

# The Retained Organization

This white paper highlights how to design and establish an effective retained Organization when outsourcing IT and the importance for doing this in the right way in order to achieve competitiveness.

*Bertil Danared*

As IT becomes a more natural and important part of the business, businesses tend to outsource more and buy more services from external providers. However, one has to bare in mind that the business can never abdicate from the responsibility for the services delivered to the business. There is sometimes a misconception about the roles and responsibilities and that you actually can outsource the accountability. This is not possible.

Sourcing has become an increasingly important factor when it comes to optimisation, rationalisation and innovation. In the past few years in particular innovation has become an increasingly important factor in outsourcing deals. But the lack of innovation also seems to make customers unsatisfied and in many cases this may very well be the tipping point for actually leaving the outsourcing provider. Successful implementation of IT and IT sourcing strategies requires good and effective governance. This is all too clear. A governance structure in place means that there is a function within the business (mostly procurement) that has the capability to work effectively and is designed for the purpose, i.e. has the right size in terms of people, the right processes in place and capable of prioritising the right issues. Despite this fact establishment of good governance is often forgotten and is allowed to form itself more or less ad-hoc. Furthermore, with no clear link to the business needs or to market best practice.

A structured review, based on a best practice methodology and framework, of the business IT organization in terms

of processes, roles and responsibilities provides a good foundation for building a working IT strategy. The review should include areas like services, processes, responsibilities, roles and functions to ensure long-term competitiveness.

## **BACKGROUND**

Many organizations have undergone major changes in its structure and nature, leading to new demands on IT. The way IT is organised and delivered is the result of a rapidly changing and often uncertain world and new demands – where globalisation, horizontal and vertical integration and new competitive opportunities constantly change the game. Organizations are continuously working to improve both the internal and external efficiency and to reduce costs.

Delivery, daily operation, governance, organizational structure, strategies and objectives must go hand in hand to achieve best results. To ensure an effective and future-oriented internal organization is an ever more important factor to provide competitiveness. However, an organization needs to have the capacity, knowledge, flexibility and a dynamic leadership in order to maintain its competitiveness. The quality of the internal organization becomes more and more of a key factor.

The governance model is a kind of a “compass” that not only makes the steering of the business possible but also develops collaboration and supports decision making. SPN supports organizations to develop a suitable “target operating model” for an IT organization when outsour-

cing is taking place and according to a structure based on demand/supply management, i.e. taking into account both the demands from the users and requirements on the supplying units.

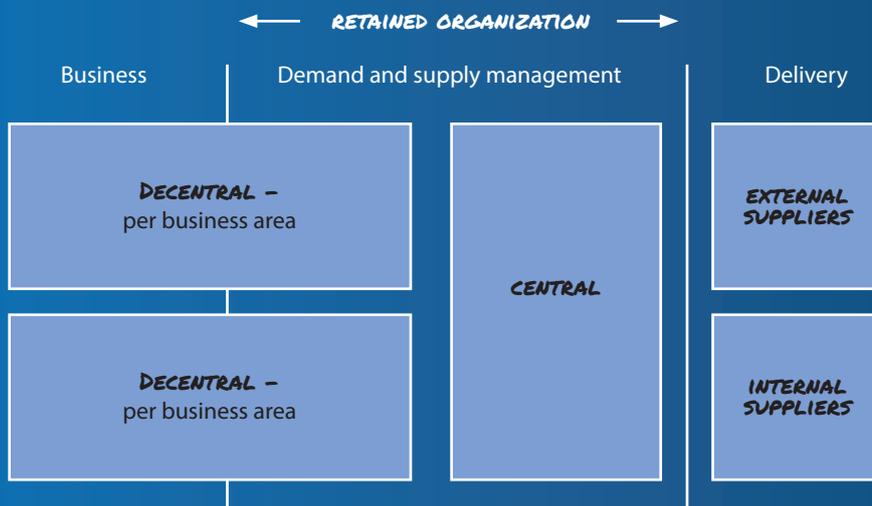
Surveys show that about half of the Nordic organizations rate their ability to manage their service providers as weak or slightly better. The need for competence and capability in this field is clear and well known to many. Despite this, the efforts to strengthen these are generally weak.

There are several risks of outsourcing, which often have to do with a too high cost for the services provided and that it is hard to predict the costs of the services delivered. Decreased quality or loss of key knowledge and expertise

are results if you lose too much competence in the process, and it is difficult and takes time to build it up again. The governance model plays an important role here.

To be successful, a clear division of roles and responsibilities, both for demand and supply management is of the great importance, in order to keep an unbroken chain from user to supplier. When organizations outsource, they often maintain old governance structures becoming fragmented and not particularly target oriented. Interaction between parties in the value chain suffers and the goals and purpose of the sourcing as well as overall business goals are not reached. A modern governance model is required.

## The Demand/Supply Structure is the Foundation of the Modern Governance Model



*The picture also shows how the demand and supply management for various organizations can be both centralized and decentralized. It may be decentralized, linked to the business areas and geographic structure and it can be centralized, where certain issues can be handled jointly. Often both models co-exist and in parallel connected for instance to different service domains. For example application development can be business specific with regards to understanding the needs and to procuring the services from an external supplier, whilst for example, an email service is the same for everyone and can be centrally managed for the entire business.*

In order to get the benefits of outsourcing, a working demand/supply structure in the client organization is an absolute prerequisite.

How the procurement organization manages the demand (business needs) and the supply (delivery from an internal or external party), is called "demand and supply management", which are the keywords for a modern IT organization.

A clear and transparent demand and supply management ensures control over the outsourced IT delivery and enables alignment between the IT delivery and the business objectives.

For demand management, which is linked to the business needs, the focus is on implementation and development of business processes and to establish relevant IT requirements to support these processes. It is about "doing the right things." For supply management the focus is on "doing things right", to get the right service delivery from the providers, whether they are sourced internally or externally. To become successful the supplier must be given the opportunity to meet the business needs based on

their standardised solutions (although they to some extent always are adapted for each customer).

By clearly separating business, demand management, supply management and delivery enables a clear, unbroken chain of responsibility. It is necessary to see the demand and supply in its entirety - all parts must work towards the same goals in order to achieve a successful IT strategy. The picture above illustrates the demand and supply structure.

### DESIGN, SIZE, ROLES, PROCESSES AND QUALITY

General design principles for the IT organization based on the demand and supply model can be expressed as:

- The foundation of the IT governance model is a clear division between business and IT. The business uses IT services and the IT organization ensures the delivery of these services.
- The business is supported by demand management to enable an optimal and efficient use of IT, considering the business processes supported by IT.

- IT services are delivered by different entities (internal or external) in which the IT organization will ensure a coordinated and effective delivery, which is called IT supply management.

The demand and supply organization's effectiveness is depending on the right sizing of it, based on demand and supply, but also on the balance between strategic, tactical and operational issues. The organization may be too small, which is clearly not an enabler for effective work seen from the procurement side. However, it can also be too large and create inefficiencies and make the buying side to take on tasks that the supplier should do. This creates for sure a troublesome relationship and a supplier that loses part of its innovation and creativity.

Although this in many ways may seem illogical, the IT organization often is quite good at putting requirements on the suppliers, but finds it more challenging to work with the business needs in a good way. These facts often reveals that demand management is less developed than supply management.

The design of an IT organization, linked to planned and executed outsourcing, relies on the following key success factors:

- Simplicity and clarity, with clear and communicated roles, functions, processes and responsibility end-to-end within IT.
- Clear understanding of who the customer really is, where the customer receives the right delivery at the right price, with a demand management that captures customer needs and where the business is involved.
- A strategic and tactical lifecycle approach to IT services.
- Ensuring the right size and skills.
- High reliability and availability in the daily operational management of processes end-to-end.
- A process oriented approach.
- Transparency, clear customer agreements and SLA monitoring throughout the chain, from customer to supplier.

When the governance model is to be established it is important to distinguish between operational, tactical and strategic process chains. The strategic chain focus on goals

and policies, the tactical more on people and processes to comply with the policies and the operational on the performance of the daily operational IT processes.

### SUCCESS FACTORS IN IMPLEMENTATION

In the implementation phase, a broad view of the purpose of the retained demand/supply organization is important. It is about much more than just establishing collaboration forums with suppliers – it is also about getting process flows working from the business and its needs, translating these into requirements on the right level towards the suppliers.

By engaging advisors with a well-established, proven frameworks and experiences on how to size and balance between demand and supply, between the strategic, tactical and the operational, as well as how roles, responsibilities and processes should be allocated – the quality of the implementation can be ensured.

Based on actual key figures and experiences from working with standardised models with other clients, a benchmark with other organizations can be obtained. This will provide information on the size down to the role level, best practices etc – unlike the standard information from the market that are not based on real cases from a holistic perspective.

This white paper has had a focus on the IT space, but the models and the discussion are equally relevant and important for other service areas. When BPO (business process outsourcing) services are outsourced, such as finance, payroll, property management and facility services, the quality of the service deliveries are to a very high degree depending on the client's expertise and its design and size of the retained demand/supply organization. Regarding procurement in the public sector of for instance health services, the procurement's competence, capacity and quality has proven to be crucial.

SPN has with its employees expert knowledge and experience from many projects where we have worked with entire IT organizations, procurement organizations within IT infrastructure and organizations for application management and application development, but also in areas other than those related to IT, as described above. We have also experience from working with this in a many different industries and within both the private and public sectors. ●



**SPN (Sourcing Professionals Nordic)**  
**www.spnadvicory.com**

Copyright © SPN 2017. All rights reserved.