

**Book Extract: Preface and sample chapter– for limited review**

# **IT Governance in a Networked World:**

*Multisourcing Strategies and Social Capital for  
Corporate Computing*

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## PREFACE

The Internet may be the most visible face of the change towards a networked economy, however the growth in the interdependence between firms and organisations across the globe has been evident for several decades. Several scholars have predicted the changing nature of the global economy from one reliant on manufacturing and physical assets to one reliant on knowledge, services and intangible assets (Drucker, 1992; Quinn, 1992; Stewart, 1997; Sveiby, 1997). The experience of these changes in the Information Technology (IT) industry is best exemplified through the changes experienced by industry stalwart IBM. After over a century's involvement in manufacturing IBM was forced to turn its focus to services in the early 1990s to survive. IBM is now the dominant force in outsourced IT services. In terms of IT Governance, the scope has expanded beyond the walls of the single enterprise to encompass multisourced providers and also potential business alliance partners. Whereas governance has been traditionally associated with "compliance" to a pre-determined company standard there is now a growing appreciation for a "co-operative" approach to governance, where no single authority exists and leaders are forced to operate through the influence of their peer to peer relationships. The growth in outsourced IT services is the trigger for reassessing how IT Governance and sourcing should be conducted.

The outsourcing of IT services has been with us now for well over a decade. The outsourcing phenomena was launched through a number of outsourcing "mega-deals" with significant organisations like the UK Inland Revenue, the South Australian Government, Campbell Soup, Dupont, British Steel and Lucent Technologies. Many of these deals were for periods of up to 10 years for contract amounts in the billions of dollars. The advent of multi-sourcing has virtually been with us from the start, with organisations like Dupont and British Petroleum purposefully undertaking multi-sourcing strategies from the beginning. The growth in the adoption of multi-sourcing strategies and shorter contract terms is however a direct result of the disenchantment in sole sourced outsourcing deals (Gedda, 2007). The fast pace of technology change in the IT sector, the perceived inflexibility of arrangements and lack of innovation with single vendors have combined to work against the continuance of the practice of long term single vendor outsourcing contracts. A recent global study by IBM of 765 CEOs revealed that 75% were looking to partners outside of their organisations to create innovation, yet only 50% of organisations are currently achieving this (IBM, 2006). Consequently the drive for increased innovation will also fuel the drive for increased levels of multisourcing.

It can therefore be argued that the movement toward "best of breed" multi-sourcing strategies has been more as a result of the failure of sole source arrangements, than a purposeful business enhancement strategy. Outsourcing researchers and commentators have been united in identifying the client / vendor relationship as being a most critical element in a successful outsourcing arrangement (Deloitte, 2005; Thomas Kern & Willcocks, 2001; Willcocks & Cullen, 2006). Willcocks & Cullen (2006) have stated that:

*“In our study of organisations seeking IT cost savings via outsourcing, we found that good relationship management made a 40 per cent difference in cost savings. Another study of 235 client organisations identified good relationships as one of the most important factors contributing to effective delivery and successful contract management.”*

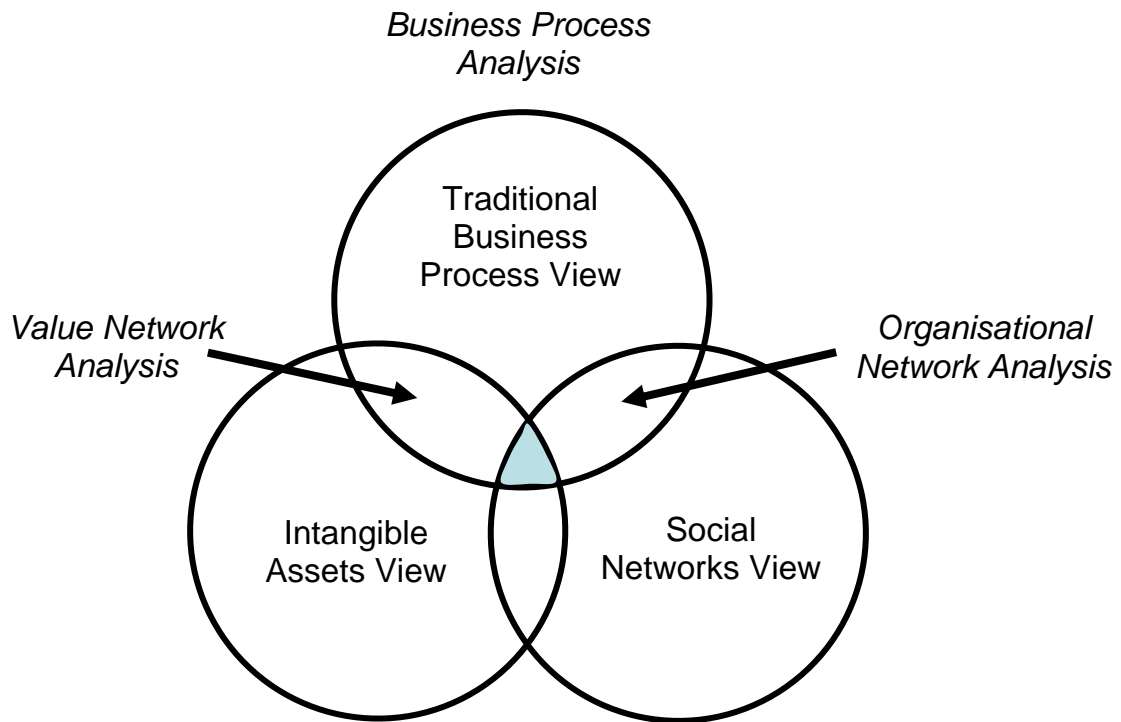
The increased complexity in the required governance arrangements, together with the organisational change management aspects of the outsourcing arrangements have been identified as the two most reported problem areas for outsourcing clients (Deloitte, 2005). The movement from a single supplier situation to multiple suppliers would therefore appear to only exacerbate the relationship and governance problem. This leaves us with an interesting contradiction. Organisations are now embarking on multisourcing strategies, which in turn can only increase the risk of failure. This shift increases the complexity of the identified largest problem area coming from outsourcing experiences to date; that being the governing of the outsourcing relationship.

Coinciding with the trend towards outsourcing and now multisourcing are changes in the business landscape in general. Firstly, the increasing importance of intangibles and intangible assets is occupying an increasing proportion of firm share market valuations, much of this attributed to the growing services sectors (Hall, 1992; Lev, 2001; Lev & Zarowin, 1999; Low & Kalafut, 2002). Secondly, the growth in alliances as a business growth vehicle continues to grow inexorably at a rate of 25% a year despite a failure rate of between 60% and 70% (Hughes & Weiss, 2007). We therefore now have a situation where market place interconnectedness is accelerating at unprecedented rates as organisations race to build new alliance partnerships, develop outsourcing relationships with multiple suppliers and aim to leverage intangible assets to build shareholder value. It is no longer possible to view suppliers as independent entities. They too will be participating in their own alliance arrangements with other suppliers which can, and will, change the nature of their service offerings. Client businesses will also be changing dynamically where mergers, acquisitions and alliances will also change the nature of the business requirements for IT services provision. The above business trends along with failure rate experiences in excess of 50% for IT outsourcing and alliances are the platforms on which this book has been written.

This book is focused on governance of the business relationship. Unlike many of the excellent texts and reports that have been produced to address the client/supplier outsourcing or selective sourcing arrangements (Cullen & Willcocks, 2003; T. Kern & Willcocks, 2000; Lacity & Willcocks, 2001) or those extending such frameworks to multiple suppliers (Cohen & Young, 2006), this book focuses on the socialisation aspects of the relationship. Much of the literature on IT Governance reflects a compliance approach to governance whether it relates to sourcing decisions or information security and/or protection (Calder & Watkins, 2008), contracts and contract management, business processes, tendering and tender evaluation or life cycle management frameworks (Cullen *et al.*, 2005). The current guidance literature on IT Governance has focused on allocating decision rights to appropriate roles within an organisation with the intent of encouraging desirable behaviours (Broadbent, 2002; Weill, 2004). However, allocating accountabilities is only part of the answer. The relationships held between the identified roles will go a long way to determining the

success of a governance arrangement. Many an executive charged with implementing a compliance regime for IT Governance will note that the practice is more about socialisation than policing. These texts do an excellent job of synthesising management frameworks from both management theory and analysis of case study experiences. The treatment of relationship management however is largely limited to identifying the structural elements for governance bodies and the creation of charters for developing behavioural norms or codes of conducts for the relationship. As valuable as these are for addressing a single relationship there is reasonable doubt as to whether these techniques will be sufficient to succeed in a highly networked and interdependent market place. Cohen & Young, (2006) acknowledge among their four key themes for multisourcing that “*Multisourcing is built on a network of relationships – not transactions*” and proceed to extend the code of conduct approach by defining a useful “Confidence Index” for monitoring confidence in relationships. However, it falls short of appreciating the network effects identified in their key theme which can undermine a “one size fits all” use of index measures.

In order to provide a greater insight into operating successfully in a networked market place this book draws heavily from the fields of sociology, social networks, Intellectual Capital and Intangible Asset Management. Unlike the majority of texts written on IT Governance this book does not attempt to synthesise a “best practice” from numerous case study examples. Instead it looks to identify emergent practices through analysing overall changes in the business landscape that are occurring and the theoretical literature underpinning these changes. Building from a theoretical basis underpinning a social capital theory of the firm, the book will initially take the reader through a treatise of interdisciplinary research which incorporates foundations for governing in a networked business environment, theories of the firm, multisourced supply networks and a view of IT Governance from the sociological viewpoint. This will be followed by the reporting on empirical research conducted on linking a firm’s Corporate Social Capital (SC) to its overall performance. From empirical research the book then moves on to identify emerging practices associated with operating in a networked business environment. These include Value Network Analysis (Allee, 2003), networked based approaches to market intelligence (Gloor & Cooper, 2007) and the whole Web 2.0 and social software phenomena. The final section looks to synthesise across the identified emergent practices to provide some early guidelines on IT Governance and multisourcing in the networked business environment. The following schematic places this book in the context of current treatments of outsourcing and multisourcing and IT Governance:



Existing treatments of IT Governance, outsourcing and multisourcing have been classified above as a “business process view”. Essentially these treatments have been concerned with the business process flow from developing outsourcing strategies, architecting a desired IT environment, tendering and selecting suppliers, transitioning the business and then finally installing the governance arrangements through allocating decision rights. The treatment of the critical relationship aspects has been largely from a business process management viewpoint i.e. what instruments can be designed and installed to “manage or govern” the relationship. Treatment of IT Governance from an information protection perspective (Calder & Watkins, 2008) could be seen as an “Intangible Asset” view, with company information being the intangible asset.

This book targets IT Governance and the sourcing relationship, and amplifies its treatment through the introduction of a perspective from the discipline areas of *Intangible Asset Management* (also called Intellectual Capital Management) (Hand & Lev, 2003; Holland, 2001; Low & Kalafut, 2002; Zambon *et al.*, 2003), *Social Capital* (Lin, 2002; Lin *et al.*, 2001), and *Social Networks* (Borgatti *et al.*, 1998; Burt, 2000; Rob Cross & Parker, 2004; Inkpen & Tsang, 2005; Knoke, 1999; Tsai & Ghoshal, 1998). These discipline areas bring an additional richness to the understanding of how to work with and improve business relationships for the overall benefit of organisations. The intersections between the business process view and the intangible asset and social network views are explored through the analytical techniques of Value Network Analysis (VNA) and Organisational Network Analysis (ONA). In the three way intersection between views sits the ever present technology platform as a key enabler for extending the reach for governance and sourcing activities.

Emergent techniques arising from these disciplines are introduced for assisting with the governance of multisourcing relationships. Firstly, the ONA technique is derived from a mature technique called Social Network Analysis (SNA), originally used by sociologists to study personal relationship patterns (R. Cross *et al.*, 2002; Scott, 2000; Wasserman & Faust, 1994). SNA applied to organisations at the personal, organisational and inter-organisational levels is often referred to as ONA. ONA can provide insight into how the network of individual actors in multisourcing arrangements relate to each other and how designed interventions can impact on the behaviour of the network. VNA (Allee, 2000, 2003, 2008) derives from the Intangible Asset Management field as a complementary technique for business process mapping by including intangible value flows into the business analysis. VNA is an important tool for designing or evaluating organisational structures around a relationship network, identifying the key roles and how both tangible and intangible value flows between them. VNA has been recently endorsed by ITIL (an acknowledged best IT practice organisation) as a leading IT strategy development practice (ITIL, 2007). Web 2.0 technology has enabled emergent practices around social networking, collaborative market research and open source development which promises to have profound impacts on IT Governance and sourcing activities.

The audience for this book will range from the scholar or student looking to better understand the governance mechanisms in a networked business environment, through to the IT manager who is struggling with complex business relationships issues for which there is currently minimal guidance. While the issues of governance are addressed in an IT context many of the underlying theories identified and practices developed may be equally applicable to other non-IT service industries. It will draw equally from the client and supplier sides of the IT marketplace. Traditionally the literature on outsourcing is either polarised around advice for clients undertaking outsourcing activities or the shorter term market research supporting the supplier market place. By focusing on the relationship between client and supplier, between supplier and supplier and also potentially client and client, this book will be of equal value to both client and supplier firms.

Much of the terminology in this book may be new to the casual reader. Many of the terms are simply extending a traditional definition to encompass new developments in the field. To assist the reader the following table is provided to identify and link a selection of new terminology with the more traditional terms.

<b>Traditional Term</b>	<b>Extended Terminology/Explanations</b>
Procurement, Sourcing	<i>Single sourcing</i> – procurement from single or prime vendor <i>Multisourcing</i> – procurement from multiple vendors with no identifiable prime or managing vendor. <i>Outsourcing</i> – services sourced from entities outside the formal boundaries of the firm or organisation
Supply Chain	<i>Supply Network</i> – extends the notion of a linear chain of supply to an interdependent network of suppliers and clients i.e. allows for the possibility of reciprocal arrangements where two firm may

	both buy and sell to each other, or alliance to sell to a third party.
Supplier	<i>Vendor</i> – used interchangeably with supplier
Intangibles	<i>Intangible assets, Intellectual Capital</i> – these terms extend the accounting term “intangibles” beyond “goodwill” to encompass all intangible assets including competence, information, reputation, brand, client relationships etc.
Service firm	<i>Intelligent Enterprise</i> – used to emphasise knowledge over physical assets as the critical competitive resource of the firm. The intelligent enterprise therefore leverages intangible assets and Intellectual Capital.
Capital	<i>Social Capital, Intellectual Capital</i> – these terms extend the traditional notion of capital as it relates to finance, to other less tangible elements as being of equal or greater importance to financial capital.
Social Capital	<i>Corporate Social Capital</i> – Social Capital in a corporate context.
Social Network Analysis (SNA)	<i>Organisational Network Analysis (ONA)</i> - SNA applied in a business setting.
WWW	<i>Web 2.0, Enterprise 2.0</i> – These terms extend the notion of the web / WWW as a place to publish (identified and Web 1.0) to a place to collaborate (Web 2.0). Enterprise 2.0 describes the corporate use of Web 2.0 tools.

The book is structured as follows:

## **Part I – Foundations of IT Governance in a Networked World**

The introduction positions the book around IT Governance and multisourcing strategies and a firm’s social capital embodied in its relationship networks in the IT market place. Data is provided to show the growth in multi-sourcing arrangements and the increased inter-connectedness of the IT services marketplace.

A review of the IT Governance literature and its current state of the art leads into governance decision making and the increasingly complex business environments in which these decisions are now being taken. The Cynefin decision making framework, which caters for complexity, is introduced to assist with untangling the different levels and types of IT Governance decisions that need to be made ,and providing some sense as to the conditions under which a particular decision making process might be adopted. The notion of a co-operative approach to IT Governance is introduced to balance the traditional compliance approach.

Multisourcing is addressed by taking a networking view of multisourcing arrangements. Business evolution is traced from the industrial era, through to

supply chain management and now value networks. The traditional view of the “firm” is challenged by the growth in the multiplicity of alliance and joint venture relationships.

The final foundational element is the emergence of the “intelligent enterprise”. In essence the intelligent enterprise is a services centric firm which relies more on intangible assets and Intellectual Capital than the traditional manufacturing enterprise and a reliance on physical assets. The growth in the IT services market exemplifies the rise of the intelligent enterprise.

## **Part II – A Sociological View of Governance**

This section begins with separate examinations of the foundation literature on corporate social capital and the intelligent enterprise. The two fields are then synthesised through the author’s own research into corporate social capital and its application to the IT industry. The linkage between multisourcing strategies and corporate social capital is reinforced.

The maturation of the IT industry and the growing importance of relationship skills for IT professionals are then addressed. Relationships between IT providers and their business clients, or peer relationships with alliance partners, are requiring IT professionals to move beyond the comfort of a technical discipline and into the soft skills areas of networking cultures and reciprocity.

Inside organisations the IT function is often viewed as a “support” or “staff” function providing services to the core lines of business. Business alignment or business integration of the IT function has been in the top three IT success criteria for decades. With organisational structures evolving towards a greater use of matrix and network management, how IT positions itself within the network of the other lines of business will become critical. This section closes by exploring some different models of IT/Business alignment based on the network paradigm.

## **Part III – Research, Applications and Future Directions**

The sociological view of governance is now reinforced through the reporting of some empirical research and emerging practices. Empirical research linking a firm’s Corporate SC and its overall performance is presented. A network representation of the global IT outsourcing market is provided and relevant research methods are detailed in the appendices. Hypotheses test results are presented showing how the sub-elements of Corporate SC influence firm performance measures.

The emerging practice of Value Network Analysis and its adoption by ITIL is introduced. ITIL is fast becoming the IT industry’s de facto best practice guide for the provision of IT services. The latest version of ITIL has acknowledged the evolution of value chains into value networks. This chapter provides a detailed description of how value networks can be applied to IT services provision. This section will draw from the value network practitioner’s own “best practice” guides.

The evolution of the global IT outsourcing market is analysed from a networks perspective. This is accompanied by commentary identifying the growth in multisourcing networks and who the main global players are in this evolution. In this chapter the innovation question is addressed from a multisourcing and network perspective, hoping to shed some light on the innovation dilemma.

The impact of emerging technologies on IT Governance is addressed to close this section. In particular, the emergence of the suite of Web 2.0 technologies will provide fuel to the networking fire by putting advanced communications tools in the hands of individuals within the business. The current suite of social software tools like blogs, wikis and discussion lists are finding their way from the public domain to inside organisations. This section looks at the issues and opportunities afforded by Web 2.0 and the current net mining research which promises to be the next generation of business intelligence.

## **Part IV – Leveraging Emerging Practice**

The previous sections were rich in terms of research, case studies, technologies and methods for working with business networks in the IT discipline. In this section the threads will be synthesised into a suite of guidelines as to what individuals, IT executives and business executives can do to improve their collective IT Governance performance in a networked economy where multi-sourcing has become the norm.

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## Chapter 9

# ITIL AND VALUE NETWORKS

The previous chapters have concentrated on organisational theory and management in general and identifying the linkages to IT Governance and multisourcing. In this chapter a management framework designed by and for the IT function will be reviewed from a network's perspective. ITIL (Information Technology Infrastructure Library) is the result of an initiative of the UK Office of Government Commerce to collate and publish a suite of "Best IT Management" practices. The result is a process model covering the various IT service functions like service desks, problem and incident management; configuration and change management; service level management, capacity management, security management; and IT application development, implementation and maintenance. Many organisations have embarked on the use of ITIL as a holistic management guideline for all their IT services operations, despite the OGC being careful not to promote it as such. A common criticism of ITIL is therefore the danger of organisations adopting ITIL as a "silver bullet" for IT service ills. The most recent version of ITIL, version 3, extends the framework beyond operational aspects to address business alignment issues and hence, relevance to IT Governance activities. The growing importance of networks is acknowledged in the Service Strategy publication (ITIL, 2007) through the identification of Value Network Analysis (Allee, 2003) as a preferred technique for designing and analysing new service provisions.

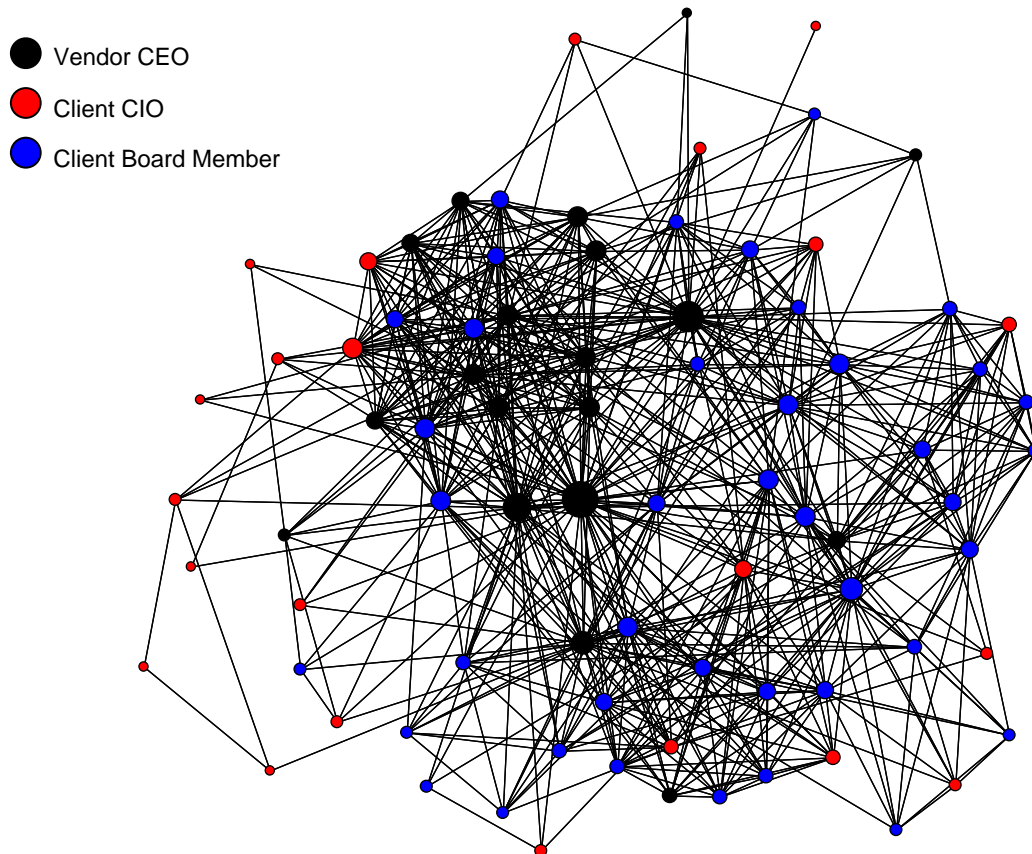
In this chapter ITIL identified governance processes will be reviewed from a network perspective. Value Network Analysis (VNA) will then be described as a means for facilitating IT Governance and preparing for the implementation of a multisourcing strategy.

## IT Governance and ITIL

IT Governance has variable definitions between organisations or even continents. For some organisations IT Governance is a matter of compliance with pre-determined and approved standard processes. A more enlightened view acknowledges that IT Governance involves more than compliance. We can define IT Governance as the means by which an organisation's investment in IT is aligned with the business value achieved. That is, a concentration on "doing' the right IT" rather than "doing IT right", which is viewed as IT management, more so than IT Governance (PriceWaterhouseCoopers, 2007; Williams, 2007). The other point of contention on IT Governance is whether the function is critical enough to justify it being represented at board level. For many, the lack of board representation can be a cause for poor IT Governance due to a lack of senior executive input. For others, IT is seen as simply a utility support service and therefore does not justify representation at the most senior levels (Carr, 2004).

The following analysis was conducted using outsourcing contracts data for the Australian IT outsourcing market, together with information on the executives of the client and vendor companies involved in these contracts. Relationships between CIOs and board members of the clients' companies are shown as links. A contractual

relationship is also inferred between the CIO and the vendor CEO and is shown as a link. Additional links are also inferred for executives who have either worked for the same organisation at the same time or been board members together. The nodes are identified as individuals who are either board members, CIOs or vendor CEOs. The relative size of the node reflects the number of links a particular individual has.



**Figure 1 – Relationships between executives in the Australian IT outsourcing market place (data sources: Datamonitor and One Source).**

While the data is limited to what can be gleaned from public sources, broad patterns of relationships are identifiable. Looking at the clusters of board members, one can see that with very few exceptions, there is little intermingling between board members and CIOs and/or vendor CEOs. The data reinforces the view that IT is not currently engaged at the board level. Whether it should or not is still an open question (Nolan & McFarlan, 2005; Williams, 2007). One would anticipate that the situation won't be changed by the IT functional heads' promotion of the importance of IT to their respective boards. It is more likely that board attention might come from negative aspects of IT, like major cost overruns on IT projects, serious security breaches or generic business risks as observed during Y2k. Therefore despite the arguments for IT Governance to be a board level concern, for the foreseeable future, IT Governance relationships will need to exist at all levels to be effective.

IT Governance surveys typically indicate a variety of support for the different IT Governance Frameworks. A common theme is the growing demand for guidance in

this area. The most used IT Governance frameworks are ITIL and COBIT. COBIT (Control Objectives for Information and related Technologies) provides a governance framework for IT with an auditing flavour. Some 34 core processes are identified that relate to 318 control objectives and over 1,500 control practices are provided as guides for customization (Campbell, 2005). In this chapter the ITIL framework has been chosen for review for its closer alignment to the topic of this book, being networks and multisourcing.

The ITIL framework publications are designed to be a source of good practice in service management (ITIL.org, 2007). It is not designed as an auditing standard. It is however a source of knowledge for achieving certification to ISO/IEC 20000 service management standards. The most recent version of the ITIL library (version 3) has five core publications:

- Service Strategy;
- Service Design;
- Service Transition;
- Service Operation; and
- Continual Service Improvement.

Service strategy provides guidance on the design, development and implementation of an IT service. Service strategy is about ensuring that the services portfolio is established to achieve both cost effectiveness and distinctive business performance. Service strategy is designed to answer the *what* and *why* questions more so than the *how*. IT Governance according to ITIL is seeded in this volume.

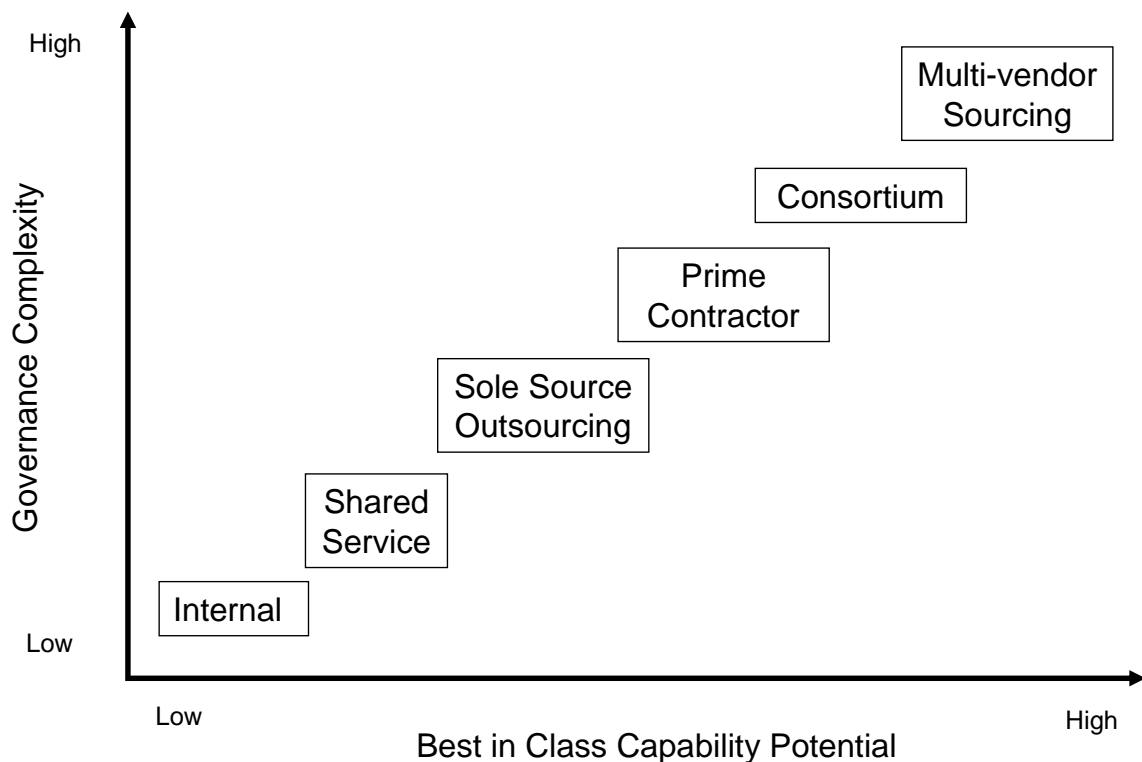
The Service Design module is concerned with the design of the IT services portfolio to meet the organisation's strategic objectives. The module is concerned not only with new services, but with the improvement of existing services, the setting and achievement of service levels and ultimately the design capabilities for service management.

Service Transition considers the transitioning of new services into operation. In essence, service transition follows on from service strategy and service design by managing the risks of disruptions to existing services as new service releases are introduced. The module is principally concerned with the processes of release management, programme management and risk management.

Service Operation is concerned with the management of existing operations. Guidance is provided on ways to maintain stability in service operations, while allowing changes in design, scale, scope and service levels. Managing availability, controlling demand, optimising capacity utilization, scheduling operations and fixing problems are all within the scope of service operations.

Continual Service Improvement is included in recognition that customer demands are constantly changing and therefore services need to be continually assessed for incremental improvement. This module draws methods from quality management, change management and capability improvement. Linking improvement initiatives to outcomes based on the Plan, Do, Check, Act (PDCA) model is a foundation for this activity.

The ITIL Services Strategy module is the starting point for IT Governance. The service strategy is necessarily aligned with the business’s strategic objectives in a way that it can be dynamically adapted to the needs of the business. Unlike the earlier versions of ITIL, the current version is business focused and is therefore concerned with how the business itself is interacting with its customers, suppliers and partners and what role IT can play in maximising business advantage. The ITIL view of governance is more aligned with concerns about business value generated through IT than compliance to standard practices. Therefore IT Governance, from an ITIL perspective, starts with sourcing governance. ITIL acknowledges that sourcing IT services from outside the organisation can create distinctive business value if executed astutely. The argument is made for outsourcing activities that are only peripherally related to the business’s strategic themes. Called “context activities”, these activities are typically seen as support, rather than competitive services. Sourcing structures are identified as a continuum from total internal sourcing, through to a shared service internal arrangement, to full service outsourcing, Prime contractor, Consortium and finally multi-vendor sourcing.



**Figure 2 - Alternative Sourcing Structures**

Figure 2 identifies alternative sourcing structures that have been commonly used. The axes show that as one moves from a totally in-sourced situation through to best of breed multisourcing, the IT capability potential increases with the breadth of choice available, but at the cost of increased complexity of governance. Totally in-sourced services was the most common structure until the early 1990s. The internal shared service model was introduced to achieve some level of accountability for in-house service providers, with services incurring a market based charge, therefore enabling profit and loss accounting to be achieved for the internal service providers. The movement to IT outsourcing began in the early to mid 1990s and usually involved a

full service outsourcing to a single vendor under long term contracts. The prime contractor model is a variation of sole vendor outsourcing, where the prime vendor is expected to source other vendors to provide services, but remains fully accountable for their performance. The consortia approach looks to the client to short list a panel of providers who are then encouraged to collaborate with each other to provide a unified service. Finally, the multisourcing structure requires the client to take on the role of service integrator while sourcing “best of breed” suppliers.

Sourcing governance is specifically distinguished from vendor management by ITIL. IT Governance is seen as a framework of decision rights that encourage desired behaviours (Broadbent, 2002; Weill, 2004). Of particular importance is the split between decision rights for client and vendors. ITIL notes that particular problems arise when the client takes responsibility for operational decisions on behalf of the outsourcer. Inevitably, poor relationships and poor services result. ITIL recommends a governance body with all service providers represented that has the authority to act without escalation to senior management. To help clarify decision rights, ITIL recommends the creation of a RACI decision-rights matrix showing activities against roles with decision responsibilities described as Responsible, Accountable, Consulted or Informed. Activities can be split into governance domains such as service delivery, communication, sourcing strategy or contract management. ITIL identifies the key roles for the client for sourcing governance as Service Management Director, Contract Manager, Product Manager, Process Owner and Business Representative.

The trends in IT sourcing have gradually moved from total internal sourcing through single vendor outsourcing to today, where the majority of organisations are choosing to participate in some form of multi-vendor sourcing. Unfortunately the drive for more flexible outsourcing arrangements has not been matched by the additional sophistication in governance arrangements required. The ITIL recommendations for multi-vendor governance go part way to meeting the overall governance needs but do not adequately address the intangible elements of the relationship networks that make up a multisourcing arrangement. The identified client sourcing governance roles will need to be matched by similar roles with each vendor. The governance of the relationships and co-operation between vendors can become quite complex, especially if the major provider of domains of service vary between lines of business or geography. In these situations, mandating decision rights for activities to high levels of granularity is not only costly from a reporting and compliance perspective, but can suppress the motivation for vendors to offer innovative solutions for fear that their contributions may be conscripted by a fellow, but competing vendor. From a networks perspective, the ITIL governance recommendations provide the skeleton for a required multisourcing governance arrangement. What is additionally required is to flesh out the intangibles to establish the trust network needed to make complex multisourcing arrangement operate effectively.

The ITIL strategy module addresses the issue of intangibles and networks in its section on service strategy principles and service structures. In its discussion on the migration from value chains to value networks ITIL notes that:

*“Much of the value of service management, however, is intangible and complex. It includes knowledge and benefits such as technical expertise, strategic information,*

*process knowledge and collaborative design. Often the value lies in how these intangibles are combined, packaged, and exchanged” (ITIL, 2007 p.47)*

This statement provided a natural lead into the introduction of a technique for analysing value networks called Value Network Analysis (VNA), which will now be addressed in more detail.

## Value Network Analysis

A value network can be defined as:

*“...any web of relationships that generates tangible and intangible value through complex dynamic exchanges between two or more individuals, groups, or organizations”*

- Verna Allee

VNA is therefore the business modeling technique for capturing, visualising and then analysing the network of interactions for improvement opportunities, whether they result in an organisational structure change or the implementation of a new IT system. The technique inherits the attributes of a traditional business process mapping technique, with the addition of some unique features for identifying intangible flows (Allee, 2006a).

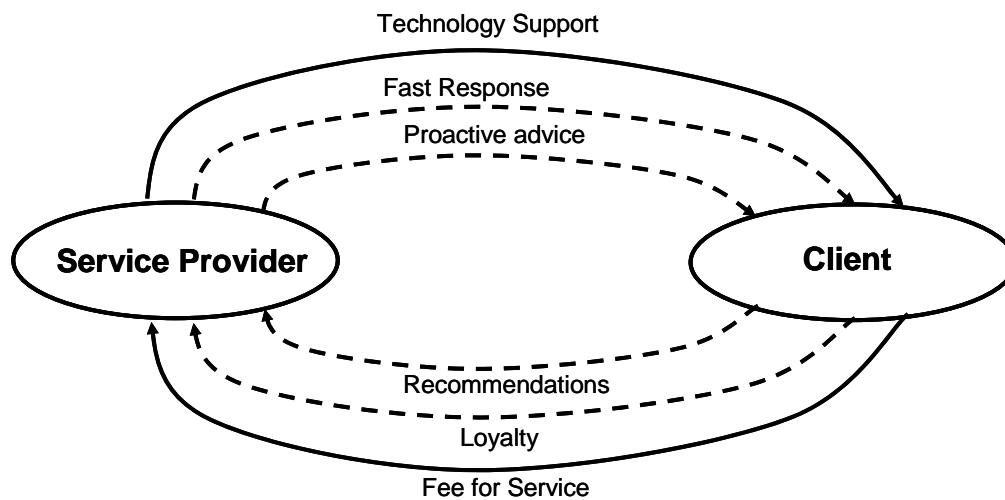


Figure 3 – Basic VNA Components

A VNA map consists of three basic elements. The ovals identify “participants”. Participants can be at the individual or group level, but at all times represent human decision makers. The arrows identify a flow between participants. They are always uni-directional. Solid lines represent tangible flows, dotted lines are intangible flows. Labels on the arrows are “deliverables” that move from one participant to the next. They can be tangible or intangible. Boundaries are typically drawn to limit the scope of the analysis to a workable level of detail.

A methodology (Allee, 2006b) for conducting a typical VNA workshop exercise may follow the following steps:

### ***1. Review Current Project Status***

In the ITIL context, a business improvement project activity may be underway for say, installing a new change management and configuration facility. Prior to the workshop it would be expected that a clear purpose will have been defined and appropriate stakeholders identified and ready to participate.

### ***2. Define the Boundaries of the Question you are Exploring***

It is important to define the scope of the mapping exercise and the level of abstraction through posing a focusing question. For example, a question like “should we off-shore our data centre?” is likely to have a high market level scope. Alternatively, a question like “how should we organize the new change and configuration management function?” would dictate a more detailed internal focus.

### ***3. Determine who needs to participate***

Once the scope has been determined, the participants for the mapping exercise should be representative of all the roles and activities that might participate in the scoped activity.

### ***4. Facilitation, Materials and Room Setup***

VNA mapping is quite visual. White “butchers paper” and felt pens are common instruments. A good workshop facilitator is essential. For larger groups it may be best to split into groups and synthesize the results at the end. The important factor is that everyone has the opportunity to participate in the conversation around the map building.

### ***5. Create the value network map***

The basic elements were described earlier. A good starting point is to define the core participants or roles. These are real people or groups, not computers or systems. Example nodes could be individuals, groups, business units, organisations, regions etc. A good rule of thumb is to settle on five to eight roles. Arrows joining roles reflect a transaction or activity that results in a deliverable. Typically tangible deliverables can be thought of as “contracted activities”. Intangibles are additional deliverables that are not formally contracted but are essential to achieving a smooth operation. For example, tips and hints passed on, informal references, market intelligence and the like.

### ***6. Validate the map by sequencing activities***

A good validation step is to do some “walk throughs”, sequencing the natural order of activities by numbering the flows between nodes. In this way you should be able to “tell the story” through the map.

## 7. Undertake analysis scenarios

Once a map has been constructed the critical analysis can start. A number of typical analysis scenarios can be conducted, for example:

- a) *Exchange Analysis* – looks at the value dynamics in the network. How equitable are the value flows? Are the roles clear or confused? Any gaps or redundancies? Are there obvious winners or losers? For example, do tight “time per call” metrics limit the capacity of the desktop technician for providing those little coaching tips that clients value so much.
- b) *Impact Analysis* – looks at each role and whether or not value is being realised from its inputs. Ask a participant currently in that role what value they really believe they receive. Can we determine a cost/benefit for each input to the role?
- c) *Value Creation Analysis* – looks at how each role or participant is adding value to the system. It is complementary to the impact analysis as it looks at what value the role creates for others with its outputs.
- d) *Developing Performance Indicators* – in theory a performance indicator could be generated for each identified flow on the map. If some of the intangible deliverables appear too hard to characterise into a metric, then they are probably framed incorrectly. For example, an intangible deliverable labeled “increased trust” might be better labeled “increased reliability” as it leads more easily to a measurable indicator. A VNA map could therefore be used to populate a Balanced Scorecard for the network as a whole.

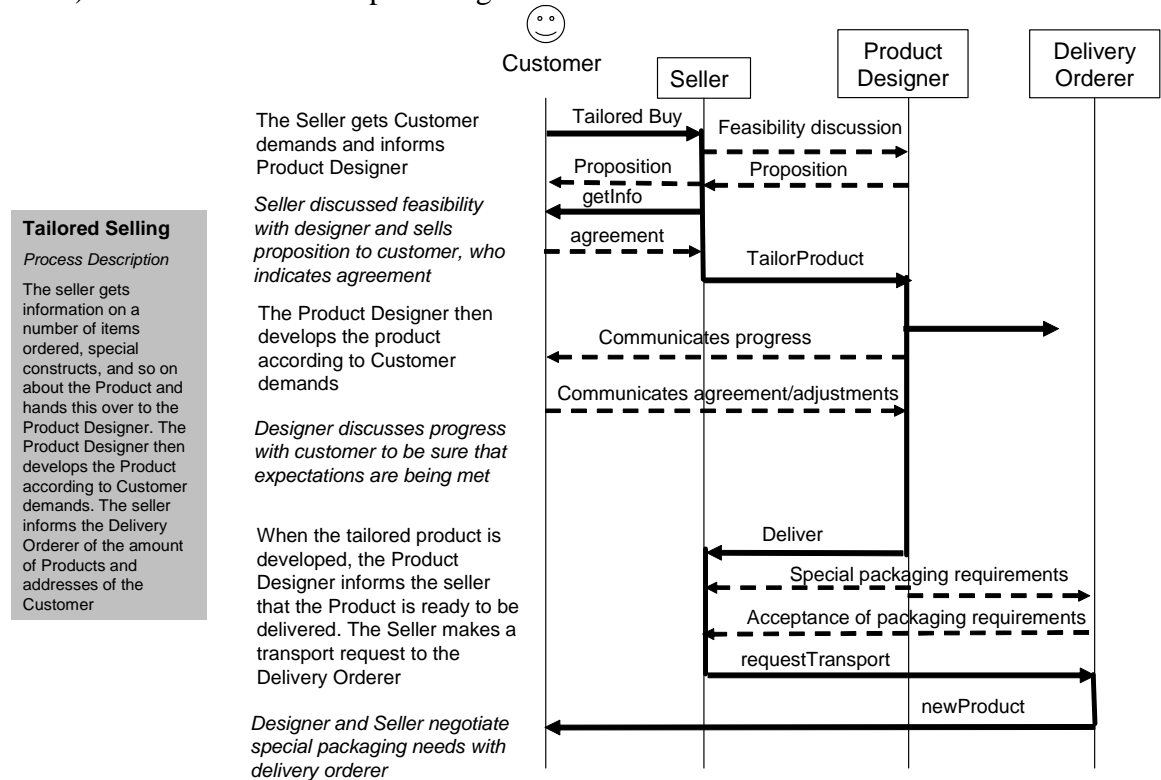
## 8. Take action

This is the “act” part of the Plan-Do-Check-Act cycle. Having created the value network map and conducted the value analysis, it is time to convert the findings to action. This typically might take many forms, from re-defining roles, re-defining value flows or creating a performance scorecard. While ITIL may identify some typical service management roles, the context for these roles may differ for each organisation depending on the outsourcing, multi-sourcing or co-sourcing strategies that currently exist or are being considered.

## How does VNA fit with other Modeling Methods?

The most distinguishing feature of VNA, when compared to other modeling techniques adopted by the IT industry, is the incorporation of intangibles into the analysis (Allee, 2008). As business applications move beyond simple automation to more sophisticated decision support activities, the impact of intangibles is significant. The majority of modeling tools developed for the IT industry were developed with automation of processes in mind. Where people played a role it was usually cast as facilitating a process, rather than as an independent decision maker. Techniques like data flow diagrams and business process mapping effectively remove the individual from the analysis in favour of a process focus. This is fine when automation is the objective, but disastrous for decision support, where the end user is an independent agent.

Perhaps the closest modeling technique to VNA can be found in the object oriented (O-O) techniques and “Use Case” modeling. Use Case models do preserve the individual actor or role in the model. The use case interaction model could be cast as a VNA model by adding intangibles into the list of interaction deliverables (Lock Lee, 2007) as shown in the example in Figure 4 .



**Figure 4 – VNA and Use case example**

## A Value Network Map Example for the IT Market

The following map (Figure 5) is an example of a VNA map created at the IT industry level. A typical focusing question that would have preceded the creation of a map like this might be “What value could we achieve by adopting a different IT sourcing model?” Participants could be drawn from internal sources plus representatives from external providers representing the nodes identified, either currently contracted providers or prospective providers.

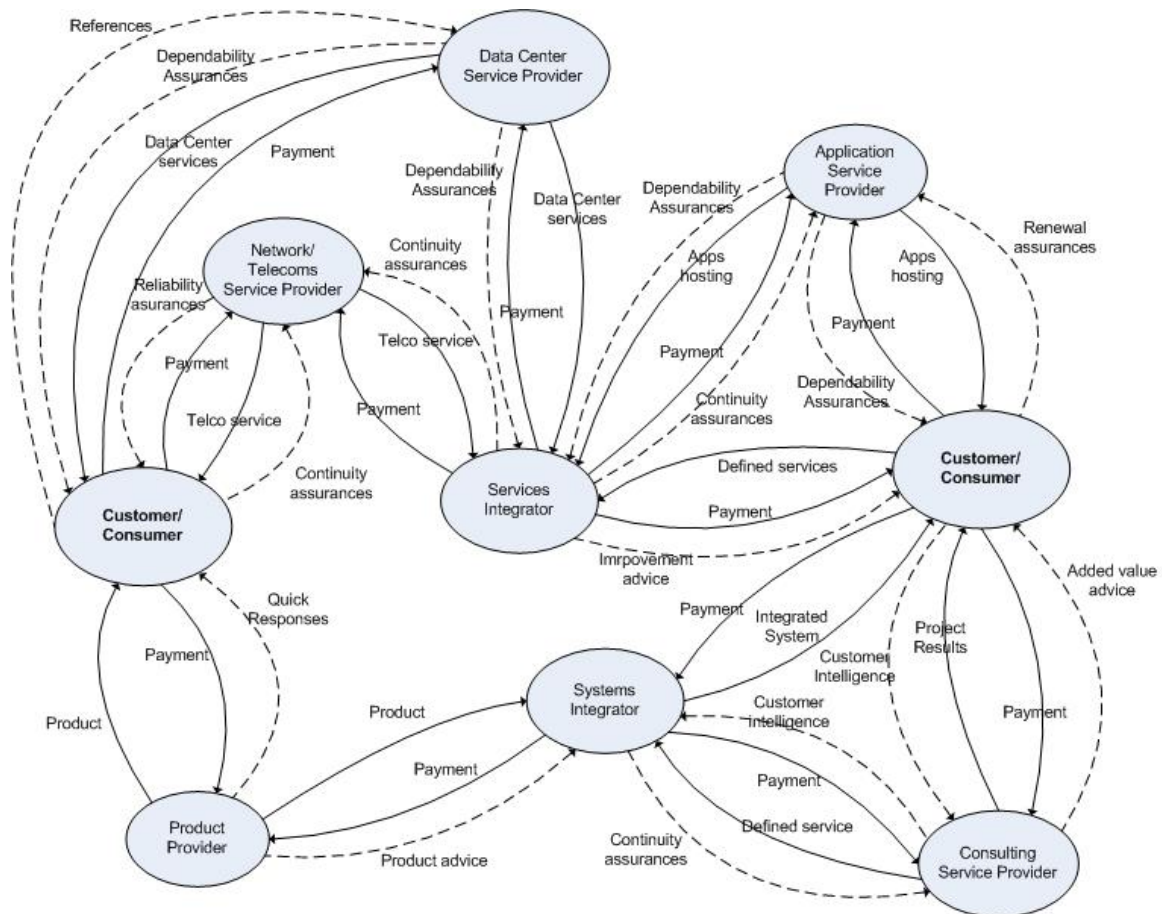


Figure 5 – Value Network Map for the IT Industry

The solid lines show the “contracted” transactions that might typically be identified in a Use Case analysis. The dotted lines show the added intangible flows. It is the intangibles that will create the most discussion and debate. Note that in many cases the intangible contributions are balanced i.e. reciprocity is being demonstrated. Where there is an imbalance in value flows, for example, when intangibles only flow one way, one might question the longer term stability of that relationship. Where no intangible flows exist (e.g. the Systems Integrator and the Customer), either the transactions are purely for commodity services or alternatively an “arms length” relationship exists which again could be quite fragile. Other examples indicate where the systems or service integrators are “receivers” of intangible benefits that are not explicitly flowing on to the customer.

### So how did ITIL meet Value Networks?

The evolution of ITIL from an “Infrastructure Library” to “Service Management Practices” could be described as a classic example of “Knowledge Management maturation”. Two fundamental concepts in Knowledge Management (KM) are, that knowledge can be characterised as both explicit (information), and tacit (in the minds of individuals). Early KM initiatives took the view that if the majority of our tacit knowledge could be codified as explicit knowledge, then it could be effectively shared widely in electronic form, hence the ITIL infrastructure library. What KM practitioners quickly discovered was that there were natural limits within which this scheme could work. Tacit knowledge was proving particularly “sticky” and difficult to extract for sharing in library form. Hence a movement toward a greater emphasis on “connections” over “collections” began. In order to share critical tacit knowledge, a mechanisms for having people connect, either in person or virtually, became the most effective way of sharing important knowledge. Once we start connecting people in large numbers (think about LinkedIn), it is only a short step to appreciate networks.

The other significant change is a relaxation of our thinking around “process”. ITIL is a best “practices” framework. Practices are not equivalent to processes. When one observes an expert practitioner at work, one sees far more than a slavish adherence to process. One observes the expert improvisations, subtle relationship management tactics and a plethora of other “hard to document” activities that collectively constitute “good practice”. This is not to say that process is abandoned. What it does say is that an optimum balance of process and practice is required (Lock Lee, 2005). VNA attempts to surface these intangible value contributions, along with the more tangible process flows, to enable more holistic analyses of the value flows across the business. This is totally consistent with the objectives of ITIL V3, to integrate the business and IT services management into a single ecosystem. VNA is a tool to help study this ecosystem and instigate improvements to it.

## **Value Networks and IT Governance for Multisourcing**

So how can VNA be used to assist with the governance of a multisourcing arrangement? As has been indicated in this chapter, current IT Governance practice, whether promoted by ITIL or other frameworks like COBIT largely identify with the tangible value flows between roles within the governance arrangements. Contractual terms, service level targets, RACI charts for decision rights and even codes of conduct identifying appropriate behaviours are all examples of tangible relationship aspects. The important intangible value flows that, amongst other things, contribute to development of the trust network between stakeholders are largely left unsaid. VNA exposes these intangibles by making them explicit. Once explicit they are available for negotiation, exchange, clarification, adaptation, providing the transparency necessary to achieve an effective and trustful governance arrangement. Additionally, accountability can still be measured and monitored via scorecard techniques. However, in this case the scorecard is not simply a mechanism for a client to monitor vendor performance. The scorecard is monitoring the partnerships, and therefore all stakeholders are being equally monitored against the VNA generated scorecard, including the client.

To illustrate how VNA can be used for governing a multisourcing arrangement the following tutorial style scenario is presented.

## VNA and Multisourcing Governance Scenario

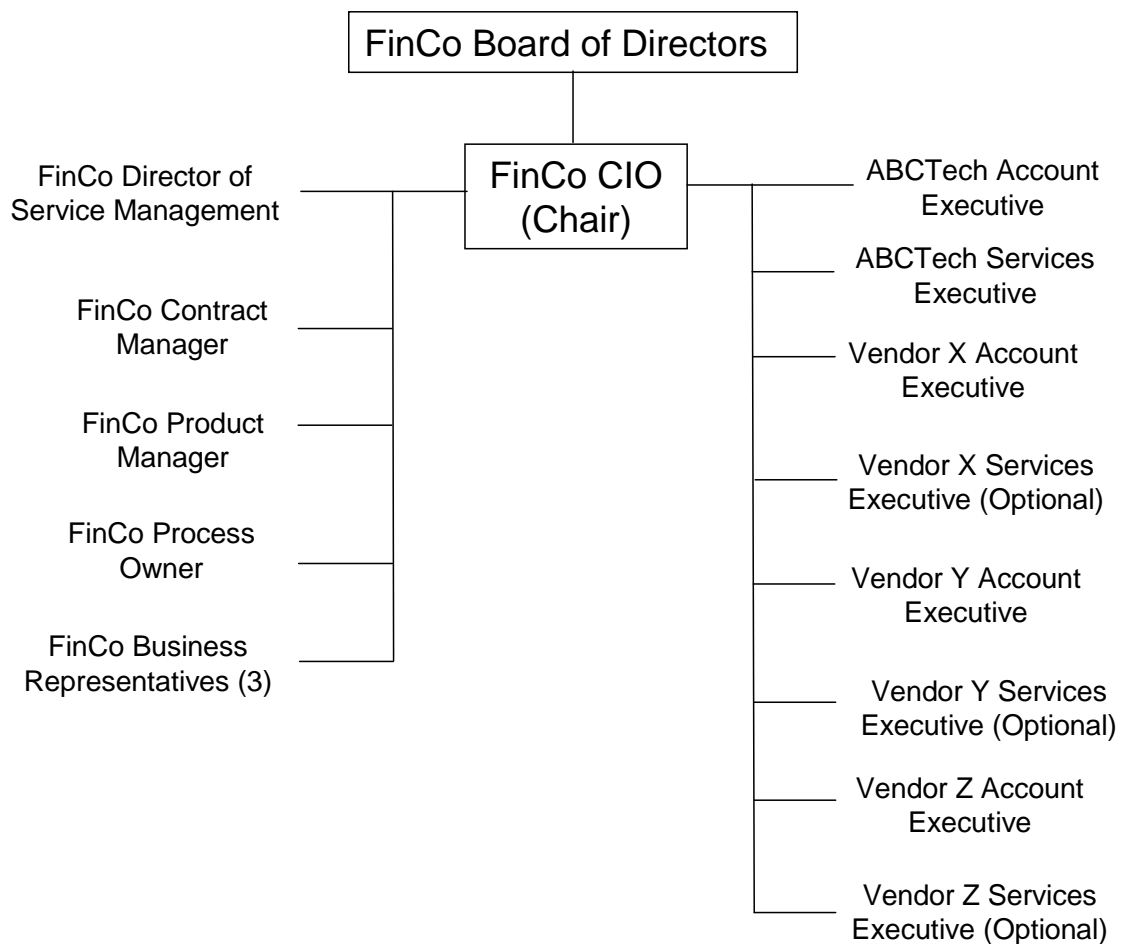
FinCo is a mature major banking and financial services firm. FinCo was an early adopter of IT outsourcing and is just coming to the end of a 10 year sole vendor sourcing arrangement with a major vendor ABCTech. Consistent with the experiences of other organisations that had embarked on long term sole sourced IT outsourcing contracts, FinCo had initially struggled with the relationship with ABCTech. The original contract had undergone many changes and renegotiations as both FinCo and ABCTech had been unable to achieve a workable alignment of expectations that could be commonly understood in the terms of the contract. The relationship had reached its lowest point only a year into the contract, requiring changes in personnel on both sides before the organisations could move forward with renegotiating a workable contract. While the latter years of the contract had progressed in relative harmony, FinCo suspected that the concessions that they had made to achieve a workable arrangement with ABCTech had limited their ability to extract maximum value from their IT resources. Both organisations astutely avoided assessing performance against the original FinCo business case for outsourcing.

While they were now comfortable with the core infrastructure services, having successfully standardised their facilities and management processes across the organisation, their business clients had been critical of the lack of pro-activity and innovation from the IT function. While ABCTech had made several attempts to inject more innovation into the account, FinCo suspected that the ABCTech executive were not that serious in investing further in the FinCo account, given the angst it had been through in achieving profitability from the account over the term of the contract.

The FinCo executive had decided to follow many of their peers and move away from the sole sourcing arrangement with ABCTech and invite other vendors to participate in providing IT services to FinCo. FinCo wanted to take back some control of the IT services that ABCTech now controlled. Hence it decided against the option of using ABCTech as a prime contractor. It also decided against a consortia approach as it felt that such an arrangement would not provide FinCo with the control it desired. FinCo was therefore preparing to rebuild a program office to act as the integration point for multisourced vendor services. The decision was not taken lightly. FinCo acknowledged the risk of damaging the relationship with ABCTech. It was also mindful of the contractual experience they had with ABCTech and the potential for “multiplying the pain” with multiple contracts required. On the other hand FinCo had learnt a lot about IT outsourcing contracts through its experience with ABCTech. It felt confident that the contractual trials of the past could be avoided through learning from this experience. What they were less confident about were the softer or intangible aspects of the new relationships it would be forming. It had taken many years for the ABCTech relationship to stabilise. Even today FinCo felt that the relationship could easily deteriorate should a significant change in personnel or a major business change like a new merger or acquisition come in to upset the current equilibrium, despite the maturity that now existed in the contractual terms. The real wildcard for FinCo however was the relationships that FinCo would need to facilitate between the different suppliers. It was aware that the providers they had selected for their panel were also competitors in the market place. The danger for FinCo was that the additional value that could be generated through the use of “best of breed”

providers could be diminished or removed completely through the additional requirements for governance and resolution of disputes between providers.

FinCo had read about Value Networks and VNA in the ITIL Service Strategy documentation. FinCo felt that VNA may provide the vehicle for developing the platform for their new multisourcing governance arrangement. FinCo had already put selected IT services to tender and announced the successful tenderers who would now be represented on their IT Governance board. The governance structure as informed by the ITIL sourcing governance recommendations was established as follows:



**Figure 6 – FinCo Multisourcing Governance Structure**

The FinCo CIO chairs the governance committee on behalf of the FinCo board of directors. The Director of service management is the CIO’s deputy and is responsible for all IT service delivery on behalf of the FinCo business units. The Contracts Manager is responsible for contracts with each of the providers. The Product Manager is responsible for defining the lines of service to be provided by the vendors. The Process Owner is the keeper of the standard business processes for the major business units. The role is responsible for assessing the fit between the product offerings and the business. The business unit representatives have been drawn from the three major FinCo divisions. These representatives are responsible for identifying the business value being achieved from the current IT service providers and to also propose new value creation opportunities. The vendors are represented by their FinCo Account Executive. Depending on the size or breadth of the services being provided by a vendor, the vendor account executive can optionally be accompanied by their senior

services executive. This governance committee can be supported by various subcommittees monitoring particular developments like major ERP implementations or infrastructure refreshes. A FinCo Programme Office also reports through the Director of Service Management.

The CIO, having established the governance committee, has now invited ValueNets Inc to run a series of VNA workshops with the committee. The objective of the workshops is to establish a common understanding of how value will be generated for all parties in the multisourcing arrangement. FinCo had learnt from bitter experience that driving vendor prices to the point where the vendor could not profit was counter productive as vendors were forced to “cut corners” to reduce the cost of services, usually with detrimental results for FinCo. It was therefore an objective of the CIO to reach a situation where each of the stakeholders in the multisourcing arrangement could receive value commensurate with their relative contribution. Value in this sense was not always financial or tangible. The workshops would give the stakeholders the facility to negotiate and exchange value contributions in order to reach a workable equilibrium. An additional objective to help sustain the arrangement post workshops was a “Partners Scorecard”. This scorecard would provide the ongoing data by which the governance committee could monitor IT services performance for FinCo.

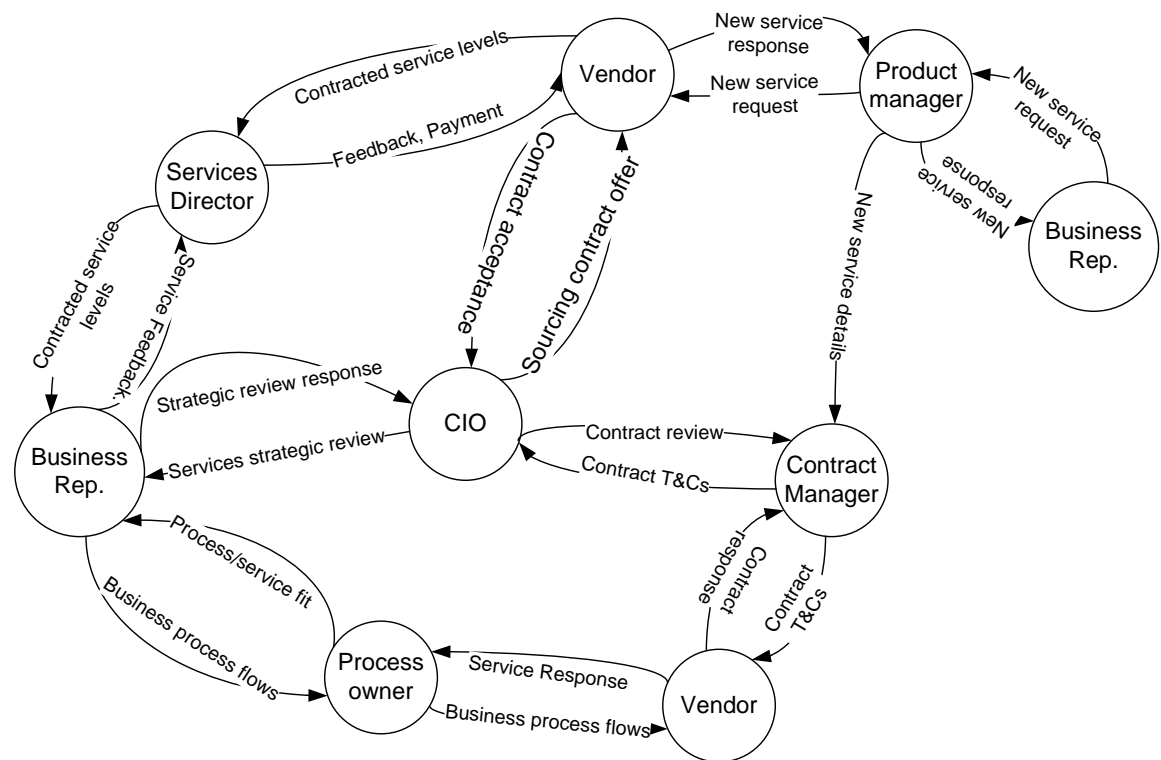
ValueNets Inc began their task by reviewing the current status. The CIO had advised that the governance committee had just been established and constituted by the structure shown in Figure 6. The contracted services had been defined, determining which vendor was principally responsible for each service product line. The following table identifies which vendors were responsible for given service product lines.

**Table 1 – Service Product Line Responsibilities**

<b>Responsible Service Provider</b>	<b>Service Product Line</b>
ABCTech	Mainframe and Midrange Services
Vendor X	Desktop Management and Help Desk Services
Vendor Y	Networks, Telecommunications and Security
Vendor Z	Application Development
In-House	Applications maintenance Other non-outsourced services

The initial workshop was to be conducted at the governance committee level. The identified roles to be used in the VNA were to be those identified in the Governance committee. It was anticipated that further workshops would be needed for lower level roles as a natural flow-on from this initial workshop. The deliverables expected from ValueNets Inc were a Value Network Map identifying the agreed value flows between the identified roles, and a draft Partnership Scorecard. The scope for the exercise was clearly limited to the governance roles identified by the committee. The key question to be resolved during the workshop was, what attributes would be managed and monitored across the multisourcing arrangement by the governance committee? The participants in the workshop were all to be members of the newly formed governance committee.

With 16 participants ValueNets Inc decided that there were too many to facilitate as a single group. It was decided that the workshop should be split into two groups of roughly balanced representation from each of the stakeholder groups. The first group was given the task of developing a value net map with all FinCo roles and a single vendor role. The second group was to look at the vendors and the FinCo inhouse service providers and the potential value network for the major supplier roles. Value Nets Inc knew from experience that the workshop participants would find it easier to identify the tangible or “contracted” deliverables between roles, so they suggested the participants identified these first before moving onto the intangible deliverables between roles. The first team moved quickly into identifying the tangible flows. Much of this information had already been identified through the initial design of the FinCo governance structure. An early version of their efforts is shown here:

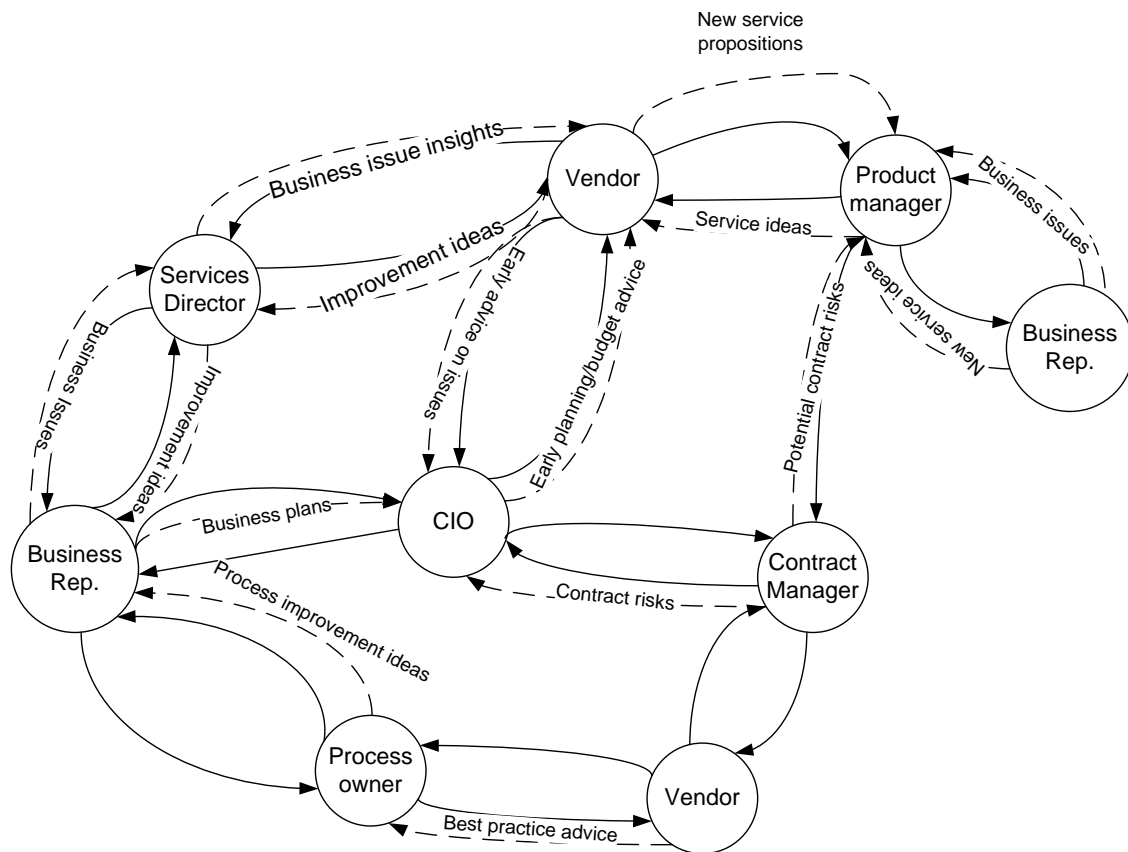


**Figure 7 – Team 1 Tangible Value Flows**

Team 1 acknowledged that this initial value net diagram was similar to their existing business process mapping that had been produced to assist with the governance role identification. The difference, as some of the participants commented, was that the value network map encourages the identification of value “exchanges” with many reciprocal flows, whereas the business process mapping largely showed one way linear flows. This was seen as an early benefit of the value network representation. The next stage was to add the intangible or “non-contracted” value flows. The ValueNet Inc facilitators asked the participants to think back to any positive experiences that they had, and think about the “little extras” that had made the governance arrangement work well. Conversely, they were to recount any poor governance situations they had experienced to identify the intangibles that may have been missing. Several participants noted that they had seen situations with identical governance structures and roles, but vastly different performance, and therefore were

looking forward to exploring the intangibles. The facilitators also reiterated that the flows must be “deliverables” that the roles could be held accountable for and not simply attributes of a role or individual, such as “competence” or “expertise”.

The team began their task enthusiastically. The discussion was lively, but the crafting of the labeling for the intangible flows did prove a challenge. However with the help of the facilitators the group came up with this initial value network for the intangibles.

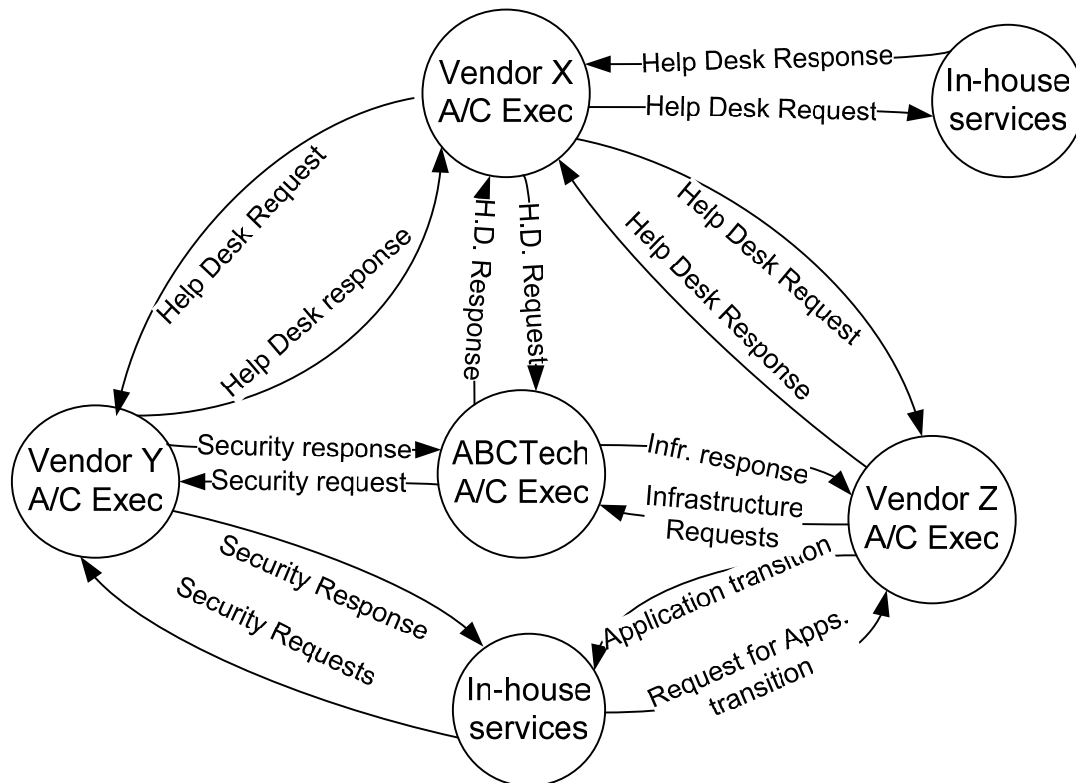


**Figure 8 – Team 1 initial intangible value flows**

The intangible flows were shown as additional dashed arrows. Taking a short break, the group reflected on what they had come up with so far. They noted that not all of the intangible flows were reciprocated. Was this going to be a problem? Also they noted that between some roles there appeared to be few intangible value flows. This prompted a discussion on whether this was appropriate or not. For example, if the role was a very process intensive activity using well accepted practices, then perhaps intangible value flows may not add any value overall? The second observation made was on the nature of the intangibles identified. The nature of the intangibles was largely either early advice on potential issues, proactive promotion of improvement ideas or fast response to potential issues. Several participants commented on their previous positive experiences where they spoke of the positive “energy” that existed. In contrast the negative experiences exhibited negative energy, with information only exchanged under duress or according to contracted terms. Most activity appeared to be reactive to complaints more than proactive around improvement opportunities. Overall, the group felt positively about the identification of the intangible value flows

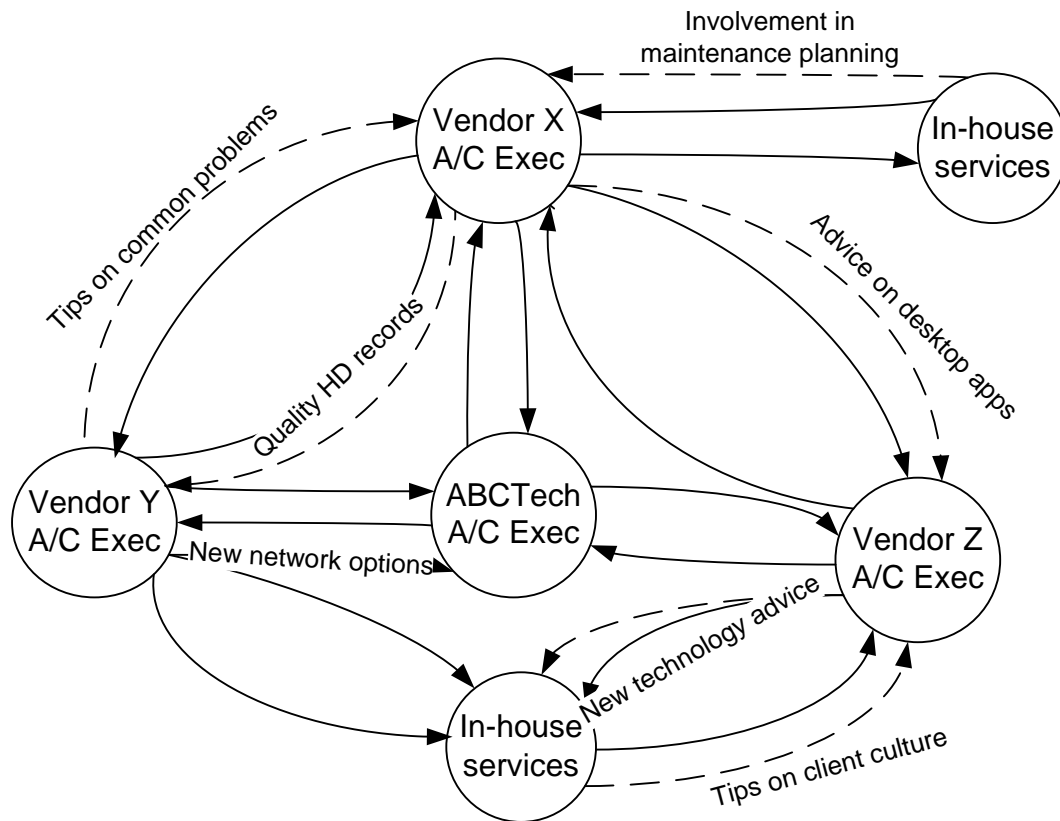
as a means of making explicit what constituted the positive energy that they had previously experienced and hopefully could replicate for FinCo.

In the meantime the second team went about their task of looking at the value network for the provider side. As with the first team, the facilitators encouraged the team to identify the tangible flows first. Their initial attempt is shown below:



**Figure 9 – Team 2 Provider Tangible Value Flows**

Like the first team, the second team noticed that the value networks representation did encourage the identification of exchanges or two-way value flows. However, unlike the first team, they noticed that few of these so called “contracted” value flows existed in any of the current contracts. The formal contracts had been formed between the vendors and FinCo and only peripherally addressed the obligations between providers. The FinCo participants acknowledged the shortcomings of the current contractual arrangements in this area and felt that more time could be spent in formalising more of the contractible value flows. The ValueNet Inc facilitators however encouraged them to move on to identifying the intangible value flows that might exist between the vendors. The participants struggled initially. The external vendors were more use to competing than collaborating with their fellow providers. However, they did manage to come up with this initial attempt.



**Figure 10 Team 2 Intangible Value Flows for Service Providers**

Team 2 participants acknowledged that it had been difficult to come up with potential intangible value flows as few of them had been in situations where this form of collaboration was required. They also noted that only a few of their identified intangible value flows were reciprocated. The question was raised as to what motivation was there to sustain a relationship if value flows were only in one direction. At this point the ValueNet Inc facilitators introduced the concept of “exchange analysis”. They noted that it may not be necessary to balance the intangible value flows but to be effective, the combination of tangible and intangible value flows would need to be balanced if stable relations were to be achieved. With this in mind the team returned to the map to identify where potential value flow mismatches existed. They identified that Vendor X, being responsible for the help desk services, could meet their contractual commitments by the timely capture and escalation of help desk calls. However, this would not necessarily contribute to reducing the root cause of the calls themselves. With the help of ABCTech and Vendor Y, the Vendor X help desk could spend time educating the callers, rather than simply recording call details. In this way they could reduce the number of calls needing to be made. The group identified that a balance of performance measures would have to be designed to ensure that each vendor had performance targets that reflected this need i.e. a good candidate for inclusion in the Partnership Scorecard.

At this point the ValueNet Inc facilitators brought the teams together and reviewed some additional analytical practices that the teams could now apply to their maps. Impact analysis was introduced as a means for assessing the value flows directed into a given role. The facilitators suggested that those participants acting in these roles

should review the value flows directed to them, and perhaps provide a value score (between 0 and 5) to identify the perceived value that they saw in the particular value flow, in assisting them to do their job well. The complementary practice of value creation analysis was then introduced. Again the role incumbents were asked to look at the map and assess the value flows that they were supposedly creating from the value flows flowing into them. Did they have sufficient inward value flows to create the value flows for which they were responsible? What additional value outputs could they provide in terms of both tangible and intangible flows to the other roles? What is the cost or risk in delivering the value flow? The teams then returned to their maps to fine tune the value flows to ensure that maximum collective value was being achieved and that the value exchange between roles was sufficiently balanced to achieve a sustainable value network.

After completing the suggested impact and value creation analyses of their respective value network maps, the teams produced the following more comprehensive value network maps:

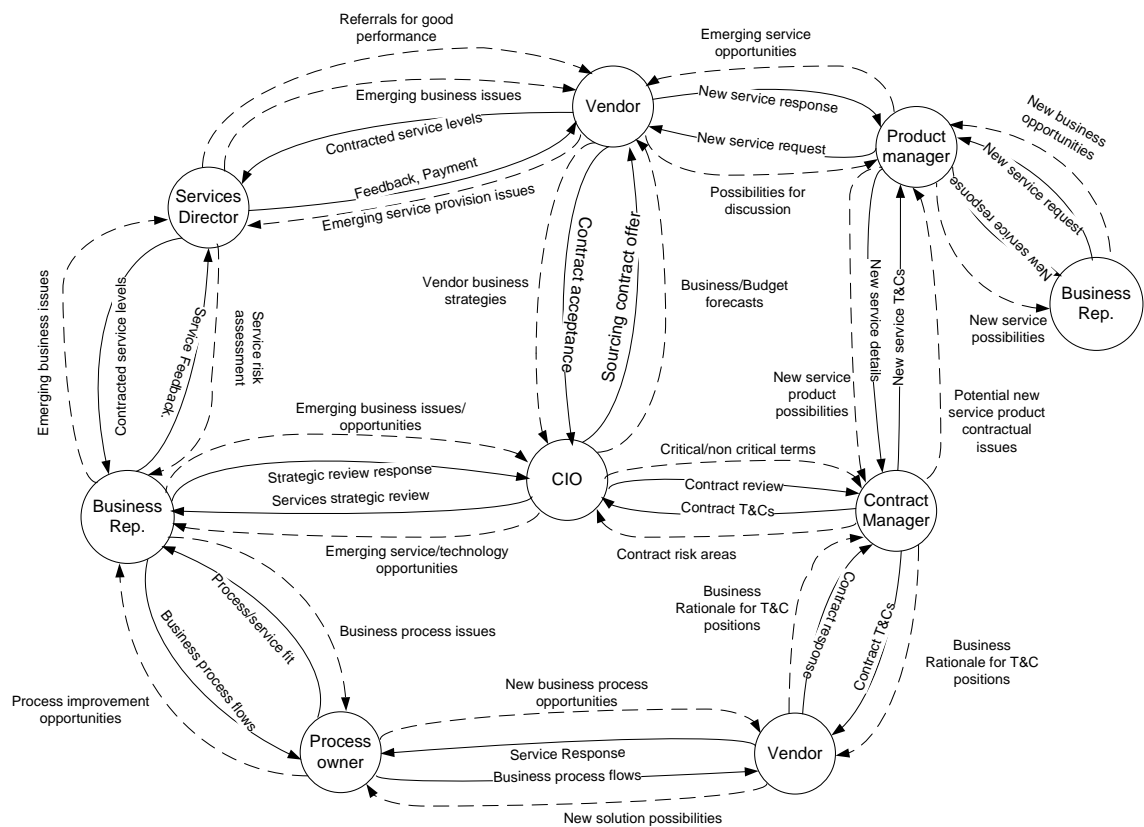
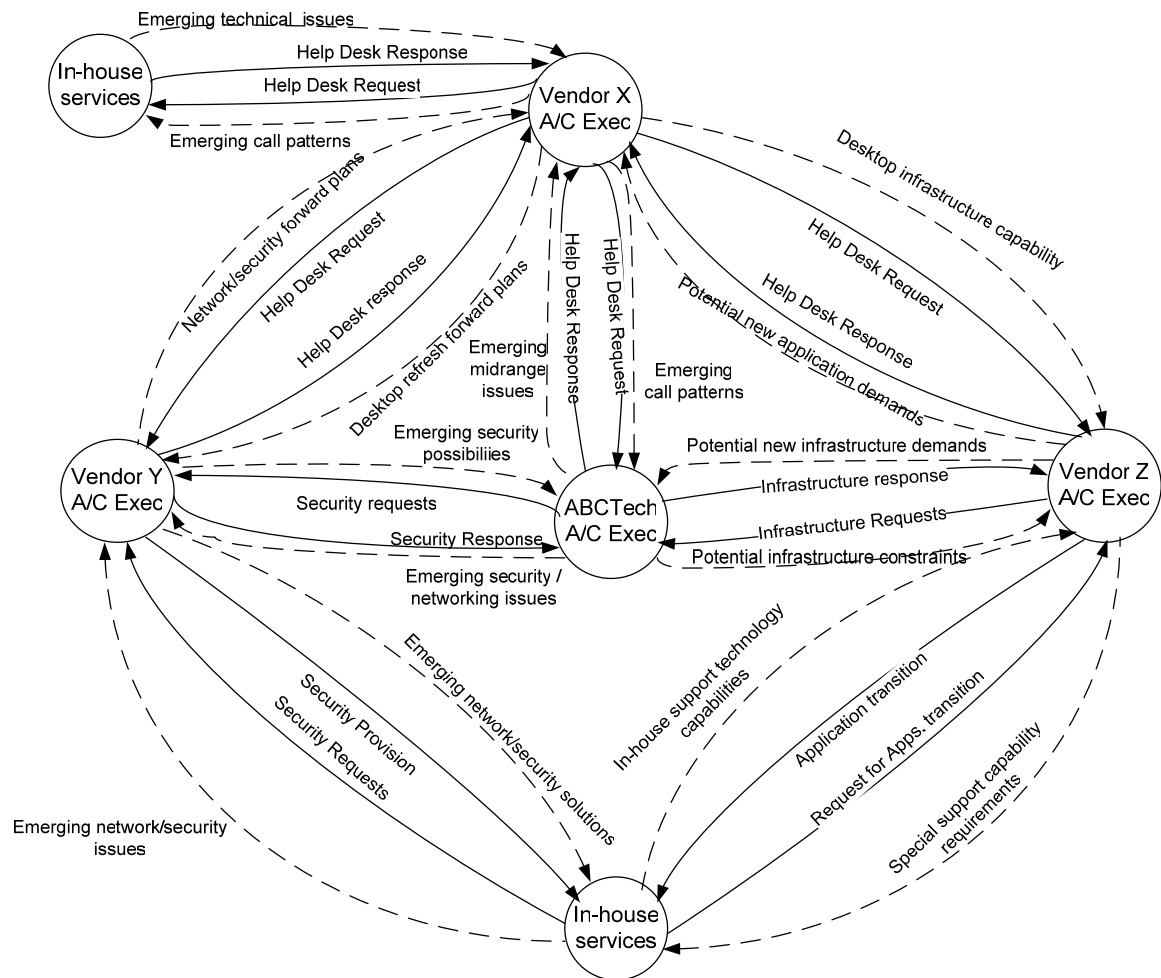


Figure 11 – Team 1 Completed Value Network Map for FinCo



**Figure 12 – Team 2 Completed Value Network Map for Service Providers**

They all agreed that the exercise had been informative and sometimes enlightening as the different perspectives of the different roles were discussed and the value flows adjusted. All had agreed that what they had produced was a good start but felt that the flows would need continual redefinition and adjustment as they were operationalised.

The ValueNet Inc facilitators assembled the groups together for an integration session. They identified where team 2's map could be integrated under the "Vendor" label of Team 1's map, demonstrating how a hierarchy of value network maps could be achieved from the higher level roles through to the very specific operational roles. By following the discipline of labeling the value flows as "deliverables" the group could now see that each role had deliverables that it was either responsible for achieving, or assessing a value from. The next stage was to build a preliminary "Partnership Scorecard", showing who was responsible for what and to whom. In this case the responsibilities were not necessarily aligned with hierarchical reporting lines. In fact many of the identified deliverables would be reciprocated, providing stability to the network without the need for continual intervention from the FinCo management. The achievement of a self managed team arrangement was precisely why the FinCo CIO had embarked on this VNA exercise, as the response to the risk of increasing governance introduced by the use of multiple service providers.

## **The Partnership Scorecard**

A deliverable for ValueNet Inc to FinCo was a preliminary Partnership Scorecard. The value network maps would provide the data for the responsibilities for each role. What was left was to identify performance measures and targets for each deliverable. The ValueNet Inc facilitators provided the workgroups with a chart showing the responsibilities for each identified role for inclusion in the scorecard. It was decided that the assessment of the intangible flows would be incorporated into a quarterly questionnaire. Each role would be required to complete the questions relating to the identified value flows that they received. The resulting intangible scorecard developed is shown in Figure 13.

Intangible Deliverables	Delivered by:	Survey Question	Assessment	Assessed by:
			-2: strongly disagree -1: disagree 0: neutral +1: agree +2: strongly agree	
Service Risk Assessment	Services Director	I feel well informed about potential service delivery risks		Business Rep
Emerging Business Issues	Services Director	I feel well informed about emerging business issues that could demand on our services		Vendors
Referral for good service	Services Director	We receive referrals for services that we perform well		Vendors
Emerging Business Issues	Business Reps	I feel well informed about emerging business issues that could demand on our services		Services Director
Emerging Business Issues/Opportunities	Business Reps	I feel well informed about business issues and opportunities that IT could assist with		CIO
Business Process Issues	Business Reps	I feel that I have a good understanding of the current business processes used		Process Owner
New Business Opportunities	Business Reps	I am regularly engaged in discussions about new business opportunities for IT		Product Manager
New Solution Possibilities	Vendors	The vendors keep me well apprised of new solution possibilities that meet our process needs		Process Owner
Business rationale for T&C positions	Vendors	I appreciate and understand the vendors positions on formal T&C in the contract		Contract Manager
New Service Possibilities	Vendors	The vendors keep me well apprised of potential new service offerings		Product Manager
Emerging service provision issues	Vendors	The vendor keeps me well apprised of potential service delivery issues well ahead of time		Service Director
Vendor Business Strategies	Vendors	The vendors keep me well apprised of their strategic business directions and activities		CIO
Contract risk areas	Contract Manager	I am full apprised of the major risk areas in our contracts		CIO
Potential new product contract issues	Contract Manager	I am fully apprised on potential contractual issues with new service product prospects		Product Manager
New Service Possibilities	Product Manager	I am regularly apprised of new service possibilities by the product manager		Business Reps
Emerging New Service Ideas	Product Manager	I regularly discuss contract implications for new service ideas with the product manager		Contract Manager
Emerging Service Opportunities	Product Manager	The product manager keeps us well apprised on new service opportunities		Vendors
Business/Budget Forecasts	CIO	We are kept will informed on IT budget forecasts, both long and short term		Vendors
Critical/Non-critical T&Cs	CIO	I'm given a good assessment of the criticality of the contractual T&Cs from the business's perspective		Contract Manager
Emerging Service/Technology Opportunities	CIO	We are well apprised of the major technology trends and risks as well as the opportunities that they may provide		Business Reps
Emerging Call Patterns	Vendor X	Vendor X provides us with early warning on abnormal call patterns of issue to us		In-House Services
Desktop Refresh Forward Plans	Vendor X	Vendor X includes us in their desktop refresh planning		Vendor Y
Emerging Call Patterns	Vendor X	Vendor X provides us with early warning on abnormal call patterns of issue to us		ABCTech
Desktop Infrastructure Capability	Vendor X	Vendor X provides us with honest appraisals of the desktop capacity available for our applications plans		Vendor Z
Inhouse Support Technology Capabilities	In-House Services	We are honestly apprised of in-house technical capabilities		Vendor Z
Emerging Network/Security Issues	In-House Services	We are given early notice of emerging networking/security issues		Vendor Y
Emerging technical issues	In-House Services	We are given early notice of emerging technical issues that might impact on us		Vendor X
Emerging Network/Security Solutions	Vendor Y	We are well apprised on emerging networking/security solutions		In-House Services
Network/Security Forward Plans	Vendor Y	Vendor Y keeps us well apprised of their network/security forward plans		Vendor X
Emerging Security Possibilities	Vendor Y	Vendor Y regularly discusses emerging security possibilities with us		ABCTech
Special Support Capability Requirements	Vendor Z	Vendor Z gives us early notice of any special support requirements their planned application might have		In-House Services
Potential new infrastructure demands	Vendor Z	Vendor Z regularly discusses potential infrastructure demands with us		ABCTech
Potential New Application Demands	Vendor Z	We are adequately involved in new application roll outs undertaken by vendor Z		Vendor X

**Figure 13– Intangible Value Flow Assessment Scorecard**

An overall value scorecard was then generated with both tangible and intangible value flows along with agreed and appropriate measures and targets, of which an extract is shown in Figure 14.

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Deliverables	From	To	Measure	Target
Contract service levels	Services Director	Business Rep	as per contract	as per contract
Service Risk Assessment	Services Director	Business Rep	As per Intangibles Survey	+1
Formal Services Feedback	Services Director	Vendors	as per contract	as per contract
Payment for services	Services Director	Vendors	as per contract	as per contract
Emerging Business Issues	Services Director	Vendors	As per Intangibles Survey	+1
Referral for good service	Services Director	Vendors	As per Intangibles Survey	0
Formal Services Feedback	Business Reps	Service Director	as per contract	as per contract
Emerging Business Issues	Business Reps	Service Director	As per Intangibles Survey	+1
Strategic service review response	Business Reps	CIO	Quarterly workshop	scheduled & held
Emerging Business Issues/Opportunities	Business Reps	CIO	As per Intangibles Survey	+1
Business Process Flows	Business Reps	Process Owner	BP documentation review	minimum 2/year
Business Process Issues	Business Reps	Process Owner	As per Intangibles Survey	+1
New Service Request	Business Reps	Product Manager	As required	N.A.
New Business Opportunities	Business Reps	Product Manager	As per Intangibles Survey	+1
Service Response to business processes	Vendors	Process Owner	As required	N.A.
New Solution Possibilities	Vendors	Process Owner	As per Intangibles Survey	+1
Contract Response	Vendors	Contract Manager	Quarterly review	scheduled & held
Business rationale for T&C positions	Vendors	Contract Manager	As per Intangibles Survey	+1
New Services Response	Vendors	Product Manager	As required	N.A.
New Service Possibilities	Vendors	Product Manager	As per Intangibles Survey	0
Contracted Service	Vendors	Service Director	as per contract	as per contract
Emerging service provision issues	Vendors	Service Director	As per Intangibles Survey	+1
Contract Acceptance	Vendors	CIO	Sign-off as required	2 week turnaround
Vendor Business Strategies	Vendors	CIO	As per Intangibles Survey	0
Contract T&Cs	Contract Manager	CIO	Quarterly review	scheduled & held
Contract risk areas	Contract Manager	CIO	As per Intangibles Survey	+1
New Service T&Cs	Contract Manager	Product Manager	Amended contract	1 week turnaround
Potential new product contract issues	Contract Manager	Product Manager	As per Intangibles Survey	+1
New Services responses	Product Manager	Business Reps	Timely formal response	1 week turnaround
New Service Possibilities	Product Manager	Business Reps	As per Intangibles Survey	+1
New Service Details	Product Manager	Contract Manager	Formal request	N.A.
Emerging New service Ideas	Product Manager	Contract Manager	As per Intangibles Survey	+1
New Service Request	Product Manager	Vendors	Formal request	N.A.
Emerging Service Opportunities	Product Manager	Vendors	As per Intangibles Survey	+1
Sourcing Contract Offer	CIO	Vendors	Formal offer	N.A.
Business/Budget Forecasts	CIO	Vendors	As per Intangibles Survey	+1
Formal Contract Review	CIO	Contract Manager	Quarterly review	scheduled & held
Critical/Non-critical T&Cs	CIO	Contract Manager	As per Intangibles Survey	+1
Services Strategic Review	CIO	Business Reps	Quarterly review	scheduled & held
Emerging Service/Technology Opportunities	CIO	Business Reps	As per Intangibles Survey	+1

**Figure 14 – Extract from Preliminary Partnership Scorecard FinCo/Vendors**

The portion of the scorecard relating to the partnership between the providers, including the in-house team is shown in Figure 15.

Deliverables	From	To	Measure	Target
Help Desk Requests	Vendor X	In-House Services	as per contract	as per contract
<i>Emerging Call Patterns</i>	Vendor X	In-House Services	As per Intangibles Survey	+1
Help Desk Requests	Vendor X	Vendor Y	as per contract	as per contract
<i>Desktop Refresh Forward Plans</i>	Vendor X	Vendor Y	As per Intangibles Survey	+1
Help Desk Requests	Vendor X	ABCTech	as per contract	as per contract
<i>Emerging Call Patterns</i>	Vendor X	ABCTech	As per Intangibles Survey	+1
Help Desk Requests	Vendor X	Vendor Z	as per contract	as per contract
<i>Desktop Infrastructure Capability</i>	Vendor X	Vendor Z	As per Intangibles Survey	+1
Request for application transition	In-House Services	Vendor Z	Formal request	N.A.
<i>Inhouse Support Technology Capabilities</i>	In-House Services	Vendor Z	As per Intangibles Survey	+1
Security Requests	In-House Services	Vendor Y	Formal request	N.A.
<i>Emerging Network/Security Issues</i>	In-House Services	Vendor Y	As per Intangibles Survey	+1
Help Desk Responses	In-House Services	Vendor X	Formal response	as per contract
<i>Emerging issues</i>	In-House Services	Vendor X	As per Intangibles Survey	+1
Security Responses	Vendor Y	In-House Services	Formal response	as per contract
<i>Emerging Network/Security Solutions</i>	Vendor Y	In-House Services	As per Intangibles Survey	+1
Help Desk Responses	Vendor Y	Vendor X	Formal response	as per contract
<i>Network/Security Forward Plans</i>	Vendor Y	Vendor X	As per Intangibles Survey	+1
Security Responses	Vendor Y	ABCTech	Formal response	1 week turnaround
<i>Emerging Security Possibilities</i>	Vendor Y	ABCTech	As per Intangibles Survey	+1
Application Transition	Vendor Z	In-House Services	Formal request	N.A.
<i>Special Support Capability Requirements</i>	Vendor Z	In-House Services	As per Intangibles Survey	+1
Infrastructure Requests	Vendor Z	ABCTech	Formal request	N.A.
<i>Potential new infrastructure demands</i>	Vendor Z	ABCTech	As per Intangibles Survey	+1
Help Desk Responses	Vendor Z	Vendor X	as per contract	as per contract
<i>Potential New Application Demands</i>	Vendor Z	Vendor X	As per Intangibles Survey	+1

**Figure 15 – Provider Level Partnership Scorecard**

As can be seen on these preliminary scorecards, the tangible transactions are often already formalised in contracts and those that aren't probably should be. The majority of intangible value flows are measured by the perception of the recipients of the value flows. The standard survey questions would be applied each quarter to detect any movement in these perceptions that may require corrective action. A key characteristic of the intangible value deliverables is their proactive nature. Ensuring that timely discussions are held on emerging issues or topics, rather than waiting for scheduled reporting events, goes a long way to building and enhancing trust in the network. Unlike other balanced scorecards that are used to assess an organisation as a whole, the Partnership Scorecard is more granular. Each role will have particular value flows that they will be accountable for and at the same time have value flows of which they will be the sole assessor. In this way accountability and performance issues can be accurately targeted for timely attention.

Overall, the group agreed that the Partnership Scorecard would be a welcome addition to their performance measurement schemes. In particular, it was felt that an IT Governance “Balanced Scorecard” could be generated from the Partnership Scorecards. The ValueNet Inc facilitators reinforced this view, adding that a critical contribution of the Partnership Scorecard was that it focused on co-operation, with all stakeholders being both reviewers and subjects for scorecard methods, unlike traditional Balanced Scorecards which tended to be targeted at service provider performance only.

## Implications for IT Governance and Multisourcing

In this chapter the emerging practices of VNA and the Partnership Scorecard have been directly applied to an IT Governance and multisourcing scenario. The unique value of the approaches described is in how the intangibles and relationships are

explicitly treated. While experienced practitioners are acutely aware of the impact of intangibles and managing relationships on successful governance and multisourcing arrangements, by making them explicit, one can begin to more effectively manage them. By practicing these emerging techniques, it is possible to accelerate the creations of good working relationships between vendors, and between vendors and their clients. By managing the intangibles, differences in perceptions and expectations can be identified early and resolutions negotiated to mutual satisfaction, before more harmful relationship fallouts can occur.

## **Summary and Conclusions**

This chapter has reviewed how the IT industry develops and promulgates its best practice experiences. The ITIL best practice framework was chosen for review, in terms of its recommendations for IT Governance, based on its focus on business alignment as the purpose of IT Governance, more so than the compliance approach of other frameworks. ITIL itself started as a best practices library, from which its name was formed. Over its 20 year history the documented practices have been carefully promoted as guides more so than standards. In terms of governance, ITIL has taken the position that the objective of IT Governance is to maximize the business return on investment from IT resources and therefore governance starts with sourcing, whether internal or external. While some IT Governance commentators viewed that IT Governance should be a board level concern, data shown in this chapter indicated that this was far from being achieved and that IT Governance would at least for the time being, be conducted below that level.

Using the ITIL sourcing governance recommendations and the identified governance roles the Value Network Analysis (VNA) technique was introduced. VNA had been identified by ITIL as a best practice IT strategic planning practice. VNA had its genesis in the field of Knowledge Management. The inventor of VNA had recognised that traditional business process analysis techniques avoided many of the intangible value contributions that were often the difference between a well performing or poor performing organisation (Allee, 2008). By making these intangible contributions explicit, along with the formal contracted transactions linking roles within a network diagram, it would be possible to examine the dynamics of value flows as they traverse the organisation. In this way, imbalances of value contributions and value creation shortcomings could be identified and corrected. The recognition of intangible value flows also explicitly recognises the importance of the trust network within sourcing arrangements, as it is the intangibles that contribute most to the development of such trust networks.

The final section in the chapter provided a case study scenario of how VNA and ITIL could be combined to establish an IT Governance for multisourcing arrangement. This comprehensive scenario walked through how value network maps could be created and analysed by the governance role players participating in value network workshops. A key deliverable from the workshop was the so called “Partnership Scorecard”. The scorecard is distinctive in that the intent is to measure and monitor relationship interactions, both between and within the client and provider organisations. With sourcing relationships being seen as the greatest point of

weakness in current outsourcing arrangements, the Partnership Scorecard offers unique value in centrally addressing the relationship issues.

This chapter has principally addressed the client/provider interface with value networks. In the next chapters the networking paradigm will be extended to the global IT marketplace. As identified in previous chapters it is no longer possible for clients to view vendors as independent entities. The growth in network alliances between IT market actors and the increasing specialisation found within the market can mean that selecting and integrating “best of breed” providers can be a hazardous task. The next chapter takes a network perspective of the global IT market place. The perspective is then expanded into an examination of the outsourcing relationship using case study examples.

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