Building an effective strategic function team to gain maximum value from a managed IT services agreement

How to define its role, determine its size and assess the skills required

CGI

Building an effective strategic function team

The success of a managed IT services agreement largely depends upon the effectiveness of the strategic function team. Early in the bid process, organizations should plan for the team's mandate, size and scope of responsibilities in a manner that helps achieve the agreement's expected benefits.

A managed IT services agreement is deemed successful if the expected benefits are harvested and the organization's stakeholders recognize that the deal is delivering these benefits. Achieving these two objectives is dependent on the effectiveness of the client team managing the agreement. A team that is too large or too small, or that lacks the required skills or has the wrong mandate, will jeopardize the successful implementation of the agreement.

These teams often are referred to as "strategic function teams" or retained organizations. For the purpose of this discussion, strategic function team refers to the team in the client organization that is responsible for overseeing the managed IT services agreement with a service provider. Its functions broadly focus on governance, relationship management and ensuring that IT addresses the organization's business requirements (the "strategic" management of IT).

Planning for such a team should happen early in the bid process. To help organizations develop a strategic function team that guides a successful managed IT services agreement, this paper presents CGI's advice for defining and building the team, highlights industry best practices, and provides recommendations for the team's role, size and required skill set.

Defining the role

A CIO who contracted CGI to manage his organization's IT infrastructure provided this advice to a potential customer:

"Let the service provider manage IT. If you have picked one of the major players, they know how to do this well. Your biggest challenges will be first, letting go of the minutiae of IT and, secondly, managing the internal clients within your organization."

When an organization contracts managed IT services, the governance model will establish clear roles and responsibilities for the service provider, the strategic function team and the business units or internal clients.

- The service provider should have control over the "how" of service delivery. While this is critical to the provider's value model, it is often difficult for the client's strategic function team to relinquish direct responsibility in this area. Dissatisfaction and conflict arise when the client does not give up decision rights pertaining to key components of service delivery. This interferes with the provider's ability to adequately deliver contracted services according to its business model and compromises service delivery.

- The strategic function team needs to retain authority over critical components of IT strategy. Decisions related to architecture, security, standards and project priorities are its primary focus. The provider can provide valuable advisory support.

- The business units or internal clients must actively participate in articulating their business requirements in terms of IT deliverables, such as projects, services and service levels. Although this responsibility should belong unequivocally to the business, the strategic function team provides some oversight to ensure alignment with the contract. Typically, the provider does not want to undertake initiatives without clear business ownership and clarity about deliverables.

A traditional and simplistic view of the role of the strategic function team is modeled on vendor and contract management practices. As a result, it underestimates the challenge and the value opportunity in managing the demands and expectations of the business stakeholders.

Allowing an IT organization to focus on demand management and business needs is one of the prime value opportunities in a managed IT services engagement.

A more comprehensive view of the strategic function team's role defines it as a managing the supply and demand for IT services by building and cultivating an effective partnership between the service provider and the organization's business communities.
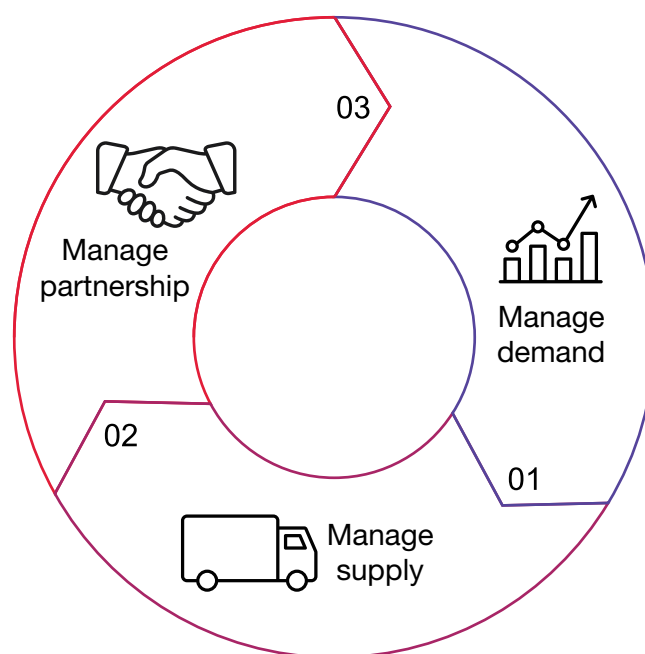
As illustrated above, the effective management of a managed IT services agreement depends upon aligning demand and supply and ensuring that the service provider's delivery and performance adequately meets the organization's IT needs.

The strategic function team plays three roles to achieve this alignment:

Manage demand. This role ensures the consumption of services is aligned with business priorities and affordability. This can be achieved by undertaking the following actions:

- Work with internal clients to predict the changes in business drivers that can affect services and volume

- Encourage a culture that embraces synergy and shared services across communities of internal clients

- Prioritize and approve business requirements for services and projects

- Track service utilization versus forecast or budget

- Allocate costs across business units

- Align user requests with the contractual terms and processes

Manage the partnership. This role ensures that services evolve to meet changing business requirements. Facilitating interaction between the business and the service provider can be achieved in the following ways:

- Communicate with internal users throughout the term of the agreement to ensure that the capabilities of the service provider and the objectives of managed IT are understood

- Ensure appropriate representation of stakeholders within the operational teams through the change management process

- Ensure appropriate client participation in IT projects

- Ensure that project plans and the provider's deliverables get appropriate reviews and approvals from internal clients

- Ensure that technology plans get appropriate business input, review and approval

- Ensure compliance with security and audit requirements

- Ensure that the business stakeholders participate appropriately in the resolution of major incidents and address recurring issues

Manage supply. This role ensures the service provider is meeting its contractual obligations, which can be accomplished through the following functions:

- Monitor service-level performance

- Ensure rigorous application of pricing terms

- Remain connected with industry pricing

- Ensure that vendor-initiated change requests are addressed by the business

Determining the team's size

There are dangers associated with a strategic function team that is either too large or too small. Lack of understanding of the managed IT services model, or perhaps reluctance to fully trust the provider with execution responsibilities; often result in organizations retaining the management structure and responsibilities that characterize an internal delivery organization. This eliminates one of the main benefits of managed IT.

Too big an organization can result in the following problems:

• Redundancy: The strategic function team, attempting to justify its existence, may perform functions that have been contracted out to the provider. Over time, this overlap will lead to confusion about accountability.

• "Checkers checking checkers" with no added value.

• Unnecessary reporting and communications.

One should keep in mind that every member of the strategic function team generates work on the provider side, consequently inducing extra costs.

At the other end of the spectrum is complete abdication of all responsibilities. A strategic function team that is under-resourced also is ineffective. It can negatively influence the relationship and the outcome of the agreement in several ways, including:

• Slow decision making and approvals

• Irregular governance meetings and reviews

• Poor preparation and input

• Lack of connection / communication with other stakeholders within the organization

Many factors contribute to the level of resourcing required for the strategic function team, including:

• **The organization's previous experience with managed IT services.** An organization with a mature managed IT services culture and a core team experienced in managing IT services agreements will require smaller strategic function teams to facilitate new or expanding agreements that a less experienced organization does.

- **Single vs. multiple providers.** An environment with multiple providers requires some "integration" effort from the strategic function team to coordinate interfaces, to manage hands-off between providers and to navigate across "grey" zones.

- **Degree of decentralization in the organization.** If an organization has highly autonomous, non-homogeneous business units, significantly more effort is required to communicate and deploy processes for interfacing with the service provider.

- **Geographic diversity.** The number of locations may somewhat affect the size of the strategic function team.

Advisory services, namely TPI's "Guidelines for sizing Outsourcing Governance Investments," typically recommend two sizing rules-of-thumb:

- An investment of 3-5 percent of annual contract value of the contracted services to effectively manage the agreements

- 2-6 percent of in-scope staff to provide for significant transition of incumbent staff

The team size may vary during the term as incremental resources may be required to support major initiatives such as transition and transformation projects.

Assessing the skills required

Overseeing a managed IT services agreement is as different from managing IT operations as flying a plan is from building one. A successful strategic function team needs to have a blend of the following skills:

Business. The team members should have an intimate knowledge of the organization, its business strategy and priorities, as well as its culture and influencers.

IT. An established IT team should refocus its technical capabilities in a managed IT services arrangement to concentrate on the following:

- Strategic level thinking that looks ahead, focusing on those service provider capabilities that help the business and considering future needs that require new or modified services from the service provider

- Outcomes and results rather than the "how"

Finance. Detailed understanding of all pricing elements is essential to ensure:

- There is clarity on what is charged and what is paid in accordance with the contract terms.

- The strategic function team adequately charges back the costs to their business units.

- The strategic function team monitors the financial objectives and benefits anticipated by the organization.

Sourcing and contract administration.
Managed IT services management has many more dimensions than procurement. During the life of a managed IT services agreement, new requirements or changes arise. In addition, there are many elements that were originally unforeseen or unplanned during the development of the agreement.

It is important for these elements to be diligently dealt with by the strategic function team in accordance with the terms of the master agreement to maintain a successful partnership and to avoid unnecessary disputes.

Relationship management and communications. As brokers between the client and the service provider, the team needs strong behavioral and interpersonal skills to achieve the following:

• Reconcile sometimes conflicting demands across different constituencies

• Bridge the gap between user expectations and the levels and scope of services they have contracted for

• Negotiate unforeseen or changing requirements with the service provider

• Maintain a healthy partnership that not only meets the letter of the contract, but continues to bring added value

• Manage expectations and perceptions of stakeholders and users

It is estimated that 60 percent of strategic function team members are from the original internal organization that delivered IT prior to a managed IT services engagement. The remaining 40 percent is a combination of members brought in from other areas of the business or external resources from outside the organization in order to complement the team's capabilities.

Selecting and transitioning strategic team members

Early in the managed IT services process, most organizations face the dilemma of determining which key personnel are in-scope and will be transferred to the service provider, and which will be retained to manage the agreement. Many factors are at play, including the individuals' career aspirations and the need for some continuity for both the managed IT services and service provider organizations.

The personnel selected to join the strategic function team likely had some delivery responsibilities that will be transferred to the service provider. When an organization chooses to retain these individuals, it is in the best interest of the client and the service provider to include knowledge transfer as part of the transition plan and to agree on interim roles and responsibilities where required.

As part of the transition, the client organization also should have a plan to coach the strategic function team into their new role and associated skills such as the managed IT services business model and processes and organizational change management.

It is important that members of the strategic function team become ambassadors for the new business model. The members must not fall into the trap of comparisons with the previous mode of operations.

Summary

Overseeing a managed IT services agreement is complex and multi-dimensional. Building an effective strategic function team is more than printing new business cards for a few managers from the IT delivery organization. The breadth and depth of capabilities required cannot come from a single individual or a single source. Nor can it be expected that a high-performing team will be fully in place on the effective date of the contract. However, understanding the full scope and challenges of overseeing a managed IT services agreement is a prerequisite to assembling the right players who will focus on the right issues of making it work.

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