
Service Orientation in Business

Harnessing change from the board room to the data centre

Jon Collins, July 2008

KEY FINDINGS

While change is a certainty in business, some still struggle to harness it effectively

A recent study gathering feedback from 198 senior business and IT professionals in Europe confirmed that change is a fact of modern business life. Obvious, perhaps, but the research also revealed that despite the certainty of ongoing change, organisations vary immensely in their attitude to it and how well they are geared up to exploit or manage it. At one end of the spectrum we see those using continuous improvement and more disruptive change to actually drive business advantage. In organisations of this kind, change is a tool or even a weapon. At the other extreme we have resisters of change who too often put off the inevitable until upheaval is forced upon them.

Harnessing change goes hand in hand with a service oriented approach to business

Consolidation and rationalisation of functional and departmental structures have often been justified in terms of cost savings and efficiency. When going down this route, however, if attention is paid to the proper decoupling of functions and the precise definition of how they interact, the natural result is a more flexible and responsive service oriented approach to business. The principle of service orientation is thus well accepted in business management circles, particularly in organisations with a positive attitude to change. Indeed three quarters of organisations who use change for competitive advantage document parts of their business in a service oriented manner.

A focus on services also enhances IT's ability to engage and align with the business

When we look at how service orientation is applied within the IT department, we see the same correlations in terms of flexibility and responsiveness, as we do on the business side of the house. It is perhaps unsurprising then, to discover that a co-ordinated approach between business and IT which considers technology in terms of value rather than cost, also goes hand in hand with business characteristics such as a positive change culture and management style.

A service oriented approach to architecting systems also enhances responsiveness

When we look at the technology dimension a little more closely, it is clear that the concept of service orientation that enables organisational flexibility at a business level is also starting to be applied to the design and construction of IT systems. In this context, the term 'Service Oriented Architecture' (SOA) is used to describe the same principles of compartmentalisation, decoupling of functional units, and clear definition of interfaces between operational elements that are already very familiar to many business people. And the impact is very similar too according to the research, in that IT departments adopting the SOA approach appear to be more flexible, responsive and better able to maintain alignment with business priorities and practices.

Lessons can be learned from those leading the way

Within this report, we further explore the above findings, then go on to look at how lessons can be learned from the behaviour of those at the forefront of the move to a more harmonious Service Oriented approach with respect to managing both the business and IT for competitive advantage.



The research upon which this report is based was designed on an independent basis by Freeform Dynamics and interpreted in collaboration with Macehiter Ward-Dutton. Feedback was gathered from 198 IT and business professionals during the study, which was sponsored by IBM and completed in November 2007.



Introduction

Discussions in IT circles often have a tendency to assume certain things are new, when in fact they are nothing of the sort. There are a number of reasons for this – not least that so much of IT *is* new, it can sometimes be difficult to distinguish invention from rediscovery.

And so, to the concept of 'service'. It is quite probable that the principles behind service delivery have existed ever since the first primitive members of humankind exchanged hand axes for animal skins. And yet, in the present day we are looking to see whether the service concept is applicable. Again, this is for good reason – notably that instead of humans exchanging items of value, we have spent the last few decades learning for the first time how computers should do the same for information.

While services may not be new in principle, this doesn't mean that every organisation is structured correctly to provide them, either internally or externally. The purpose of this report is to look into how organisations are structured around services, and to illustrate a number of correlations – notably, that such service-oriented organisations are indeed better off than organisations that do not follow the service paradigm.

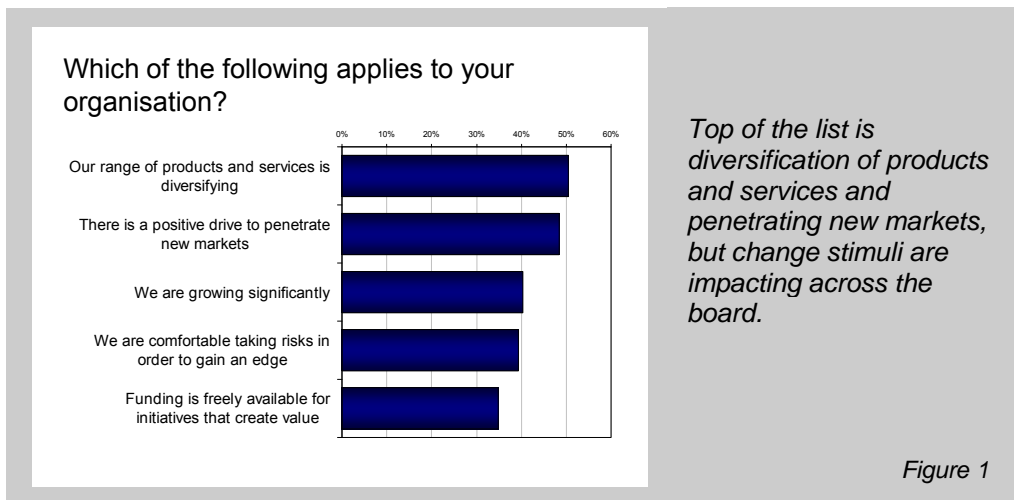
Furthermore, we can see how service orientation can benefit IT. But this report does not stop there – as we shall see, it is the organisations that have a proactive approach to services both in business and IT that are gaining the most benefit. It is by looking at these organisations that we can learn not only where the benefits are realised, but also where to start on the services journey.

This research study involved asking questions of 198 decision makers in countries across Europe. These included roughly equal proportions of senior business managers, IT managers, and architects/programme managers in smaller and larger enterprise organisations. For further information on the research sample please refer to Appendix A.

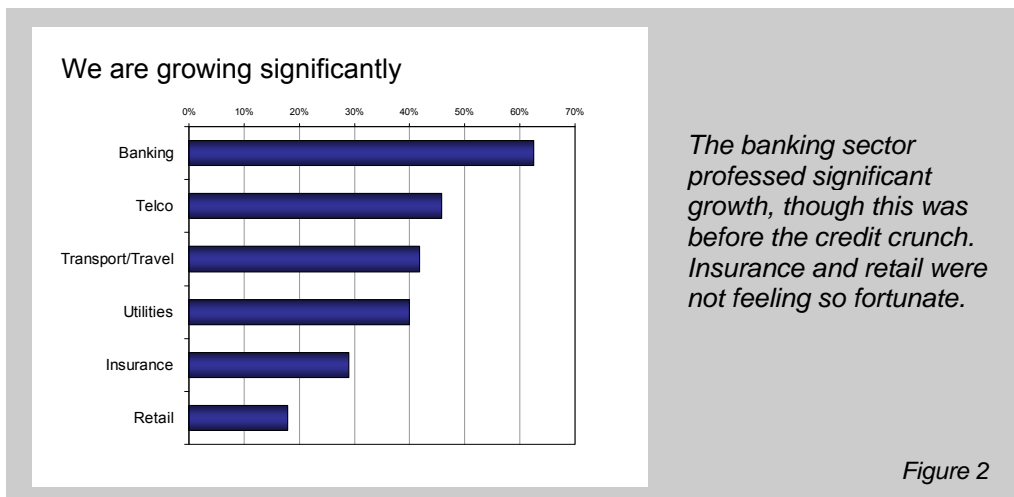
The One Thing Certain in Business is Change

There has been plenty written about business change, both from the perspective of it being a thoroughly good thing, to change being seen as a bringer of ill. One thing is for certain however – change is an inevitable part of business. While this may seem like stating the obvious, the inevitability of change is not always built into the corporate psyche.

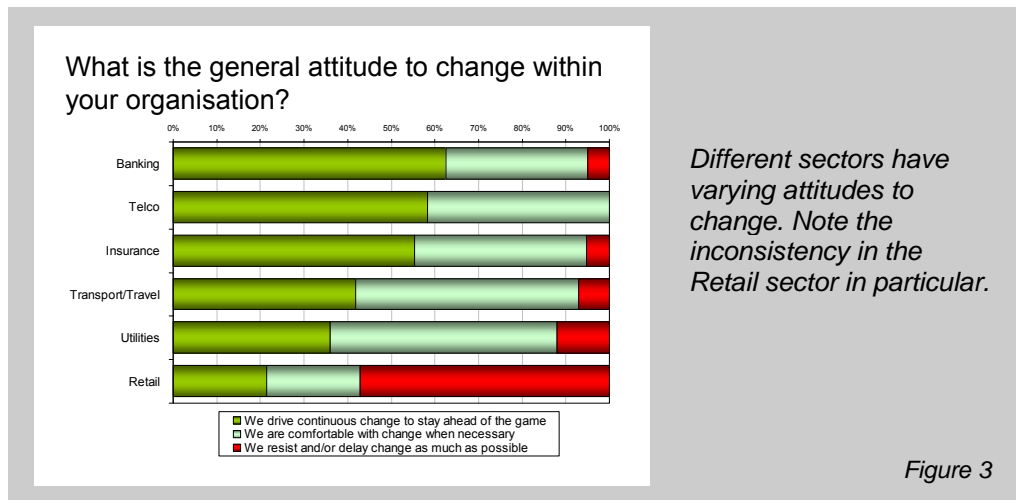
We shall look into this later in the report, but for now let us consider what is driving business change. Figure 1 illustrates some of the main drivers for change – according to about half of the respondents for example, diversification and market penetration are key.



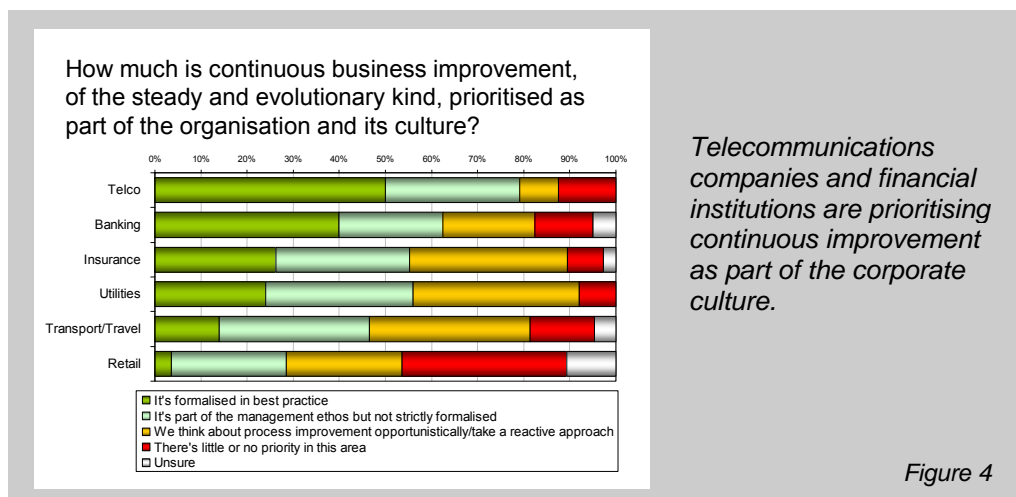
This positivity does seem to run somewhat counter to the general view that market conditions are becoming tougher. Clearly some sectors will be better off than others – at the time the data was collected (prior to the credit crunch) the banking sector was still riding high (Figure 2), but sectors such as retail and insurance were not seeing such a positive outlook.



Whether an organisation is growing or consolidating, such stimuli will result in changes to organisational structures, working practices, corporate policies, job functions, and indeed the IT systems that underpin them. It is one thing to recognise the stimuli – “we need to grow,” for example. However, it is quite another for an organisation to know how to respond to the change drivers that result. It is interesting indeed to compare Figure 2 above with general attitudes to change (Figure 3) – see how Banking is leading once again, and Retail trails, surely this is no coincidence. However, while the Insurance sector is reporting a more positive attitude to change, this attitude is not being reflected in growth. In other words, there is more going on than the simplistic correlation between these two figures might suggest.



One other criterion, for example, is whether management of change is ingrained in the culture of the organisation. In Figure 4 we see again how this can vary quite considerably by sector – in this case it is the telecommunications companies that are leading the pack. Notably, once again the Retail sector can be seen as the laggards.



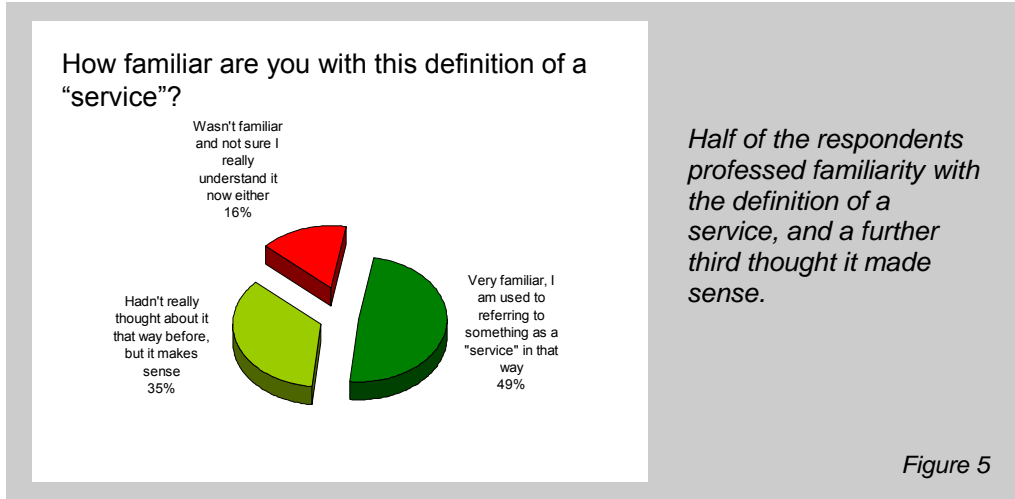
The Service-oriented Concept and Business

In this research project, we were particularly interested to know whether what might be termed a 'service-oriented culture' would have any bearing on both corporate attitudes to change and (for commercial organisations) the ability for a company to grow in its ordained market. 'Service' is a nebulous term at the best of times, so we were careful to define it. The explanation we chose was as follows:

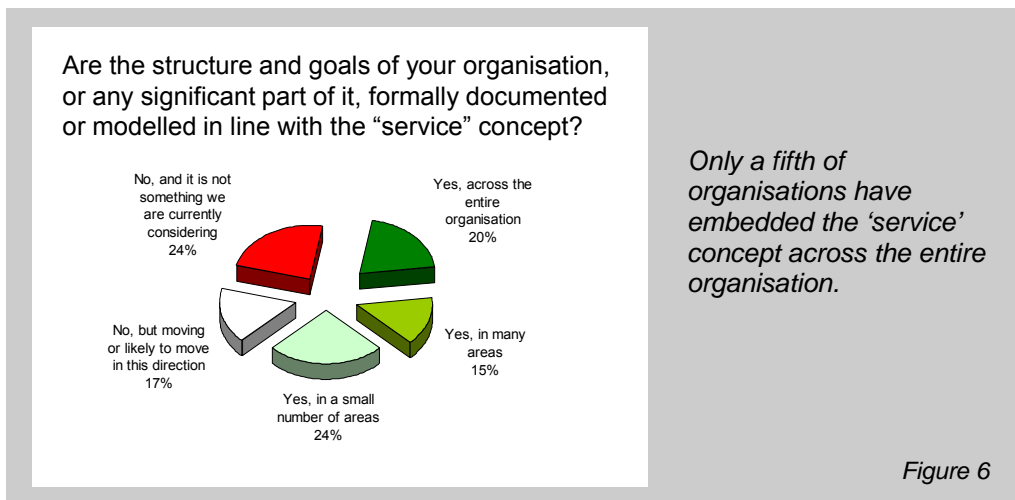
The specific definition of "a service" we are concerned about is "something that is delivered by one party and consumed by another in line with agreed terms or parameters". The HR department, for example, might offer a recruitment service, a payroll service, a grievance service, etc, to other parts of the business, while the accounting department might offer an expense administration service, procurement service, invoicing service, and so on. The idea is that it is the service rather than who is providing it or how that matters, so it shouldn't make any difference to those relying on the payroll service, for example, if control of it moves from HR to Finance or even if it is outsourced to a third party service provider completely. People therefore view "service orientation" as a way of building flexibility into business structures and operations.

The good news was that the definition did ring true. As shown in Figure 5, just under half of respondents felt very familiar with this definition, while a further third were comfortable with it. This

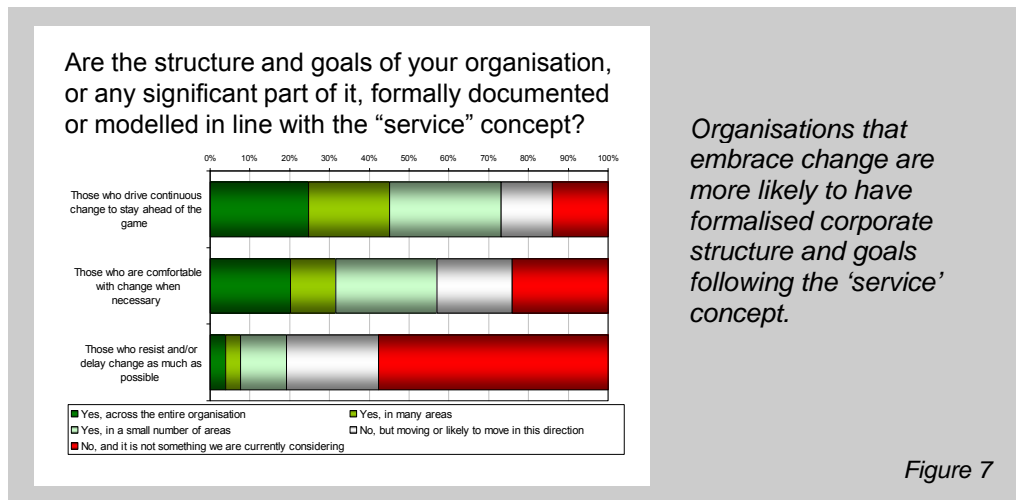
finding did not vary significantly by job role, but there were geographic variances: Sweden stood out positively in terms of understanding, for example (though note that the sample size was smaller than other geographies). Respondents in larger organisations were a bit ahead of those in smaller ones on average, and in terms of industries, the Telco sector stood out as being most 'service savvy'.



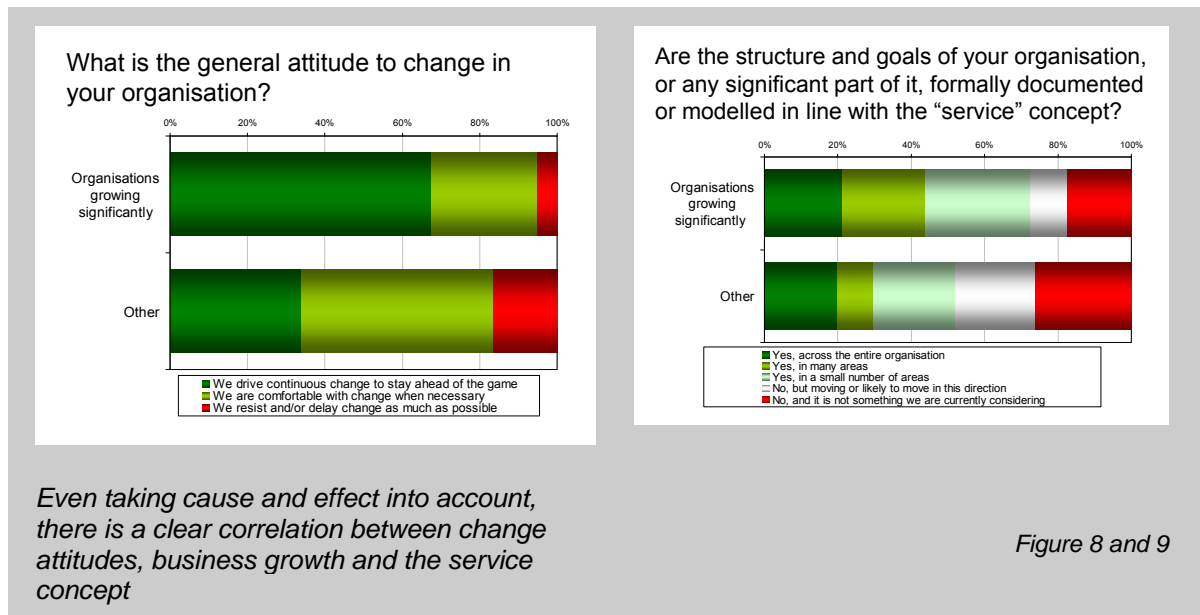
This was no whitewash however: just because respondents understood the definition, that didn't mean their organisations had bought into the idea (Figure 6). Just 35% had adopted the service concept to any reasonable extent, with service orientation ingrained in the management DNA of only about one in five organisations. On a more positive note, only a quarter of respondents felt it unlikely that such a concept was likely to be adopted at all.



Considering the cause-and-effect linkages between corporate attitudes and a culture oriented more around services, we can see a clear tie-up between organisations that believe change is important, with those who employ the service concept more formally (Figure 7).



While the linkage between change attitudes and the service culture is clear, what is less obvious is exactly which comes first, or how one impacts the other. This is a complex matter, but from the research we do believe that both are contributing factors to the business growth of commercial organisations (Figures 8 and 9).

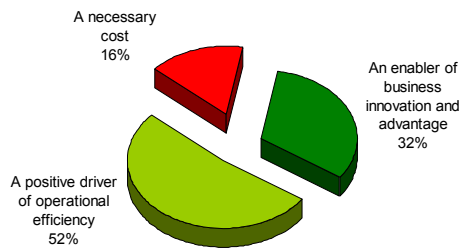


So, we’ve seen how positive attitudes to change and a culture built on service delivery have a positive impact on the business. What of IT, and how does the ‘service’ concept fit with IT architecture?

The Role of IT as a Change Enabler

So far, we have looked at how organisational factors in general (and service orientation in particular) can affect attitudes to change and indeed, the ability of the business to respond. Before we get onto how such factors can also have an impact on our IT, first let us consider how IT is perceived. Contrary to what we often hear, the value contributed by IT within most organisations is appreciated by the business, but the level and nature of the contribution does vary (Figure 10). Around a third see IT as an enabler of business advantage and about half see it as positive, but more as an enabler of operational efficiency.

Which of the following best describes how information technology is thought of within the organisation?

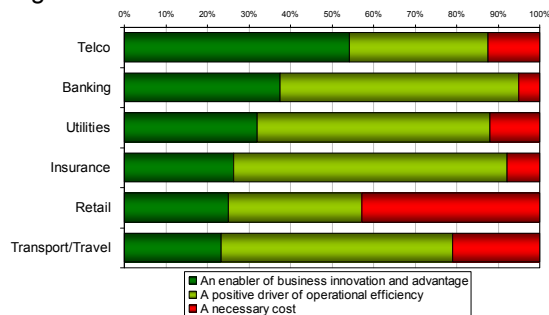


Only 16% of organisations surveyed perceive the IT department as no more than a necessary cost.

Figure 10

A relatively small minority view IT as simply a necessary cost overall, though this is a more common view in the less progressive industries (Figure 11). We find it no coincidence that these are also the ones that see slower growth. Note once again the polarisation that exists in the Retail sector: in our experience this is a very common picture in this type of business.

Which of the following best describes how information technology is thought of within the organisation?



The perception of IT by the business varies considerably from sector to sector.

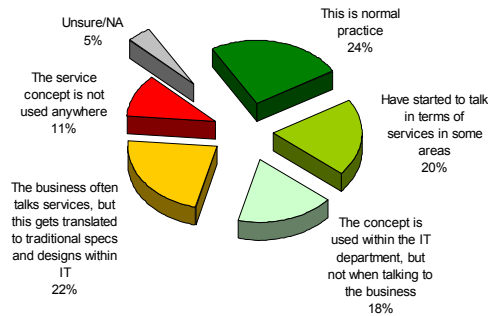
Figure 11

The above is interesting background to the services discussion. What we shall now look at is how the concept of services can extend from the business into the IT department. Not only this, but as we shall see, it extends into an architectural view of services. It is when all of these are working in harmony that the greatest benefit is reaped, as we see below.

Service Orientation in IT

So far we have considered the business view of service, but we also know that “service” is an approach within IT as well. It would be a good premise to suggest that, if IT bought into the same principle of service as the business, IT will be better able to ‘deliver the goods’. To kick things off, let’s consider how the ‘service’ concept is perceived within the IT department. Only in a minority of IT organisations is the concept of services not used anywhere (Figure 12).

To what degree does the IT department use the concept of services (as we defined earlier) to converse with non-IT business teams on requirements and solutions?



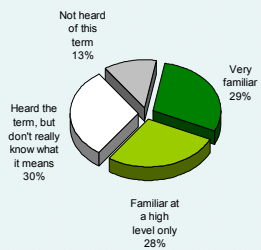
Around a quarter of IT departments see the 'service' concept as a standard tool to converse with the business.

Figure 12

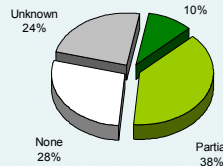
As with other results we have seen, it is difficult to generalise about the 'if' and 'how' the services concept is used. One eye-opening finding is that in 22% of cases, the business talks about services but IT translates requirements into traditional non-service oriented specs and designs. In these circumstances, IT clearly has some catching up to do.

We use the term 'Service Oriented Architecture' (SOA) to refer to where the service concept is applied to IT. When we look at whether organisations 'get' SOA, we can see a spread of responses (Figure 13). Whilst familiarity is higher among IT professionals compared to business people, the term is still not completely ingrained in the IT community.

Familiarity with the term "Service Oriented Architecture" (SOA) as defined



Overall level of commitment to SOA



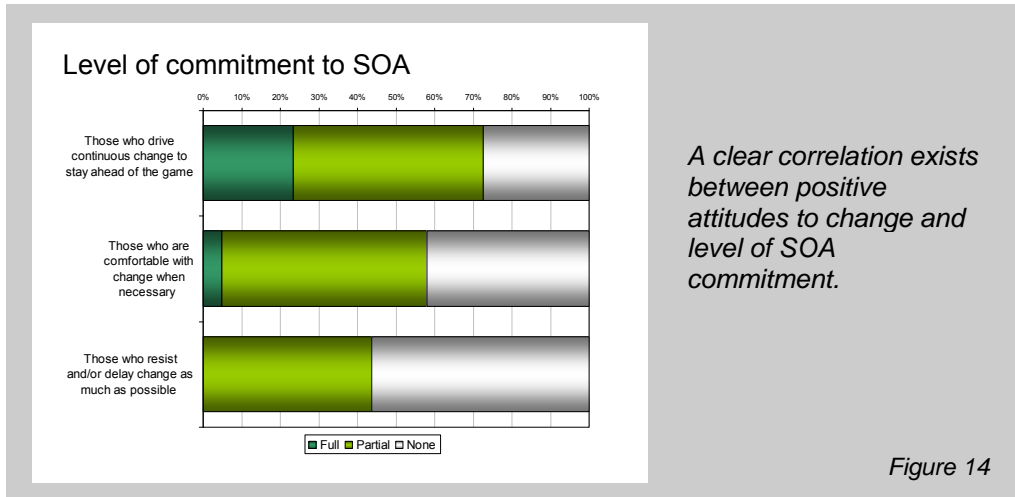
The general acceptance of SOA, either in principle or in practice, is a long way from being established.

Figure 13

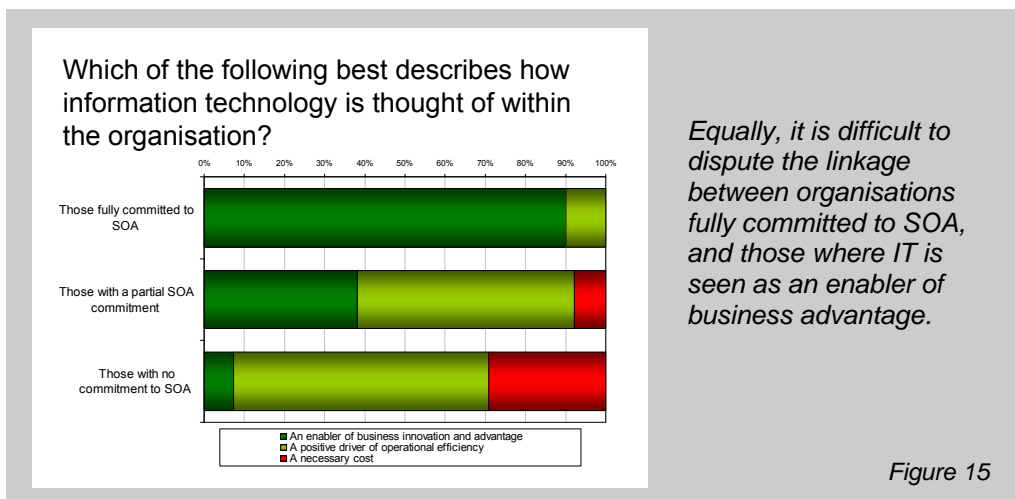
Meanwhile, it is a positive sign that nearly half of the organisations surveyed have some level of commitment to SOA. Having said this, it is telling that almost a quarter of the people interviewed were not even able to answer the question and many of these, not surprisingly, were the business respondents. This raises a flag about the perceived relevance of SOA to senior business management (we will come back to this later).

Also of note is that a good hard core of fully committed SOA adopters has emerged (10% of respondents), which is significant because it fuels the skills and experience across the industry and helps to define best practice in a very practical rather than theoretical sense.

Where things start getting really interesting is when we compare what we have seen so far with respect to business attitudes, to the approaches taken within IT (Figure 14). As we can see, there is a clear correlation between the level of commitment to SOA, and those organisations that drive continuous change to stay ahead of the game.



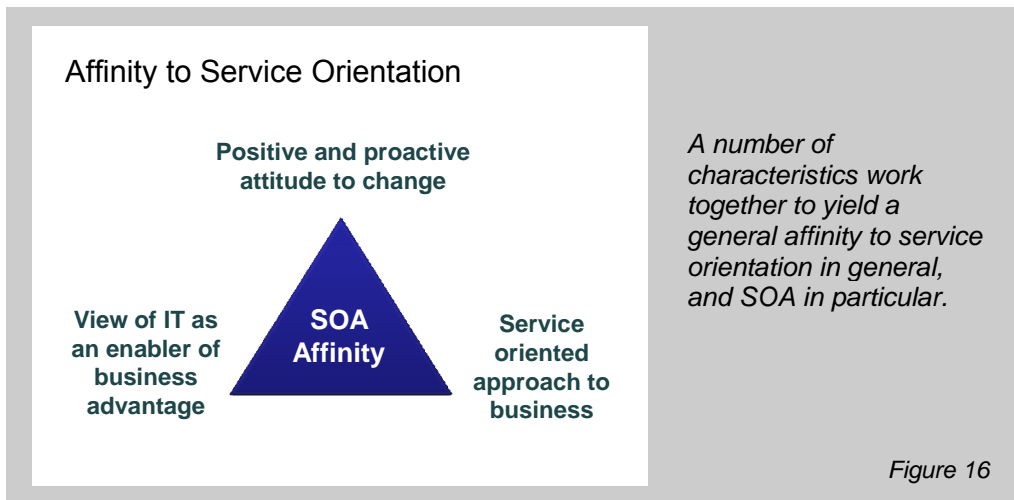
Another correlation worth highlighting is the one seen between those organisations with a level of commitment to SOA, and those who view their IT departments as an enabler of business advantage (Figure 15). The link is difficult to dispute – but it is best not to think of it in terms of cause and effect. Rather, we are considering service understanding in IT in general, and SOA in particular, as an extension (or indeed, a direct equivalent) of good business practice.



There are many similar correlations that come out of the data, illustrating how different aspects of progressive thinking and good practice go hand in hand. Of course unravelling cause and effect is very difficult, but it is possible to define an 'Affinity Model' as described in the next section.

Identifying the Leaders – and their attitude to SOA

So far, so good – but the million dollar question becomes, what should organisations be doing? To answer this, we first need to put together a profile of what we could term the 'service oriented organisation'. It does not make sense to consider individually the factors that we have researched – each depends on the others. Instead, by looking at correlations such as those in the previous sections, we have distilled them down to three inter-related characteristics: these are shown in Figure 16.



We consider the pinnacle of 'service affinity' to consist of those organisations which have a positive attitude to change, a service-oriented approach to business, and view IT as an enabler of business advantage. On this basis we have categorised the respondents as follows:

Proactive elite – optimum behaviour/attitude in all three categories

- ▶ Use change proactively, and regard IT as a positive enabler of business advantage
- ▶ Have adopted a service oriented approach across the business

Progressive adaptive – positive behaviour/attitude in all three categories

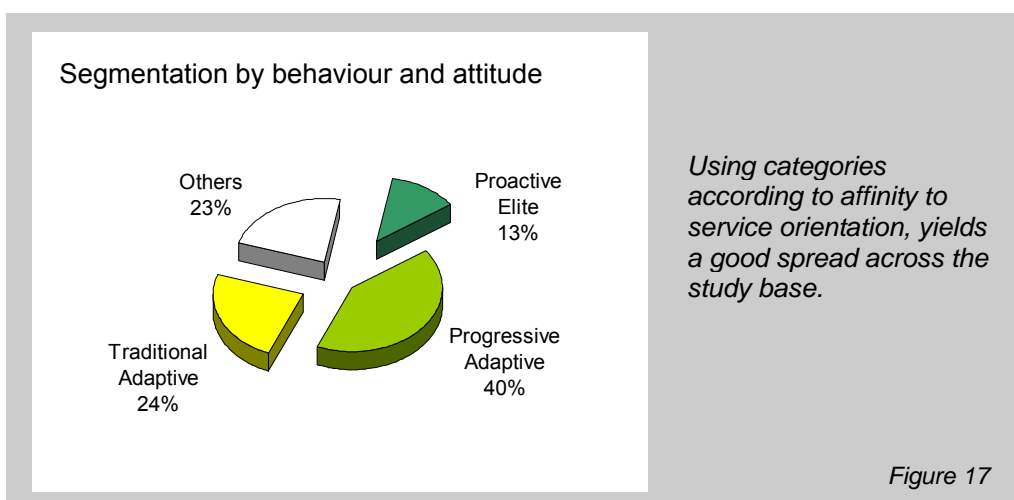
- ▶ Comfortable with change, and with positive attitude to IT
- ▶ Service oriented approach in at least some parts of the business

Traditional adaptive – positive behaviour/attitude re IT and change, but no service orientation

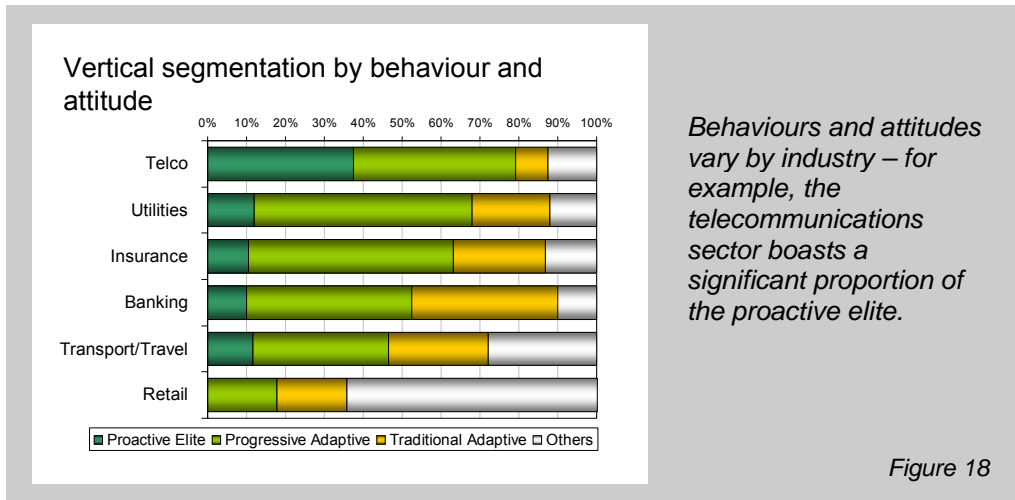
- ▶ Comfortable with change with positive attitude to IT
- ▶ Currently not using a service oriented approach to business at all

Others – with negative behaviour/attitude to IT and/or change

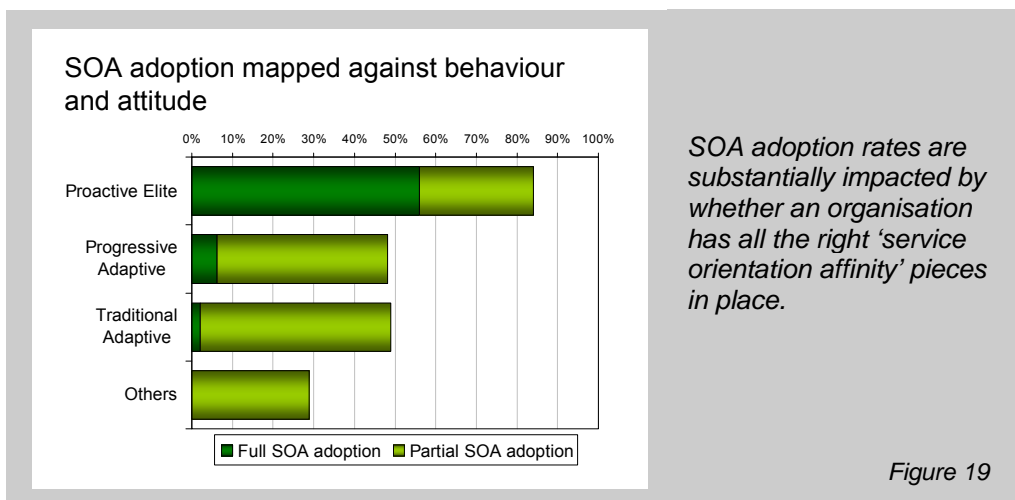
As shown in Figure 17 this gave us a reasonable spread across the respondent sample – only 13% could be considered to fall into the 'proactive elite' category, and nearly a quarter professed neither interest in IT nor a positive attitude to change.



What can we learn from these categories? For a start, that there's quite a considerable variation by industry, as shown in Figure 18.



In Figure 19, we can see a pretty straightforward connection between the 'proactive elite', and adopters of SOA. Given that SOA itself is not one of the 'affinity factors' (so this is not a self-fulfilling prophecy), the adoption rate of the proactive elite provides a compelling argument for considering SOA adoption in general.

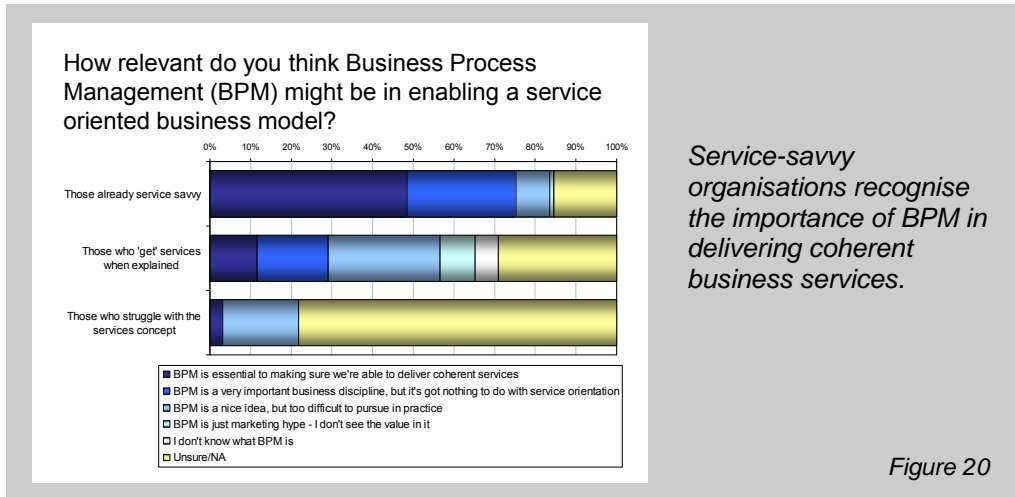


Lessons from the Leaders

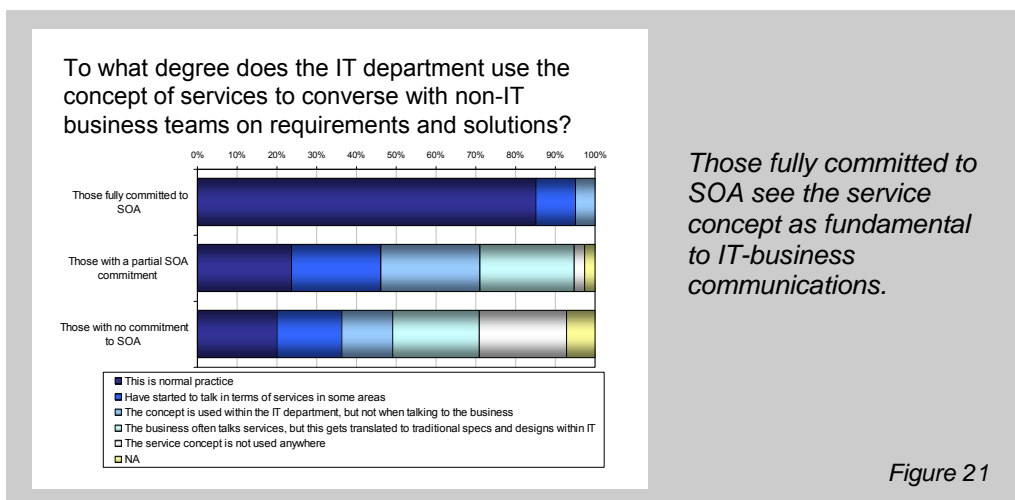
Thus far, this report has discussed how some organisations are clearly ahead of the pack when it comes to SOA adoption. So, what can we learn from them in terms of both where to start, and what are the challenges to be faced?

There are a number of places from which this information can be gleaned within the study. To kick off, we can look at how organisations are thinking about taking service orientation forward, and what are the pre-requisites. As well as the more obvious pointers – “start thinking in terms of services” and so on – there is a clear correlation between respondents who are familiar with the concept of services (previously identified in Figure 5), and those who see business process management (BPM) as playing an important role.

As we can see from Figure 20, such 'service savvy' organisations are far more likely to appreciate the role of BPM, than those who struggle with the service concept. This is not the place to go into the whys and wherefores of BPM, but suffice it to say that it centres on business-led activities, not technical efforts.

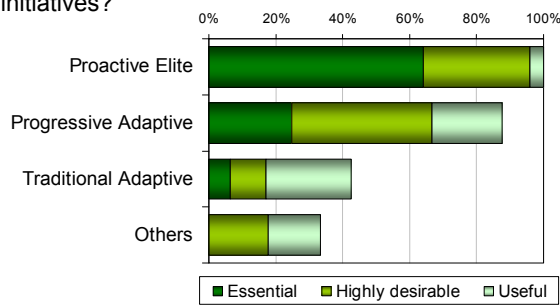


Organisations that are service savvy thus know to start the journey towards service orientation with the business, not with IT. But how should the dialogue between business and IT take place? From respondents already fully committed to SOA (Figure 21), we can see it is the service concept which enables the gap between business and IT to be bridged, by providing a mechanism for requirements and solutions to be communicated more effectively. While this is to be hoped, it is not as self-evident as it sounds: from elsewhere in the research we know this is about more than articulating systems definition and design from an IT perspective, it is about alignment between the two camps at a much more fundamental level.



Looking beyond company boundaries, today's organisations rarely exist in a vacuum, and are more likely to be part of an ecosystem of suppliers, partners and subcontractors. Given their propensity for service orientation, it is unsurprising (Figure 22) that the proactive elite see the service oriented approach as an important element when considering which third parties to work with as part of their business change initiatives.

To what degree is a "service oriented" approach and methodology important when considering consulting firms to engage on business change initiatives?



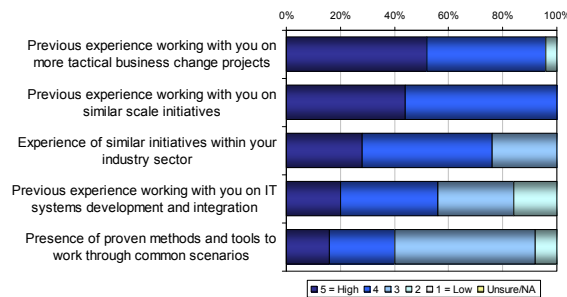
A service oriented approach is an essential element of engaging third parties in business change initiatives, according to the proactive elite.

Figure 22

We can further learn from what the proactive elite see as the most important factors in such engagements. What's clear from Figure 23 is that it is previous business experience, not technical competence that leads in the decision making process, reinforcing yet again the business centric emphasis.

How much would the following influence your selection of a specific consulting firm to work with you on a major business change initiative?

PROACTIVE ELITE

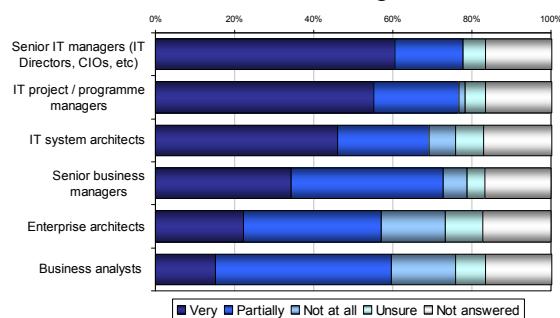


The top reasons for engaging consulting firms are to do with business experience, not technical competence.

Figure 23

From a leadership perspective, given all that we have seen, it would clearly make sense for business decision makers to be as involved as IT people in driving SOA. However, as we can see from Figure 24, it is still largely an IT-led concept, even at a strategic level.

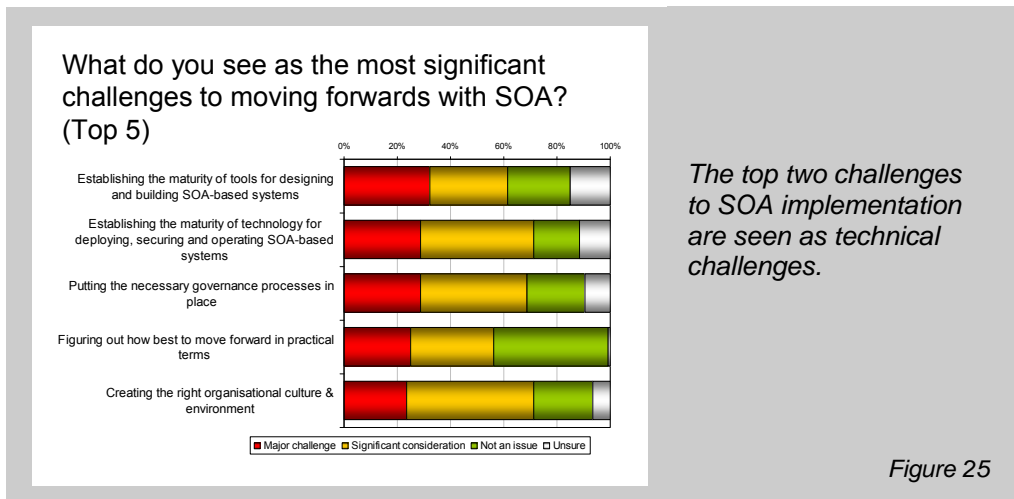
How influential do you think the following roles in your organisation might be in how SOA is introduced, at a strategic level?



When asked who leads SOA initiatives, the general answer is "IT".

Figure 24

This presents an issue. If organisations generally believe that SOA is IT-led, they will see things from an IT perspective. We do not underestimate the enormity of the challenge of involving the business in what may historically have been seen as an IT problem, but the evidence is clear: service orientation needs to be business-led. The alternative, when IT is left to its own devices, is that it will look to solve the technical challenges first. This is borne out in Figure 25, where the top two perceived challenges are seen as technology-related.



If service orientation in general, and SOA in particular are seen only from the point of view of IT, the result could be a great deal of effort and expense, without any guarantee of success.

Discussion and Conclusion

Every organisation is an ecosystem, defined through a complex sequence of interrelationships. It is not possible, or indeed desirable to consider all organisations as conforming to some kind of standard template – to do so would not only be a gross over-simplification, but also denies businesses any ability to differentiate.

All the same, there are some clear behavioural patterns that emerge. It goes without saying that all organisations are subject to change; equally, that some organisations are better at dealing with change stimuli than others. In this report, as well as looking at some general considerations which link to an ability to respond to change, we consider specifically the effect of considering both business and IT from the service perspective.

Abundantly clear is the importance of service orientation, not only in terms of whether an organisation feels able to deal with change, but also the approach it chooses to deal with it. Organisations that ‘get’ service orientation also seem to ‘get’ a number of other things, and are more likely to be the ones that benefit and grow as a result.

It is interesting to revisit the question of how different sectors deal with change. The unfortunate Retail sector does not have the best of reputations as being progressive, so it is unlikely to be able to reap some of the benefits stated here off the bat. What an opportunity exists, however, for organisations in such a sector to steal a march on the competition.

Service orientation is not a silver bullet: indeed, to suggest that organisations should just “get themselves service-oriented” would be irresponsible, as this is not the right way to think about service orientation. Far from being an end in itself, service orientation is one part of the means. To become more service oriented, organisations first need an idea of how their component parts currently deliver service to each other. Just stating this simple fact gives an indication of just how difficult it will be for some organisations to become service-oriented.

In this report we have not considered the other facet of services in IT, that of IT service management – in a nutshell, extending the service concept to cover the operational management of the deployed IT environment. We have accumulated considerable evidence in other studies that

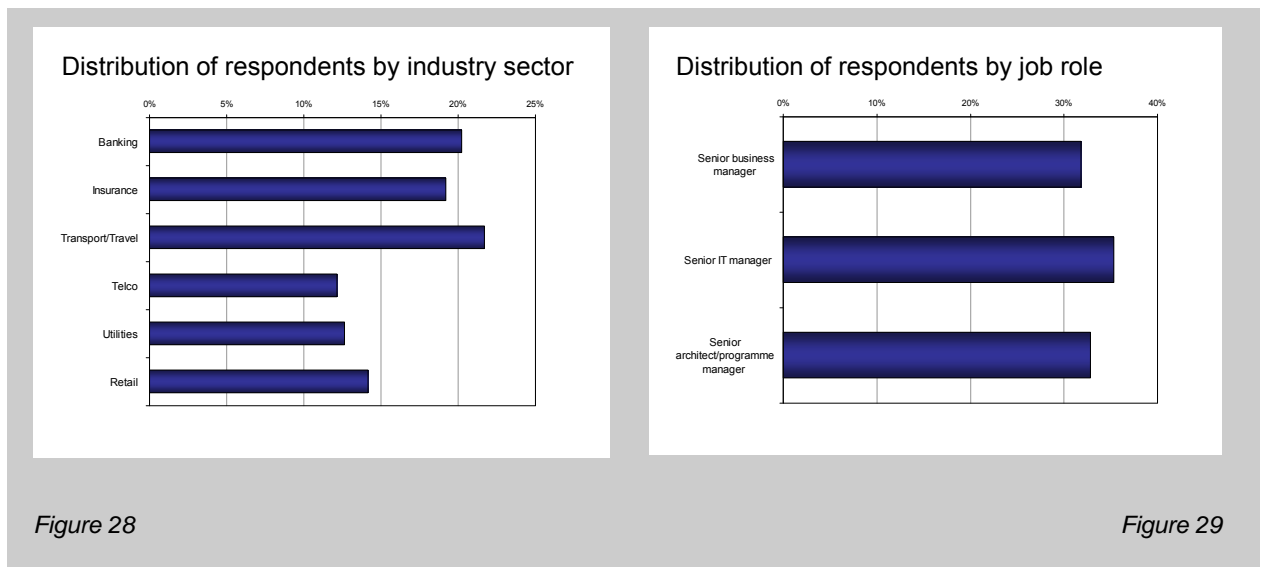
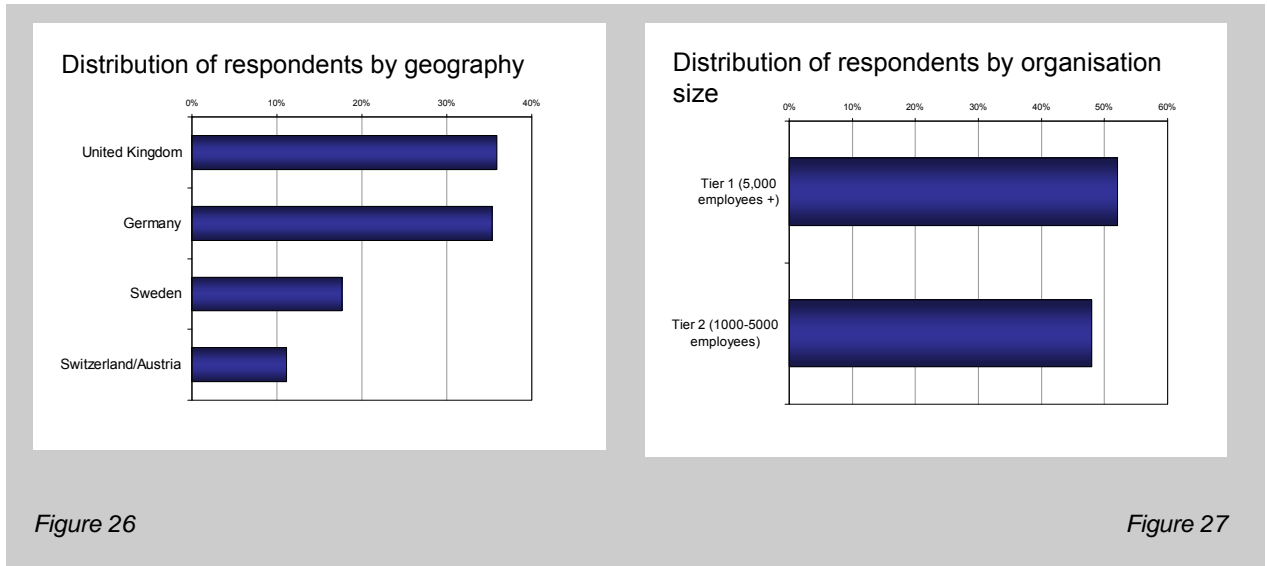
operational IT responds as well to the inclusion of the service concept, as the IT architecture. Such conclusions further support the findings of this study.

We don't have all the answers. What we do understand is that, if the service concept is adopted throughout the business *at the right level*, all parts of the organisation can benefit. Considering the IT view, adopting service orientation within the IT environment can have a number of benefits if it is done right. No, it isn't simple. But in both business and IT, it is our firm view that service orientation is a goal worth striving for.

Appendix A

RESEARCH SAMPLE

The research sample was 198 respondents, distributed as shown in the figures below.



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Freeform Dynamics is a research and analysis firm. We track and report on the business impact of developments in the IT and communications sectors.

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