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“De effecten van Outsourcing op Business IT alignment en Innovatie”
The Effects of IT Outsourcing on Business-IT Alignment and Innovation

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Introduction of myself

• Set up PON’s B2IT alignment workgroup together with Gilbert Silvius
• Management consultant specialized in IT strategy, business innovation, IT governance and sourcing
• Enduring interest in interaction between IT and business strategy. How IT can innovate the business?
• Worked a long time as IT and program director in professional publishing industry: transformation from traditional products to online and software and to new business models
• Broad experience in: financial sector, publishing & media, logistics, electronics industry, higher education and public
The Basic Idea behind the Research

- Added value to the business
- High
- Innovate the business
- Low
- Improve the business
- Cut cost/ Optimize IT
- Capability to innovate
- Low
- High
Research Questions:

- What is the effect of ITO on business IT alignment?
- What is the effect of ITO on IT driven business innovation?
Research Approach

• Explorative research
• Meetings with ‘sounding board’ at HU
• Four case studies, questionnaires and interviews:
  – A: Energy Supplier – IT provider
  – B: Bank – IT provider
  – C: Publisher – IT provider
  – D: Bulk Trading Company – IT provider
• Statistical analysis
• Presentation of Results
IT Outsourcing Maturity Model
Gottschalk & Solli-Seather, 2006

- **Resource Stage**
  - Access to resources
  - Innovation
  - Strategic Resources
  - Core Competences
  - Skills & Capabilities

- **Partnership Stage**
  - Alliance
  - Economic Exchanges
  - Relational Norms
  - Social Exchanges
  - Stakeholders

- **Cost Stage**
  - Economic Benefits
  - Transaction cost
  - Contracts
  - Principal – Agent
  - Firm Boundaries

**Time**
<table>
<thead>
<tr>
<th>Stage</th>
<th>Cost stage</th>
<th>Resource stage</th>
<th>Partnership stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic benefits</td>
<td>Cost minimization and OE</td>
<td>Business productivity</td>
<td>Mutual goals</td>
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<td>Primary transactions</td>
<td>Infrastructure</td>
<td>Applications</td>
<td>Joint investments</td>
</tr>
<tr>
<td>Vendor behavior</td>
<td>SLA’s</td>
<td>Project performance</td>
<td>Strategy implementation</td>
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<tr>
<td>Demarcation of labour</td>
<td>Procurement</td>
<td>Innovation projects</td>
<td>Continues innovation</td>
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<tr>
<td>Relationship exploitation</td>
<td>Information sharing</td>
<td>Joint planning</td>
<td>Relational norms</td>
</tr>
</tbody>
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What is B2IT Alignment?

Alignment capability/maturity
B2IT Alignment Maturity Model
Luftman, 2000

Communications
Understanding of Business by IT
Understanding of IT by Business
Inter-/Intra-organizational learning
Protocol rigidity
Knowledge sharing
Liaison(s) effectiveness

Value measurement
IT Metrics
Business Metrics
Balanced Metrics
Service Level Agreements
Benchmarking
Formal assessments/reviews
Continuous Improvement

Governance
Business Strategic Planning
IT Strategic Planning
Reporting/Organization Structure
Budgetary Control
IT Investment Management
Steering Committee(s)
Prioritization Process

Six Business IT alignment maturity criteria

Partnership
Business Perception of IT Value
Role of IT in Strategic Business Planning
Shared Goals, Risk, Rewards/Penalties
IT Program Management
Relationship/Trust Style
Business Sponsor/Champion

Scope & Architecture
Traditional, Enabler/Driver, External
Standards Articulation
Architectural Integration:
  - Functional
  - Enterprise
  - Inter-enterprise
Architectural Transparency, Flexibility

Skills
Innovation, Entrepreneurship
Locus of Power
Management Style
Change Readiness
Career crossover
Education, Cross-Training
Social, Political, Trusting Environment
Scores on Alignment Maturity Model

A: 2.6

B: 3.4

C: 2.8

D: 3.0
IT Outsourcing and Innovation
Weeks & Feeny, 2008

- **Relationship Enablers**
  - Innovation Governance
  - Trust
  - Measurement Specificity

- **Strategic**

- **Business Process**

- **IT Operational**

- **Client Enablers**
  - Technology Skills
  - Selective Sourcing Mindset
  - IT Organizational Alignment
  - IT Leadership

- **IT Supplier Enablers**
  - Business Process Skills
  - Industry Scope
Examples of Innovation in 4 Case Studies

**Strategic**
- Split bill service for customers
- Social media to link to (new) customers
- Virtualized CRM
- EDW and customer behaviour analytics

**Business Process**
- New procurement system
- New credit control systems
- New trading appl.
- New architecture
- Onsite/offshore model
- New Internet sites

**IT Operational**
- New e-mail storage
- Virtualization
- New desktop
Conclusions on Case B
Applying Weeks & Fenny

Relationship enablers:
- Innovation governance is in place: roles have been defined
- Personal and competence based trust are available
- Measurement of innovation (efforts) is in place

Client Enablers
- Technology skills: IT innovation department in place
- Selective sourcing mindset: yes
- IT alignment > level 3
- Executive IT leadership is available

IT supplier enablers
- Business process skills at acceptable level
- Industry scope can still be improved (proactive research)
Collaboration in Innovation Process

‘Innovation Radar’ as Tool of Measurement in Case B

- De innovatie radar is de basis
- Taartpunt → treenddomein

Kleur ring → relevantie / urgentie

- Smile Ver weg (Min. 2 jaar)
- Watch In de gaten houden (1 – 2 jaar)
- Learn Actief onderzoek (1 - 1½ jaar)
- Try Inzicht in waarde (½ - 1 jaar)
- Act Project afronden (< ½ jaar)
Overall Research Results

If stage 2 +, positive effect on B2IT

If 3 +, than

Cost

Resources

Partner

ITO maturity level

If stage 2 +, than business Innovation

B2IT alignment

If 3 +, than bus. Innovation

IT driven business innovation
Do Soft Factors Drive Innovation?

Soft: Relationship, Pro-activeness, Partnership

Hard: Contract, Governance, Results

Strategic

All Three Types of Trust

Executive Level IT Leadership

Selective Sourcing Mindset

Effective Innovation Governance

Business Process

Client Industry Scope of Supplier
Client IT and Corporate Structure Match
Supplier Business Design Knowledge

IT Operational

Client Team Technology Knowledge

Personal Trust

Measurement Specificity

Weeks & Feeny, 2008
Recap

- CEO’s want business innovation to differentiate in the market. CIO’s focus mostly on IT operational and business process innovation. So there is a gap…. (Sloan Management Review)
- IT driven business innovation depends primarily on level of B2IT alignment and alignment capability
- IT driven business innovation is not incompatible with ITO
- However it’s not likely to occur in the Cost stage, the focus and conditions are not right yet ….
- Once client and provider have reached the resource stage IT service providers can start contributing to business innovation
- To achieve this stage soft factors seem to be most important. Innovation critically depends on understanding the business, on building a relationship, on pro-activeness and on trust ….
Selected Literature

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Case A: Energy Supplier

- Scope of contract: Datacenter hosting and application management
- Motive to ITO: cost minimization
- ITO maturity level: Cost stage, SLA driven, agency issues, low level of trust
- Reorganization affected the relationship (Grid mngt act 2007)
- Provider wants freedom to choice best solution, client can’t let go
- Provider values relationship higher than client
- Alignment capability: Level 2 – 3
- Lowest score on Transparency of IT value (level 2)
- ITO didn’t have a negative effect on BIA?
- Customer expects proactive behaviour from provider
- Provider isn’t in direct contact with the business
- If client expects innovation this should be in the contract
Case B: Bank

- Scope of contract: Application development. Very large contract
- Motive ITO: knowledge retention, productivity up, innovation
- ITO maturity level: Resource (plus) stage
- Provider scores higher than client on relationship and personal trust
- Alignment capability: high, level 3 - 4
- Lowest score on Transparency IT value (level 3)
- ITO has a slightly positive effect on BIA. Transparency IT value up
- Bank has a high level of innovation maturity
- Bank expects provider to signal IT trends and do industry research
- Innovation takes place at strategic and business process level
- Innovation is sometimes driven by IT department and ‘middlemen’
- Joint planning, provider involved in all stages of innovation process
- Expectations of client met. Some issues regarding contract
Case C: Publisher (B2C)

- Scope of contract: Infrastructure, work stations
- Multi sourcing situation, operating fields are interdependent
- Client is transforming into multimedia company
- ITO maturity level: Cost plus stage
- Client and provider have agency issues, level of trust is low
- Provider values relationship much higher than client
- Reorganization on provider side is affecting relationship
- Alignment capability: Level 2 +
- Lowest score on Communication
- ITO doesn’t have a negative effect on BIA?
- Provider is trying to contribute to innovation, but ideas aren’t always applicable
Case D: Bulk Trading Company

- Scope of contract: Application management. Small contract
- Multi sourcing situation
- ITO maturity level: Resource stage
- Provider values relationship higher than client
- Alignment capability: Level 3
- Lowest score on Transparency IT value (level 2)
- ITO doesn’t have a negative effect on BIA
- Joint planning is in place
- Client: Provider isn’t proactive (enough), didn’t provide a lot of innovative ideas
- Discussion on real interests of the company: operational excellence/cost or innovation