

DIGITAL AGILITY – THE IT OPERATING MODEL AS BUSINESS STRATEGY

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Under the pressure of geopolitical turmoil, accelerating inflation, an energy crisis and a likely business downturn, businesses must cope with a continued high pace of change. This requires new capabilities since customer demand and behavior will alter as well. Continued digital transformation and establishing business agility are two of the main responses required to meet the ongoing disruption.

Introduction

This White Paper sets the scene and a context for a series of Burnt Oak Partners papers which will explore how the IT Operating model can become a critical success factor in managing the ongoing market turmoil and lay the foundation for long term competitiveness. We will make use of our extensive network to develop the recommendations in coming papers.

The landscape may have changed, but businesses now more than ever need to be competitive due to the massive ongoing disruption. Being up to date with digitalization, developing the right business systems and modern technical solutions are business-critical for all organizations. Driving strategic IT initiatives and associated business transformations is a must for every company today. But this is no news. Most businesses are well aware of that IT and digital are being strategic business enablers and not a cost center. The question is then, which role can sourcing and IT suppliers play here and who should pay attention to the potentials they present?

The IT Operating Model and External Partners

Executive management must engage in how to create value from technology - The pressing question for CIOs trying to respond to the realities of the current business environment is – “How do I design the operating model* for information and technology to support the digital business agenda?” Yet, the secret to success is to look not only within IT, but to take an holistic view and include the business perspective as well. And secondly, to understand that is as much a question about access to knowledge, experiences, and capabilities, as about only delivering digital and IT solutions. The required focus for future survival and growth, means that companies must embrace the potential of building networks and alliances and here are sourcing and partnerships a necessary lever to be able to respond successfully. The question is thus as relevant for the CEO and the whole executive management as for the CIO only. So, what does this mean?

1

Have a business perspective in the sourcing strategy – When IT management is developing the sourcing strategy and building up the supplier portfolio, the CIO must think beyond pure IT-delivery and include the perspective of how to bring in the technology into business development and change. Strategic suppliers and sourcing partners should be invited and introduced to the strategic discussions that takes place outside IT and together with business representatives. This will bring new knowledge and aspects on what is doable with the latest technology and being done by others, showcasing the potential for change and business growth. Establishing a more integrated operating model also leads to joint accountability for delivering IT and business outcomes, which will increase the drive and pace in execution. Clearly this is important for the CIO to enable, but the CEO and other affected CXO:s should engage in the discussion to safeguard that the business interests are being fully understood and accounted for.

AT A GLANCE

Continued digital transformation and establishing business agility are responses required to meet the ongoing disruption

We argue that:

- ⇒ Executive management must engage in how to create value from technology
 - ⇒ Have a business perspective in the sourcing strategy
 - ⇒ Time is limited and focus is everything
 - ⇒ Vendor Management is a specific profession
 - ⇒ Maturity must be understood, practice a stepwise approach
 - ⇒ Outsource legacy and its decommissioning
 - ⇒ Outsource development teams to enable business agility
 - ⇒ There are many opportunities sourcing right
 - ⇒ The sourcing partner should be an integrated part of the IT organization
 - ⇒ Use sourcing in areas of fast-moving technology development
 - ⇒ Strive for an agile business
 - ⇒ Use the sourcing partner as a change agent
 - ⇒ Agile and sourcing will impact corporate governance and investment decisions
 - ⇒ IT suppliers must step up
 - ⇒ IT suppliers should demonstrate the value of information and data
 - ⇒ Suppliers must invest in building a partnership
 - ⇒ Trust is built on commercial professionalism
- Sourcing and external IT services are an essential and necessary component in the IT operating model enabling the response to new business needs and expectations, providing new technology and capabilities. The potential benefits are significant, but the realization won't come easy.

Executive management, led by the CEO must engage and understand the potentials and how they want to build strategic partnerships and position the company even though the CIO and IT management are responsible for driving this topic. IT suppliers also have a significant role to play adopting a long-term perspective and invest in building strategic partnerships.

**) According to Gartner: An operating model is the blueprint for how value will be created and delivered to target customers. An operating model brings the business model to life; it executes the business model. An information and technology (I&T) operating model represents how an organization orchestrates its I&T capabilities to achieve its strategic objectives. An enterprise operating model describes how the enterprise configures its capabilities to execute its actions to deliver business outcomes as defined in the business model.*

2

Time is limited and focus is everything - The CIO must embrace the fact that access to time is a constraint and together with the ability to focus the efforts and have the right attention from the IT organization, these will determine overall success and objective fulfillment for both IT and business. Even if you can do everything inhouse, it will dilute IT management's attention when you are required put your efforts in all of the areas and processes of the complex IT environment. In addition, the larger the IT organization becomes, the slower it gets, leading to a more complex decision making, more dependencies and hampered execution, including challenges in establishing an effective follow up and reporting. The more people in the IT organization, the more voices to be heard, aspects to consider and stakeholders to manage. Thus, it is paramount that the sourcing portfolio enables CIOs and IT management to put their efforts where it matters the most, using sourcing a tool for building a lean and easily managed IT organization. Again, executive management must pay attention to where IT is going. If technology is a strategic enabler this must be clearly demonstrated and sometimes IT management could benefit from a friendly push to understand where the business priorities are and what is expected. Consequently, IT management might then oversee the operating model to be able to focus their efforts where it matters the most.

3

Vendor Management is a specific profession – Many businesses manage IT suppliers and sourcing in a fragmented way with no clear or appropriate governance. There is also a belief that any senior IT personnel or IT manager can take on the responsibility for contracts and supplier relationships. We would like to point out that first of all, to develop a sourcing strategy that supports the overall business strategy requires a deep competence and specific experience. Not only to understand:

- a) what the company needs,
- b) the sourcing maturity,
- c) the characteristics of the IT operating model and the IT landscape, and
- d) the potentials and to address.

But also to:

- bring in knowledge of technology development,
- determine the accessible supplier landscape (every supplier will not be suitable for every company),
- consider different services, sourcing models and deliveries, and
- be competent in how to design an effective and value adding contract suitable for the actual delivery.

Clearly, an efficient and effective governance must be designed, implemented, and maintained in dialogue with the different suppliers. And most importantly, an appropriate relationship with all the different suppliers will have to be managed over time to support the objectives for both the IT organization, the company, and its business. Any company having more than a rudimentary ambition in this area must build a Vendor Management function manned with professionals.

What to Source

Maturity must be understood, practice a stepwise approach - First and foremost, the CIO and IT management must understand the overall sourcing maturity and experience. Without going into details here, a stepwise approach to build the sourcing portfolio and establishing partnerships is highly recommended, although a steady pace forward should be aimed for. When doing so, an open mindset is of essence and different service delivery models as well as "right shoring", a mix of on shore, nearshore and offshore should be evaluated and made use of depending on their respective pros and cons as relevant for the organization in question.

Outsource legacy and its decommissioning - The schoolbook somehow dictates that back-end or systems of records together with systems supporting non-core business applications and infrastructure together with workplace are the ones to source. Here we would like to point out that there are strong arguments for addressing legacy applications, independently of their business criticality. Many times, a sourcing partner has a better ability to uphold the service based on an old or outdated technology from both a competence and resource perspective. The upside for the IT-organization is, to focus management attention on areas where the business needs to develop and improve. And when introducing new IT solutions, letting internal IT staff learn new things, grow, and develop for the future, instead of bringing in externals to work on the new, fun, and challenging will build motivation, loyalty and create engagement among IT staff. Decommission of legacy solutions is sometimes almost impossible internally, for many and sometimes mysterious reasons ..., and here can a sourcing partner be more effective. Naturally, the aspects of sourcing legacy and the following decommissioning will have to be contracted in a thoughtful manner to make it successful.

Outsource development teams to enable business agility - At Burnt Oak Partners we have also identified another sourcing potential for more mature organizations with agile deliveries, including digital services. Oftentimes IT management argues that digital development, whether for internal or customer facing services, is at the core of business

and thus should be kept inhouse. And the same then goes for agile deliveries in general. We believe that this is not correct. The customer organization clearly should have business and solution design as well as tech leads and or product owners on site, close to the business. Even other roles like scrum masters and testers could be included here. But the development team as such may sit anywhere. To be pointed out is that it is of uttermost importance to avoid the mistake to believe that an offshore team will be self-steering, and you just have to hand over the requirements. That won't work, close and frequent collaboration is of uttermost importance.

Some of the opportunities if sourcing right:

- potentially lower, or much lower costs,
- engaged and motivated IT staff,
- much less attention needed on legacy and its decommissioning,
- teams that can scale fast due to better access to competent resources and knowledge,
- down scaling in cased business priorities shifts will also come more easily,
- potential knowledge transfer to new solution areas by the sourcing partners possibility to move experienced resources from other accounts, and
- improved code quality in case the service provider is using an industrialized approach.

The sourcing partner should be an integrated part of the IT organization - It is paramount that the key inhouse and onsite roles are in continuous and close contact with the offshore outsourced team and practice a seamless way of working bridging organizational boundaries, time zones and geographical distance. This will naturally require engagement and commitment by business management as well. Therefore, how this is to be managed must be understood by executive management too and of-course the business roles that are interacting with the development. The prerequisite to establish such close and sustainable collaboration with the strategic suppliers is to agree on smart contracts, strive for commercial alignment and define service models reflecting the intended way of working between the customer's tech lead structure and the supplier's development teams.

Use sourcing in areas of fast-moving technology development - Since IT solutions and services are undergoing a fast development, bringing in sourcing partners is more or less essential both for internal enablement and providing an up-to-date service delivery. There is of-course also a need for building up internal competence and knowledge in these areas, which might be done in different ways. Areas of fast-moving technology development include:

- a) Ensuring IT security by buying services such as the Security Operations Centre, Security Incident Response Team and so forth.
- b) Establishing cloud capabilities and containerization in combination with the whole concept of buying Infrastructure as a Service.
- c) Transition to cloud and migration of existing applications.
- d) Switch to new commercial models such as '... as a Service' and 'On-demand'
- e) Focus on delivery of business outcomes rather than transactional activities where the sourcing partner will be given an end-to-end responsibility.

The Business Agility Challenge

Strive for an agile business - Let's start with pointing out the following – Agile is not only about IT! Even if it can be of course, being limited to how IT development teams are being organized and their way of working, following for example parts of SAFe. The bigger picture, however, suggests that the potential lays in the business ability to be able to respond promptly to market and customer changes, such as the dramatic ones we see today. As many businesses are built upon or are dependent on IT, becoming agile will not only require a short time to market for new digital features. But also, scalability and a fast introduction of new digital capabilities built on the use of new technology and solutions. Immediate access to critical and often new competences and knowledge is necessary. Not to be forgotten, the business it-self has to pay attention on how they manage needed change and have the ability to adapt.

Use the sourcing partner as a change agent - Sourcing is a viable tool to be used to support such agility as described in the previous chapter. The acid test is to whether your sourcing partners can integrate in an agile way of working, or if they will stall it? Or can the sourcing partner inspire and foster an agile mindset and introduce agile principles to be further cascaded into the customer's IT organization and later also including relevant business functions? Something to be introduced in a forward-looking contract with state-of-the-art service definitions. It might be an opportunity to use your sourcing partner as a change agent in this respect. Realizing the potential in using a sourcing partner to enhance agility will also require contractual aspects to be considered to reflect the evolving agile way of working.

Agile and sourcing will impact corporate governance and investment decisions - Based on our experience on the agile topic (without doing a deep dive on the matter) companies should avoid going agile without first understanding the impact on the financial steering, investment decisions and overall governance followed by the subsequent need for change of these areas. Otherwise, it might just add more complexity and governance issues than benefits, jeopardizing the whole agile potential. We are arguing that the CFO must be involved and engaged in how the financial

governance will be changed and how the new set up will be designed. The CEO and other CXO:s will have to be comfortable with how roles and responsibilities are changing and fully understand who is accountable and where investment and development priorities are made.

Partnerships and the IT Suppliers' Challenge

IT suppliers must step up - At Burnt Oak Partners we are convinced that partnerships with IT suppliers and outsourcing when carefully executed constitutes a fundament in enabling both digital transformation and the establishment of business agility. However, oftentimes the IT suppliers tend to act in a very self-centric way, having more focus on their supplier partnering models and internal account aspects than getting to know what their customers are expecting and being flexible in their approach. We have seen narrow sales centrality, complacency in meeting SLA's only and a short-sighted project milestone focus on the expense of anticipated business outcome. This is not entirely wrong but is more of a transactional relationship than a partnership and far from a business partnership. Instead, suppliers should aim for partnering on a strategic level with both the customers' business and IT. Such a partnership should give the customer access to not only IT competences and knowledge beyond their own capability, but also to business best practices and solutions from other sectors and or markets. And it is supposed to be actively suggested and proposed by the intended strategic partner as well.

IT suppliers should demonstrate the value of information and data - When driving digitalization and use modern BI-, AI- and ML-tools a mindset shift is necessary. From systems, applications, and functionalities, to create business value based on data and information. This is not done easily since it introduces a brand-new perspective, and it tends to be a bit abstract as well. Explanations and PowerPoints are thus not enough; you need to see examples and demonstrations of what it means and how it can be done. This capability is very seldom accessible internally, it must be brought in. Here can strategic partnerships with key IT suppliers become vital and boost digitalization.

Suppliers must invest in building a partnership - Surprisingly, true strategic partnerships are seldom asked for by CIOs or business executives who seems to be happy with transactional relationships. Strategic partnerships should most likely open-up for a closer cooperation between the supplier and the customer and thus a wider array of business opportunities for the supplier, now and in the future. In other words, a win-win relationship ought to be sought from both sides. Here the sourcing partner shall have the confidence and determination to stimulate, demonstrate and create a customer interest for a strategic relationship. And it goes without saying that it requires some investment in both time and resources to accomplish, aiming for the long-term potential on the expense of short-term gains.

Trust is built on commercial professionalism - To be pointed out, a long-term time horizon when establishing strategic partnership is a necessity. It is built on trust and the good intent must be proven by both parties, so patience is essential. Naturally, only a few selected suppliers can be invited to a strategic partnership based on their specific strengths, their delivery performance and match to the customer's needs and culture. However, strategic partnership does not mean that the customer shall be commercially complacent. Driving tough negotiations, making clear references to market conditions, and setting high requirements are characteristics of a professional customer. But also, a true recognition for the need of fair contractual terms for both sides safeguarding a sustainable business deal. Showing mutual respect is a first step in building trust. Our experience is also that Vendor Management capability and competence at the buying business is essential for long term success and establishing a value adding relationship.

Conclusion

"Which role can sourcing and IT suppliers play?" - We argue that sourcing and external IT services are essential and necessary component in the IT operating model. The potential benefits are significant, but the realization won't come easy. It requires serious analysis and understanding. Executive and IT management will have to put some effort in developing an appropriate strategy and then execute on it. Establishing a lean and agile IT operating model that is also capable to promptly respond to new business needs and expectations, providing new technology and capabilities is critical success factor for Digital Agility. Understanding how and where to make use of outsourcing and offshoring and establishing strategic partnerships with selected and suitable suppliers will result in an ability to cope with the market turmoil and change in customer demands.

"Who should pay attention to the potentials sourcing and IT suppliers present?" - This is a task for many parts of a company. Executive management, led by the CEO must engage and understand the potentials and how they want to build strategic partnerships and position the company. The CIO and IT management are responsible for driving this topic, but they cannot do it alone. IT suppliers also have a significant role to play. They must adopt a long-term perspective and be prepared to take initiative to and invest in building strategic partnerships.

Companies that do their homework to capture the potential in strategic partnerships and sourcing while aiming for Digital Agility will without question establish a competitive edge.

Burnt Oak Partners

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As recognised thought leaders we bring innovative thinking and approaches in field that is largely still sitting in traditional ways of working that are not fit for purpose in today's world. Our collaborative, iterative approach drives pace, flexibility, and quality so establish relationships that work for both client and supplier, and which provide greater speed and certainty of business value.

Our people are practitioners rather than consultants, all having held senior positions on either the client or supply side.

If you would like to learn more about our approach, then please get in touch

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