An Outsourcing Business Relationship

Introduction

A study of the alignment between the business and information technology at The Company raised the issue of how The Company and The Provider could collaborate in a more structured and formal way and enable The Company to extract higher levels of business value from the investment in information technology.[1]

This document investigates this issue and is written from the point of view of The Provider.

The Company Strengths, Weaknesses, Opportunities and Threats

Strengths	Weaknesses
1. People understand the issues, have good ideas regarding potential actions, and want to help change.	1. Organizational instability and incompleteness.
	• No executive is responsible for the day-to-day operation of the company.
2. Pockets of exceptional skills.	2. Financial pressures.
3. Instances of strong, highly regarded relationships with customers.	• Does not earn cost-of-capital.
4. Basic elements of the railway franchise are strong.	3. No integrated business strategy.
	4. Customer interfaces are inefficient and ineffective.
	5. The Company's project approval process focuses exclusively on economic value with little or no focus on strategic value.
	6. Lack of discipline and focus on applying process to problems and opportunities.
	7. Relatively inefficient operations are preventing delivery of competitive service and are adding to congestion.
	8. Parallel flows of information associated with planned and actual train movement and network capacity (locomotive and car fleets, track and signal, crewing) are supported by stand alone systems that lack adequate linkage, synchronization and data quality
	• These systems are characterized by extensive manual intervention and are uneconomic, inefficient and ineffective.
	• There are serious concerns for data completeness, accuracy, timeliness and reliability.
	• Each day, there is a massive data gathering

[1] The client and the consultant have been disguised in this case as The Company and The Provider respectively.

<table>
<tr><td></td><td>effort to report the previous day's events and coordinate assets and movement.</td></tr>
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	• There is insufficient time to analyze and plan ahead.
	9. Limiting factors in technology alignment
	• Communications; lack of a common language, lack of mutual respect, no incentive to communicate.
	• Leadership; view of technology as a cost of doing business rather than a strategic lever, parochial view of needs and priorities within each department, lack of discipline to fully complete a project, unwillingness to second guess decisions.
	• Accountability; technology is primarily accountable for budget management not business value, transportation has no accountability for IT.
	10. Potential for some key skills to find other companies or retirement an attractive option.
	11. Problems are solved and opportunities realized within narrow contexts—most actions are one-off.
	12. Soft attitudes and approachs to teaming.
	13. Excessive defensiveness.
Opportunities	**Threats**
1. Technology can deliver greater business value through better alignment with overall business direction.	1. The Company begins to disinvest in markets where it cannot be service competitive.
2. Technology can assist in making operations more efficient – reducing costs and improving service delivery.	2. As operations are simplified The Company becomes more transparent to external parties who will put new pressures on The Company for service improvements and economies.
3. The Company can win in the marketplace, but it has to turn around and deliver a better product and expand its capacity in a capital constrained environment.	3. The Company becomes a carrier of low-margin, bulk commodities and hence unattractive to investors and skilled personnel who can make a difference.
4. Rationalization of the existing technical and applications architecture can free up financial and human resources to enhance performance.	
• The Company has the option of retaining these savings for other use, but any eliminated staff may be difficult to replace.	
5. Technology should improve its own operation prior to focusing completely on strategic value.	
6. Current investments in tactical projects should be aggressively diverted into strategic projects.	

7. As real business value is realized for IT, investment should increase to support true business transformation.	

The outsourcing relationship needs to address this SWOT set.

An Emerging Picture

A picture emerged during the study that represents an initial view of the major elements of a transformation The Company could undergo to achieve the overarching objective. The goals and strategies of each phase are covered in the table following this diagram.
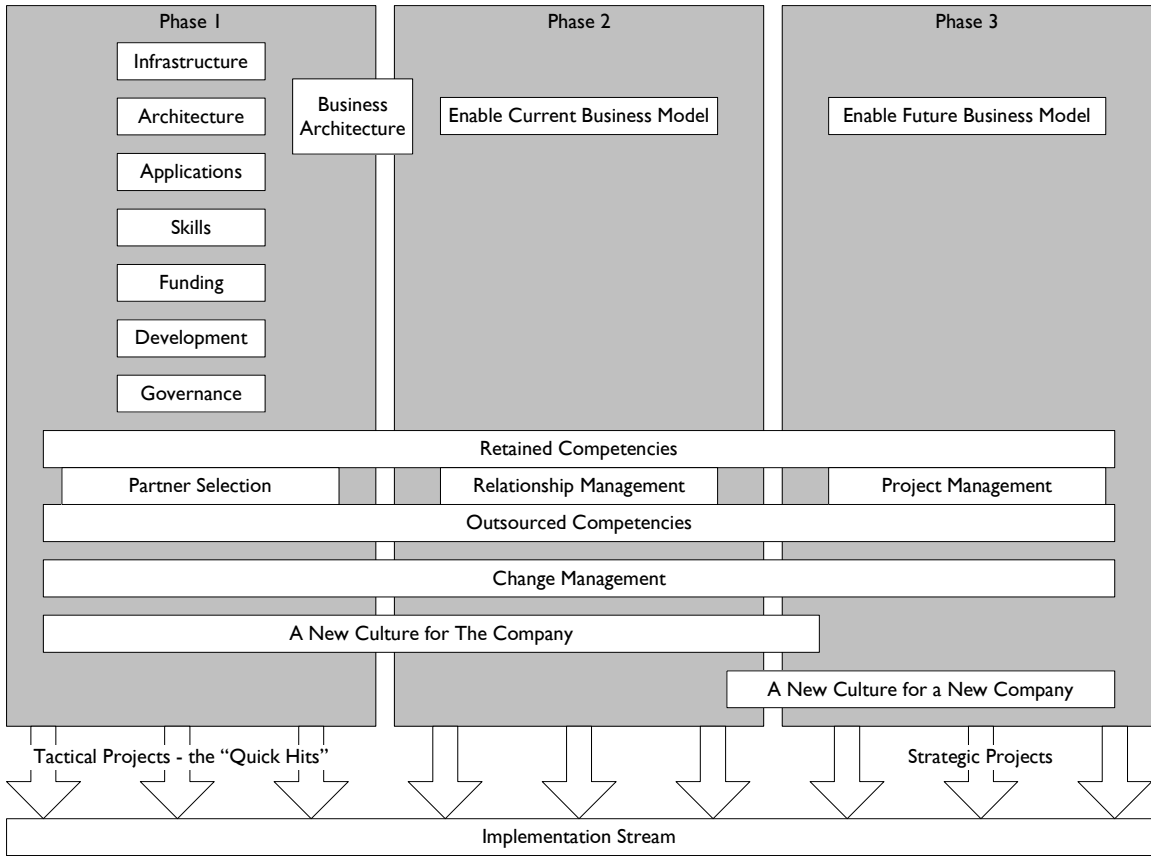
If this picture is accepted as a desirable journey and destination then the question becomes

> What is the best combination of The Company and The Provider strengths, roles and responsibilities, and associated terms and conditions for achieving success?

Success

Success is defined as efficiently implementing a set of strategies that result in achieving a number of goals. A preliminary statement of goals and strategies is in the following table.

Goal of Phase	Strategies
Phase 1 Business and Technology establish a relationship of trust based upon common commitment,	• Substantial, sustainable improvement in the price and performance of the infrastructure. Technology retains and reinvests the benefits.

| Goal of Phase	Strategies
collaboration, and a sustained level of high performance. Together, Business and Technology pursue • Sustained performance at pre-merger levels. • Organizational stability.	• Governance that works – communication, collaboration, shared commitments to and management of initiatives. • Development mechanism that provides for the rapid realization of management initiatives. Increase[2] the amount of funding devoted to new product development.
Phase 2 Discover and invent new ways for technology to deliver value to the business. Together, Business and Technology pursue • Significant and constant improvements in customer satisfaction. • Share of customers spending on transportation and logistics continually increases	• Continual increase in the amount of funding dedicated to new product development. • Utilize cross-functional Business and Technology teams to discover, invent, realize, exploit, and enhance new products.
Phase 3 Define and implement a new business model for the corporation. Together, Business and Technology pursue becoming • First or second in share in markets the railway chooses to serve. • Distinguished from the competition by the superior quality of all elements of its service.	• Establish a new business model team comprising the next generation of leadership.
Cross Phase Identify, and develop to a world-class level, those competencies that must be retained in order to assure competitive distinction. Outsource those competencies which, while required for operation, do not directly provide competitive distinction and which others can perform better. Establish a formal change management program across the organization. Establish the management of data/information/knowledge as a critical success factor for the corporation. Establish a culture where the dynamics of change are considered a competitive ally. Establish an adaptive enterprise to exploit the culture.	

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[2] Increase is, first of all, a shift of funds from maintenance to new product development and, secondly, an overall increase in funding.

From the The Provider point of view success is measured through an ability to increase its share of the Technology budget. The aim would be for The Provider to manage the technology budget save for that portion associated with staffing the office of The Company Vice President of Information Technology.

The Value Proposition

The value proposition is for The Provider is to assume control of The Company's technology, apply their methods and skills to deliver higher return to The Company on its IT investment.

The principal concept of The Provider management of the Technology budget is summarized in this view of the technology life cycle.
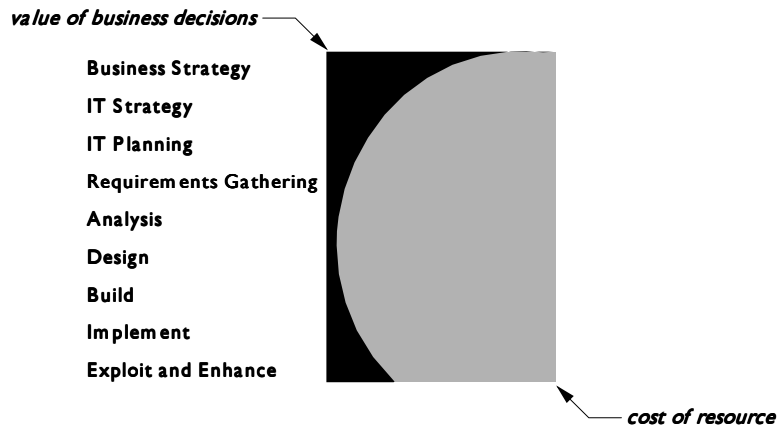
The Company needs to concentrate on developing the skills and procedure necessary to make technology decisions related to the business. That is, The Company focuses one driving maximum business value during the various stages of the technology life cycle. The cost of resource, particularly in the middle stages, is made as variable as possible through the use of outside parties.

The Provider would assume the management and staffing of as much of the activities within the technology life cycle as makes business sense.

The levers that information technology can adjust are similarly owned by and managed through the use of outside parties.
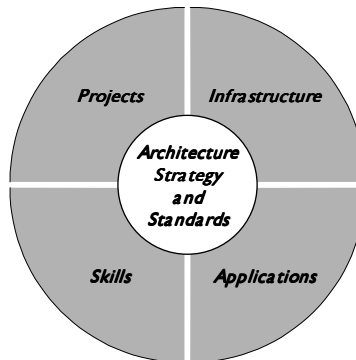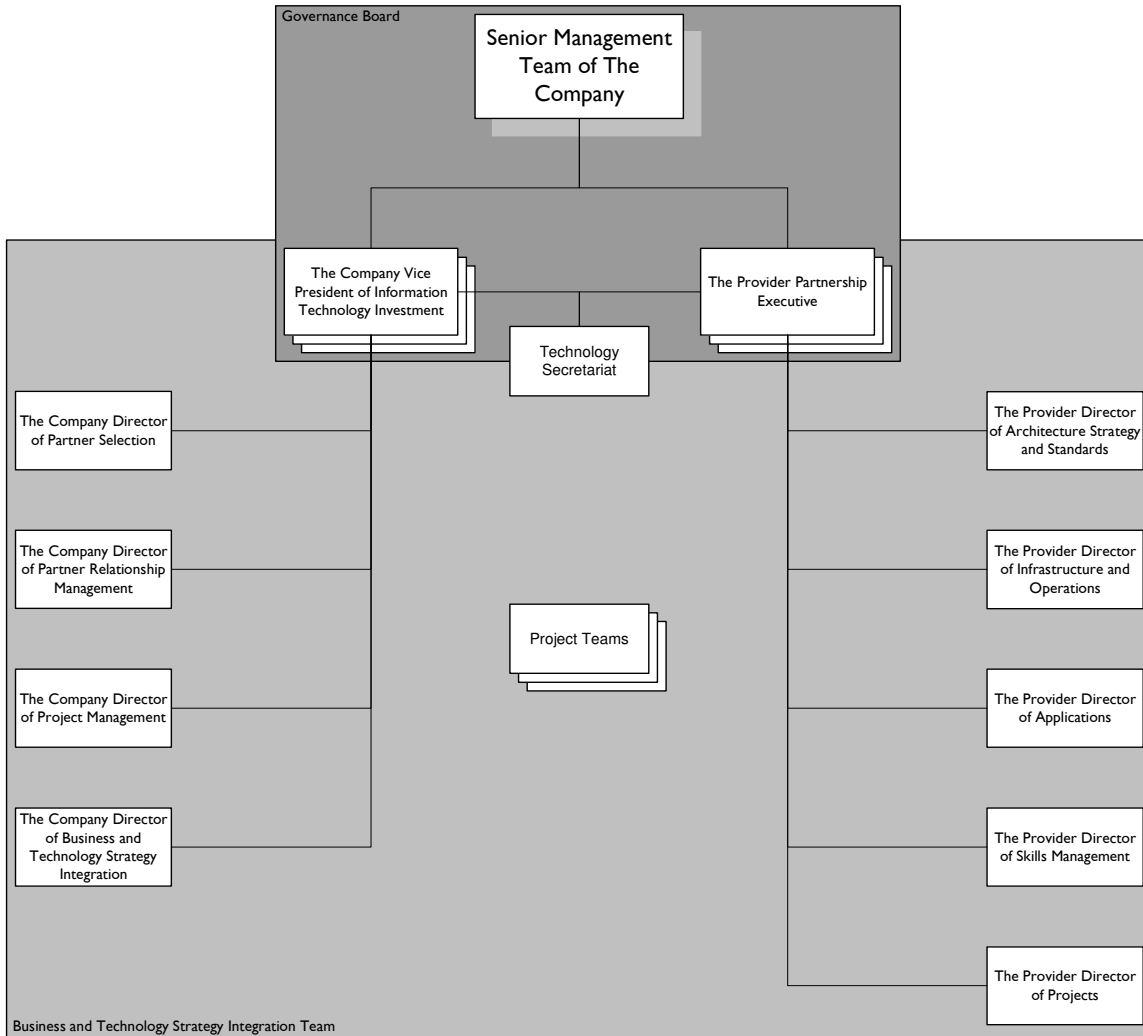

For example, The Provider would furnish a full range of managed operations to The Company as well as application development and maintenance. The Provider would manage the interfaces connecting the Business with Technology.

This would be done through a governance organization (inclusive of a Project Management Office).

Organization for Managing the Relationship

Organizational Element	Responsibilities
Business and Technology Strategy Integration Team This is a virtual team whose principal members are drawn from The Company and The Provider Directors, and is chaired by The Company Director of Business and Technology Strategy Integration. The size, skills and focus of the team will change depending upon the nature of	• Understand the business strategy and the manner in which technology enables that strategy. • Integrate the strategies into a coherent whole and use the output to drive the technology plans and actions. • Provide recommendations to the business as to how technology may enhance existing

Organizational Element	Responsibilities
issues need to be resolved at the moment.	strategies and enable new strategies.
The Company Director of Business and Technology Strategy Integration	Integration of the business and technology strategies; preparation and publication of the technology operating plan.
The Company Director of Partner Relationship Management	Maintaining relationships between technology and partners in order to deliver maximum mutual value.
The Company Director of Partner Selection	Identify, qualify, and assist in selecting and establishing relationships with Partners.
The Company Director of Project Management	Maintains an integrated view of all technology projects completed, underway, and planned, and the manner in which they integrate with and provide value to the business. Manages a Project Management Office.
The Company Senior Management Team	Performance at the corporate level.
The Company Vice President of Information Technology Investment	Performance of technology.
Governance Board The Governance Board is staffed with a select group of executives that are innovative thinkers, practical in implementation and can influence others to support the cause.	Targets technology investments that are fully leveraged through alignment with the business. • Be the "bully pulpit" • Define strategic direction • Provide sponsorship • Arbitrate disputes
The Provider Director of Applications	Application development and maintenance.
The Provider Director of Architecture Strategy and Standards	Identification, promulgation of, and securing adherence to a technology architecture strategy and set of standards.
The Provider Director of Infrastructure and Operations	Day-to-day operation of the infrastructure.
The Provider Director of Projects	Applying professional project management to insure projects are brought in on-time, to-budget, and satisfy the users.
The Provider Director of Skills Management	Identifying, hiring, training, and retaining the skills necessary to get the work done.
The Provider Partnership Executive	Manages the overall relationship with The Company assuring the top level goals are met.
Technology Secretariat (may comprise 3-5 administrative assistants plus 10-12 professional staff)	Coordinates and manages all administrative work associated with the work of Governance Board and The Company/The Provider Relationship. Provides administrative assistance to the organization.

A Note on the Governance Board

It seems likely that the members of the Governance Board may have neither technology experience or experience in managing technology investments. Some level of education will doubtless be required as well as establishing a process whereby the work of the Governance Board is carried out.

A Note on Partners

Partners are individuals, forms, or organizations with whom technology has a long-term relationship rooted in mutual trust, confidence and business value. Partners are competent to provide services and products required to extract the desired levels of return from the technology investment where technology itself chooses not to develop the competencies.

A Note of Process Improvement

The study identified process improvement opportunities.

Process improvement opportunities will be led by the business and generally have a significant need for the involvement of technology. The business will request support from The Company Vice President of Information Technology and The Provider Partnership Executive who will, in response, structure a virtual team comprising members of their staffs supplemented by external resources as deemed necessary. The technology virtual team will then integrate with the business team.

Teams

Deal Team

The Deal Team puts together and sells the deal to The Provider, then to The Company, then to The Provider and The Company together. Its success is indicated by The Company and The Provider entering into a formal relationship agreement.

Role	Responsibilities
Lead	Sees that all issues associated with the deal are resolved in a timely manner by appropriate parties; serves as the principal negotiator with all parties.
Finance	Assure that the deal makes financial sense to The Company and The Provider.
Legal	Assure that there are a minimal number of legal encumbrances in accord with generally accepted practice.
Technical	Assure that the existing technical is understood in terms of its implications on future change.
The Provider Partnership Executive	Understand all aspects of deal pertaining to execution.

Execution Team

The Execution Team is responsible for delivering on the agreement and comprises those roles shown in the Organization chart.

Risks

1. There is substantial organizational risk associated with this transformation and relationship because its success depends on new or untested non-IS corporate or line of business skills, management capabilities, or experience.

2. There is substantial risk because the entire technology organization is required to support the transformation and relationship from a non-project technical support point of view, and it's unclear as to the degree to which it is prepared to do so.

Uncertainties

1. The level of courage and commitment required by The Company to move forward.

2. The degree to which the latest round of personnel reductions will deprive The Company of key skills.

3. The level of skills and focus will The Provider commit to the relationship.

4. The degree to which The Company business strategy, which, at worst, is nonexistent and, at best, is poorly communicated, is likely to succeed.

5. There has been a longstanding acceptance of poorly defined user's or business' objectives. When the user cannot properly describe a problem, technology is hard-pressed to supply an answer. Essentially another measure of risk, this dimension relates a project's potential to reach objectives to the degree to which they can be specified.

6. This transformation and relationship will likely depend on technologies new to technology, which may involve a single technology or a combination of new technical skills sets, hardware, or software tools.

This characterization of risks and uncertainties is based on Parker, M. M., E. M. Trainor, et al. (1989). Information Strategy and Economics. Englewood Cliffs, Prentice-Hall, Inc.

Terms and Conditions

Partnership Scope

This partnership is entered into by The Company and The Provider for the purposes of maximizing mutual value through cooperation and collaboration over an extended period of time.

Its goal is to deploy information technology, in all its many forms, to assist The Company improve its business performance. The Provider will be the principal supplier of technology products and services to The Company and have overall responsibility for deployment of information technology.

Key Assumptions

This partnership and the delivery of mutual value therefrom are based on the following key assumptions. Any deviations from these assumptions or assumptions found to be invalid could have an effect on this Partnership and will be managed through an established procedure. Deviations that arise during the Partnership will be managed through the same procedure.

1. The Company and The Provider will maintain an open, trusting relationship, sharing all data, information and knowledge relating to the Partnership.

2. The Company and The Provider will keep the terms and conditions of the Partnership, as well as all related materials, confidential to The Company and The Provider except as mutually agreed to divulge to others.

3. The Company and The Provider will make every reasonable effort to maintain stability of key personnel. Movement of key personnel will be jointly planned to minimize disruption to the Partnership.

4. While The Provider will be the principal supplier of technology products and services to The Company and have overall responsibility for deployment of information technology, The Provider will also bear in mind that there are other suppliers who may be able to provide more appropriate products and services. The Provider is obligated to understand and use these other offerings if they lead to a better approach (i.e., lower cost, less risk and uncertainty, faster implementation) to helping The Company improve its business performance.

Tasks

1. **Create the Initial Draft of the Deal**

   ### Activity Description

   This task will identify, qualify and quantify the overall risk and reward to The Provider of entering into this partnership with The Company. It will serve as the basis for briefing key The Provider executives in order to secure their approval to move forward with creating the deal.

   ### Completion Criteria

   This task will be completed when an executive level presentation of 10-15 charts has been prepared.

   ### Deliverables

   The Company/The Provider Partnership: Initial Statement of Risk and Reward.

2. **Identify and Brief the Key Decision Makers and Influencers in The Provider**

   ### Activity Description

   This task identifies, schedules and briefs all key decision makers and influencers in The Provider to secure their constructive criticism of the deal and approval to proceed.

   ### Completion Criteria

   This task will be completed when all briefings have been completed.

   ### Deliverables

   None.

3. **Finalize the Deal**

   ### Activity Description

   This task incorporates all feedback from The Provider executives into a final deal to be presented to The Company.

   ### Completion Criteria

   This task will be completed when the Deal Sheet has been completed.

   ### Deliverables

   A Proposal for a Partnership Between The Company and The Provider (the Deal Sheet).

4. **Gain Acceptance by Key Decision Makers in The Provider**

   ### Activity Description

   This tasks presents to The Provider executives the Deal Sheet for their final approval prior to approaching The Company.

   ### Completion Criteria

   This task will be complete when all The Provider executives approve the Deal Sheet for presentation to The Company.

   ### Deliverables

   An approved Proposal for a Partnership Between The Company and The Provider.

5. **Present the Deal to The Company**

   ### Activity Description

   This task presents the Proposal for a Partnership Between The Company and The Provider to key The Company executives and solicit their critique.

Completion Criteria

This task is completed when all key The Company executives have reviewed and critiqued the proposal.

Deliverables

List of requested changes to the proposal.

6. **Negotiate Changes Requested by The Company**

Activity Description

This task negotiates with The Company and The Provider the changes requested by The Company.

Completion Criteria

All changes have been resolved to the satisfaction of The Company and The Provider by either incorporation into the proposal or a mutual decision to table the change.

Deliverables

Final form of the Proposal for a Partnership Between The Company and The Provider ready for signature,

7. **Present the Deal to The Company and The Provider for Signature**

Activity Description

This task obtains all required signatures from The Company and The Provider.

Completion Criteria

All signatures have been obtained.

Deliverables

The signed proposal becomes an agreed Statement of Work for the conduct of the relationship.

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