Weighing Risks and Rewards in the Internal Service Company

Major organizational transformation can't be accomplished painlessly. However, IS leaders adopting the internal-service-company model can mitigate the risks, while paving the way to realize benefits.

IS organizations that seek to surmount their internal credibility problems while combating the external service providers that threaten their viability increasingly are evolving into internal service companies (ISCos). For more information on why IS leaders are adopting this business model, see "Making the Case for the Customer-Focused ISCo."

However, organizational transformation is difficult. Changing people’s habits, beliefs, roles and responsibilities is unsettling. For this reason, the ISCo model is not without risk. Before embarking on such a transformation, IS leaders must be clear on why they’re adopting the model, what they expect to gain, and what the IS organization will face in terms of costs and obstacles.

What You'll Gain by Becoming an ISCo

IS organizations that successfully adopt an ISCo model will:

- Protect their internal market by reconciling differences between perceived and actual performance.
- Recast the IS organization's service portfolio focus from cost to value, ending the need to justify the IS organization on each transaction.
- Move accountability for realizing use, value and benefits from the IS organization to client groups, where it belongs.
- Build on process-based philosophies for efficiency, reliability and ongoing improvement — thus boosting results and credibility.
- Create a framework for strategic sourcing to ensure maximum value from each IT service.
- Correct a supply/demand servicing imbalance to enable IS organization scalability.
- Teach the IS team to relate to its business constituents in business terms.

What You'll Risk by Becoming an ISCo
Despite the benefits of the model, adopting an ISCo model does carry some key risks.

- **Wrong model.** IS organizations in industries that are marked by low growth and margins, and that are not highly dependent on IT, will find it hard to attain the benefits of an ISCo. That's because the extra overhead costs of the transformation into an ISCo are not likely to be recovered via enhanced benefits. Business leaders in Type C enterprises (where IT is seen as a utility) must become more sophisticated about IT — seeing it as an enabler of growth — before their IS organization can expect the ISCo model to become politically viable.

- **Chargeback resistance.** As chargeback becomes implemented, business units will resist IT costs that affect their bottom line. Those extra costs should be recouped over time in increased value and efficiency. Still, IS leaders must anticipate and manage this cultural resistance, using reliable market and cost data in their education efforts.

- **Cost vs. investment debate.** Business leaders and the enterprise’s centralized financial managers will argue that the ISCo hikes costs, which it does. That argument will put pressure on IS leaders to position the increased overhead as the first step to a more-effective — and cost-efficient — sourcing strategy and process-engineering efficiency.

- **Staff unease.** IS employees may feel threatened by change. Fears — about outsourcing, restructuring into process-based teams and adopting a service ethic — may undermine transformation.

- **Timing.** The pace of the transformation effort may exceed the enterprise's ability to adapt to it, negatively affecting investment and funding. This can result in the ISCo being starved for the funds it requires to re-engineer its marginal service fulfillment capabilities. For this reason, the first half of the transformation plan is largely about justifying the model, educating constituents and gaining support through incremental successes.

**Critical Success Factors**

Once they anticipate and plan for these potential risks, IS leaders who are committed to the ISCo model should go to school on the primary characteristics that — taken together — will lead them to achieving the benefits of a customer-focused internal IS service company. Those success factors include the following:

- **Value-driven service portfolio.** A product menu should list the services that the IS organization offers and emphasizes why business units should buy those services from the IS organization. The portfolio is described in customer-oriented terms, and the benefits promoted must be from the customer’s point of view.

- **Engineered fulfillment processes.** These are the engineered and integrated steps and procedures that the IS group uses to control costs and enhance service performance.

- **Relationship management.** The IS organization must reach out to client groups to begin to align their perceptions of IS performance with reality, understand their needs and requirements, manage demand and communicate the business value that the IS organization delivers to the enterprise.

- **Process-based structures and tools.** The techniques necessary to address clients’ concerns around reliability and performance issues should focus on customer needs — not technologies.

- **Flexible funding and chargeback schemes.** The IS organization must reconcile supply-and-demand imbalances by competitively pricing and billing its services.
Market-driven capabilities and sourcing leadership. To ensure that the enterprise gets the maximum value across the range of IT services it consumes, the IS organization must develop and communicate to business units its capabilities as a "best provider," and outsource where the IS group is not competitive or the service is nonstrategic.

Step-by-step approach to change. Moving to an ISCo shouldn't be attempted in a hasty, unplanned manner. Incremental adoption of these seven characteristics and a well-planned change management campaign will help prevent unease among business units and the IS staff.

Bottom Line: All change evokes a risk-reward assessment. IS organizations that are contemplating an internal service company business model must — before they begin the transformation — clearly determine the desired outcome, while weighing the risks to success. IS organizations that incorporate critical success factors to propel adoption of the ISCo model will be better-positioned to prove their value to their enterprise and its business units.