifecycle management is also underemphasised in ITIL: It should be obvious that stocks need refreshing, that hardware and software versions need updating and that, sometimes, technologies need replacing. However, although it is rare for all of these to be missed, it does happen. Ensuring that there are clear processes for doing this can reduce problems in the medium and long term.

How to fix process issues:

- Ensure the underlying processes with the potential to support the 'frontline' processes are given sufficient resource and focus – principally configuration management, problem management and event management (including monitoring tooling)
- Use change management effectively to protect the live environment from unauthorised changes
- Build non-standard request processes into the contract, especially where ITIL and other frameworks lack useful guidelines.
- Where possible re-use process content, rather than re-inventing them for each contract, since re-use enables deployment of common support applications and reduces unnecessary costs.

To make sure this all happens, ensure that the outsourced service provider's Service Manager – the owner of all these processes- is fully qualified in ITIL (or a similar) process methodology and understands the relationships between processes. Having a similar responsibility in the client organisation can make sure that this happens.

BEYOND THE OPERATIONAL SPACE - HANDOVERS

Although earlier versions of ITIL were often seen to have an operational focus, latest versions are much clearer in their advocacy of processes and procedures that manage the whole service lifecycle. In many cases, neither outsourced service providers nor clients have caught up with this.

This is a vast area for discussion, so we will content ourselves with focusing on the end-to-end nature of the process lifecycle.

One of the biggest problems in ICT development has always been that ICT services have been developed for the convenience of the developer (& sometimes the user!), but rarely the support resource. On the contrary, throwing services 'over the wall' to service support (=Service Management) seems to be a well-established sport dating back at least forty years and fundamentally jeopardises the services provided, as well as the long term viability of an outsourced service provider.

The key features here are:

1. Managing the handovers, and
2. Early involvement of Service Management.

In fairness to it, the later versions of ITIL, if fully adopted do answer these problems very effectively. However, it is rare to find this implementation in place and rarely are these handover single-phased or simple, and it is the complexity of these that causes misunderstanding and mishandling. . The two key handovers are from sales/new business proposals into service design and delivery (not using the ITIL terms) and from service delivery into the service support/management organisations. ITIL provides the service lifecycle pack for the first handover, the service design pack additionally for design to delivery and the service transition pack and early life support for the second handover.

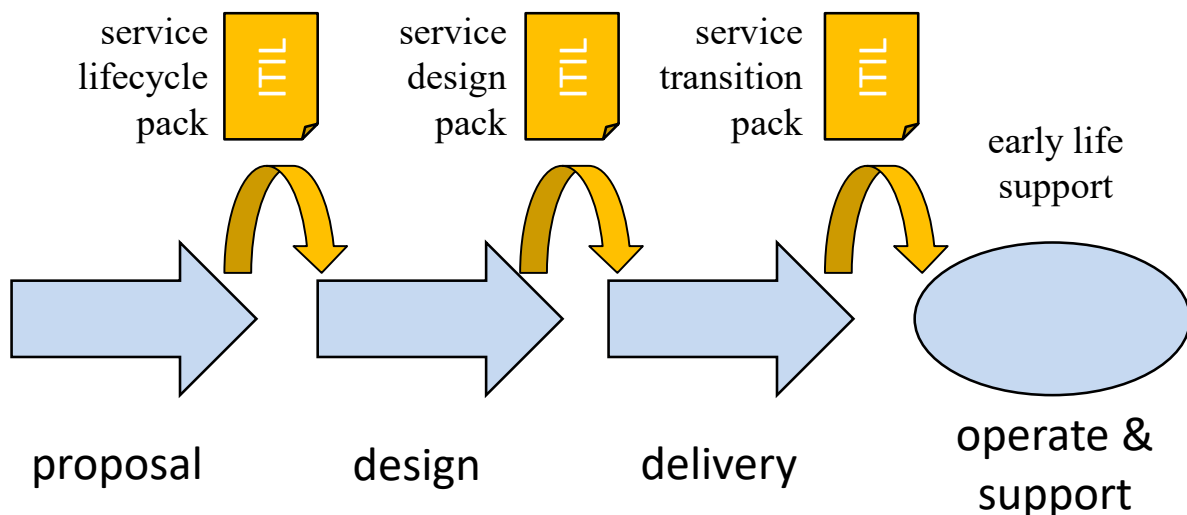


Figure 4

ITIL provides and defines information packs to reduce the risks of poor handovers during service development

Making sure these handovers happen effectively is largely a matter of management priority. Both the service provider and the client can take steps to make sure that handovers work and put governance processes in to control them. It is fair to comment that an awareness of the importance of this comes when there is a leadership team who really understand and care about how their ICT organisation works.

One thing can make these handovers even harder in a multi-supplier outsource context: That is when the different stages of the service lifecycle are being carried

out by different organisations, or by a combination of organisations. For example, the new business and service design may all be managed by the client, the service design and development by an outsourced development provider and the service support by yet another service support provider. The handovers then become complicated by contracts: coordination and knowledge transfer become embroiled in intellectual property issues.

ITIL Service Design procedures require the involvement of service support resource at the earliest stage – in particular the capacity and availability, security and ICT service continuity management processes – the warranty processes. However, Service Management should also be represented in these early design stages to ensure that there is the expertise and resources to support the new service. This should continue throughout the further service development right through to release.

How to fix this:

- Ensure the end-to-end lifecycle processes outside the traditional 'service management' area, are taken seriously.
- Have Service Owners who are responsible for each Service from conception to support
- Ensure there is a high quality of document management process and tooling – introduce (ITIL) Service Design Packs?
- Define & document the end-to-end processes with a particular focus on handovers from one stage or unit to the next, and ensure that non-standard aspects are properly captured
- Ensure there is strong Project Change Management – this has a different scope from operational change management
- Use the Demand management process to send a strong signal into resourcing and capacity planning
- Build early involvement of service operations staff into design – ideally involve them in documenting requirements as part of the Service Design Pack

To make sure this all happens, give someone the responsibility to own all the processes in ICT support with a special focus on interfaces and process relationships. This could sensibly be combined with the Continual Improvement role.

CONCLUSION

It is unlikely that many outsourced ICT groups will have all of these problems, but it is even more unlikely that any outsourced ICT group will not have some of them. It is very easy for any of these difficulties to cause a breakdown in service provision – whether absolutely or just in poor quality and performance. Once this happens the outsourced ICT management fall into a vicious circle where time taken to retain client trust takes away from their ability to actually fix the problems – which they may not understand in the first place. Equally, trust breaks down and the client starts to use its resource to 'mark' the outsourced roles – increasing costs and devaluing the outsourcing contract.

There are a wide range of problems raised above, some at a detailed level. Any organisation with a significant number of these is going to struggle to fix them and it is unlikely that resource would be allocated until a crisis occurs – which it will. This is where an informed client could intervene to insist on changes being made pre-emptively to prevent the crises.

In many cases, when a crisis occurs, the way out is to bring in some form of consultancy to fix it – either internal to the outsourced service provider or,

especially if initiated by the client, a third party. This brings with it risks associated with the unknown competency of the consultants.

Although this is likely to be essential in extreme cases, a better solution is to keep a role in the ICT group that is focused on understanding, maintaining and fixing organisational and process issues. Although the role definition isn't the same, this could usefully be added to the roles of the Continual Improvement Manager as defined in ITIL. Without continual improvement, no ICT service provider could hope to deliver satisfactory services to their client.

FURTHER READING

The Heart of Enterprise – Stafford Beer (1979) John Wiley & Sons; New edition (28 Sep 1994). ISBN 978-0471948377

The Fractal Organization: Creating Sustainable Organizations with the Viable System Model – Patrick Hoverstadt (2009) John Wiley & Sons. ISBN 978-0470060568

ITIL for Dummies – Peter Farenden 2011) John Wiley & Sons. ISBN 978-1119950134

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ITIL Service Strategy - *cabinet office* (2011) Stationery Office; 2nd ed., 2011 edition (29 July 2011). ISBN 978-0113313044

ITIL Continual Service Improvement - *cabinet office* (2011) Stationery Office; 2nd ed., 2011 edition (29 July 2011). ISBN 978-0113313082