Retained IT organizations – a critical element for sourcing success

High performance. Delivered.

Strategy | Digital | Technology | Operations
Matching retained IT capabilities to your sourcing model

Years ago, the make-or-buy question originated with a company's manufacturing capabilities. Today, this question is addressed by senior management of every part of the organization.

Especially in IT, the market recognized this trend and for CIOs and IT management attention turns to which sourcing strategy and sourcing model to pursue, since potential external partners can provide everything from specific, narrowly defined tasks to complex projects or completely outsourced IT operations.

The question of how the IT organization’s needs evolve internally to steer external business partners often gets neglected, however. Indeed, the potential benefits of sourcing - such as reduced costs, improved service quality and more flexibility and scalability - can be forfeited if the organization does not adapt. The skill sets needed to manage external partners are distinctly different from those needed for IT operations.

Adapting the skills, processes and structures of the retained IT organization is not a matter of renaming the division and carrying on. To set up a mature management process for external vendors, the organization will need specific capabilities dependent on the organization’s sourcing model.

These important capabilities are only the starting point and should be mixed and matched as needed. This Point of View emphasizes essential capabilities and does not represent the full evolution that the retained IT organization will need to go through. Since every organization will take a unique approach, we focus here on important capabilities for each model.

First, let’s define the four sourcing models we will review:

1. **Staff augmentation**
   Staff augmentation means supplementing staff to acquire skills needed, cover for capacity shortages or cut costs through labor arbitrage. These external resources typically work under close direction of the internal organization.

2. **Selective sourcing**
   Selective sourcing transfers responsibility for defined work packages and IT services to external vendors. Vendors are accountable for full work packages or IT services.

3. **Monolithic outsourcing**
   Monolithic outsourcing means using the scale and quality advantages of an external sourcing partner, usually one core vendor. Responsibility and risk for large parts of the IT value chain are transferred to one external vendor, though accountability remains with the business.

4. **Multi-Sourcing**
   Multi-Sourcing means contracting with multiple, highly specialized or industry-leading vendors for a wide range of IT services. However, accountability as well as responsibility for vendor management remains with the business.

Source: Accenture Research 2015
1. Staff Augmentation

Speed to market and flexibility are core drivers of business success across industries. That requires IT to be highly flexible in meeting business demand and in providing the right resources when and where needed, while still staying cost efficient. Many companies look to external talent as needed – to cope with skill and capacity shortages, but also to benefit from potential labor arbitrage.

Decisions to source particular resources are often made in a decentralized way, which is possible because contracts are typically small and simple. While this may be a quick way to augment existing resource pools, the responsible executive may have overlooked an internal resource who might qualify to perform the job. Our experience shows that internal workforce utilization is often sub-optimal, leading to unnecessary staff augmentation and the related costs of onboarding external resources.

Reasons may vary from inconsistent skill profiles, making it hard to map the internal workforce to demand, or delivery units that were not involved early on in demand planning, leaving them too little time to react properly to requests for personnel. In some cases, external individuals are hired ad-hoc because of their relationships within the company. Whatever the reason for sourcing additional resources, the performance of these professionals may not be subject to the same governance and tracking as usual, and this will make it hard to use such information for future sourcing decisions.

Retained skill: Ability to balance the internal and external workforce

To get the potential benefits out of staff augmentation as a sourcing strategy, the organization must retain the ability to balance the use of internal and external staff. The way to do this is with mature resource and skill-management capabilities.

What signals a mature capability in this case? First of all, hiring decisions have to be seen as strategic sourcing decisions rather than being made on an ad-hoc basis. Organizations should decide centrally which skills are strategic and should be kept internal, for instance via standardized skill profiles. The costs of acquiring these skills should be analyzed regularly to make sure they remain in line with targets over the long-term.

By keeping a central overview of internally available resources, including skill sets and availability, companies can control costs and detect trends in resource and skill demand, which can improve planning for headcount and training. If several specialized skills are sourced externally over and over again, it may make sense to define those as strategic skills and build them internally – to keep control of a critical skill set and to limit dependency on the external market.

Retained skill: Effective resource and capacity planning

To gain the potential benefit from staff augmentation and to limit ungoverned external sourcing, clear guidelines need to be established. In particular, we recommend that governance processes should dictate that delivery units must be consulted early-on during project planning. For instance, when budgets are requested, it should be clear if external resources will be needed. Here again, clear skill profiles and centrally managed resources will make sure the decision-making about external sourcing is done in a conscious process that is in keeping with the overall sourcing strategy. These guidelines could also help companies enforce strict sourcing governance to avoid hiring too many one-man-show freelancers.

These two retained skills – the ability to balance the internal and external workforce, and effective resource and capacity planning – help companies make the appropriate sourcing decisions. They are vital for the staff augmentation model, which typically includes a high number of sourcing decisions on individuals.
2. The selective sourcing model

The second sourcing model - selective sourcing - also requires specific skills to be retained in the organization. In this model, an external partner takes over responsibility for a defined work package or IT service. If clear performance metrics are defined, this model allows the IT organization to cut costs through labor arbitrage and efficiency gains, and to get access to industry-leading expertise. Companies will also maintain a certain level of flexibility while still keeping a high level of internal control.

Many companies attempt to set up a selective sourcing model without central guidance on which type of work to source from which vendor. Executives make decisions based on personal preferences and subjective experience, not considering the complexity created when the company has hundreds of different vendors.

Some IT organizations don’t even have transparency of their vendor base, making it hard to form strategic partnerships. Further, vendors may not be managed effectively to receive clearly defined instructions and achieve expected outcomes. Selective sourcing means a larger share of responsibility is given over to external vendors than in the staff augmentation model. This makes professional vendor management even more important.

Retained skill: Mature sourcing governance

The starting point for mature vendor management is setting the strategic direction. The retained IT organization must understand why selective sourcing was chosen and which type of work will be sourced from whom. Rather than having hundreds of small vendors, companies may limit the overall vendor base. Preferred vendor lists are a powerful tool to facilitate strategically aligned sourcing decisions even when operations remain decentralized. The overall complexity of managing the vendor base is reduced, and preferred vendors can build on their experience working with the IT organization.

Companies should strive for strategic partnerships with core preferred vendors. One way of achieving this is using consistent contract management and framework contracts. These can prescribe that vendors must proactively improve services and regularly exchange ideas on new technology and ways to innovate.

Retained skill: Ability to clearly define expected outcomes

When making selective sourcing decisions, the retained IT organization needs to ensure that the right capabilities are in place to consistently define expected outcomes and performance metrics. External vendors must understand clearly the expected outcomes, whether they’re hired for a work package as part of a software development project, for example, or for the delivery of a single service component. They must also understand how their performance will be measured.

Defining performance metrics clearly avoids each party having an implicit – and different – understanding of what service quality means. For instance, what determines that a service has been delivered appropriately or that a work package is complete? This serves to align the organization and its selected vendors early on, and it will synchronize outcomes.

The retained IT organization also needs to emphasize monitoring and management mechanisms, such as consistent contract management, and hold regular performance reviews with vendors. By doing so, the retained IT organization can help vendors deliver as agreed, and projects can be completed efficiently and effectively.
3. The monolithic outsourcing model

In a full outsourcing model, the organization’s solution delivery and service operations are fully transferred from in-house to one single external vendor to cut costs and to access innovation and best practices.

Dependency on one single vendor poses certain risks, however. Many companies fear a loss of overall control or other problems collaborating with the vendor. Often the IT operations workforce is transferred to the external vendor, which leads to a sharp decline in in-house process and operations know-how. This can lead to an information and knowledge advantage for the vendor – with limited incentives for the vendor to create transparency about it. The result is the risk of increasing vendor lock-in over time: The organization substantially depends on the vendor’s services and is unable to change to another external vendor without considerable switching costs. All this will strengthen vendors’ negotiating power for future contract renewals.

Moreover, such outsourcing contracts may lack built-in quality because of missing or incomplete service level definitions. When change requests are made, they may be cost-intensive, and it may be difficult for the retained IT organization to tackle poor vendor performance.

Retained skill: Strong contracting capability

To realize the potential benefits from outsourcing, the retained organization must limit vendor lock-in risk with proper contracting, and by maintaining strong vendor governance capabilities to enforce what was agreed. The organization must keep ownership of the customer relationship because the retained IT organization will always be held accountable from the business side for overall IT service quality and support.

One starting point is defining the contract scope. What shall be taken over by the vendor and which parts will stay internal?

This should be based on an understanding of the level of control that is desired, since that impacts decisions about the ownership of IT operations processes and tools, as well as data, architecture, IT security and compliance. The level of control, e.g. who is responsible for what, and how problems are to be escalated, should be expressed clearly in the contract.

Otherwise the vendor may not provide full access to relevant data or will charge more for data requests. They might even refuse to provide innovative technologies, if it’s unclear who should make architecture decisions, and if the contract does not provide enough flexibility to cope with these types of requests.

Beyond that, the incentive system needs to be designed carefully. Performance metrics, service levels and related bonus and penalty agreements need to be in line with the overall strategic targets of the IT organization. For example, if a strategic target is to increase technological innovation, the vendor should have an incentive to contribute by investigating and proposing new ideas.

In general, the retained IT workforce will need different skills than it did before outsourcing. Before, the focus was on IT operations; now the core capabilities are vendor management, IT strategy and enterprise architecture management. Companies should carefully define the new required skills and redesign internal roles, while developing and training the retained IT workforce accordingly.

Retained skill: Keeping ownership of the client relationship

Even if most processes have been outsourced, the retained IT organization cannot give away overall accountability for IT to the vendor(s). IT will still be held accountable for performance and need to steer IT development in the right direction. This means the actual customer interface must be kept internal. Even if the vendor directly interacts with the business (as the customer of IT) on a daily basis – e.g. regarding desktop services – the retained IT organization needs to keep ownership of that relationship and set the rules of engagement accordingly. On a strategic level it is critical, since these customer discussions help to shape the future direction of IT. If this capability is not kept internal, the retained IT organization will easily lose touch – both on the strategic and on the operational level.
Companies can struggle to get a multi-vendor ecosystem under control. Several vendors may deliver service components to the same customer-facing IT service – which requires a high level of coordination and collaboration. Often, the overall IT service and service component landscape is not transparent and the responsibility split between parties involved is not clearly defined and communicated – leading to significant friction in daily operations.

For example, vendors may point fingers at each other if processes haven’t been adapted for a multi-vendor setting, such as putting consistent service levels in place for all vendors. Another problem: Vendors may not collaborate among themselves, because there are no appropriate incentives.

More than in any other sourcing model, in multi-vendor sourcing, responsibilities must be defined clearly among all parties involved, since the IT service depends on different components delivered by different providers. To do this, the retained IT organization will need mature IT service management and integration capabilities.

Retained skill: Clearly defined responsibility split across all parties

The retained IT organization should make sure to cautiously define IT services and service components and cluster them in a meaningful way to allow for proper sourcing. Each involved vendor needs to understand its contribution to – and its responsibilities for – the overall IT value chain and IT services delivered.

A consistent IT product and service catalog based on a thought-through IT service landscape can help create the required transparency. Moreover, responsibilities around the end-to-end service delivery need to be clearly defined and communicated. It does not help if vendors do not understand clearly in which processes their specific service component is integrated, or if they don’t have a clear picture of what that means in terms of operational tasks – e.g. how incidents concerning the integrated service are handled and what role each vendor plays.

A defined responsibility split must be anchored within the respective vendor contracts and service levels and must be part of a regular part of operations within the retained IT service management. This relates to IT service management processes and tools, as well as to a consistent end-to-end service level framework, so that each vendor can be effectively held accountable for his share of the value chain.

Retained skill: Strong IT service management and service integration capabilities

In some cases, vendors may refuse to work with standard IT service management processes and tools, causing a burden on the retained organization to establish sufficient interfaces with the vendor’s processes and tools. This is another reason for having strong IT service management and integration capabilities based on ownership of core IT service management processes, tools and related data.

Vendor performance must be managed, too, through the right incentives and comprehensive monitoring and reporting capabilities. Where possible, vendors should be measured against overall IT service quality so that their cooperation with others is measured as well. In certain cases, vendors themselves may do parts of the monitoring and reporting. However, the end-to-end accountability for service quality towards the business remains with the retained organization, so it is vital to keep the core of these capabilities internal.
Conclusion

Regardless of the sourcing model a company chooses, it is essential to carefully transform the retained IT organization in line with the specific requirements of the model. Skill and role profiles, for example, need to be thoroughly adapted to the new situation, reflecting the increased need to manage and govern external vendors.

Even if the distinct requirements for retained capabilities differ for each sourcing model, one theme is common across all models: Simply reducing the workforce won't deliver the expected results. The retained IT organization requires just as much strategic attention as the decision to source externally.
About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with approximately 323,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world’s most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$30.0 billion for the fiscal year ended Aug. 31, 2014. Its home page is www.accenture.com.

Contact

**Thomas Geipel**  
IT Strategy and Operating Model Specialist  
Technology Strategy  
thomas.geipel@accenture.com

**Christina Riedle**  
Infrastructure Strategy and Operating Model Specialist  
Infrastructure Services  
christina.riedle@accenture.com

**Julian Hagenschulte**  
IT Strategy and Operating Model Specialist  
Technology Strategy  
julian.hagenschulte@accenture.com

This document is produced by consultants at Accenture as general guidance. It is not intended to provide specific advice on your circumstances. If you require advice or further details on any matters referred to, please contact your Accenture representative.

Copyright © 2015 Accenture  
All rights reserved.

Accenture, its logo, and High Performance Delivered are trademarks of Accenture.