IVAN KRNIĆ

BIZTECH EVOLUTION

From Transactional Services to Strategic Alliances

Foreword by Courtney Kissler Hawkins

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BizTech Evolution
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Foreword

I have been working in the technology industry for over twenty years and have been trying to find bright spots in the overcrowded consulting industry for quite some time. I continue to be disappointed by the number of engagements that fail and have wondered for years what we could do as a technology community to get a different outcome.

I have seen the impacts from the seat of an individual contributor, a front-line manager, more senior level manager roles, and for over the last decade, as an executive. It has been painful to watch the amount of wasted investment and frustration when recommendations include actions that set our industry backward. One included an engagement when the consulting company told me I needed to reorganize my teams into development teams and operations teams, basically a DevOps antipattern. What's even more disappointing is that I was a VP at the time and some of my peers and many of the C-level executives thought "Wow, that's an amazing idea!" I spent a lot of time and energy sharing why that would not be effective and not deliver better outcomes. I share this story because it shines a spotlight on what needs to be different and how it's not a one-sided issue.

I truly believe the solution involves clients and consulting companies sharing ownership and accountability for engagements. I appreciate when I see curiosity on both sides for how we can evolve and make the industry better. This book is exactly that and will give advice for how you can have successful engagements externally and internally. Even as an internal team providing service to another internal team, this book can bring new techniques forward to leverage and get better outcomes.

I wish I could list many examples of successful engagements but the harsh reality is that there are way more failures. The failures get all the attention. Ivan outlines some great examples in this book and also includes successful examples. We need to learn from both successes and failures. I don't think we spend enough time on the successes.

We also need to unlearn previous behaviors and approaches. The mindset and behavior of "We are paying you, so do what we say/want." isn't good enough. We need to do better. We need to see these engagements as partnerships, be clear about what is required, and have a system of accountability to see early and often if we have indicators of things going off course.

In my current role as Global CIO at a Fortune 500 company, I am co-sponsoring an engagement with our CFO where we have been super clear about the outcomes. We have weekly check-ins to ensure we stay aligned and on track. We have clear intent and a plan for knowledge transition so we don't create dependencies on the consulting organization. Both the CFO and I show up for every meeting to ensure we demonstrate our commitment to the work, staying engaged and involved. What's also great is that the consulting organization is aligned with our intent and is not spending a bunch of time and energy looking for more work—directly tied to principle 2 (Strategic work over just "more" work).

Senior leaders have to be engaged and need to set up the right structure/system for the teams and engagements to be successful. Coming in only after something has gone significantly wrong is not acceptable. It's not the way to signal to teams that you value the success of the engagement. Senior leaders need to take ownership of their role in the success or failure and, ideally, stop the vicious cycle of moving to another consulting company in the hopes of getting better results.

When it comes to collaboration between clients and consulting companies, I truly believe disruption is required on the same scale as Uber disrupting the taxi industry. It's in our best interest as technology professionals to drive this change. When we find organizations doing it right, we need to make that known across our networks and within our organizations. It will take all of us choosing to expect more and model what good/better looks like.

Disruption requires courage, and I appreciate the way Ivan has outlined the four guiding principles as a thoughtful, balanced, and meaningful approach to this challenging topic. It should and will inspire action. I hope you choose to also be a trailblazer and lean on the community driving this change. We can and will make it better for everyone and do what we should be doing—delivering better results.

— Courtney Kissler Hawkins

Preface: The Elusive Symbiosis

We live in a service economy for which we are not well prepared.

According to the World Trade Organization, the services sector accounted for 67% of global GDP in 2021.[EN][1] In high-income countries, this percentage reached an impressive 75%. It's no wonder that the service sector is becoming a highly appealing arena densely populated with companies of all sizes looking for their place under the sun.

While the services sector is immense, it's also a bucket full of holes. Every day, money is burned due to suboptimal execution and poor cooperation between service organizations and their clients. The immediate effects manifest as failed projects, unrealized potential, delayed deliveries, and executives stepping down. However, the long-term consequences can be even more dire, including loss of reputation, loss of market share, bankruptcy, and, in extreme cases, environmental disasters and loss of lives.

Consider the tragic Deepwater Horizon oil spill in April 2010, when a sequence of failures led to the explosion of the oil platform. The incident involved multiple parties, including British Petroleum (BP), which operated the platform, and its service providers, Halliburton and Transocean.

A report released by BP concluded that decisions made by "multiple companies and work teams" contributed to the accident, which arose from "a complex and interlinked series of mechanical failures, human judgments, engineering design, operational implementation and team interfaces."[EN][2]

Today, we understand that there is usually no single root cause of accidents in complex systems. However, by analyzing the sequence of events of the Deepwater Horizon disaster, we can trace much of it back to poor cooperation between BP and its service providers. This lack of coordination resulted in eleven lives lost and over three-hundred Olympic swimming pools' worth of oil spilled into the Gulf of Mexico.[EN][3]

While not all cooperation problems end up with such catastrophic consequences, the economic damage alone can be enormous.

In 2016, car rental company Hertz hired consulting firm Accenture to redesign its online platform. The new platform was supposed to go live in December 2017, but it was delayed several times until May 2018, when Hertz finally canceled the contract with Accenture and introduced a new supplier. Subsequently, Hertz filed a lawsuit against Accenture in April 2019 for $32 million, claiming Accenture never delivered a functional website or mobile app. Among other allegations, Hertz claimed Accenture failed to provide the promised expert-level talent, ignored industry-proven technical practices, and made a series of poor technical decisions.[EN][4]

In May 2020, with the lawsuit well underway, Hertz filed for bankruptcy, primarily due to reduced travel demand caused by the COVID-19 pandemic. Fortunately, the company came back just thirteen months later, propelled by the resurgence of the rental car market.[EN][5]

The lawsuit was finally closed in 2021 without a clear winner and both parties ordered to bear their own costs and attorneys' fees.[EN][6]

Today, Hertz is once again a stable company. Although the dispute with Accenture was never cited as a direct reason for bankruptcy, it certainly didn't help. It was likely one of the factors that left Hertz entering the pandemic downturn vulnerable and burdened with debt.

A simple internet search will return dozens of similar cases involving different companies, all facing the same cooperation and accountability problems and suffering comparable damage. And these are just the incidents that make headlines.

Some industries are more prone to unsuccessful projects than others. Analyzing 258 representative projects from various industries, Bent Flyvbjerg and Dan Gardner concluded in their book *How Big Things Get Done* that the IT industry is among the worst, meaning there is a high likelihood that IT projects will incur extreme cost overruns. Data show that not all IT projects have a cost overrun, but those that do end up with a mean overrun of 447%.[EN][7]

So, how much of these inefficiencies are attributable to poor cooperation between clients and suppliers?

Take a look at your own organization and count the times your cooperation with other organizations went awry. Chances are you've run out of fingers. The good news is that it doesn't have to be this way.

Imagine working with an outside organization as if it were a natural extension of your own. Picture maintaining an aligned vision of products and services that you're building together and choosing the right cooperation model to address the level of uncertainty. Envision having your incentives perfectly aligned. Imagine not wasting time repeatedly unearthing details of your client's organization as if it were an escape room or explaining the same things to your suppliers over and over. Instead, picture both sides generating just enough specification and investing the rest of their time where it truly matters—delighting customers.

You don't need to imagine it; such cooperation is possible.

In 2002, British Airports Authority (BAA) kicked off construction for the fifth passenger terminal at Heathrow Airport. It was an immense undertaking budgeted at £4.3 billion, with more than sixty thousand people from different suppliers working together.[EN][8] Terminal 5 opened for business on March 27, 2008. The project was delivered on time, in scope, and within budget—something rarely seen in the field of large complex projects.

The success is largely attributed to BAA's innovative approach to building contractual relationships with their suppliers. By assuming the implementation risk and incentivizing suppliers to cooperate while working toward a mutual goal, BAA ensured the right conditions for project success. This approach focused all suppliers on jointly and proactively managing risk instead of playing blame games to avoid litigation. BAA's risk management strategy was based on managing the cause, not the effect. The result was incredible: Terminal 5 opened its doors three days before the planned date.[EN][9]

We don't talk enough about successes like the construction of Terminal 5, but they exist. You've likely experienced similar projects, albeit not on that scale. Projects where everything just came together, and the cooperation with other organizations delivered incredible results. These are the stories you still happily share over a beer, not regretting a thing.

Looking back, you can probably distill some practices that made your organization capable of delivering so successfully and your cooperation with other organizations frictionless. This book is about unearthing those practices and giving them a name. By understanding them better, we can make successful cooperation the rule and not a random outcome.

Too often, our expectations of collaboration between clients and their service providers are so low today that we consider them successful if they don't cause harm. Such collaborations often begin with both sides aiming for something extraordinary that will significantly impact the business. Yet, they typically end with mediocre results, with both parties justifying to themselves that they made the best of the situation. Reflecting on such outcomes, I often wonder, as Peggy Lee does in her song, “Is that all there is” to collaborations.[EN][10]

Even in successful collaborations there is still so much untapped potential. I don’t believe we should, as the song suggests, resign ourselves to the status quo and simply “break out the booze and have a ball.”

This book presents a better way for clients and service providers to collaborate, creating more value for both parties and the broader community. While most of the advice is provided from the service provider’s perspective, improving collaboration is impossible without addressing both sides. Therefore, where necessary, I will also discuss changes client organizations should make to their ways of working to enable better collaboration.

Reviewing the book in its early stages, an honest reviewer said they would accept advice on this topic only from renowned big consulting companies. If you’re confident that your organization can improve solely through advice from large consultancies where consultants are layers away from the trenches, this book is probably not for you. If you play it safe and want to give the impression that you’re doing something when in fact you’re just looking to keep the status quo, this book is definitely not for you.

However, if you understand that the best way to mitigate risk is not to passively handle effects by transferring the risk to somebody else but to proactively handle the cause by embracing practices that improve your internal organizational capabilities and cooperation skills, then you are in the right place.

If you are a service provider, you will learn about the four guiding principles that will make your organization deliver sustainably and cooperate better with your clients while being part of a larger community ecosystem.

If your organization is consuming services, you will discover how to better integrate service providers into your delivery process and extend the fast flow of value beyond your organization's boundaries.

But your organization is likely both a service provider and a service consumer. Our world is increasingly becoming a decentralized network of organizations working together to produce value, which makes the advice in this book relevant to all organizations.

The fundamental principles of the service economy work on all levels, not only between companies but also between departments in a single company. Therefore, this book is not only for consultancies. It is also for all department leaders in large enterprises that consume and provide services inside the same company. This perspective is unfortunately not always apparent. Understanding that the same service dynamics happen between departments in the same organization requires an open mind and support from leadership. Applying the advice in this book will help large enterprises unlock efficiencies and support their ongoing digital transformation.

People learn best from examples, but there is a strange shortage of experience reports that show how service organizations thrive in the modern service economy.

What makes service organizations so special? Service organizations help their clients achieve business goals. By virtue of their business model, they are more susceptible to disturbances in the flow of value. Unlike their product-led peers, they don't rely on passive income streams based on subscription models. To maintain a steady income stream, service organizations must continuously deliver and sell their services. Just as sharks must keep moving to ensure water flows over their gills and prevents suffocation, service organizations must consistently deliver and sell to maintain healthy cash flow. And they need to do it in the most efficient manner possible.

I'm intentionally prioritizing delivery over selling because delivering value to clients paves the way for future conversations and sales opportunities. Service providers who consistently deliver will find it much easier to sell their services. Conversely, those who sell services they cannot deliver successfully risk losing clients and ultimately failing.

Managing a healthy flow of value in service organizations includes challenges that are not present at product organizations and stem from the fact that service organizations don't work on their own but always for client organizations. Client organizations can stop ongoing initiatives, create completely new ones, and (depending on the collaboration level) significantly influence the technical solution and ways of working. All these factors can significantly deteriorate the flow of value in service organizations, which is why they need to closely monitor flow and promptly remove impediments that get in the way. Work variability in service organizations is much higher than in their product-led peers with more predictable roadmaps.

If they want to succeed in the modern-day economy, service organizations need to improve their ways of working. There is a vast body of knowledge already available on improving ways of working, but most existing books and resources address this topic from the perspective of product organizations. There is a host of service organizations out there aware that they need to improve, but they are getting only partial advice and from the wrong perspective.

This book considers the specific circumstances in which service organizations operate and provides sound advice for their operation. It offers practical advice from three complementary perspectives:

1. External perspective through cooperation with clients.
2. Internal perspective through flawless execution.
3. Community perspective through coexistence with others in a larger ecosystem.

All three perspectives are examined while considering the specific context of service organizations characterized by cross-organizational collaboration with clients and high work variability.

The advice laid out in this book stems from over twenty years of experience in delivering value and managing a service organization, as well as from interviewing more than fifty industry experts on my *0800-DEVOPS* podcast. Since 2005, I've been fortunate to be part of the team that has grown CROZ, a successful service organization, from a small group to over four hundred people, eventually expanding internationally. During this period, CROZ has been featured on the "Deloitte Technology Fast 50 in Central Europe" list for three consecutive years and continues to demonstrate year-over-year revenue growth. Today, CROZ is a Croatian-German consultancy operating worldwide, helping clients embrace new technologies and ways of working to modernize their existing systems and realize their business potential.

Throughout my career, I've moved through various roles, including software developer, team lead, project manager, Agile coach, technical presales, and director of engineering. This journey has given me the opportunity to view the challenges of service organizations from different perspectives and use this experience to find optimal ways to remove friction in both internal operations and collaboration with client organizations.

While most of the examples in this book are drawn from my experience at CROZ in the IT industry, they are equally applicable to other sectors. My team has worked with groups in the financial sector, telco, marketing, manufacturing, and pharmaceutical R&D, consistently achieving positive results. If you come from an industry other than IT, don't dismiss this advice. Instead, embrace the guiding principles and let the specific actions described in this book inspire you to find more appropriate and effective approaches for your industry.

I hope my experience will help you build a better service organization and maximize the benefits of collaboration, whether you're a client or a service provider. The symbiosis between clients and service organizations may seem elusive, but it is well within our reach.

— *Ivan*

How To Read This Book

This book is designed to be a playbook, an actionable guide to help service providers and their clients achieve meaningful, valuable, and sustainable collaboration.

The introduction highlights inefficiencies in collaborations between clients and their service providers, which leave significant unrealized value on the table. Clients perceive value across multiple dimensions, including delivery performance, building internal capabilities, and risk management. Over time, various types of service providers have emerged to address these needs in specific ways.

Service providers that strike a balance between creating value for their clients, themselves, and the broader community ultimately deliver greater long-term value for the entire ecosystem. I call these organizations BizTech consultancies, and I will present a framework built around four guiding principles that any service provider can adopt to transform into one.

Chapters I to IV provide a detailed exploration of each of the four guiding principles, offering specific practices to help service providers implement them effectively. These practices are drawn from my experience working at a service provider undergoing its own transformation into a BizTech consultancy. These principles have proven successful for us, and I hope they will work for you as well. If some practices don't fit your context, I hope they inspire you to develop novel approaches and share them with the community.

While Chapters I to IV provide everything you need to begin your journey toward becoming a BizTech consultancy that clients will love, trust, and return to, **Chapter V** provides external validation through a case study of a well-established Toyota ecosystem implementing the four guiding BizTech principles. This chapter will also address practical questions that every service organization looking to become a BizTech consultancy will face during its journey.

This book is best read sequentially. Start with the Introduction if you're unsure about the various ways you can help your clients. Then, proceed to Chapters I to IV to implement the four guiding principles and transform into a BizTech consultancy. Finally, refer to Chapter V for an external example of the BizTech approach and common questions that the approach will inevitably raise among your colleagues.

> *All models are wrong, but some are useful.*
> — George E. P. Box, British statistician

As I stated in the Preface, the ideas in this book are based on my personal experience working in a service organization and collaborating with large enterprises across the financial, telecommunication, automotive, and retail sectors over that past two decades. It would be inaccurate to claim that all organizations experience all challenges described in this book. There are both clients and service providers that excel in optimizing their ways of working to gain the most from their collaboration. However, the challenges I've observed in collaborations are pervasive enough to warrant the writing of this book.

By focusing on four guiding principles, this book may overlook some aspects that you consider important in your organization. That's because the book is not intended to serve as a comprehensive handbook for running organizations. The reality of running organizations is complex, causing different roles to address different organizational aspects with different priorities. A CTO and a COO will have different perspectives on running the same organization.

By deliberately downplaying other aspects, my intention is to highlight four guiding principles that organizations can use to get more value from their collaborations. While I share many actionable insights from my experience on how to apply these guiding principles in practice, I encourage you to exercise critical thinking and consider your specific organizational context. No model can perfectly represent reality. If it could, it wouldn't be a model but reality itself. The purpose of every model is to raise awareness of specific aspects, in this case, the four guiding principles. Therefore, as you read this book, keep the notion of a model in your mind and thoughtfully apply it to your unique organizational context.

Introduction: The Market Shapes Service Organizations

Companies worldwide employ various strategies to outperform their competitors. These strategies often focus on two main areas: reducing costs to lower their bottom line and increasing revenue to boost their top line. To achieve these goals, many companies turn to cooperation with other organizations through outsourcing practices. The organizations that provide these outsourced services are commonly referred to as service organizations.

Outsourcing practices are as old as time. Ken Ackerman, author of *Warehousing Profitably*, notes that the first occurrence of outsourcing is documented in the Bible (Genesis, Chapter 41), with Egyptians outsourcing the stockpiling of crops in public storehouses for distribution during famine. However, it wasn't until the Industrial Revolution that outsourcing services really picked up and developed into the organizations we see today.[EN][11]

In the 1990s and early 2000s, outsourcing emerged in IT, whose role was largely perceived as providing basic support to keep operations running—often described as "keeping the lights on." Their task was simple: follow instructions and build code quickly. This could be done by anyone, including external contractors. By hiring contractors, organizations could have them compete for the best offer, request special conditions, and leverage economies of scale to lower prices.

Unsurprisingly, many organizations at that time shrank their IT departments, keeping only a small team to maintain systems while outsourcing all development to service organizations. Financial gains from reducing the workforce while getting IT solutions built more cheaply by service organizations was very appealing.

Mary Lacity and Leslie Willcocks, drawing from hundreds of case studies and surveys conducted between 1988 and 2008, focused on global IT outsourcing trends and analyzed the reasons, models, and outcomes of IT outsourcing efforts. In their book *Information Systems and Outsourcing: Studies in Theory and Practice*, Lacity and Willcocks define IT outsourcing as "a process whereby an organization decides to contract-out or sell the firm's IT assets, people and/or activities to a third party supplier, who in exchange provides and manages these assets and services for an agreed fee over an agreed time period."[EN][12]

Service organizations adapted to this trend by expanding their development teams, training them to translate written instructions into code, and deploying them to client organizations to execute tasks. This shift went so far that client organizations began "renting" developers from service providers. It didn't matter that service organizations often had limited knowledge of the client's industry. The only requirement was that they followed the instructions from the business. Thus, service organizations began cultivating what Marty Cagan calls "mercenaries"—people who do their job without any questions.[EN][13]

Of course, over time, IT shifted from merely a supporting function to a main enabler and driver of advanced solutions. As former CIO and author Mark Schwartz puts it, IT earned its "seat at the table" alongside other organizational functions such as finance, business development, and HR.[EN][14] Since ideas and innovations are key drivers of growth and sustainability, organizations became increasingly interested in maintaining IT as an in-house capability. For those heavily reliant on outsourced IT, this shift required a strategic overhaul.

By hiring back their workforce, client organizations solved one problem but uncovered another. For a long time, they had been out of sync with modern approaches to building capable internal teams and designing and developing information systems. They needed to rebuild those capabilities. Once again, they required help from service organizations.

But in this new world, the help needed was much more nuanced and complicated. Thus, a new wave of different service providers operating in different ways has become necessary.

Types of Service Engagements

Backed by a wide range of supporting theories, Mary Lacity and Leslie Willcocks have recognized several perspectives that guide IT outsourcing efforts, most notably economics, strategy, sociology, and systems thinking.

From an economics perspective, companies use IT outsourcing to minimize total costs and mitigate risks. When executed successfully, these efforts can lower the company's bottom line. The strategy perspective reveals that companies enter IT outsourcing engagements to acquire the resources and knowledge necessary to execute a "winning strategy." By focusing on this perspective, companies can increase their top line. The social perspective ensures the sustainability of IT outsourcing relationships by navigating trust levels and power distribution between parties.

The systems thinking perspective frames the relationship in a broader picture, in which all companies are part of the same ecosystem and influence each other through their beliefs and interactions.

While economics and strategy perspectives explain why companies enter IT outsourcing initiatives, social and systems thinking perspectives ensure that companies and their suppliers are correctly incentivized to cooperate in the long run.

When it comes to outsourcing IT products and services, Mary Lacity and Rudy Hirschheim, in their book *Information Systems Outsourcing: Myths, Metaphors and Realities*, introduce the following taxonomy that captures the range of possible options:[EN][15]

- **Body shop**: The company leases supplier resources to meet its needs for delivering IT products and/or services while retaining management responsibility for the work done.
- **Project management**: The company outsources specific IT projects, products, or services to suppliers, along with management responsibility for coordinating and completing the work. Typical examples include developing new systems, maintaining existing applications, providing infrastructure services, delivering education, and similar engagements.

- **Total outsourcing**: The company outsources a significant portion of its IT landscape to suppliers, including the management responsibility for achieving business goals. Typical examples include outsourcing the entire responsibility for maintaining servers and workstations, network infrastructure, and similar components. As Lacity and Hirschheim note, this type of outsourcing is sometimes referred to as "turning over the keys of the kingdom."[EN][16]

Case studies have revealed that IT outsourcing tends to be more complex than outsourcing in other domains due to the deep integration of IT with other business processes. This complexity makes total outsourcing difficult, especially when it comes to transferring control over business applications and integrations with other systems.

Such a model of outsourcing requires the company to transfer business domain knowledge to the supplier, who must then maintain it. For the majority of companies, this is unacceptable since business domain knowledge represents the core of their value-adding services. Giving up control over business domain knowledge would effectively mean relinquishing control over their business. Total outsourcing works well in specific cases that are isolated and don't require business domain knowledge, such as outsourcing workstation maintenance.

Therefore, when it comes to outsourcing IT products and services that require even a basic understanding of the business domain, companies usually turn to the other two strategies: body shop and project management.

Just as total outsourcing isn't the best solution for all scenarios, neither is the body shop approach. Lacity and Willcocks have found evidence that relying exclusively on an internal IT department augmented by external resources "promotes complacency and erects organizational obstacles against continuous improvement."[EN][17]

As with many other things in life, the solution lies somewhere in between, balancing in-house and external efforts. The practice of contracting out certain IT applications to external suppliers while keeping others internally managed is often called "smart sourcing" or "right sourcing."

Defining Service Relationship Types

As soon as we move across organizational boundaries and look for external help, we're entering the contracting realm. Every commercial relationship between two organizations is regulated by a contract. The problem with contracts is that they are usually drafted by people who are not familiar with how modern digital services are built. In an effort to protect themselves, client organizations look to shift the implementation risk to service organizations by insisting on fixed-price/fixed-scope contracts. That might work in cases where there are no uncertainties and the work in question has been done the same way multiple times. Innovative digital services, by definition, contain some level of uncertainty and are not commoditized. That alone makes them ill-suited for fixed-price/fixed-scope contracts.

Analyzing contracting habits, Lacity and Willcocks recognize two dimensions along which contracts can be categorized. These two dimensions can also be applied to client-service relationship types. The first relates to purchasing style, which can favor either a transactional or a relationship-based approach.

The transactional approach is more suited for one-off engagements, while the relationship-based approach is more appropriate for engagements that are part of a broader cooperation with the supplier and are expected to last over a significant period of time.

With the transactional approach, every engagement is considered in isolation. There is no surrounding context and no assumption that the supplier is familiar with the company's environment or business processes. Therefore, the company needs to provide sufficient business and technical requirement details to the supplier, usually in the form of a "scope of work" or similar reference document. The purpose of this document is twofold: The supplier uses it as a basis for budgeting, planning, and executing the project, while the company uses it as a reference for assessing the quality and completeness of deliverables.

In a relationship-based approach, the company and supplier build long-term cooperation through a series of consecutive engagements. Committing to a long-term partnership, both parties invest in building the surrounding context.

The company invests effort in explaining the broader picture and introducing the supplier to the intricacies of their business context and technical environment. The supplier, in turn, invests effort in learning about the company and building and maintaining that knowledge internally. This is what I call BizTech context.

While it takes initial effort from both sides to build a shared BizTech context, it is well worth it. Once established, this shared BizTech context underpins all future engagements and provides a *ubiquitous language* that removes noise in communication.

> **Ubiquitous language** is a term commonly used in Domain-Driven Design to describe a common language and vocabulary equally well understood by both business and technical people in an organization. Since "poor communication" is frequently listed among the top reasons why projects fail, it is crucial to establish a common language that is equally understood across teams and organizational boundaries.

Because of the established shared BizTech context, requirement documents for future engagements don't need to be elaborated to the tiniest detail. Much of that organizational knowledge is already present in the shared context, and every subsequent engagement only builds further upon it.

In long-term cooperation, it's not unusual that, after several years, the supplier becomes fully integrated into business processes and possesses deep knowledge about the technical architecture and infrastructure landscape, just like a regular internal team.

The second dimension Lacity and Willcocks recognize relates to purchasing focus. They found that companies choose to procure either resources or results.

When procuring resources, such as hardware, software, or experts with relevant know-how, the company retains management responsibility for coordinating the work to achieve the expected result. On the other hand, when a company procures results, it is up to the supplier to obtain the necessary resources and manage the work to deliver the expected results to the company.

There is a significant difference in the scope of responsibilities.

When procuring resources (corresponding to the body shop outsourcing model), leased experts (and, by proxy, the supplier) should be held accountable only for their individual work. The company is accountable for the team's final result.

When procuring results (corresponding to the project management outsourcing model), the supplier is accountable for all individual work, as well as work coordination and how it ties together in the final deliverable. The supplier operates in a project mode, assuming broader responsibility for the results.

In other words, the choice between procuring resources or results significantly impacts the distribution of responsibilities and accountability between the company and the supplier.

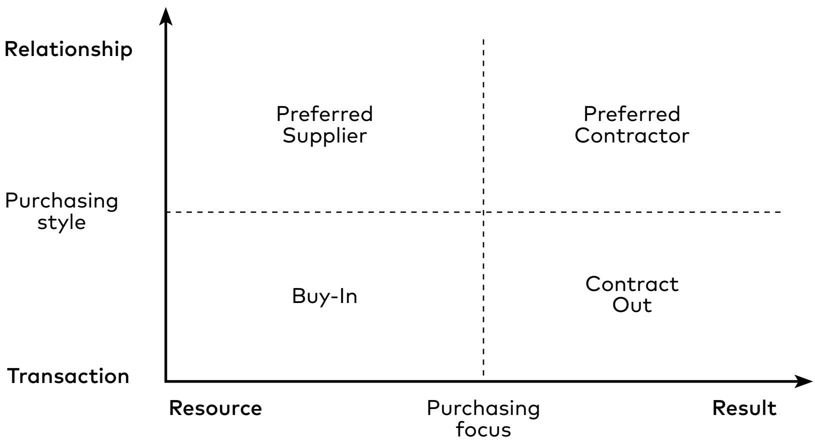

Figure 1. Two Purchasing Dimensions Form a Matrix

Different outsourcing options can be categorized based on the purchasing style and focus. The "buy-in" option represents clients procuring specific resources on a transactional basis to meet temporary needs. In contrast, the "preferred supplier" option also involves clients procuring specific resources for temporary needs but from a supplier with whom they already have an established relationship. This relationship is usually based on an agreement that the client will procure at least an agreed-upon volume, typically expressed in full-time equivalents (FTEs), in exchange for discounted rates.

The "contract out" option represents clients procuring isolated turn-key solutions while predicting that the cooperation with the supplier will be a one-off engagement. On the other hand, the "preferred contractor" option involves clients procuring a series of turn-key solutions and recognizing the value in having a single or small set of preferred suppliers. By investing their limited capacity in building a shared BizTech context with a smaller set of preferred partners, clients ensure they have the best implementation partners at hand.

The "preferred contractor" option can also include various incentive-based schemes to mediate risk. For example, the client and supplier might agree to jointly estimate implementation efforts. If the supplier delivers the work according to requirements and below budget, they could be entitled to half of the remaining budget. Similarly, if the supplier delivers the work over budget, the excess cost might be split between the supplier and the client. These arrangements aim to align interests and foster a more collaborative approach to project delivery.

The Three Profiles of Service Organizations

Service organizations participating as suppliers in the IT outsourcing process have tailored their skills and ways of working to meet specific client needs. Over time, three distinct profiles of service organizations have emerged: staff augmentation agencies, IT development agencies, and BizTech consultancies.

Staff augmentation agencies provide basic value to their clients through the body shop model. Operating in an expert-rental mode, they have virtually no ownership over outcomes. Their responsibility ends with providing the right expert, while everything else concerning solution design, work coordination, quality control, and long-term vision resides on the client's side. It is entirely up to the client to utilize the provided resources in the best possible way.

The primary currency of these agencies is "person-day," and their success is measured by utilization. Furthermore, they have no intention of immersing themselves more deeply in the business domain and expect the client to provide the necessary support in translating business needs into requirements for technical solutions. Staff augmentation agencies fit well in "buy-in" and "preferred supplier" scenarios.

IT development agencies deliver software solutions in a highly transactional mode based strictly on detailed user requirements. Their primary currency is the project, and their success is measured by delivering the project on time, within budget, and according to a detailed scope of work. These agencies have a higher level of ownership compared to staff augmentation agencies, as they are accountable for completing the project and delivering the solution. Work coordination and quality control fall under their responsibility.

However, IT development agencies are usually only informed of the already chosen solution design and rarely participate in conversations about the long-term vision of the whole system. They limit their understanding of the client's business domain to the level necessary to finish the project successfully. Anything beyond that point is considered waste from the project perspective.

Each project is treated as an independent endeavor, even within the same client organization. IT development agencies typically fit well in "contract out" scenarios.

BizTech consultancies are service organizations that deliberately hone their capabilities to support their clients at every step of their transformation journey. Their primary currency is a long-term partner relationship. The outcome they strive for is not to be a one-off implementation supplier but to consistently and repeatedly deliver successful initiatives for each client. These consultancies take full ownership of desired outcomes. To achieve them, they immerse themselves in the business domain to truly understand the client's goals and design appropriate solutions.

BizTech consultancies are capable of and willing to delve deep into the client's business domain, using that knowledge to support the client through a series of initiatives to continuously transform their digital business and meet ever-changing customer needs. They prefer long-term relationships over single-project initiatives. For BizTech consultancies, projects are not isolated endeavors but stepping stones aligned toward achieving the client's business goals.

These organizations excel in "preferred contractor" scenarios, where their comprehensive understanding of the client's business and technology landscape provides compounded value.

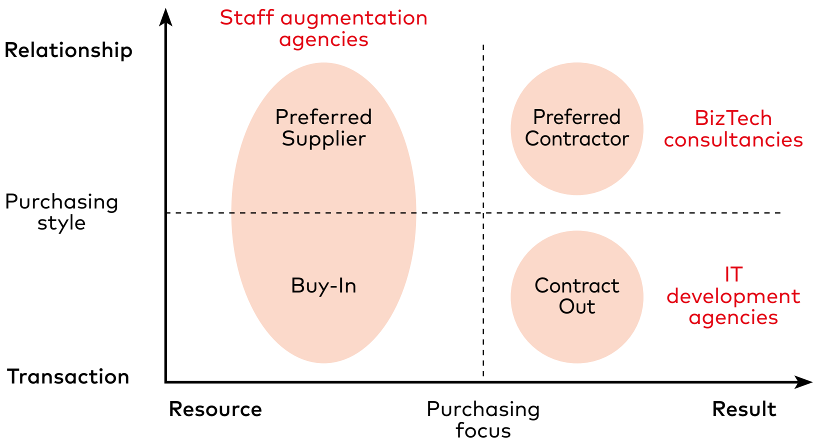

Figure 2. Mapping Organizational Profiles to Purchasing Habits

Risk Mitigation

An important aspect of the economics perspective in IT outsourcing is risk mitigation. Generally speaking, risk represents the inability to deliver the promised outcome. This can manifest in various forms, such as delayed delivery of new services, delivery of services that don't meet business needs, services not built according to requirement specifications, or poor maintenance of existing applications or infrastructure services.

The underlying reasons for these risks can vary, including insufficient capacity, lack of product management skills, inadequate technical expertise, and poor organizational skills.

Sometimes organizations opt for outsourcing to avoid liability. While this is a valid choice, it is often a defensive and short-sighted approach. Organizations that choose this path have essentially given up, using their energy for blame games instead of focusing on the ultimate goal and providing the best possible conditions for project success.

Different profiles of service organizations meet different client needs, and, consequently, mitigate risk in various ways. Understanding these differences is crucial for organizations to make informed decisions about their outsourcing strategies and to effectively manage the associated risks.

Staff augmentation agencies operate in the "buy in" and "preferred supplier" domains and assume minimal risk on projects. After providing an appropriate expert, who is usually interviewed and approved by the client, these agencies primarily focus on administrative functions such as HR and invoicing. They are not responsible for work coordination, quality control, project management, or final delivery.

Consequently, staff augmentation agencies offer limited risk mitigation to clients. The primary risk that clients mitigate by engaging with these agencies is insufficient capacity. Other critical aspects of project success, such as work quality, coordination, and overall delivery, remain the client's responsibility.

IT development agencies operate in the "contract out" domain and assume risk for an isolated scope of work. By engaging with them, clients mitigate the risk of failing to deliver the specified scope by transferring control and accountability for delivery to the agency. In turn, IT development agencies estimate the work, assess the risk, and quantify it through their financial offer, typically in the form of a fixed-price contract.

While this model of risk mitigation is theoretically sound, in practice it is often fraught with challenges. The concept relies on two key premises: First, that it's possible to describe the scope of work in sufficient detail, and second, that the scope will not change during implementation. However, experience in the IT domain proves that both premises are rarely achievable.

Due to the deep integration of IT with other business processes in an organization, new details and requirements frequently emerge during implementation. An insufficiently detailed scope of work that frequently changes leads to implementation modifications in the form of "change requests." These inevitably become the subject of negotiations between the client and the agency.

Very often, suppliers submit financial offers that fall below their break-even point, consciously accepting losses on fixed-price contracts. They do this with the hope that these initial losses will be compensated for and ultimately turned into profits through change requests that arise during the project implementation or potential maintenance engagements in the future.

Thomas Kern, Leslie Willcocks, and Eric van Heck refer to this phenomenon in their paper as the "winner's curse."[EN][18] Since suppliers are already aware that they will incur losses, they are motivated to compensate for these losses as quickly as possible. The most common method for compensating these losses is insisting on additional budget for change requests, claiming that new details emerged after the initial scope of work was defined, thus affecting the original work estimate. This is why a sufficiently detailed and fixed scope of work is necessary during the procurement phase, though in most cases, achieving this level of detail is nearly impossible.

Although clients enter "contract out" engagements believing they will insulate themselves from liability, the reality is that negotiations and blame games often severely impact project duration and results. Regardless of the negotiation outcome, the client invariably loses by failing to provide services to their customers in a timely manner.

How the "Contract Out" Approach Backfired for the State of Oregon

Consider the case of the State of Oregon, which used a "contract out" approach to mitigate the risk of implementing its health insurance exchange online portal.

The Patient Protection and Affordable Care Act (also known as Obamacare), implemented in 2010, allowed individuals to purchase health insurance through state-run marketplaces. Each state had the option to establish its own health insurance exchange or to use a common platform provided by the federal government.

The State of Oregon chose to create its own online health insurance exchange and selected Oracle as its service provider.

> However, the project was plagued by organizational and technical issues, and the service provider failed to deliver the solution by the mandated deadline of October 1, 2013. As a result, Oregonians were forced to fall back on paper applications. After another six months passed without a functioning online portal, the State of Oregon decided to terminate the project and transition to the federal platform.
>
> In the aftermath of the failed project, the State of Oregon sued Oracle, accusing the company of spending $240 million without delivering a working solution. Oracle countered with a lawsuit alleging that Oregon had used its software without proper payment. A settlement was finally reached in September 2016, but the State of Oregon was able to recover only a portion of the $240 million spent.
>
> Although a contract was in place to mitigate implementation risks for the State of Oregon, significant damage had been done. The allocated budget was spent on a non-functional solution, additional funds were required to support the paper-based process, and Oregonians were left without access to the promised service. This was hardly the outcome the State of Oregon expected from the contract out approach. [EN][19]

To properly mitigate risk, clients should look beyond mere liability and consider proactively providing the best possible conditions for project success. As in sports, the best defense is often a good offense.

While it's extremely difficult to produce a sufficiently detailed scope of work that won't change during implementation, a good way to compensate for this reality is to engage with a supplier that has deep insights into the client's business and technology. Such a supplier can make effective use of a less-detailed scope of work, using their knowledge to fill in the gaps. Business insights enable the supplier to anticipate the client's needs, while technology insights help them choose the most appropriate technical architecture.

Operating in the "preferred contractor" domain, BizTech consultancies deliver project work while building long-lasting relationships with their clients. The long-lasting relationships ensure that clients and suppliers maintain open communication channels, align their motivations, and focus on shared goals.

A key side effect of prioritizing the relationship is the development of a growing, shared BizTech context. This shared understanding of the client's business and technology enables BizTech consultancies to "think like the client" and meet business needs effectively, even when working with less detailed requirements. The shared BizTech context mitigates typical implementation risks stemming from incomplete specifications, changing requirements, poor communication, and technological incompetence. Therefore, the most effective risk mitigation strategy involves engaging with a supplier that not only possesses a deep understanding of the client's business and technological landscape but is also willing to invest in continually expanding this shared BizTech context.

BizTech consultancies are neither co-owners of the client's business nor investors. They never presume to know the client's business better than the client does. The client always retains full control and makes all final decisions, but the client also bears the responsibility for implementation risks. However, these risks are significantly reduced when working with a service provider that deeply understands the business and how it aligns with the technical landscape.

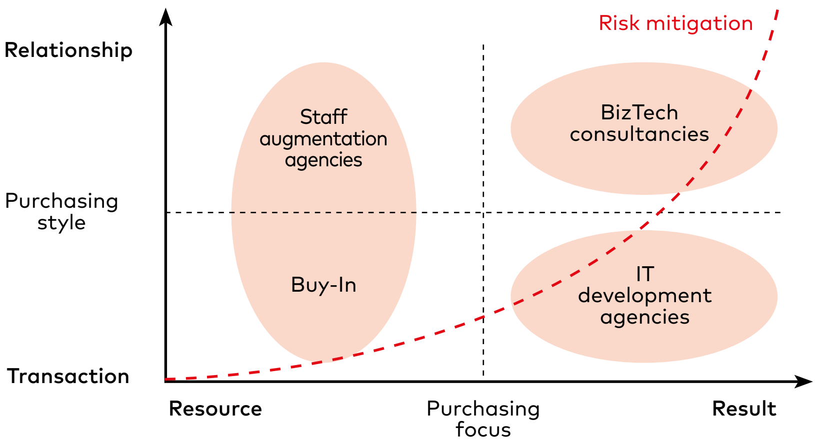

Figure 3. Effectiveness of Service Organizations in Mitigating Risk

Managing Risk Through Partner Relationships

The successful construction of Heathrow's Terminal 5 exemplifies how effective partner relationships can manage project risks. BAA, the primary investor, directly contracted with sixty first-tier suppliers who served as their preferred contractors.

From the outset, the project was acknowledged as both massive and high-risk. Drawing on historical data, the T5 commercial director warned that executing it as a standard UK construction project could result in a three-year delay and an 80% budget overrun. Since such an outcome was unacceptable for a project of this magnitude, the situation demanded a radically different approach.

Traditional contracting models for similar projects rely on selecting the lowest bidders and crafting exhaustive contracts that detail every potential problem, along with corresponding penalties for suppliers and reimbursement clauses.

These projects are typically riddled with grueling negotiations, as suppliers are constrained by their low bids and treat every ambiguity or change as an opportunity to increase budgets through change requests. Since no contract or scope of work can anticipate every edge case, conflicts inevitably arise, leading to costly litigation and project delays. Ultimately, this traditional approach incentivizes suppliers to focus on negotiations to save their profitability rather than maximizing value for the client.

Aware of these pitfalls, BAA chose a different approach, one that promoted long-term partnerships with suppliers and created an environment fostering collaboration and proactive risk management. Rather than relying on exhaustive lists of clauses specifying how suppliers would be blamed and penalized for failures, the new approach defined incentives for successful delivery. By assuming implementation risk and establishing an incentive scheme, BAA eliminated major sources of conflict between themselves and their suppliers. In effect, BAA eliminated suppliers' fear of financial loss and created an environment where all parties could focus on cooperation and value creation. The approach became known as the T5 agreement.

Commercially, the T5 contract incorporated elements of a cost-reimbursable model with incentives for exceptional performance. As the client, BAA ensured that supplier costs were reimbursed, along with a profit margin defined as "fair reward for achieving best practice level of performance in the project."[EN][20] BAA also retained the right to audit supplier expenses and ensure no misconduct occurred.

Suppliers engaged in this way were involved in the project from the very beginning, participating in early planning and design activities. This early involvement resulted in more robust deliverables as suppliers were able to leverage experience from their previous projects. Additionally, BAA got their buy-in from the beginning, which made following implementation activities much easier.

A small-scale survey conducted among employees of major BAA supplier Laing O'Rourke revealed that 95% of respondents believed partnering culture was an effective way to manage teams. Despite this overwhelmingly positive response, respondents acknowledged some drawbacks to integrated working. Specifically, 53% of respondents reported experiencing conflicts within integrated teams at T5. However, the positive aspects of this approach far outweighed the negative ones.[EN][21]

The innovative approach to managing the T5 construction project stems from the realization that, regardless of the contractual agreement, the client always bears the risk. While some types of contracts may provide more assurance on paper, in practice, when something goes wrong, the client is invariably affected. The only effective way to mitigate this risk is to proactively eliminate it.

To address this, BAA introduced several innovative practices, including treating risk management as a first-class priority, ensuring project sponsorship and leadership at the board level, implementing an "intelligent" approval process that facilitated rapid progress by combining facts with experience, adopting an integrated team approach, and aligning the project organization with value streams—viewing the terminal as the product rather than compartmentalizing work among suppliers.

While none of these practices were easy to implement, they were all essential to achieving a successful outcome.[EN][22]

—

Another example comes from the digital space. The US government digital services agency 18F helps other government agencies build, buy, and share technology products. It was established in 2014 as part of an effort to modernize the way the US government develops software.

Recognizing that only 13% of large government software projects are successful, 18F's mission is to introduce modern development practices into government-funded projects, which are often executed using outdated methods. Traditional approaches to collaboration, budgeting, procurement, and governance in government projects fail to provide the right incentives for service providers to deliver maximum value.

Historically, the government relied on fixed-price contracts to manage the risks of building large products without a detailed scope of work. In response, service providers created padded estimates and implemented meticulous change management processes. These risk management practices often came at the expense of delivering optimal project value.

Since its inception, 18F has focused on teaching federal agencies how to reduce project risks and increase value by transforming the way they collaborate with their service providers. This has involved shifting their mindsets and practices, including:

- From vague scopes of work developed up front for entire projects to breaking projects into smaller, manageable batches.
- From non–performance-based service contracting (telling service providers how to do the job in an overly prescriptive manner) to performance-based contracting (focusing on expected outcomes).
- From fixed-price contracts to time-and-materials (T&M) contracts with a not-to-exceed ceiling.

These changes have created a new environment in which federal agencies and service providers work together with aligned incentives to build appropriate solutions and maximize value within the allocated budget. Agencies have learned to manage implementation risks proactively by collaborating with service providers rather than relying on fixed-price contracts to reactively shift those risks.

As a result, numerous successful projects have been delivered, with detailed case studies available on 18F's official website. [EN][23]

Service Organization Personalities

The three service organization profiles (staff augmentation, IT development, and BizTech) are, in nature, similar to personality assessment models applied to individuals. One popular model is DISC, which describes four main personality profiles: Dominance, Influence, Steadiness, and Conscientiousness. According to DISC, no profile is "better" than another, and no individual strictly fits one profile but rather blends different profiles. However, an individual can have one profile with which they feel most comfortable.

Similar to DISC, no organizational profile is inherently "better" than the others, as they each meet different client needs. Moreover, no organization is strictly limited to only one profile, but each tends to have one that feels most natural.

There is, however, a difference in the perceived value that different organizational profiles bring. Staff augmentation agencies operating in the "buy in" domain have the least skin in the game, which makes them the easiest to replace in the market. Those operating in the "preferred supplier" domain have invested effort in building relationships, so their perceived value is higher.

IT development agencies provide turn-key solutions and effectively assume implementation risk by accepting accountability for delivering complete solutions. Their capability to take over work coordination and implementation risk often makes them more valuable than pure resource suppliers.

Finally, BizTech consultancies have the most skin in the game. They invest significant effort in building and maintaining a shared BizTech context with the client. Additionally, their contracts usually include incentive-based schemes that drive continuous improvement efforts. This makes them the most valuable to clients.

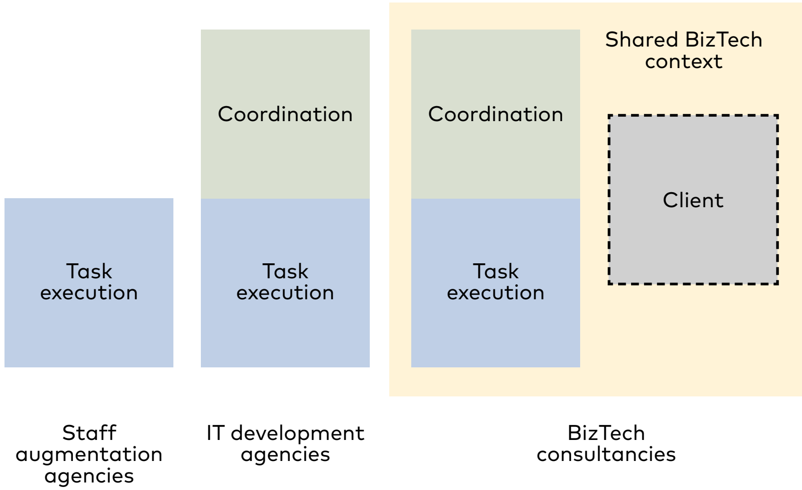

Figure 4. The Three Service Organization Profiles

Building Long-Term Partner Relationships

It takes a different mindset, a wide range of skills, and substantial dedication to build long-term partner relationships with clients and continuously support them through every business and technical aspect of their journey, all while attempting to forecast the future and adjust their own capabilities to better assist clients with upcoming challenges. If this sounds complex, that's because it is.

Existing resources on outsourcing practices recognize the value of the partner approach, but they focus largely on administrating the existing relationship. In doing so, they neglect to address how that partner relationship is built and maintained over time. *The Outsourcing Handbook* by Mark J. Power, Kevin C. Desouza, and Carlo Bonifazi went the furthest in articulating both the value and challenges of establishing partner relationships by stating:

> *In knowledge-intensive sourcing, there is a dyadic flow of knowledge. Both parties, the client and the vendor, are experts in their domains. The client passes on business knowledge to the vendor, who must then apply its own expertise in the context of the client's*

business knowledge to deliver the products and/or services. It is this two-way flow of knowledge and information between the client and the vendor that makes knowledge-intensive sourcing more interesting and consequently more challenging to manage…

Clients are no longer looking only for cost economies, but also for a business partner who can contribute to the strategic efforts of the company by providing it with expertise and competencies that are not found in-house.[EN][24]

The last statement is aligned with insights from the field. KPMG is one of the four largest multinational professional services networks in the world. Operating in 145 countries, it has a good overview of market trends. Based on its first-hand experience working with clients and other service providers around the globe, it annually shares insights on sourcing trends. The *KPMG Sourcing Trend Radar 2024*, identified "relational outsourcing" as a trend that will particularly stand out in the next two years.

The report recognizes that:

clients are moving from transaction-based/cost-driven arrangements toward more relation-based/value-driven arrangements. Organizations are "differentiating" their contractual arrangements on the basis of the nature of the services being outsourced, moving from Statements of Work (SOWs) to Statements of Outcome (SOOs). Such relation-based outsourcing arrangements stipulate the need for transparency and data to understand (shared) business objectives, risk, dependencies and complementary capabilities, and to be able to monitor and report on the business value being offered.[EN][25]

Central to this insight is the need for service providers to understand the clients' business objectives and be able to monitor and report on the provided business value. Therefore, service providers need to step out of the technical domain, often their comfort zone, and move into the clients' business domains. Clients expect the service organization to understand their business and use that knowledge in all subsequent interactions.

Purely transactional arrangements have value in the modern economy, but their applicability is largely limited to highly commoditized goods and services that are so standardized that various service providers can be used interchangeably, like hyperscalers.

However, when it comes to non-commoditized services that require interaction and alignment on outcomes, clients would rather stick with service providers that understand their business domain and are, therefore, capable of successfully delivering solutions with minimal risk.

The BizTech approach shows a better way clients and service providers can collaborate to generate more value for both sides and the community. Using the BizTech approach to build external relationships with clients and organize internal operations, service providers can ensure sustained growth and become more antifragile in the modern digital economy. In a world where every organization (and every department within a larger enterprise!) is simultaneously a service provider and a service consumer, this capability is paramount.

Before we dive into how BizTech consultancies can close the gap with their clients, let's examine them in more detail.

Table 1. Differences Between Service Organizations

	Staff augmentation agency	IT development agency	BizTech consultancy
Unit of work	Person-day	Project	Relationship
Ownership over outcomes	Low	Medium	High
Business domain proficiency	Low	Medium	High
Risk mitigation	Low	Medium	High

While staff augmentation agencies and IT development agencies address short-term needs and provide limited risk mitigation, BizTech consultancies focus on long-term partnerships. By prioritizing relationships and developing a shared BizTech context, these consultancies mitigate typical implementation risks, including incomplete specifications, changing requirements, poor communication, and technological incompetence.

In the next section, we'll dive deeper into what makes a BizTech consultancy and why it is the optimal path forward for most service organizations.

What Are BizTech Consultancies?

Now that we've looked at the different approaches to service organizations, let's more deeply define the unique qualities of a BizTech consultancy:

- BizTech consultancies master the technical aspects of software delivery but also understand the business aspects of why the software is being built and how it contributes to achieving the client's organizational goals.
- BizTech consultancies work at the intersection of business and technology, which uniquely positions them to help their clients refine their business strategies and make informed technical decisions.
- BizTech consultancies are product- and outcome-driven. While they don't build their own products, they do build products for their clients, and during the time of the engagement, it is their product as much as the client's and they care about the ultimate outcome.
- Since their clients are typically in different phases of their own transformation journey, BizTech consultancies deliberately hone their capabilities to support them every step of the way, from strategy and service design to engineering and operating services in production.

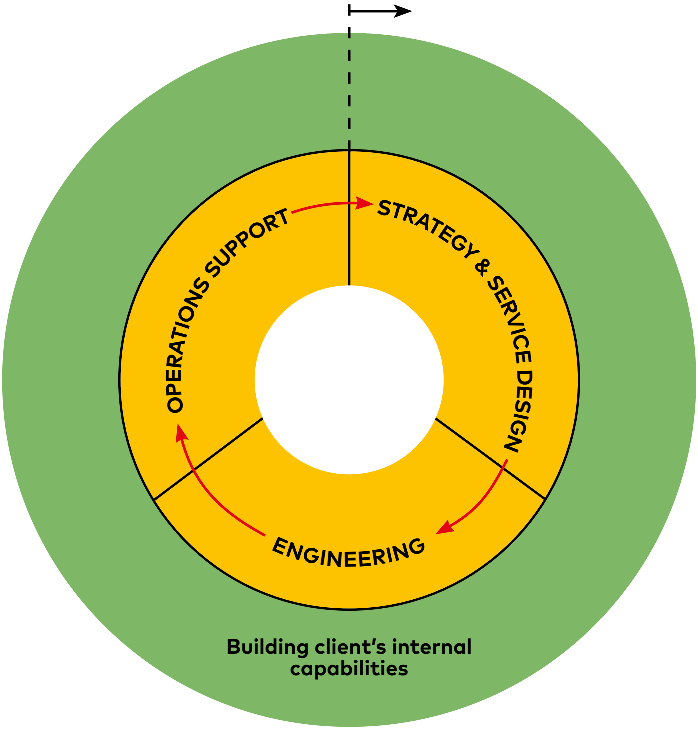

Figure 5. BizTech Consultancies Help Clients During the Entire Product or Service Lifecycle

Strategy and Service Design in BizTech Consultancies

Organizations are increasingly aware that they must change and reinvent themselves to stay relevant in the market. Although aware, sometimes organizations simply don't know what reinventing themselves really means. They might understand a general direction in which they should move, but they don't know which specific steps to take. This is rarely a sign of their incompetence. Instead, it's a manifestation of the VUCA (volatility, uncertainty, complexity, and ambiguity) environment in which modern business is often run.

Such organizations need help articulating their business goals and embracing the process of discovering the steps to take. Sometimes, they only need help on a strategic level. More often, they need help on a tactical level with facilitating conversations, discovering options, testing hypotheses, building solutions, etc. Few organizations are proficient in taming the uncertainty that modern business brings. It takes a lot of confidence to start an initiative or run the company, knowing only the first step but trusting the process and that the following steps will emerge. That confidence stems from experience, which many organizations don't have.

In this space, BizTech consultancies put on their coaching hats and lead by example, articulating business goals, using product management techniques to prioritize features, and implementing them efficiently. But you can't really implement something efficiently if you don't understand why it's being built. You need to understand the business behind the implementation. Which is why a BizTech consultancy is best suited to take on this type of service engagement.

Engineering in BizTech Consultancies

Nobody can predict the future, but organizations can prepare for it by building modular, interchangeable, data-driven services that are simple to use, fast to ship, easy to change, and ready to combine to form an appealing customer experience.

BizTech consultancies bring engineering skills and experience from all of their previous engagements—what worked well, what didn't, and which mistakes client organizations shouldn't repeat.

Operations Support in BizTech Consultancies

In organizations, innovation occurs when teams are unburdened by daily operational and firefighting activities. BizTech consultancies understand the challenges client organizations face in running their services. They support client organizations by helping them keep their services at the desired level and removing the toil so client organizations can scale by better investing their finite capacity in value-generating activities instead of just "keeping the lights on."

Not all client organizations need support at every step of this journey, but, should they need it, BizTech organizations can help. Their relationship is like a flywheel—every cycle converts one idea into tangible value, makes the next one easier and faster, and builds additional trust between the organizations.

BizTech consultancies never approach a relationship with a one-off, transactional mindset. They are focused on growing long-lasting partnerships with client organizations by engaging on two levels.

On the main level, a BizTech consultancy delivers the specific technical solution.

On the meta level, a BizTech consultancy uses this opportunity to help the client build internal capabilities.

A BizTech consultancy will sometimes just help deliver a solution. But other times, it will bounce between the roles of teacher, mentor, and coach, depending on the client organization's skill level in areas such as software architecture, distributed systems, cloud environments, automation, testing, team collaboration, product management, etc. Therefore, modern BizTech consultancies are not experts in just one niche field. They cover the whole product delivery life cycle, starting with the skills necessary to understand customer needs, design an MVP (minimum viable product), suggest the appropriate software architecture, build automation and security, test the solution, and iterate over this process in an agile manner.

The reason is simple—the client organization can get stuck in any of these areas and the consultancy should provide support in all of them. Providing support in only one of these areas demonstrates a lack of understanding the whole end-to-end process and proves an inability to apply a systems thinking approach. Such a consultancy cannot truly understand the problems of the client organization and consequentially cannot provide help other than suggesting a local optimization in one area. And, as we all know, a holistic approach eats local optimization for breakfast.

Why the BizTech Approach Works

While this approach might look like the BizTech consultancy is shooting itself in the foot by sharing its knowledge, my experience at CROZ shows otherwise. At CROZ, we've never lost a client by acting like in this manner; in fact, it has only strengthened our mutual trust and opened new collaboration opportunities. In a world where business and technology progress hand in hand at unimaginable speed, this is the only collaboration that works in the long run.

The effectiveness of this sharing approach is deeply rooted in human cultural norms. As Robert B. Cialdini explains in his book *Influence: Science and Practice*, society instills the rule of reciprocation from childhood.[EN][26] Simply put, if someone does you a favor, you are expected to repay it or face social disapproval. This rule emerged long ago to foster reciprocal relationships among people, as cultures that embraced reciprocity tended to thrive and prosper more quickly. The same principle applies to organizations today: Sharing knowledge and creating opportunities for collaboration allows all organizations to flourish.

However, while the rule of reciprocation drives society forward, some organizations attempt to exploit it for asymmetrical gain. Viewing the world as a zero-sum game, they believe that for them to win, others must lose. Such organizations pose a significant threat to modern communities, as we will explore in Chapter 4: Community Over the Zero-Sum Approach.

BizTech consultancies must carefully balance three aspects of their organizational life.

First, they need to upgrade their cooperation with clients. Client organizations have a very specific need today. They need to progress in a world that is getting increasingly more complex. While continuously caring for their customers, they simultaneously need to embrace new business models, introduce and modernize technical solutions, comply with new regulations, and support ongoing digital transformation.

Imagine tackling all these tasks, each one with a completely new partner whom you need to get to know and onboard to your systems and business. New partners often lack the broader picture, building their pieces of the system in isolation. It falls to the client to connect the pieces into a puzzle. However, it's much easier to build the puzzle with partners who understand the whole picture.

It's no wonder client organizations, especially large enterprises, reach out to a limited number of chosen partners with whom they build long-term relationships. These partners support clients at every step of their journey, allowing them to focus on their core business and customers. Such partners become the client's preferred contractors.

Second, BizTech consultancies need to upgrade their internal ways of working. Client organizations rely on them for support in achieving business goals. To provide the best possible support to their clients, BizTech consultancies must focus their efforts and execute flawlessly. In other words, they need to eliminate inefficiencies by fine-tuning their delivery process, leveraging technology, and building an adaptive organization.

Last, BizTech consultancies should never forget that they are part of a larger ecosystem consisting of their peers and other client organizations. They need to learn how to coexist and thrive in this community rather than trying to succeed in isolation. Just as people cannot live detached from society (at least, not most of them), companies cannot operate in isolation from other businesses. This is especially true for BizTech consultancies, which are, by their very nature, service providers. Their entire business model is based on cooperation with others, making it virtually impossible for them to function detached from the community.

Four Guiding Principles of BizTech Consultancies

Over the course of my decades working in service organizations and interviewing top thought leaders, four guiding principles have consistently emerged that distinguish sustainable BizTech consultancies from other service organizations:

- **Missionaries** over mercenaries.
- **Strategic work** over just “more” work.
- **Flow** over headcount.
- **Community** over zero-sum approach.

Missionaries Over Mercenaries: Consultancies are here to help client organizations achieve their business goals through consulting or by outsourcing parts of the work. Either way, consultancies should be in the game, deeply engaged, understanding client organizations’ real needs and pains, and actively looking for ways to help them. Only through such behavior will client organizations feel trust, drop their guard, let the consultancy come closer, and plan together, which is an essential factor in improving the flow of value in consultancies. It’s what author Marty Cagan best describes as moving from “mercenaries” to “missionaries.”

Strategic Work Over Just “More” Work: A consultancy can certainly grow by taking on more work. But it’s much better to take on strategic work. Sometimes you don’t need to take on more work. You just need to eliminate non-strategic work and replace it with strategic work. It’s like going to the gym to get stronger: You don’t need to gain extra weight. You need to replace fat with muscle, even if that means your total weight stays the same.

Flow Over Headcount: Increasing headcount could be a way for a consultancy to complete more work, although it should be cautious with such an approach. In his book *The Mythical Man-Month*, Frederick P. Brooks showed that adding workforce to a software project that is behind schedule delays it even longer.[EN][27] Similarly, increasing headcount in an organization doesn’t guarantee more work will be completed. Even if increasing headcount led to the completion of more work, it would still be far better for an organization to complete more work by improving flow instead of increasing the headcount. Better flow increases the effectiveness of an existing system compared to increasing headcount, which directly increases cost.

Community Over Zero-Sum Approach: There is much more competition among consultancies than product organizations because product organizations use tangible things, like product features, to differentiate themselves. In contrast, consultancies use intangible things like skills, knowledge, and experience. And these are much easier to fake than concrete product features that you either have or don't have. Consequently, all consultancies are allegedly fantastic and say they can pull off any project perfectly. This difficulty to differentiate themselves drives consultancies to hide every advantage, close themselves off, and not share their experience. The moment we start treating our industry as a zero-sum game is the moment we all lose—not only consultancies but our client organizations too.

Putting It All Together

The "missionaries over mercenaries" principle guides BizTech consultancies to relentlessly deliver value to their clients. Meanwhile, "strategic work over just more work" reminds them to follow their own strategy to become the organization they aspire to be. These two principles balance each other: while "missionaries over mercenaries" instructs BizTech consultancies to put their clients front and center, "strategic work over just more work" ensures they don't neglect their own goals and growth along the way.

Once the balance between the client and the BizTech consultancy is achieved, "flow over headcount" directs BizTech consultancies to focus on operating most effectively while continuing to provide value to their clients.

Finally, "community over zero-sum approach" emphasizes that BizTech consultancies operate within a broader interconnected ecosystem that can support them if they invest in it.

Every BizTech consultancy navigates its own way while growing with their clients. On this journey, the principles "missionaries over mercenaries" and "strategic work over just more work" steer the direction of the BizTech consultancy by balancing external market needs with internal strategic vision. "Flow over headcount" acts as the throttle for their delivery process. Finally, "community over zero-sum approach" makes BizTech consultancies aware of their environment, including their clients and peers.

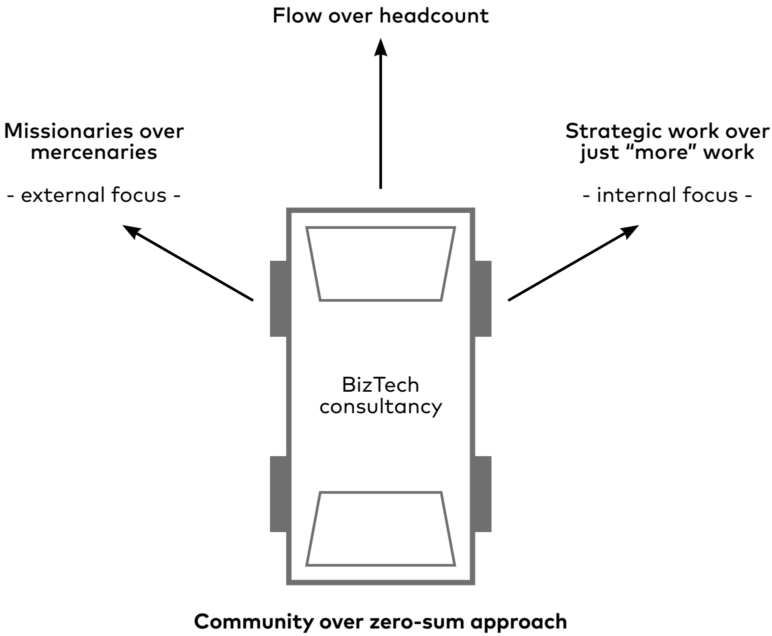

Figure 6. Four Guiding Principles of BizTech Consultancies

These four guiding principles serve as guardrails to keep BizTech consultancies balanced. They remind us that it's possible to:

1. Create value for clients **and** be profitable.
2. Meet client needs **and** strategically manage our service portfolio.
3. Embrace new ideas **and** be efficient in executing them.
4. Grow as an organization **and** support the broader community.

While guiding principles direct our thinking, actions implement them. Chapters 1 through 4 of this book will dive deeper into each principle and provide actionable implementation advice.

Key Takeaways

Client and service organizations operate within the same ecosystem. To meet diverse client needs, three distinct profiles of service organizations have emerged: staff augmentation agencies, IT development agencies, and BizTech consultancies. Staff augmentation and IT development agencies are sufficient for addressing short-term needs and provide limited risk mitigation. But BizTech consultancies focus on long-term partnerships and developing a shared context. As such, these consultancies mitigate typical implementation risks.

BizTech consultancies need systemic guidance on how to help their clients. As Richard Rumelt explains in *Good Strategy Bad Strategy: The Difference and Why It Matters*, good strategy consists of three elements: defining the challenge, establishing guiding policies as an overall approach, and recommending coherent actions for implementation.[EN][28]

In this chapter, we have explored why adopting a BizTech approach is a sound strategy and defined the challenge as enabling service organizations to deliver additional value to their clients. Additionally, we have introduced four guiding principles for transforming into a BizTech consultancy.

In subsequent chapters, we will examine each principle in detail and propose specific actions for their practical implementation. Following Rumelt's framework, we will progress systematically from challenge through guiding policies to concrete actions.