



Adaptive IT service providers: fact or fiction?

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Many companies and organizations find that outsourcing the IT function is an effective way to implement their business strategy. Enterprises that outsource expect their service providers to provide high-quality IT services. Nonetheless, experience shows that not all service providers succeed in providing the consistent performance agreed upon for IT services. The multidisciplinary nature of IT outsourcing leads to increased complexity and this impacts the realization of consistent performance. The purpose of this paper is to provide insight into a methodology that will enable service providers to achieve consistent performance for their customers. The methodology we developed and the corresponding measuring tools are also discussed.

Introduction

In the past 15 years, globalization, deregulation, and consolidation have played a significant role in how companies develop a business strategy. IT strategy derived from the business strategy invariably raises the question: what activities should we perform ourselves and what should we outsource? Examples of these IT activities include IT infrastructure, business applications, communication networks, and so on. In recent decades, the number of companies choosing to outsource all or part of their IT

environment has increased significantly across the globe. In 2010, the IT outsourcing market was US\$ 270 billion with an annual growth of between 7 and 10% ([IDC10]). Enterprises that outsource IT activities expect their service providers to provide high-quality IT services that satisfy the agreed upon service level agreements. Factors that affect the quality of service include relationship building, contracts management ([Beul11]), insight into hidden costs ([Bart01]) and change management ([Plug09]). The multidisciplinary nature of IT outsourcing leads to increased complex-

ity for service providers and this impacts the realization of consistent performance. Both scientific and market research ([Feeno5]) have shown that many service providers are deficient in or incapable of providing consistent performance for their customers during the period of the outsourcing contract. By “consistent performance” we mean that the IT services delivered satisfy the agreed upon service level agreement. This article describes a work method for IT service providers that is based on adaptivity. First, the necessary background is covered that will throw some light on providing consistent performance. This is followed by an elaboration of the adaptivity concept. Next, the work method to achieve consistent performance is explained and then the corresponding measuring tools.

Background

IT service provider performance that does not meet the agreed upon requirements of the outsourcer often has a direct impact on the primary business processes. In practice, the deficiencies in consistent performance gives rise to onerous (financial) discussions between the outsourcer and service provider that put extreme pressure on the relationship. There is good reason for the sharp increase in the number of outsourcing mediation cases in the last five years. Lowered service provider performance also leads to lowered customer satisfaction and an attendant lowering of the “recommendation rating”. This is the degree to which an outsourcer recommends a service provider to other enterprises.

Inconsistent performance is strongly related to the sourcing expertise (capabilities) of a provider and the manner in which the expertise is organized. The sourcing capabilities can be seen as the relationship between knowledge, experience, processes and procedures that support the development and delivery of IT services. This involves capacities that are both *tangible* (hardware, software) and *intangible* (attitude, behavior). Interestingly, enterprises that are

motivated to outsource make the assumption that providers actually have sufficient sourcing capabilities. When sourcing capabilities are further elaborated, it elicits the well known IT processes with relation to information management, service management and change management. A sourcing capability model is a convenient way of forming an impression of what sourcing capabilities are important ([Feeno5]). The model (see Figure 1) describes a dozen capabilities divided into three areas of competency: Relationships, Delivery and Transformation. Providers must have a sufficiency in these sourcing capabilities to be capable of delivering quality IT services. The sourcing capabilities partially make use of IT processes. Thus, a relationship arises that is supported by the internal information services within the organization of the outsourcer. This affects the domain of IT auditing with regard to the specific monitoring of IT risks and management of IT processes.

In addition, the question arises as to how these sourcing capabilities are organized within the organization. Is it clear where these capabilities are available in the organization and are these easy to gain access to? When sourcing capabilities must be made available internationally, it increases the complexity of organizing them. Moreover, dimensions that play an important role are decision making, hierarchy, communication, horizontal integration (specific or generic knowledge) and the degree of formalization. The developments on the customer side also appear to have an impact on the sourcing capabilities and organizational structure of providers ([Plugo9]). Examples of changing customer circumstances include the changes in the sourcing strategy of the customer (from single sourcing to multivendor sourcing), the need for innovation and the need for flexible provision of manpower and resources. These business needs call for constant monitoring of providers and assessment of the impact on their own capabilities and organizational structure.

Organizing IT services brings various orientations together including organizational structure, IT processes, competencies, HR, laws and regulations, and, of course, information technology. In a word, the delivery of IT services is multidisciplinary. Remarkably, many providers manage the changes only in specific knowledge areas, but not all areas as a whole. In fact, the different disciplines are interdependent and this complexity means that these can no longer be managed separately. This increasing complexity obligates service providers to pursue an interdisciplinary approach within the said orientations. Changes on the side of the outsourcer may mean that existing sourcing capabilities and organizational structures need to be adjusted. This demands a high degree of adaptability from the board and senior management of the providers. Given that many providers base the delivery of IT services on the value discipline model called “operational excellence”, adapting to the changes in the customer’s circumstances leads to internal conflicts. Offering tailor-made solutions



Figure 1. Sourcing capability model ([Feeno5]).

is always completely at odds with delivering IT services at the lowest possible cost. The key to resolving the conflict can be found in achieving a balance between sourcing capabilities and the manner in which these are organized. This balance will lead to the realization of consistent performance.

Adaptivity

The delivery of consistent IT performance requires the ability to adapt. Two factors play an important role here. The first is the willingness of providers to adapt themselves. It is not a given that this will occur automatically. Other influences within the organization can affect the willingness to adapt. Examples include a re-evaluation of the business strategy, shrinkage of market share, or loss of revenue in a specific market segment. After all, adaptation costs time and money. This also requires that management work to effect the changes and to ensure these are realized. In addition to willingness to change, the second significant factor in achieving consistent performance is the ability to actually implement these adaptations. An organization must have the right people and resources (processes, systems and tools) to be able to implement changes. The combination of willingness and ability to cope with change determines the degree of adaptivity.

Work method

A specific work method (Provider Performance Approach) was developed to assist providers in the change process required to achieve consistent performance ([Plug11]). The provider audience can be divided into two subgroups: external service providers and shared service center organizations within an enterprise. Both situations involve the delivery of IT services to end users (customers). The work method developed (see Figure 2) is a phased design and consists of four phases.

The first phase focuses on monitoring and discussing customer developments in the relationship with the outsourcer. Developments occur on the customer side during the contract period of an outsourcing agreement that may affect the provider organization. Examples of these developments are the decision to be active in other markets and adjustments to the portfolio. The regular monitoring and discussion of customer developments may seem trivial. In practice, many providers focus more on operational activities, such as resolving incidents and the implementation of changes in IT infrastructure and applications. This attitude takes away from the task of mapping developments that will occur in the medium and long term. This approach often leads to recognizing problems too late and further delays in implementation of necessary changes. This gives rise to additional costs in the long run when catching up on those changes.

During the second phase, the identified developments are assessed for their impact in relation to sourcing capabilities and organizational structure. An impact analysis shows which specific sourcing capabilities must be boosted or built from scratch. Additionally, an assessment is made on whether the organizational structure oriented toward delivering IT services to the customer must be adjusted. The analysis also includes a substantive review of the agreed upon service level agreements to determine whether, and if so, what changes should be made. The outcome of the analysis is then presented to the board or senior management. This step makes it possible to assess the impact of changes on the customer side on your own organization. Decisions can now be made within a much broader context.

The third phase focuses on developing improvement initiatives. The impact analysis is a basis for developing focused initiatives that strengthen the sourcing capabilities and guaranteeing the possible changes to the organizational structure. Discussing these improvement initiatives with the customer positively influences their perception of the provider. Managing expectations helps restore the relationship between customer and provider and their trust in each other.

The fourth and final stage is the implementation of the proposed improvement initiatives. Experience shows that people get caught up in day-to-day issues that regularly prevent improvement initiatives being implemented. This means that supervision of the actual implementation of the changes is very important. Setting up programs or projects is an effective way of ensuring improvements are realized. In particular, this is the responsibility of senior management within the provider organization. The adap-



Figure 2. Phased approach ([Plug11]).

tive ability of a provider begins with the willingness of management to deliver consistent IT performance. After improvements are implemented, the monitoring of changes begins again, which accounts for the cyclical design of the methodology.

Service providers should pursue an interdisciplinary approach

Measuring tools

Each phase of the developed methodology is translated into appropriate methods. This provides a measuring tool that traverses through the entire cycle of the methodology. Working in this manner, we work step by step toward the realization of consistent IT performance. The work method and associated measuring tool is used by different service providers (national and international). The material developed for this purpose is available in both Dutch and English. The methods for each phase, and experiences with the methods, are explained sequentially.

Phase 1: Monitor

To gain insight into the changing customer circumstances, the developments for each market segment are investigated. The reason is that developments in a specific market segment, say the retail sector, can have an unusual effect on the sourcing capabilities and organizational structure of the provider and thus also their performance. The most significant developments in a market segment are added to a checklist. This checklist is used for each cus-

tomers team within a market segment. The checklist can be supplemented with customer-specific developments. This provides a good snapshot of the different types of developments. Subsequently, the results and conclusions with respect to the changing customer circumstances are discussed with the customer. This is partly for verification and partly to create client awareness that the provider is taking the changes seriously and is dealing with them.

A second instrument is a *questionnaire* that is used to measure the performance of the provider. The questionnaire (via the web) is used to map the perceptions of the provider employees with respect to four different themes. These four themes are customer developments, sourcing capabilities, organizational structure, and performance. An example of some of the results of the questionnaire is shown in Figure 3. In the example, the previously described competencies are worked out, namely relationship, transformation and delivery. For each phase, each of the statements is given a score (under the X's) and number of respondents (under the N's). In addition to the specific snapshot of each phase, it also gives an overall general perception of the performance (Grand Total). This provides insight into each phase and whether there are any bottlenecks. The questionnaire is completed by employees who are selected because they are actively involved in the

Customer developments		Grand Total		Relationship		Transformation		Delivery	
		X	N	X	N	X	N	X	N
Ko1	The provider regularly monitors changing customer circumstances	3,0	39	3,0	5	3,2	17	2,8	17
Ko2	The provider explicitly identifies customer changes	3,4	33	3,4	5	3,4	19	3,3	9
Ko3	Customer developments are assessed for the impact within the organization	2,6	22	3,3	1	2,6	17	2,2	4
Ko4	Customer developments affect the sourcing capabilities	2,8	24	3,5	2	2,7	16	2,9	6
Ko5	Customer developments affect the organizational structure	3,2	28	3,2	3	3,2	12	3,3	13
Ko6	Customer developments affect performance	2,3	32	2,3	7	2,6	15	1,8	10
Ko7	The business strategy is based on the customer intimacy	3,1	34	3,2	9	3,1	11	3,0	14
Ko8	The customer sourcing strategy impacts sourcing capabilities	3,5	38	2,5	6	4,0	20	3,2	12
Ko9	The customer requirement for innovative solutions impacts sourcing capabilities	3,0	33	2,4	4	3,4	20	2,4	10
Ko10	The customer requirement for flexible deployment of staff impacts sourcing capabilities	3,3	34	2,9	5	3,7	20	2,7	10

Figure 3. Example (part of a completed questionnaire).

IT outsourcing contracts. A distinction is made between three groups: relationships (sales), transformation and delivery. The reason is because employees in these different groups often have a different perspective about the above themes.

Phase 2: Evaluate

During the evaluation phase, the information collected in the previous phase is analyzed. The identified customer developments and the results of the questionnaire are evaluated with respect to the subsequent impact on the organization (*impact analysis*). This is both a qualitative and quantitative evaluation. It is possible to compare the results by selecting different target groups (sales, transition and delivery). Experience shows that this comparison provides surprising insights into how different groups look at current IT performance. Bottlenecks are identified based on the first analysis. *In-depth interviews* are used to discover the reasons for bottlenecks. The in-depth interviews should be conducted with participants working within the previously mentioned groups. Supplementary interviews are held with representatives from customers who receive services from the provider. This allows the outcome from the impact analysis by the provider to be tested against the perceptions of the customer regarding the IT services delivered.

Phase 3: Improve

The bottlenecks identified in the impact analysis in the third stage are translated into a number of improvement initiatives. This requires interaction with the most important stakeholders, including senior management, application experts and technical managers. To support this process, a *workshop* is developed in collaboration with the responsible stakeholders to discuss the outcome of the analysis. The bottlenecks are then iteratively reworked a few times into improvement initiatives. For each improvement initiative, it is determined what specific activities must occur and who is responsible for these activities. Examples of improvement initiatives include design or re-design of IT governance processes, the designing or re-designing of organizational structures, the strengthening of specific sourcing capabilities and developing of an adaptation process.

Phase 4: Implement

In the last phase, the established improvement initiatives are actually implemented in the organization. An appropriate activity is sought for the type of improvement initiative, e.g. *workshops*, *training* and *coaching*. In particular, attention is given to the “soft side” of change. Experience shows that change invokes resistance. This is certainly true for changes in sourcing capabilities and organizational structures. The delivery of IT services based on

an outsourcing contract is pre-eminently a “people business”. It is crucial to include employees who are affected by the changes. Indeed, employees are the key to realizing change. After a certain period, the outcome of the implementation is checked against the proposed improvement initiatives and, if necessary, adjustments are made. This allows improvements to be embedded within the organization.

A case study follows that shows the work method and tools in action.

Case study: Regional IT service provider

The case study describes a service provider based in India that is specifically active in Europe and provides IT services to customers via delivery centers across the globe (development and management). As of 2001, the provider is active in IT outsourcing with a focus on target companies that have between 8,000 and 50,000 employees. The business strategy of the provider is based on three pillars: customer intimacy, supporting a limited number of market segments, and the pursuit of a cultural fit with its customers. The portfolio of IT outsourcing services focused specifically on IT infrastructure, workplace services, and application management.

Work method

As part of the first step of the work method, a questionnaire is disseminated among employees of the provider actively involved in outsourcing contracts. Subsequently, in-depth interviews are held with employees who are actively involved in a specific customer relationship. The customer was an international insurance company with headquarters in the Netherlands and operating globally. In addition, the customer relationship was investigated over a five year period with respect to the delivered performance. The analysis (Step 2) revealed four key events that had affected the performance of the provider. These events were related to: the transition phase, the transformation to an eService organization (on-line insurances), the safeguarding of IT continuity, and the need for more flexibility regarding the use of resources (FTE). The analysis showed that on the provider side, there were two significant causes that played a role in the events. The first was a lack of adequate sourcing capabilities (knowledge, skills, support processes) to adequately deliver IT services. The second was because the organizational structure was not aligned with the organization of the customer.

During the third step of the work method, the events and bottlenecks are translated into a number of solutions. During the transition phase (first event), it appeared that the provider did not have the necessary sourcing knowledge and experience available to carry out or complete actions

in the appropriate manner. The transfer of people and resources (assets), translating the contract into workable procedures, and redesigning of the IT landscape required senior program managers and project team members with extensive knowledge and experience. These proved to be lacking in practice. The senior managers who replaced some team members brought more structure to the approach and this led to increased performance.

In the transformation process towards an eService organization (second event), there was a need to be able to quickly start developing applications for projects. The dilemma that occurred here was that the customer could not take advantage of developments quickly enough (new eServices) because the provider did not have sufficient IT resources. This resulted in long lead times and difficult discussions between customer and provider. To solve this problem, the provider developed a resource and capacity tool (forecasting) based on certain attributes (initial work activities, type of application, required skills) to obtain an estimate of how many resources were needed. By incorporating experiences with the application projects into the tool, it was possible to substantially increase the predictive capability. This made it possible to enter changes during a project, such as enhancement work, directly into the tool and have it automatically adjust the planning and resource usage. This resulted in a significant reduction in turnaround time when developing applications.

A phenomenon that a lot of providers especially in India have to deal with is frequent employee turnover (third event). The downside of the low-cost development of IT services is that workers can rapidly develop their knowledge and experience and then change employer. This development puts pressure on continuity in the delivery of IT services to the customer. This problem is solved by deploying so-called “shadow resources”. By staffing up an extra 30% above the existing workforce in the onsite and onshore team it is possible to deal with the turnover. The extra employees fulfill tasks that broadly cover the activities oriented toward the customer. This provides better safeguards in terms of continuity.

The need of the customer for more flexibility (fourth event) is translated into a change in the functional organization. Here, a model was developed that ensures the physical support of provider employees at both the customer side as well as the onshore location in the Netherlands.

Thirty provider employees are now permanently located at the customer site. This group of employees is mainly involved with defining functionality (specifications) for applications.

In addition, there are about 40 employees present at the onshore location in the Netherlands. The group is focused on translating the new requirement for IT services into the development of solutions and managing colleagues working in offshore locations. The rapid scaling up of resources with specific knowledge and experience was an important requirement.

The work method developed as applied during the events had made a demonstrable contribution to improving provider performance. Another outcome was that the customer satisfaction with the provider's performance increased significantly. Finally, it is worth mentioning that the proactive attitude of the provider resulted in gaining market share (additional assignments and activities) at the expense of a competitor. This shows that the adaptive ability of this provider played a crucial role in the customer awarding them additional projects.

Conclusion

Despite the fact that there so much has been written about the importance of the adaptive ability of providers, experience in sourcing shows that its existence is regularly a fiction. Service providers must develop themselves past their current practices so that they have the ability to adapt to changing customer circumstances. This will put them in a much better position to actually safeguard the agreed upon performance levels for IT services. Adaptivity particularly requires active management involvement. Given that IT outsourcing contracts is multidisciplinary, managers of service providers must take an interdisciplinary perspective and act accordingly in the handling of adjustments of sourcing capabilities and organizational structure. The work method and measuring tools developed for the Provider Performance Approach have provided demonstrable results for both national and international service providers. The deliberate monitoring and evaluating of changing customer circumstances and the subsequent adjustments to sourcing capabilities and organizational structure increase the adaptive ability of service providers. Adaptivity is no longer a fiction but a fact!

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