Assessing client maturity: a key to successful outsourcing♦

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HPL-2007-124
July 25, 2007*

ITIL, IT outsourcing,
client maturity,
SLAs, open analytics

The IT Infrastructure Library (ITIL) has been adopted as the de facto standard for IT Service Management (ITSM). This Paper discusses the value of ITIL-based maturity assessments for the IT service recipient in an outsourcing arrangement. We present the Client Outsourcing Maturity Model (COMM), a three-dimensional framework developed at HP Labs, and we provide an example of its assessment methodology results. The benefits from using COMM as a pro-active tool for understanding and defining outsourcing needs are discussed.

Approved for External Publication

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Abstract. The IT Infrastructure Library (ITIL) has been adopted as the de facto standard for IT Service Management (ITSM). This Paper discusses the value of ITIL-based maturity assessments for the IT service recipient in an outsourcing arrangement. We present the Client Outsourcing Maturity Model (COMM), a three-dimensional framework developed at HP Labs, and we provide an example of its assessment methodology results. The benefits from using COMM as a pro-active tool for understanding and defining outsourcing needs are discussed.

Keywords: ITIL, IT Outsourcing, Client Maturity, Service Level Agreements (SLAs), Open Analytics

1 ITIL Assessment & the outsourcing market: the problem

In order for a 'best practise directory' such as ITIL to become a strategic tool for an organisation, service providers have worked over the last few years on linking it with assessment tools, namely Carnegie Mellon models. The HP ITSM Reference illustrates the attempt to incorporate the functionality of an assessment tool, by mapping the processes running through the service life cycle, on the five CMM levels. HP has further developed ITSM-based assessment services, which use best practice criteria to assess an organisation's ability to consistently deliver reliable services across the complete spectrum of people, process and technology.

We decided to explore the value of an ITIL-based assessment methodology in the IT outsourcing milieu, in response to a growing concern about repeated mega-deals failures and a general difficulty for involved parties to realise the expected benefits.

A typical outsourcing contract includes a maturity certification requirement for the service provider[1]. Through the -repeated- process of third party certification, and as long as the validations offered are not content-free, they *force an increase of knowledge on the part of the suppliers.* However, looking at the outsourcing *service recipient* side, there is currently *no form of third party validation of skills, self-knowledge and maturity.*

Based on the need for an assessment mechanism for the outsourcing recipient, we developed a prototype methodology for measuring outsourcing maturity in the client organisation. The Client Outsourcing Maturity Model (Fig. 1) was built around the

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[1] Typically involves CMM, Accenture, TPI or PWC assessments.

HP ITSM platform; firstly, it attempts to encompass a more coherent and detailed method for the examination of an organisation's process maturity. Secondly, it extends the process focused ITIL to include softer dimensions such as Governance strategy and People.

By repositioning the ITSM Reference basic principles in the field of outsourcing capabilities assessment, COMM enhances its applicability on a new, rapidly growing market: IT services outsourcing. COMM suggests that a mature client organisation is more likely to engage in successful and mutually beneficial outsourcing agreements with a service provider.

2 The COMM[2]

A mature organisation would have a clear picture of its IT process landscape. All processes have metrics and gather relevant data on their performance to facilitate continuous improvement. A common language, derived from ITIL, describes the processes and it is established and well-known throughout the IT organisation and beyond. The *service concept* is well-understood and drives the activities in the IT organisation. Processes are structured along the *service life cycle* and services take this path from concept to actual operations.

Only in such a mature process environment, the outsourcing of IT assets and activities finally make sense. Organisations can view their services and related activities from a more holistic perspective. As a result, they can finally make informed decisions about what services and what pieces of the service life cycle to outsource to which supplier for what well-founded reasons. Moreover, they can assess what implications this would have for their IT processes and process interfaces.

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[2] For a detailed presentation of the framework see Komporozos-Athanasiou (2006), HPL-2006-169 and Perez-Hallerbach (2007), HPL-2007-36
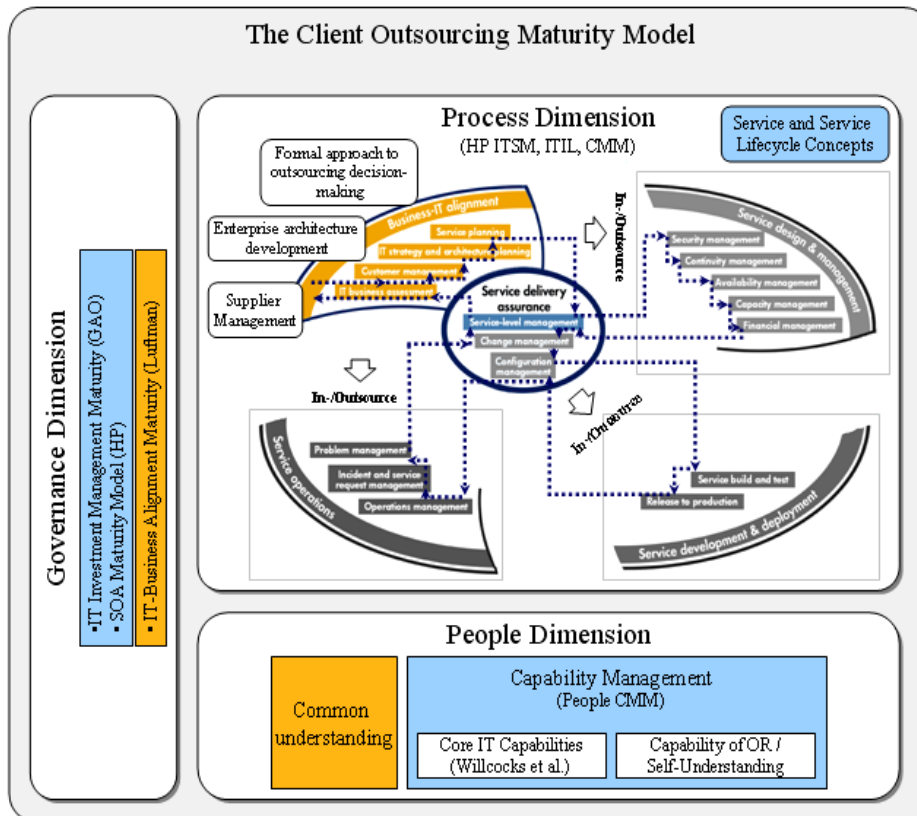
Fig. 1. The COMM Framework

The matching of processes and IT in the governance dimension fits with the other two dimensions of the model through the overruling idea of IT-Business Alignment which constitutes the 'glue' that holds COMM together (Fig. 1: boxes shaded in yellow). At the *process level*, processes need to be orchestrated around key concepts such as the IT service life cycle and linked to one another based on a robust -and aligned with business- IT strategy. At the *people level*, individuals behind the processes *should share an understanding* of the aforementioned concepts and thus, communication canals have to be established throughout the IT organisation for an *'awareness alignment'*. Hence, *governance* should be able to provide the context that ensures that the IT organisation's IT sustains and extends these objectives across the other two COMM dimensions.

3 Competitive approaches

Knowledge issues are often mentioned in the IT outsourcing literature. However, they tend to be considered mainly in relation to the transfer of IT staff and specialized know-how to the outsourcing provider. A knowledge leeching is assumed to be caused by the outsourcing arrangement itself. The prescription for the problem typically includes strategic pathways to successful outsourcing *through efficient relationship management*. 'Managing the relationship' with the service provider is argued to be a lever for gaining power over the relationship and thus for controlling the flux of knowledge capital in the established by SLAs inter-organizational channels.

Academic and best practice literature has generally assumed this conventional power view and it has thereby focused on developing frameworks that address the contract signing and post-contract period of the outsourcing relationship. These frameworks typically provide the customer with a 'road map' to successfully establish and manage the IT outsourcing relationships. They include actual sequences of steps or more general best practice guides such as the 'eight building blocks' model proposed by Cullen and Willcocks. Also, *Decision-Making models* such as Nolan's 'Strategic Grid' and Willcocks & Kern's model[3] provide organizations with a way of structuring the rationale underlying their outsourcing decisions. Such models are intended to be a 'comprehensive, high-level guide to what action should take place and when it should best take place throughout the outsourcing life cycle'[4]. Di Romualdo and Gurbaxani define three different strategic intents for IT outsourcing ('IS Improvement', 'Commercial Exploitation', and 'Business Impact') and outline how organisations should pursue these different intents when approaching outsourcing. McFarlan and Nolan[5], finally, suggest how to structure and manage the outsourcing relationship.

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3 See Kern and Willcocks, 2001, pp. 12-20
4 See Cullen and Willcocks, 2003, p. xxiii
5 See McFarlan and Nolan, 1995
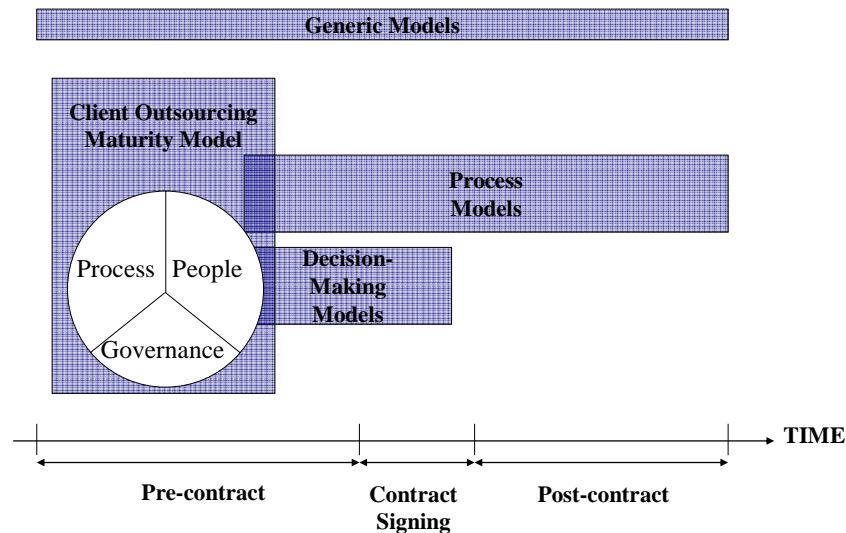
The Carnegie Mellon 'eSourcing Capability Model for Client Organizations', the latest –and most coherent to date- approach in measuring outsourcing capabilities, also takes a relationship management perspective. It focuses on a set of best practice guidance throughout the life of an outsourcing arrangement, but similarly to the aforementioned models, *it does not consider the organization's maturity prior to the sourcing life-cycle*.

There seems to be a gap in the literature; the pre-contract phase of an outsourcing agreement is not covered by any of these models. In effect, no causal relationship has been probed between the organisation's in-house capabilities and a successful outsourcing project. The question 'what are the necessary organisational skills within the client's IT organisation, *before* it undertakes an outsourcing project?' has not been asked.

It can be argued that an outsourcing arrangement is more likely to deliver the expected benefits *when the client already has a level of self-awareness with regard to its outsourcing capabilities*.

4   The methodology in practice

A prototype assessment methodology, based on the COMM conceptual framework, was developed around its three dimensions.

During the period of June-September 2006 this prototype assessment methodology was tested in a number of semi-structured interviews with specialists at a leading IT

outsourcing Provider's divisions of: Global Delivery Applications services, ERP Service Delivery, Public Sector Shared Services, Outsourcing Architecture, Sales and IT outsourcing Consultancy. Our research also included a composite case study of the UK public sector and a case study of a big consumer products company. An intensive review of the outsourcing literature and the interview discussions revealed certain main 'problem areas'. Subsequently, the COMM assessment showed that a client organisation's –low- performance in specific examined sub-dimensions of the model, was linked with these perceived problem areas. Interestingly, the sort of capabilities that the client organisation lacks, *were not only associated with relationship management*, *but with endogenous weaknesses before the engagement in the outsourcing relationship.*

The most commonly stated problem area[6], was the outsourcing SLAs' failure to reflect the real needs of the client organization. That, in turn, rendered the outsourcing relationship difficult to be managed, as the SLA was lacking transparency and grounded understanding – also a prerequisite for achieving service customisation.

The COMM assessment examined this problem area and unveiled a surprisingly low performance –of both commerce and public organisations- in two of its main sub-dimensions. Firstly, no sophisticated, quantitative methods were used and there was no thorough OR procedure that would provide the right service level data. Secondly, *assessing the 'common understanding'*, there seemed to be a serious gap between the business and IT side of the client organisation that further hindered the achievement of an 'intelligent SLA'. The convergence of different stakeholders' perceptions of the client organisation's service needs can be indispensable for a successfully defined SLA. However, in a complex business environment where the number of different stakeholders affecting the outsourcing decisions is considerably big, no practices that would facilitate the achievement of such an understanding were tracked. Often, business people throughout the parent organisation hierarchy did not share an understanding of the key service concepts with the IT people. What is more, even within the IT organisation -at the end user level- the awareness of these concepts was low. The objectives for outsourcing appeared to differentiate across different functions and overall the development of a meaningful SLA was rendered problematic.

5 Future Developments

Our research is currently focused on linking COMM with the *Open Analytics* (OA) methodology. OA provides the client organisation with *a detailed modelled approach* for negotiating and defining 'intelligent SLAs', by engaging the different stakeholders in a process of shared understanding. As previously discussed, COMM can be used to identify the links between specific problem areas and maturity levels, to raise the

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6 Due to the length limitation of this paper, we are only presenting the linkages between one of the perceived problem areas and the COMM assessment results. For a detailed presentation and analysis of all the problem areas and their relation to the examined organisations' performance in the COMM assessment, see our HP Tech Report (HPL-2006-169).

client awareness of its own outsourcing needs and to offer a qualitative analysis of the potential benefits. Hence, it intends to offer more than just generic explanations of 'climbing up the maturity ladder', improvement recommendations and 'of the self' solutions. By linking the COMM assessment with existing HP active management technologies, we aim at essentially developing a complete *proactive* quality management service that provides a detailed, 'fit-for-purpose' Open Analytics set of tools to effectively address the identified problems.

Besides, the COMM is in a process of development and enumeration. A further application of the refined methodology is under way on a number of case studies in key UK industries, in order to investigate industry maturity benchmarks and 'target maturity levels' for a client organisation within different –cultural, political and industry- contexts. The ultimate aim of our research is to provide a mechanism with the intention of:

- Extending the 'Core Competences', 'ITIL' and 'CMMi' models to make them "richer" and more applicable in the context of the IT outsourcing market.

- Changing the organisations' mentality towards outsourcing by shifting their focus towards self-education through introspection and re-consideration of their outsourcing capabilities.

- Opening the way for the realisation of substantial benefits for all counterparts in the -rapidly growing- global outsourcing market.

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