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Encouraging Innovation in a Multi-Sourced Environment

Best Practices in Service Coordination that
Drive Innovation and Improved Service
Delivery

The Innovation Challenge

Multi-sourcing adds complexity to the governance model organizations use to manage IT infrastructure services. This complexity must be effectively managed in order to encourage service providers to implement operational improvements and innovation throughout the service lifecycle. Gartner, Inc. noted the relationship between economies of scale and the governance model in their book, *Multisourcing: Moving Beyond Outsourcing to Achieve Growth and Agility*. The authors found that organizations seek economies of scale, but have difficulty entrusting operational responsibilities to outside service providers. Organizations can benefit, they found, by implementing governance models that don't restrict their ability to leverage best practices that service providers have developed during successful past service delivery engagements.¹

Organizations put potential service improvements at risk when their governance models either constrain service providers or challenge their ability to provide the same standardized services that they deliver elsewhere.

The innovation challenge faced by an organization is to govern service providers while taking advantage of potential service improvements each provider can offer. Gartner recognized that providers can bring economies of scale when providing the standardized services that they deliver to multiple organizations. Thus, organizations put potential service improvements at risk when their governance models either constrain service providers in their operations or challenge their ability to provide the same standardized services that they deliver elsewhere. Organizations have the opportunity to overcome the innovation challenge and allow innovation to flourish by adopting a management model where the organization retains strategic leadership and control, directs a service integrator to implement strategic initiatives, and incents its service providers to continually improve their operations.

Partnership in Multi-Sourcing

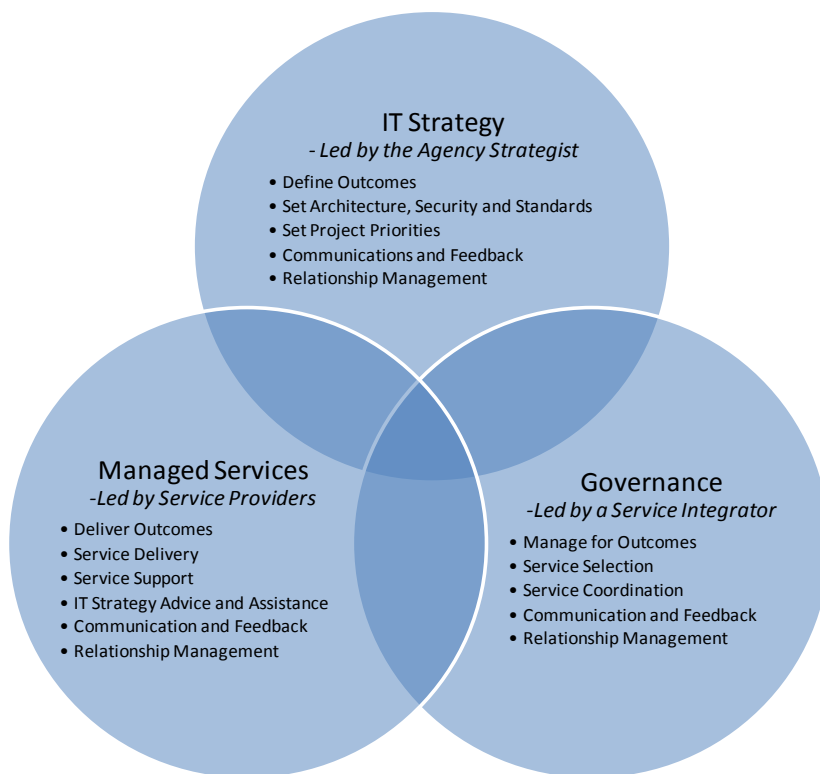
Three critical parties must work as partners in a multi-source environment seeking to establish an outcome-based approach to setting service expectations and encouraging innovation:

- The organization that is buying services
- The service integrator being directed by the organization to implement multiple interdependent strategic initiatives
- The providers responsible for delivering specific services.

The following figure illustrates this partnership approach to governing in the multi-source environment.

FIGURE 1

Adopting a partnership approach to managing in a multi-source environment reflects an understanding that there is significant overlap among the stakeholders.



The Role of the Organization

Organizations take the responsibility of strategic advisor in a multi-source environment. At the operational level, the agency strategist role fulfills the organization's strategic advisory needs. As agency strategist, the organization retains strategic leadership and control and directs a service integrator and service providers to implement strategic initiatives. At the highest level, the agency strategist must set the expectations of all parties and establish the outcomes that are expected. This critical prerequisite sets the stage for architecture, standards and security models to be implemented and governed.

In addition to setting outcomes and standards, the agency strategist conducts priority-setting exercises and shares those priorities with the governance team and the service providers. It is imperative that the service integrator, which is managing for the agency strategist's expected outcomes, understands how shifts in priority could impact those outcomes. The priorities set by the agency strategist also are critical to service providers, as they also must assess potential service level impacts.

Regardless of the operational impacts of its priorities, the agency strategist must use its priorities to drive innovation by the service providers. Communication and feedback are the keys to driving that innovation. Timely communication allows service providers to make long-term plans about how they'll deliver expected outcomes, and feedback encourages them to continuously improve that delivery model.

The Role of the Service Integrator

Either an independent service integrator or one of the service providers acting as integrator can lead governance in a multi-source environment. The foundation of good multi-source governance is a well-chosen service integrator whose role has been carefully defined so as to encourage desirable behaviors by the service providers in day-to-day delivery, including improving operations through operational excellence and improving productivity. The service integrator can encourage such behaviors only when the organization has first established a culture of relationship management. As Gartner recognized, “governance sets up the rules and structure for good decisions to be made without the need for omnipresent oversight.”ⁱⁱ The organization encourages service improvement by allowing its providers to determine how a service is delivered and focusing only on the standards used to deliver the expected outcomes.

IT services are dependent upon each other to be successful, so the governance model must ensure that service providers can co-exist and deliver their services seamlessly in partnership with one another. A strong service integrator helps an organization:ⁱⁱⁱ

- Handle day-to-day interactions between service consumers and service providers
- Define the rules of engagement between the parties involved in service delivery
- Handle the coordination and manage the handoffs defined in the responsibility process
- Identify, create and document new procedures necessary to ensure seamless service between all parties

The degree to which each of these functions is facilitated by a service integrator directly affects the degree of innovation and continual service improvement the providers can achieve. The organization should direct the service integrator to strike the right balance between facilitation and governance to encourage innovation in service delivery and operational collaboration among service providers. From our experience managing and integrating multiple managed services, CGI has found it important to strike that balance by guiding organizations towards managing outcomes rather than managing processes. The role of the service integrator extends to include managing these outcomes. The following table highlights the difference:

FIGURE 2

Striking a balance between facilitation and governance requires movement towards managing outcomes rather than processes.

Governance in a Multi-Sourcing Environment	
Managers of Outcomes	Managers of Processes
Leave the details to the service provider	Dictate the details to the service provider
Encourage proactive innovation	Encourage compliance with set processes
Require service providers who can evolve their infrastructure	Require service providers who can run their infrastructure
Seek greater agility and scalability	Seek less agility and tend to opt for a more rigid engagement model
Transfer accountability to the service provider	Enter into a partnership for accountability with the service provider

The role of governance in a multi-sourcing environment is to encourage innovation by managing outcomes only, leaving the details to the service provider.

The Role of the Service Providers

Regardless of a provider's approach to delivering the services, managed services are a critical component to organizations optimizing value from multiple service providers. These services are influenced by the business outcomes set by the IT strategy and providers report their outcomes according to the governance model. Managed services encompass service delivery and service support. It is also important to note that the role of managed services includes having the providers share metrics and results back to the service integrator providing the governance and the organization conducting ongoing IT strategy.

The role of the service providers in a multi-sourced environment is to follow methodologies that not only enhance operational efficiency but also emphasize relationship management throughout their operations. The providers' methodologies must dictate that they partner with the organization and share in the organization's continuous improvement goals and objectives.

The Importance of Relationship Management

Management of outcomes alone does not ensure that innovation will occur in a multi-sourced environment. Much depends on the ability of the service providers to collaborate and use the competitive nature of their contracts to drive each other toward proactive innovation and a strong drive to be more efficient. While the contracts themselves are motivators, Operational Level Agreements (OLA) also can be valuable tools in governing the relationships among the service providers, especially because of the competing interests of the various providers.

These operational agreements, guided by the service integrator, address the importance of defined roles and responsibilities when multiple service providers with sometimes competing interests are seeking to run their processes and procedures in the most efficient manner. A successful portfolio of OLAs will clearly identify rules that describe interactions and clearly define the responsibilities of each provider. However, these agreements will only support other relationship management initiatives being undertaken by the service integrator, the organization and the service providers.

In a multi-source environment, the human factor can cause difficulties between service providers, the service integrator and the organization.

Relationship management is even more important when moving from a single source environment to a multi-source environment. In a single source environment, there is less complexity of dependencies because there are only two parties: the provider and the organization. In a multi-source environment, where various providers can encounter difficulties working with one another, there is a human factor to be managed. Thus, parties involved in a multi-source environment must work in partnership if all are to succeed. When working together in partnership at the highest levels, each party is motivated to find improvements in their operations and deliver the best service possible.

Incenting Service Providers to Control Costs and Continually Improve Their Operations

Best practices in service coordination in a multi-source environment include providing incentives that encourage innovation and improved delivery by service providers. As is the case with any partnership, all parties must assume some amount of risk in its potential success or failure. Apportioning risk is one clear way to incent service providers to find innovative ways to deliver their services. However, shared risk is the area that represents the greatest departure from the legacy of a single service provider environment.

Organizations can benefit by giving service providers incentives to lower risks and seek out ways to improve their operations over time.

From the *organization's perspective*, its service strategy should include ways to develop Service Level Agreements (SLA) and contracts that set expected outcomes, not the methods providers will use to execute tasks and complete activities associated with the organization's business processes. Contract structure can unintentionally create disincentives for providers to reduce risks and seek ways to improve their operations. For example, cost reimbursable contracts compensate providers for providing staff to execute business processes but don't always compensate them for meeting business objectives or transforming processes. This scenario leaves the provider with objectives that are diametrically opposed to those of the organization. The provider has no incentive to achieve productivity, so savings quickly erode as a consequence.

One way to incent providers to innovate is by having them assume the risk of delivering an outcome for a fixed price. Under a fixed price contract, failure to achieve operational excellence and productivity would seriously damage the provider's profitability. The high cost of achieving outcomes without innovating cannot be passed to the contracting organization.

From the *service provider's perspective*, the service delivery and service support approaches should include good faith efforts to improve their services and the methods they employ to deliver those services. When defining the processes they'll use, the providers should work backwards from the expected outcomes set by the organization and leverage the economies of scale to be gained by delivering standardized services they are using for other clients. Within an outcome-based ecosystem, managed services provided by the agency strategist, the service integrator and the service providers are more likely to be the result of:

- Enhanced utilization tracking to ensure that resources are optimized and most productive
- Proactive management to include installation of updates and patches to avoid costly service interruptions
- Planned replacements of higher cost technology components
- A global delivery model that distributes resources to optimize service delivery and cost (downtime is a cost to the provider)

Moving from single service provider outsourcing to a multi-sourcing environment requires a transition to outcome-based management from the organization's perspective. However, that transition can yield dramatic results in the form of operational transformation and innovation if the service providers are incented properly.

Transitioning to Multi-Source Integration Management

In order to overcome barriers to innovation in a multi-source environment, organizations can develop a roadmap that clarifies the three critical roles in multi-source integration.

Transition Roles and Responsibilities

The following responsibility assignment matrix highlights the actions that need to be taken in order to successfully set and manage outcomes within a multi-source environment and to encourage continual service improvement by service providers. For each action, the party that is accountable is noted with an "A", the party responsible for performing the action is noted with an "R" and the informed party is noted with an "I". In a partnership environment, consultation with two-way

FIGURE 3

Being a manager of outcomes requires an in-depth understanding of responsibility and accountability.

communication is essential. Those interactions are noted with a “C”.

Responsibility Assignment Matrix				
	Action	Organization	Service Integrator	Service Provider
Initial IT Strategy	Adopt a culture of relationship management and select a service integrator with a defined charter	A	I	I
	Document services and expected outcomes from providers and manage those outcomes	A	R	C
Multi-Sourcing Governance	Define the rules of engagement between service providers and manage the conflict resolution process	A	R	C
	Document the responsibility process, including handoffs between service providers	A	R	C
	Draft OLAs to be followed by service providers when following their own service delivery processes	A	R	C
	Enable risk transfer by defining SLAs and contract terms (such as firm fixed price) that set the outcome, not the methods, used to execute a set of tasks	A	R	C
	Support the development of service requirements and requests for quotes from providers and select the providers, if needed	A	R	C
Ongoing IT Strategy	Set and revise standards to be followed by all service providers	A	R	C
	Communicate changes in priority or strategic goals	A	R	C
	Seek out service provider input into architecture, security, and technology standards	A	R	C
Managed Services	Provide standardized services, resulting in expected outcomes and meeting defined service levels	A	I	R
	Follow OLAs and communicate outcomes back to the service integrator	A	I	R
	Seek out economies of scale across the standardized services being provided to multiple organizations	A	I	R

Transition Scenario

The following scenario highlights the steps taken by a Federal agency in transitioning to multi-source integration management. The agency uses a multiple-award contract to acquire IT infrastructure services from a pool of five service providers. The agency does the following:

1. Conducts a procurement to establish the multi-award contract vehicle to address the following core IT services: Call Center, Network Management, Application Management, and Desktop Management
2. Conducts a procurement to acquire the services of an integrator. Key aspects for an independent service integrator are defined as:
 - a. *Acquisition Support* – for development of statements of work and other procurement-related documentation necessary to secure the required services via task orders on the contract
 - b. *Facilitation Support* – to facilitate the transfer of reports, metrics and handoffs between service providers
 - c. *Risk Management Support* – for overseeing the development of the risk register and collection of mitigation strategies

Once the services integrator comes aboard, it immediately performs the following duties:

The service integrator's initial duties include developing statements of objectives, defining expected outcomes and developing the PMP that will govern the core IT services.

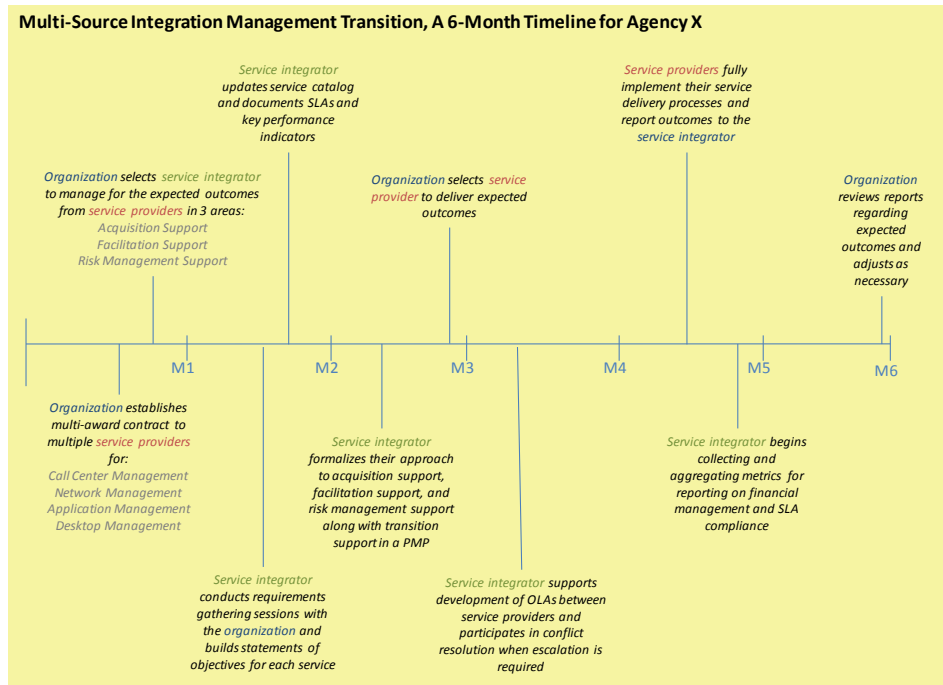
1. *Statements of Objectives* - Develops for each of the core IT service areas
 - a. Facilitates requirements gathering meetings to develop statements of work for Call Center, Network Management, Application Management and Desktop Management
 - b. Documents the results of those meetings and generate a statement of work for issuance by the organization
 - c. Documents the organization's decisions regarding period of performance, evaluation criteria, and contract type.
2. *Expected Outcomes* - Defines for each of the core IT services
 - a. Updates the service catalog where necessary, including expected outcomes from each service
 - b. Sets service level agreements and key performance indicators to be included in the statements of work
3. *Program Management Plan (PMP)* – Develops with OLAs to integrate the core IT services
 - a. Identifies all stakeholders
 - b. Defines communications strategy for communications between service providers that interact such as Call Center and Application Management teams
 - c. Identifies conflict resolution process by identifying when the service integrator gets involved (i.e. disputes) versus when the service providers communicate amongst themselves (i.e. day-to-day operations)
 - d. Creates an OLA template to be filled out by each service provider upon award of a task order

Within this example, the organization defines the critical role played by the service integrator in overseeing the Call Center Operations and the Network, Application and Desktop Management functions. The organization awards a contract to several service providers and then begins to bring a service integrator on board. With the service integrator in place, the organization begins joint work to define requirements for each of the IT infrastructure functions and the service integrator documents the organization's decisions in the form of procurement documentation that can be issued as task order requests for proposal (RFPs) to the service providers.

With the task order RFPs completed, the service integrator focuses on a comprehensive PMP that formalizes its facilitation role among the service providers and empowers providers to work with one another using OLAs. The service integrator's PMP also formalizes its role in conflict resolution, risk management and setting outcomes. The service integrator's PMP documents what outputs it requires from service providers as a result of each provider's processes and procedures for delivering services. Figure 4 illustrates the sequence of activities, over a six-month period, for Agency X to implement its multi-source environment and direct its service integrator to manage the outcomes from the service providers.

FIGURE 4

Agency X uses a 6-month transition period to move from a single-source environment to a multi-source environment and directs its service integrator to manage the outcomes from the service providers.



Conclusions

When organizations move to a multi-source environment, they often do so in order to encourage innovation and improvements from their service providers. Providers achieve these goals by applying economies of scale gained from providing standardized services to other organizations. Setting up a mature multi-source integration framework encourages greater agility, continual service improvement and an evolutionary approach to managing IT infrastructure.

About CGI

Founded in 1976, CGI is a leading information technology and business process services provider with 26,000 professionals operating in more than 100 offices worldwide. In the public sector, CGI is a major partner to federal, state, provincial, local and municipal governments in the U.S., Canada, Europe and Australia. CGI has helped more than 100 U.S. federal agencies improve program and back-office operations, allowing them to better fulfill their core missions. Our track record includes enhancing citizen information via healthcare services websites, optimizing IT infrastructure through managed services supporting more than 50 federal agencies, and modernizing financial management operations for more than 100 federal agencies.

More information about CGI is available at www.cgi.com.

ⁱ Cohen, Linda and Allie Young, Gartner, Inc., MultiSourcing: Moving Beyond Outsourcing to Achieve Growth and Agility, 2006.

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