Sourcing is becoming important to many organizations

73% of organizations are involved in outsourcing, making it the fourth most commonly used management tool.
- Only 33% of organizations use offshoring
- Of large organizations,
  - 85% use outsourcing, but
  - Only 51% use offshoring

73% of executives believe that they “could dramatically boost innovation by collaborating with outsiders”

But, the current sourcing situation is fraught with issues

“It may be years before it becomes clear how much benefit companies get from outsourcing.

In the meantime, expect a lot of trial and error.”

Source: “Is Outsourcing On The Outs?”
Business Week Online
October 4, 2004 • Editions: N. America | Europe | Asia

To address both aspects of a sourcing relationship, ITSqc has developed both the eSCM-SP and the eSCM-CL Models
eSCM-CL Model Development Approach

Major steps in developing the models and capability determination methods included:

- Extensive literature review
- Interviews with clients, advisors, and service providers
- Model architecture review
- Incorporating and documenting best practices
  - Where feasible, made recommended best practices compatible with existing quality models and standards
- Advisory Board review
- Modifications to incorporate feedback
- Developed capability determination methods
- Empirical testing of model and capability determination methods (piloting)
  - Pilot tested model practices with method
- Posting of Model for broad technical review / public review
- Release of the models via web site and publications

Interviews with experienced clients, service providers, sourcing advisors and consultants, and technical experts (e.g., security experts)

Interviews were held with organizations actively involved in sourcing. These began in January 2004 and concluded in 2005.

Interviews in 11 locations (covering 7 market sectors and 8 service areas) were completed

Interviews were held in key client geographies for global sourcing activities – US, UK, and Germany.
  - 11 organizations
  - 30 individuals interviewed

Client interviews addressed business unit and corporate roles
  - VP IT, IT directors
  - Heads of procurement or sourcing
  - Strategy, technology, and security managers
  - Consultants in sourcing and IT
Interviews Focused on Critical Incidents

Interview participants were asked to identify specific incidents which they experienced personally and which had an important effect on the final outcome. [Gremler 2004, Flanagan 1964]

We sought incidents where:
- successful outcomes resulted, or
- failures or problems occurred.

Interviews focused on critical incidents – what has worked extremely well, and what has caused difficulties
- Extensive interview script (based on our earlier work) was used to guide interviews

Interview topics

Topics addressed in these interviews included:
- Organizational vision
- Sourcing strategies
- Making sourcing decisions
- Procurement planning
- Provider identification, qualification, evaluation and negotiation
- Business change management and transition
- Relationship, service, and innovation management
- Business alignment and assessment
- Workforce management
- Governance/provider management
- Renewal and termination (reverse transition)
Lessons learned from the interviews

1. Client organizations often make decisions to source without considering:
   • fit with broader or long-term business strategies
   • impact on short-term organizational performance
   • appropriateness versus joining fad
   • risks of losing internal expertise

2. Clients tend to rely on consultants to conduct source selection without consideration of consequences (e.g., lack of direct communication with potential providers)

3. Some client organizations establish special sourcing projects named to convey popular images to investors, e.g. "right sourcing" or "global sourcing"

4. "Distress outsourcing" leads to more distress

5. Most clients do not baseline existing operations or benchmark the desired state for service provision

6. Clients tend to abdicate entire responsibility to providers after sourcing deal is signed

7. Clients are able to negotiate better deals when they involve internal team bids

8. Both clients and service providers are challenged when they try to interpret SLAs

9. Most client and service provider teams interpret scope of engagements differently

10. Client organizations often have difficulty with expectation management.
Lessons learned from the interviews – 3

11. Clients typically do not execute communication plans for internal and external audiences effectively
12. Management, power-brokers, and other key stakeholders (e.g., unions or key employees) buy-in is very important
13. Clients are seriously challenged by both internal and external change management efforts posed to accomplish successful sourcing
14. Clients need to know skill sets and competencies needed in their own organization and from the service provider's staff
15. Clients need to retain, develop and deploy appropriate technical and managerial skills to manage, oversee, and coordinate with service providers

Informing Model Development

Interviews

Comprehensive literature review
- Over 900+ articles, books, frameworks were identified
- Over 650 have been reviewed
- Annotated bibliography [Khera & Hefley, forthcoming]

eSCM-SP Issues

Client Task Analysis
- Over 2300 candidate client organization tasks were identified
Critical Issues for eSourcing - 1

Good relationships are the foundation for success

- Establishing and maintaining trust with stakeholders
- Ensuring the effectiveness of interactions with stakeholders
- Managing cultural differences between stakeholders
- Managing stakeholder expectations
- Managing supplier and partner relationships to ensure that commitments are met
- Monitoring and managing clients’ and end-users’ satisfaction

Critical Issues for eSourcing - 2

Retaining a motivated workforce is key

- Managing employee satisfaction, motivation, and retention
- Building and maintaining the competencies that enable personnel to effectively perform their roles and responsibilities
- Establishing and maintaining an effective work environment
### Critical Issues for eSourcing - 3

Well defined and delivered services

- Establishing well-defined contracts with stakeholders, including clients, suppliers, and partners
- Translating implicit and explicit needs into defined requirements with agreed-upon levels of quality
- Reviewing service design and deployment to ensure an adequate coverage of the requirements
- Monitoring and controlling activities to consistently meet the service delivery commitments

### Critical Issues for eSourcing - 4

Managing common business threats is expected

- Managing rapid technological shifts and maintaining the availability, reliability, accessibility, and security of technology
- Managing clients’ security
- Ensuring compliance with statutory and regulatory requirements
Critical Issues for eSourcing - 5
World-class services, always improving

- Capturing and using knowledge
- Measuring and analyzing the reasons for termination, to prevent reoccurrence
- Maintaining a competitive advantage
- Innovating, building flexibility, and increasing responsiveness to meet unique and evolving client requirements

Critical Issues for eSourcing - 6
Managing service transitions well

- Smoothly transferring services and resources
- Maintaining continuity of the service delivery
- Capturing and transferring knowledge gained to the client during contract completion
Critical Issues for eSourcing - 7
Managing from the Client Perspective

- Establishing a strategy for the organization’s sourcing activities
- Being an informed customer of eSourcing services
- Actively managing sourcing risks

Actively be an Informed Customer

An individual, team or group with functional responsibility within an organization for ensuring that spend is directed to best effect, i.e., that the business is receiving value for money and continues to achieve the most beneficial outcome.

The ‘Informed’ customer:
- has a clarity of vision in relation to the business plans
- ensures that suitable strategies are devised and maintained for achieving business goals
- ensures that the needs of the business are effectively translated into a business requirements specification,
- ensures that its investment is both efficiently and economically directed,
- ensures that progress towards effective business solutions is monitored.
- plays an active role in the procurement process
- assists in ensuring that the services and solutions obtained are used effectively within the organization to achieve maximum business benefits.

Source: ITIL 2003
eSCM-CL Practices are Organized Into Three Dimensions

1. Sourcing Life-cycle
   - Ongoing
   - Analysis
   - Initiation
   - Delivery
   - Completion

2. Capability Areas
   - Sourcing Strategy Management
   - Governance Management
   - Relationship Management
   - Value Management
   - Organizational Change Management
   - People Management
   - Knowledge Management
   - Technology Management
   - Threat Management
   - Sourcing Opportunity Analysis
   - Sourcing Approach
   - Sourcing Planning
   - Service Provider Evaluation
   - Sourcing Agreements
   - Service Transfer
   - Sourced Service Management
   - Sourcing Completion

3. Capability Levels
   - Levels 1 - 5

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eSCM-CL Purposes

ITSqc developed the eSourcing Capability Model for Client Organizations (eSCM-CL) to:

- To give client organizations guidance that will help them improve their capability across the sourcing life-cycle
- To provide client organizations with an objective means of evaluating their capability

Addresses the entire Sourcing Life-cycle

Provides necessary coverage of Analysis, Initiation and Completion phases of the Sourcing Life-cycle – not just delivery!

Is intended to be complementary to existing quality models
- Is compatible with eSCM for Service Providers

Contains a set of practices that encourage client organizations to continuously improve and innovate

Provides a structured framework to examine status and improvement areas

Will provide an indication of an organization’s capabilities with respect to the rest of the industry

Provides a tool for clients to consistently and comparably evaluate their sourcing capabilities

Provides risk mitigating information to clients about their capabilities