

Sourcing Insights

STRATEGIES FOR IT LEADERS



SMARTER SOURCING: MEASURING AND COMMUNICATING THE SUCCESS OF SOURCING RELATIONSHIPS

“OK, PROVE IT!”

That’s the reaction IT management is likely to hear from the business side of the house whenever claims are made about the business value of IT service delivery or of outsourcing relationships.

With outsourcing, particularly when the outsourcing arrangement is mainly a transaction relationship, traditional SLAs aided by pricing benchmarks can offer tangible measurements of the operational value and financial merits of the arrangement. But what about the less tangible gauges of business value that are rapidly gaining in importance and supplanting cost savings as key drivers: factors such as agility, innovation, and the ever-elusive alignment with business requirements?

In a global study undertaken this year by IDG Research Services and commissioned by Unisys, the majority of the 279 senior IT managers polled at large organizations in North America and Europe rated as “fair” or “poor” their ability to measure the business value of outsourcing relationships. These managers said they had considerable difficulty measuring key business benefits, including innovation and thought leadership, risk mitigation, and linking IT value to business value, to name just a few.

The truth is, there are tools and techniques not only to measure, but also to describe and align, outsourcing relationships and strategies within a business value framework. These tools include Balanced Scorecard as well as Six Sigma (which is explored in detail in the second part of this white paper). Harnessing these and other variations of strategic management, performance improvement and Total Quality Management (TQM) techniques is helping IT leaders articulate the success of sourcing relationships in bona fide busi-

ness terms. And in doing so, these techniques help obliterate the notion of IT as a cost center and boost the sense of IT as a strategic enabler and creator of value for the organization.

BALANCED SCORECARD AS A CHANGE AGENT

For the IT staff at St. Luke’s Health System in Lees Summit, Missouri, Balanced Scorecard “provides periodic, objective feedback of progress on the SLA, which can either substantiate the value of the outsourcing agreement or lead to re-negotiations or, worst case, to a cancellation,” says John Wade, IT director at St. Luke’s. Wade calls Balanced Scorecard “a highly effective mechanism for measuring performance,” and gives credit to its usage in part for St. Luke’s being a recipient of the prestigious Malcolm Baldrige National Quality Award. St. Luke’s also uses Six Sigma techniques in the context of its Malcolm Baldrige process-driven organization.

The greatest potential of Balanced Scorecard may lie in its ability to foster change in the way IT creates value for the enterprise. “The role of Balanced Scorecard is to drive change, in this



case in the IT organization that is utilizing it,” says Robert S. Gold, a vice president with Palladium Group, Inc. based in Lincoln, MA. Palladium is foremost among Balanced Scorecard think tanks, and Gold has been advising IT organizations on driving business value for two decades.

According to Gold, IT organizations for various reasons often focus too much on reducing cost and keeping systems running. Meanwhile, business managers are looking to IT increasingly to help drive value creation. Using

PREP WORK

There are several techniques, tools and methodologies for measuring the business value of IT service delivery and sourcing relationships, of which Six Sigma and Balanced Scorecard are just two. Experts agree there are common organizational characteristics and practices that provide a framework within which such Total Quality Management (TQM) initiatives will be most effective. Among them:

- Launch TQM initiatives with a relatively small, cross-departmental team including managers from IT, business units, and senior management. In this way, all affected parties and stakeholders will not only come to see IT as a strategic enabler of and contributor to business value, but also will become champions of the TQM initiatives themselves.
- Senior management must be able to articulate to employees and outsourcing partners the connection between their day-to-day labors and long-term strategic outcomes so they become part of the engine of change.
- Internal IT as well as business management should have a view of each outsourcing relationship not as an isolated event but rather as a component of an overall business strategy.
- Business management must liquidate any notions in the company that IT is anything other than a potential enabler of strategy execution. Developing techniques for measuring the business value of IT service delivery and outsourcing relationships is one sure way of proving this point.

A pre-existing framework such as ITIL can be very complementary to Six Sigma and Balanced Scorecard, provided the internal requirements of ITIL aren’t so demanding as to leave little time for the change-management work of the TQM initiatives.

Balanced Scorecard, Gold maintains, IT managers can develop a framework that drives IT goals to line up with business goals, thus becoming a real partner in executing strategy rather than just “keeping the trains running on time.” Balanced Scorecard does this by functioning as a sort of IT-business “Esperanto” or universal language between the two groups, measuring IT’s capabilities and competence in delivering against business objectives.

As a measuring system for sourcing agreements, Balanced Scorecard reports on past operating performance and the drivers of future performance as well. In simple terms, a Balanced Scorecard approach lists objectives on one side of the scorecard, divided into value-creating processes and outcomes. On the other side are specific measurements in hard numbers like dollars, percents, mean deviations, and so on. The actual entries depend entirely upon what the organization wants to see tracked in an outsourcing scorecard.

COMPLEMENTARY STRATEGIES

Reflecting the experience at St. Luke’s noted earlier by John Wade, Gold says that Six Sigma and Balanced Scorecard

can be highly complementary. Operational excellence is an IT requirement today and Six Sigma is a proven discipline for driving (and measuring) quality and operational performance. Explains Gold, “We view Balanced Scorecard as the organizing discipline under which executive leadership manages the business and makes the decisions to engage in various initiatives, some of which may be driven by things like Six Sigma other TQM tools.”

Gold also notes that companies utilizing ITIL as a framework in which IT benefits are delivered may tend to have greater success when using Six Sigma or Balanced Scorecard. However, Gold also warns that the time demands on ITIL can be so great as to leave little IT energy for TQM initiatives.

Concludes Jeff Kaplan, managing director of ThinkStrategies, Inc., a leading outsourcing consulting firm, “These TQM and business effectiveness measurement approaches for sourcing arrangements and IT service delivery provide highly useful guides for identifying and benchmarking the role IT plays in corporate success.” •

A TOTAL QUALITY APPROACH FOR SERVICE MANAGEMENT: SIX SIGMA DRIVES TO THE HEART OF SERVICE QUALITY PROBLEMS WITH A MEASURED APPROACH TO QUALITY AND CONTINUOUS IMPROVEMENT

BY SUSAN WATTS

You are probably familiar with the expression, “When everyone’s in agreement, nobody’s thinking.” Unfortunately a lot of companies attempt to solve chronic problems by confining groups of managers in a boardroom until they come up with resolutions. One or two people usually dominate the discussion and can persuade others to follow their lines of reasoning. In other words, everyone reaches agreement. Therefore, they must be right!

In reality, the problems have been examined piecemeal, seldom in relation to one another. What’s worse, the symptoms of the problems are what often are attacked, not the problems themselves. What is needed is a disciplined, fact-based approach to driving not at the symptoms, but at their root causes. Such an approach should also be able to examine the interdependencies of different problems, possibly leading to solving multiple problems in one great leap ahead.

Various total quality initiatives, such as Six Sigma and Lean, are designed as alternatives to long-standing corporate practices of problem resolution. They substitute structure, discipline and process to the relatively random world of boardroom jousting.

SOLVING PROBLEMS, NOT SYMPTOMS

Here is a simple if not amusing illustration of Six Sigma in action, an example that shows the capability of this total quality management regimen to solve an incredibly wide array of problems. The National Park Service had a nagging problem caused by birds roosting and nesting near the Lincoln Memorial, dropping an unsightly mess on and

around the memorial. When traditional techniques to discourage the bird population from nesting failed and repeat power washing of the fragile stonework put decades of history in jeopardy, they brought in a Six Sigma team.

A key tenet of Six Sigma is getting to the root cause of the problem. The problem, as the Six Sigma specialists



discovered, was not the birds at all, but the bugs that were buzzing and flying around the monument. Those bugs, as it turned out, were attracted to the kind of artificial lighting that was illuminating the monument. The team recommended changing the lighting to a different type. The bugs left the area, and so did the birds.

Six Sigma has an amazing capability

to look at the interdependencies of different root causes and then to attack the causes comprehensibly. Plus, as this example shows, Six Sigma is great at distinguishing between the real cause of a problem and something that is merely a correlation.

Consider this example, which is closer to home. An outsourcing customer had tasked the Unisys European Global Outsourcing and Infrastructure Services organization to improve customer satisfaction levels. For this client, customer satisfaction was an absolutely foremost priority, as theirs is an extremely competitive if not cutthroat marketplace.

Rather than the taking the usual approach of putting a team of experts into a boardroom to hammer out solutions, Unisys called in one of its Six Sigma teams. Steeped in Six Sigma processes, best-practice research and techniques, the team examined thousands of customer satisfaction surveys across selected countries of the client’s

operations. They found that a key root cause of the inability to improve customer satisfaction was the variation in processes from country to country. The suggested remedy: standardized processes across all operations.

Further probes and analysis by the Six Sigma team demonstrated the extreme importance to the client of field service technicians, who interface

directly with the client's own customers. So the team recommended road shows to demonstrate to the technicians the mission-critical role they and their communications skills play in overall customer satisfaction.

MEASURABLE RESULTS

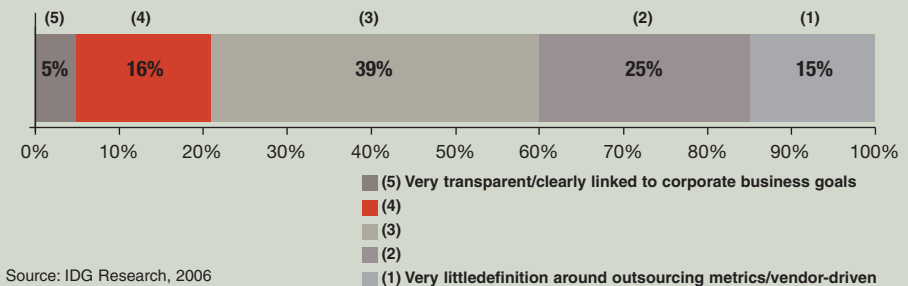
The results of these and other Six Sigma efforts were superb. Customer satisfaction in the target countries increased to within a fraction of a percentage point of the client's target within a few months. In addition, the Six Sigma team established metrics and techniques for monitoring and controlling customer satisfaction to ensure long-term, continuous success.

But perhaps more important for Unisys' client is that the best practices and techniques of continuous process improvement initiated and fostered by the Six Sigma team have spilled over into their working environment as permanent features.

This example is further proof of the value of working with an outsourcing provider in which the Six Sigma mentality is deeply engrained. At Unisys, Joseph McGrath, the president and chief executive officer, personally drove Six Sigma and Lean as a key initiative across the entire company. As someone

Maturity of Sourcing Value Measurement Practices Worldwide

Asked how they rate the maturity of their organizations' sourcing value measurement practices, only 21% of all respondents rated theirs as a 4 or a 5—very transparent and clearly linked to corporate business goals—compared to Six Sigma users, 41% of whom rated their measurement practices as a 4 or a 5.



processes – and driven to eliminate organizational waste. So in an outsourcing engagement, this culture of continuous improvement and continuous change tends to positively impact the client's operations, just as in the example above.

PREPARING FOR TQM

Today many companies and organizations are asking how they can better prepare themselves to become a Six Sigma culture and execute on total quality management initiatives like Six Sigma, given the tremendous potential for big improvements. The most important criteria, as we found at Unisys, is unwavering support and buy-in from

has them looking mostly at symptoms and not at real causes. Training will help them understand how to use the tools and techniques most effectively.

Third, there needs to be some kind of strategic planning process high in the organization that gives all employees some directional headers or goals. For example, is the primary goal a 10% increase in sales, or profit growth, or better throughput, or perhaps improved customer satisfaction? With a specific goal in mind, employees and teams can better prioritize the projects they want to tackle, putting at the top of the list those that have the most direct bearing on the stated goals.

A SIX SIGMA COMPANY BY DEFINITION IS HIGHLY ORGANIZED, DISCIPLINED AND DOCUMENTED IN ITS PROCESSES – AND DRIVEN TO ELIMINATE ORGANIZATIONAL WASTE OR RESOURCES THAT DON'T CONTRIBUTE TO KEY GOALS.

whose business career has been strongly oriented toward fact-based decision making, he has a natural affinity for what Unisys refers to as Six Sigma Lean.

All employees at Unisys, no matter what their jobs, are encouraged to take White Belt Training, for Six Sigma Lean. Others have higher levels of training, all the way up to Master Black Belt. All employees are encouraged to seek out chronic problem areas for the teams to resolve. It is a Six Sigma culture. It started from the very top of the organization and today is infused throughout.

The benefit to our outsourcing clients is that we bring this culture of continuous quality improvement and root cause analysis to all engagements. A Six Sigma company by definition is highly organized, disciplined and documented in its

senior management. The individuals in the leadership team have to be willing to break with conventional problem solving techniques and move away from simply locking the best and brightest into a conference room until they "solve" a problem. Any wavering of management support for a structured, disciplined approach like Six Sigma will be interpreted down the line as a lack of commitment.

Next, companies have to commit to training of virtually all employees to change the way they think about solving problems. It starts with focusing on the customer and the data. In other words, if you can't measure it you can't manage it. If you can't manage it you can't improve it. This can be tough at first. But you must move employees away from entrenched thinking that

Finally, it is important to have some existing frameworks of which business metrics are a big part, things such as ITIL. This framework is all about process and methodology and business metrics, while a TQM initiative like Six Sigma is about variations in those metrics and the reasons for them. ITIL and Six Sigma are like peanut butter and jelly – extremely complementary. If you are implementing ITIL or already have it in place, Six Sigma will be a natural and very easy next step in the maturing of your organization. •

With more than 20 years at Unisys, Susan Watts is vice president and general manager, Global Outsourcing and Infrastructure Services (GOIS) in North America. Previously, Watts was vice president and managing partner, Six Sigma Lean, for GOIS.

