Strategic Sourcing & Team Topologies

Rethinking interaction modes for procurement

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Enterprise Technology Leadership Summit
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18F

The problem we're solving today

Problem statement

We need to work together in larger groups than 6-9 people.

Sometimes we need to use mechanisms other than hiring to bring people into those groups.

Both of these are challenging on their own; how do we do them both at the same time?

Two goals today

1. Embed a more nuanced and flexible model of contracting

2. Show how flexible contracting models support modern approaches to org design

Contracting may…

- ➔ Allow greater flexibility
- ➔ Shorten time to bring people in
- ➔ Reduce costs
- ➔ Give access to in-demand skills
- ➔ Improve focus in the core business

But also… contracting-related pain points

Decisions based on cost not value
Long timelines
Misalignment between product, IT and procurement
Specialist knowledge needed
Weak accountability
So many requirements, so few outcomes
Illegible processes
Repeat actions with bad outcomes
Too few options to promote equity
Apparently contradictory policies
Insufficient capacity to manage
(etc)

Contracting often magnifies organizational weaknesses

Today we'll focus on contracting and organizational structure.

Observations from 18F

The procurement history of 18F

When 18F started, contracts tended to be too small or too big.

California junks $179 million Medicaid IT modernization project with Xerox

New Hampshire's Medicaid Billing Computer System Still Having Glitches

The system has cost more than $117 million since the first contract was approved in 2005 for about $60 million, with the most recent amendment adding $6.8 million to the price tag.

Audit: Xerox's Montana Medicaid project could be 6 years late

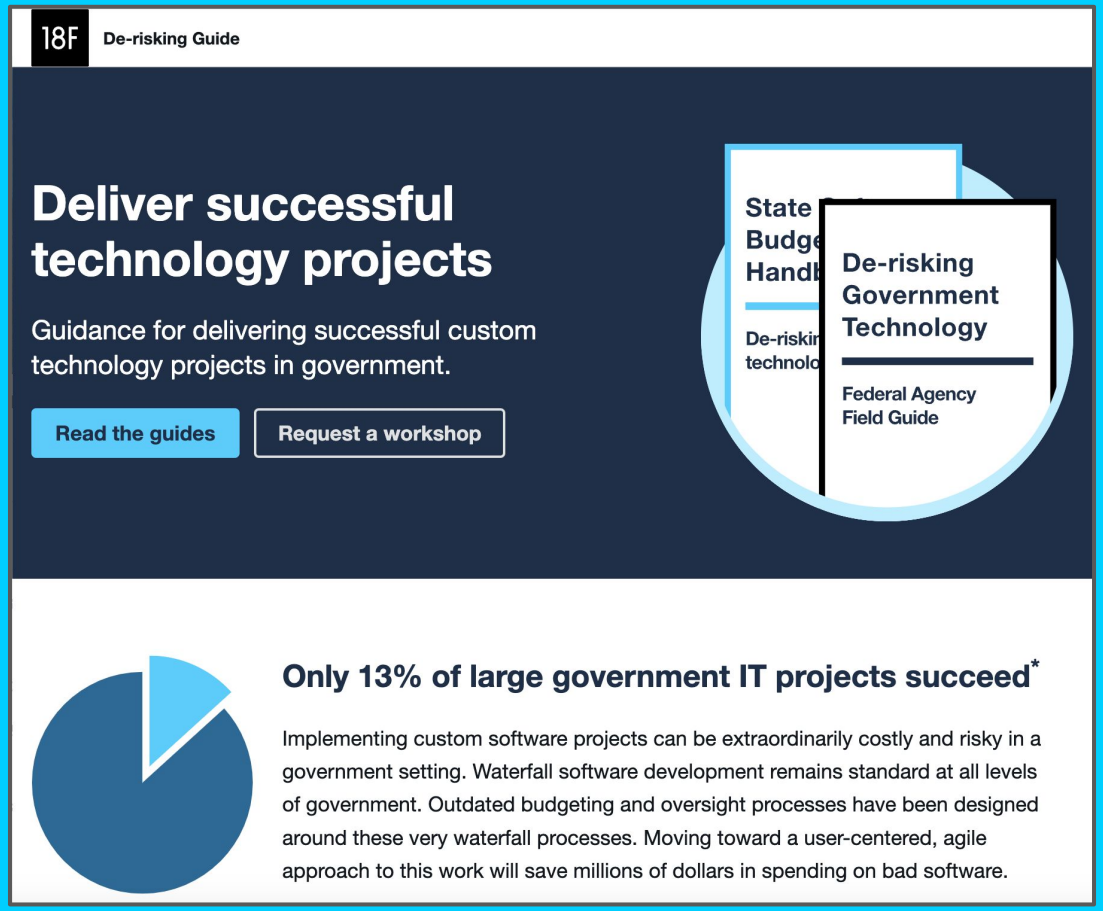
Maryland fires firm upgrading Medicaid technology, may seek money back

N.J. ends $118M contract designed to ease enrollment in Medicaid and other welfare programs

R.I. Gov. Raimondo wants payment-for-performance contract with computer contractor

NEWS

Maine's Medicaid Mistakes



https://guides.18f.gov/derisking/

Observations over 10 years

#1 The one-team case is very rare in government.

Observations over 10 years

#2 Technology transformation takes years to stabilize.

Observations over 10 years

#3 Small change gets squeezed out over time.

Put together…

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#2 Technology transformation takes years to stabilize.

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Put together…

#1 The one-team case is very rare.
#2 Technology transformation takes years to stabilize.
#3 Small change gets squeezed out over time.

=> Any contracting in service of major change must support flexible, multi-team organization.

Strategic Sourcing

Transactional services contracting

Attributes: Structured, explicit

Good for: Well-understood problems, defense against bad actors

Key phrase: “Never leave money on the table.”

Example: Data entry, travel services

“Power is a trap”

-Oliver Williamson

Outsourcing: Transaction cost economics and supply chain management

Relational services contracting

Attributes: Goal-oriented, builds mutual value

Good for: Early-stage problems, medium-trust situations

Key phrase: “*Always* leave money on the table.”

Example: Launching a new product, app modernization

See Outsourcing: Transaction cost economics and supply chain management by Oliver Williamson, 2008

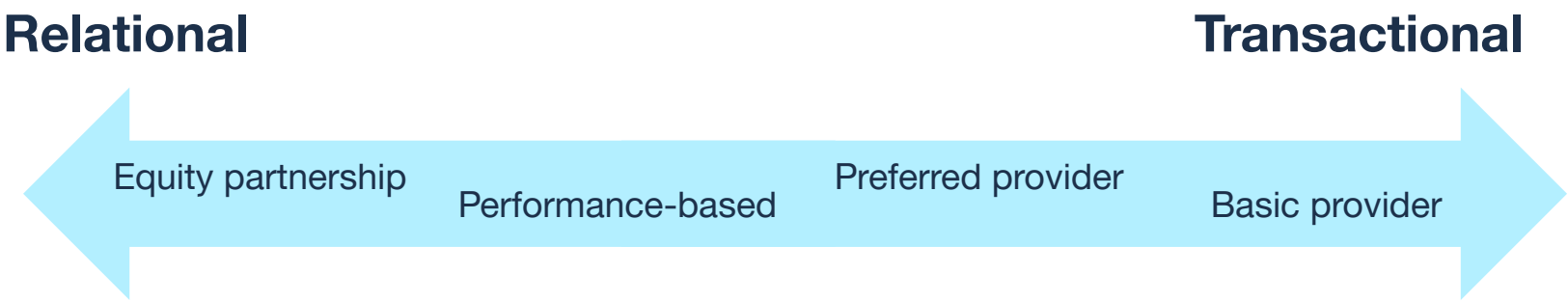
Spectrum of contract types

Relational **Transactional**

“Our joint objective is…”

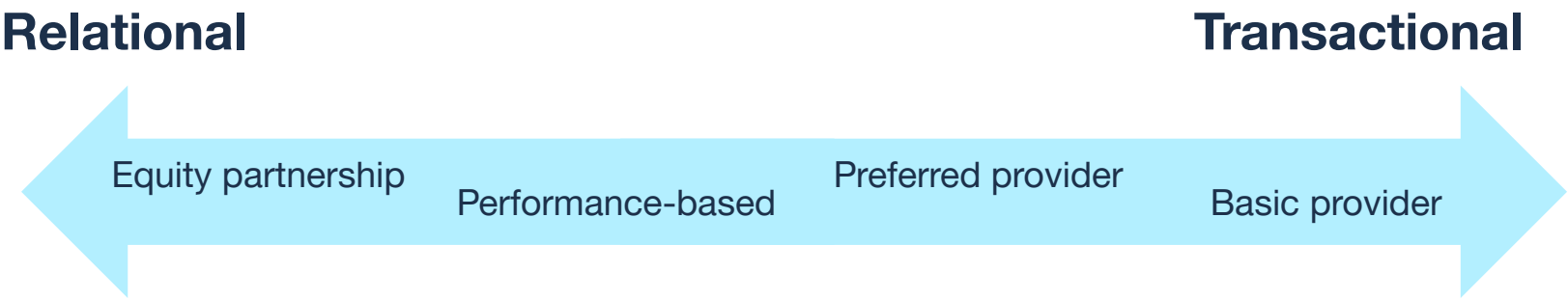
“The system shall…”

Spectrum of contract types



Strategic Sourcing in the New Economy Keith et al, 2015

Spectrum of contract types



Good for:	Strategic needs	Tactical needs
	Significant unknowns	Well-understood
	Innovation	Commodity
	“Hot” environments	“Cool” environments

Agile Contract Format

STATEMENT OF OBJECTIVES (SOO) ← *descriptive* instead of *prescriptive*

- Background & purpose
- Scope & objectives
- Contract period of performance (PoP), place of performance, and contract type
- Operating constraints
- Instruction & evaluation

Prefer relational contracting for more strategic needs.

Spectrum of contract types

Relational **Transactional**

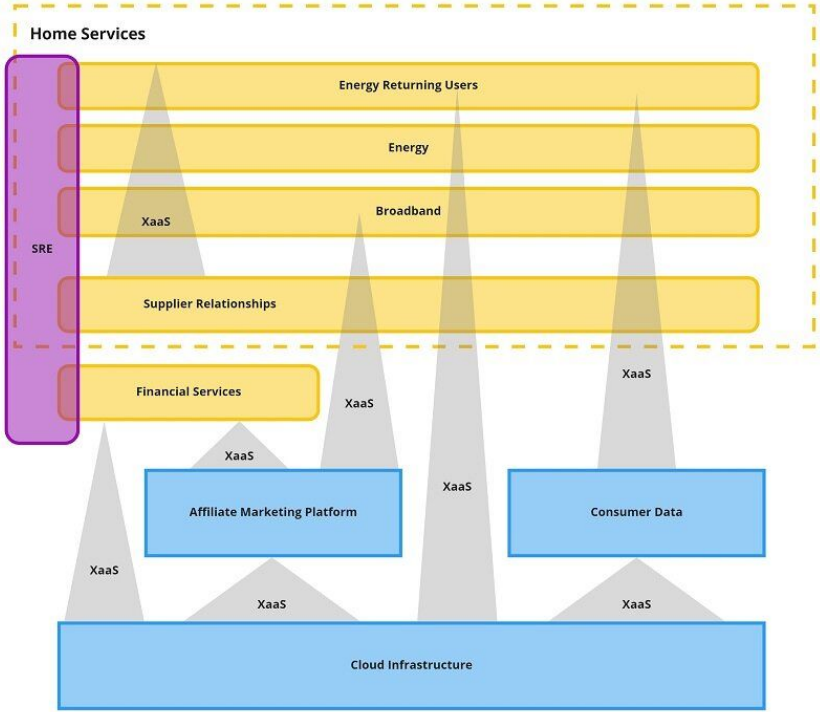
	Relational	Transactional
Good for:	Strategic needs	Tactical needs
	Significant unknowns	Well-understood
	Innovation	Commodity
	“Hot” environments	“Cool” environments

One team => multiple teams

Org design in a nutshell

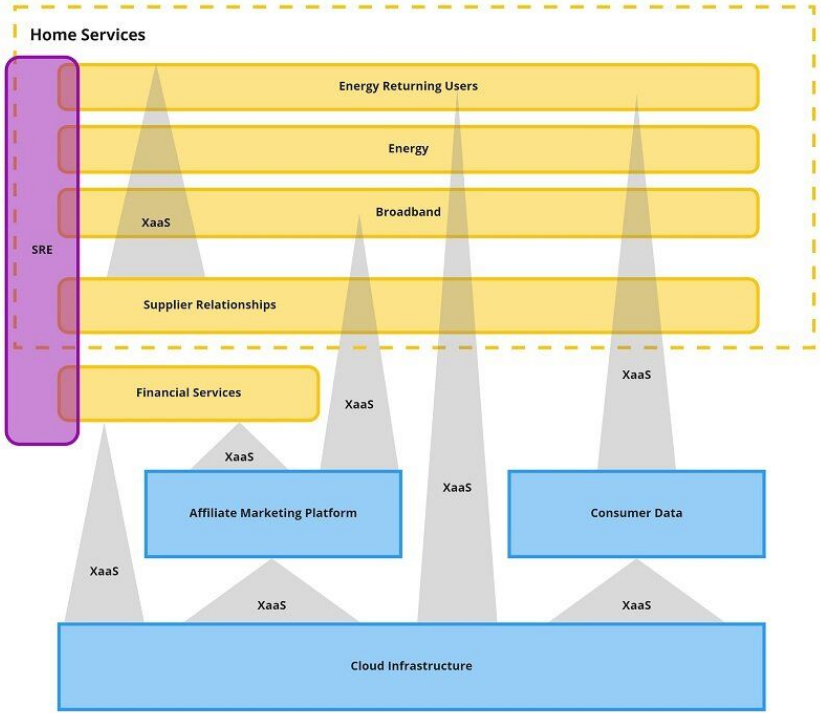
- **Fundamental building block is the team**
- **It's not enough to have *teams* be customer-focused, the *structure* needs to be customer-focused too**

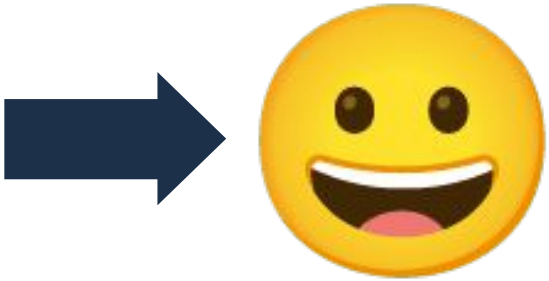
Reading Team Topologies diagrams



https://teamtopologies.com/industry-examples/organizational-evolution-accelerating-delivery-of-comparison-services-uswitch

Reading Team Topologies diagrams





Value is pulled by consumer

How do you get to a value-oriented structure?

In the absence of contracting, orgs *evolve* boundaries that allow decoupling.

Periods of collaboration to figure things out, move towards XaaS relationships for sustainable flow.

Relational

Transactional

Significant unknowns
Relational
Innovation
Hot
COLLABORATION

Well-understood
Transactional
Commodity
Cool
xAAS

Relational

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How do you get to value-oriented structures with contractor teams?

Answer: give yourself a good contracting foundation & evolve towards boundaries that allow decoupling.

Micro-example: “Discover to establish”

Agency A contracted with Vendor V

Deprioritized month-to month

Both thought that liaising with states was a one-person job – incorrect!

Split teams using natural “fracture plane” - ringfenced effort worked

Micro-example: “Discover to establish”

The contractual foundation allowed for changing team composition, structure, and reporting by mutual agreement. This was critical to meeting the organizational need!

In short

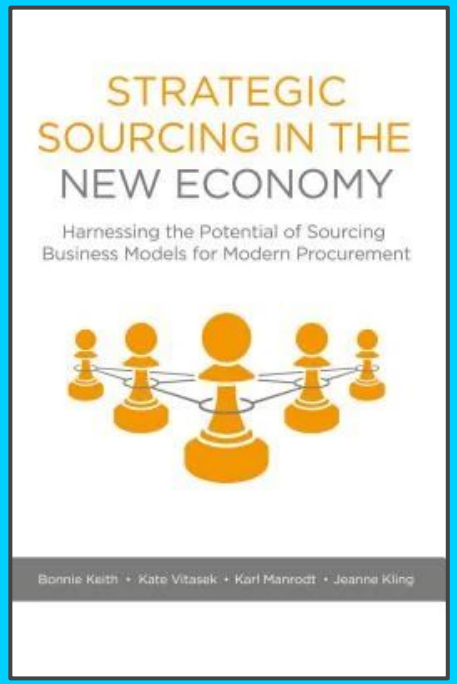
Prefer relational contracting and collaboration interactions for less mature services/needs.

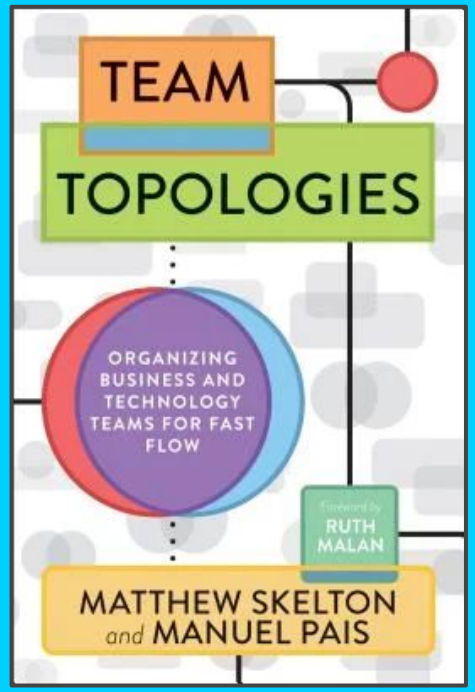
Work towards maturing them.

Summary

- Single empowered Scrum team was the start
- Can use a range of contracting models from Strategic Sourcing
  - Relational often fits the software case better
- Expect more change in the less mature components and teams
- Org design needs change, but a contract setup can prematurely freeze structure
- Aim to mature boundaries as understanding increases

Additional resources





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Supply Chain Management

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OUTSOURCING: TRANSACTION COST ECONOMICS AND SUPPLY CHAIN MANAGEMENT†

OLIVER E. WILLIAMSON

First published: 03 April 2008 | https://doi.org/10.1111/j.1745-493X.2008.00051.x | Citations: 201

† * Like all invited papers and invited notes, the original version of this manuscript underwent a double-blind review process.

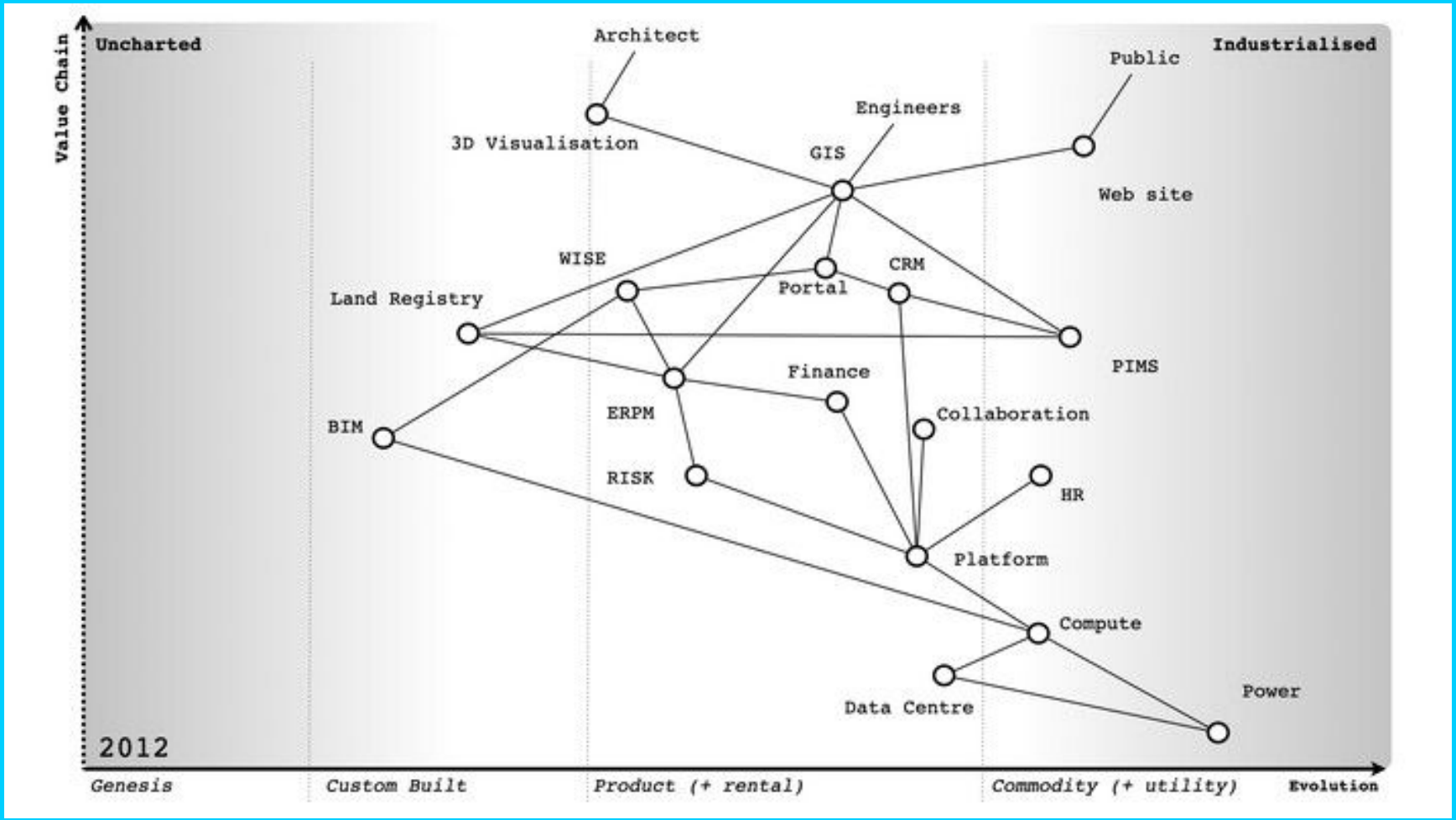
‡ Acknowledgment: This paper has its origins in the keynote address that I gave at the "International Conference on Large and Small Business Cooperation" on August 4, 2007, in Seoul, Republic of Korea.

SECTIONS PDF TOOLS SHARE

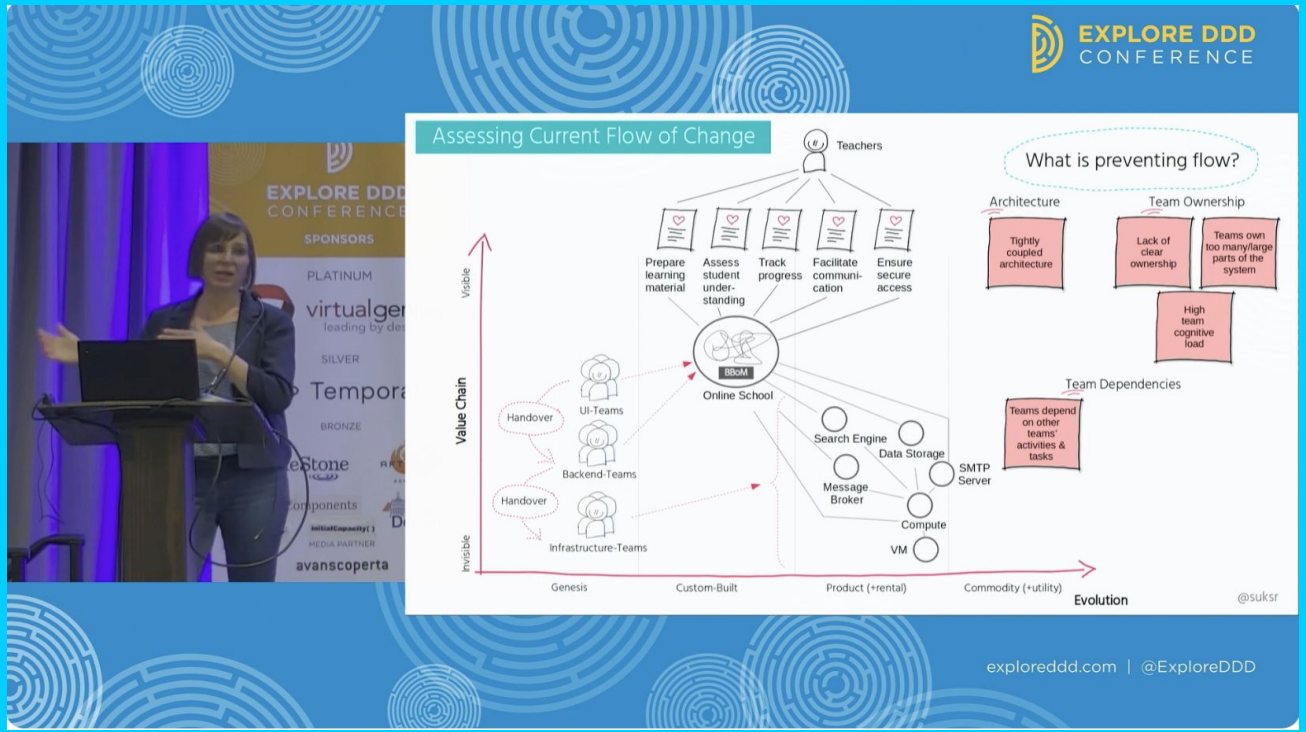
Abstract

This article examines outsourcing from the transaction cost economics (TCE) perspective. The transaction is made the basic unit of analysis and the procurement decision, as between make and buy, is made (principally) with reference to a transaction cost economizing purpose. As sketched herein, the ease of contracting varies with the attributes of the transaction, with special emphasis on whether preserving continuity between a particular buyer–seller pair is the source of added value. The basic regularity is this: as bilateral dependency builds up, the efficient governance of contractual relations progressively moves from simple market exchange to hybrid contracting (with credibility supports) to hierarchy. This last corresponds to the "make" decision, which, as

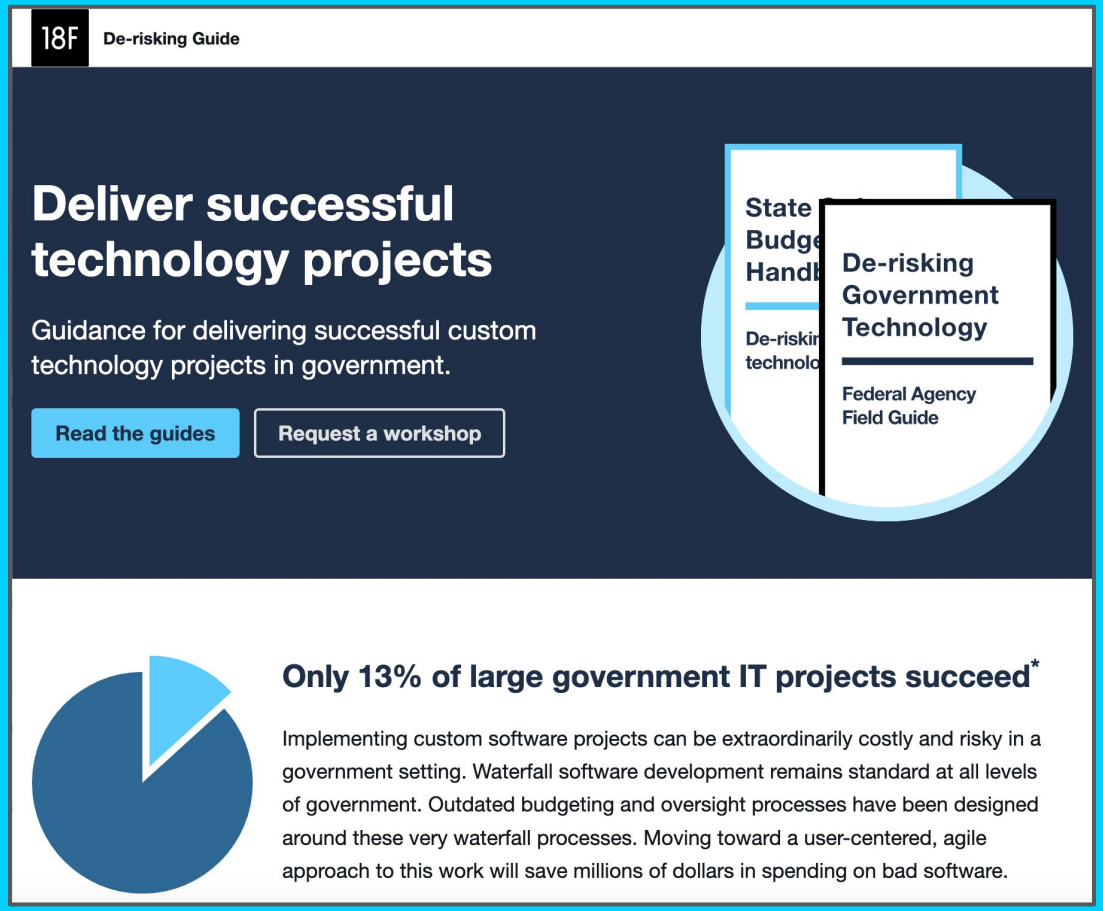
https://onlinelibrary.wiley.com/doi/full/10.1111/j.1745-493X.2008.00051.x



https://www.linkedin.com/pulse/simple-tips-managing-any-project-simon-wardley-3f5re



Optimizing for a Fast Flow of Value
Susanne Kaiser - Explore DDD 2024



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Keep the conversation going…

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