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eSourcing Capability Model for Client Organizations
Bill Hefley and Ethel A. Loesche
eSCM-CL
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COLOPHON

Title:	**eSourcing Capability Model for Client Organizations (eSCM-CL)**
Series:	ITSqc Series in association with IAOP
Authors:	Bill Hefley, Ethel A. Loesche
Chief Editor:	Bill Hefley
Publisher:	Van Haren Publishing, Zaltbommel www.vanharen.net
ISBN:	978 90 8753 559 9
Print:	First edition, first impression, November 2009
Layout/typesetting:	Thinktiv, Pittsburgh, USA
Cover design:	Thinktiv, Pittsburgh, USA
Copyright:	© Van Haren Publishing 2009
Other titles in this series:	eSourcing Capability Model for Service Providers (eSCM-SP) ISBN: 978 90 8753 561 2

For any further enquiries about Van Haren Publishing, please send an e-mail to: info@vanharen.net

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eSCM–CL

eSourcing Capability Model for Client Organizations (eSCM-CL)

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Abstract

Organizations are increasingly delegating their information technology (IT) intensive business activities to external service providers to take advantage of the rapid evolution of the global telecommunications infrastructure and emerging information and communication technologies (ICT) capabilities. The business processes being outsourced range from routine and non-critical tasks, which are resource intensive and operational, to strategic processes that directly impact revenues. Managing and meeting client expectations are major challenges in sourcing of IT-enabled services, and examples of failure abound.

The eSourcing Capability Model for Client Organizations (eSCM-CL) is a "best practices" capability model with two purposes: (1) to give client organizations guidance that will help them improve their capability across the sourcing life-cycle, and (2) to provide client organizations with an objective means of evaluating their sourcing capability. The ultimate success of the Model will be demonstrated when Model adopters see fewer sourcing relationships that end due to deficiencies in service providers' performance, more effective and efficient management of service providers, better relationships between client organizations and their service providers, and increased business value arising from client organization's sourcing activities.

The eSourcing Capability Model for Client Organizations (eSCM-CL) is a "best practices" capability model developed to give clients of IT-enabled services guidance toward improving their capability across the sourcing life-cycle. Additionally, it provides client organizations with an objective means of evaluating their sourcing capabilities. The eSourcing Capability Models were originally developed at Carnegie Mellon University. This work began in March 2003. Data collection activities have included an extensive review of the published literature; interviews with clients, service providers, and advisors; and multiple workshops with global participation.

The eSCM-CL is comprised of 95 Practices that address the critical capabilities needed by client organizations engaged in sourcing activities, specifically focused on sourcing IT-enabled services. The current version, the eSCM-CL v1.11, is composed of 95 Practices that address the critical capabilities needed by clients of IT-enabled services. This document presents the architecture and rationale for the eSCM-CL. This document provides valuable information about the eSCM-CL, its implementation, and methods to evaluate and certify client organizations. This document also contains the details of the 95 eSCM-CL Practices. Each Practice is arranged along three dimensions: Sourcing Life-cycle, Capability Area, and Capability Level. The Sourcing Life-cycle is divided into Analysis, Initiation, Delivery, and Completion, plus Ongoing, which spans the entire Sourcing Life-cycle. The seventeen Capability Areas are logical groupings of Practices that help users to remember and intellectually manage the content of the Model. The five Capability Levels, numbered 1 through 5, describe an improvement path that progresses from a limited capability to perform sourcing up to the highest level of sustaining excellence over time in the client organization's sourcing activities.

Keywords

eSourcing, eSCM, eSCM-CL, eSourcing Capability Model, client organization model, best practices, quality models and systems, capability models, business process outsourcing, BPO, information technology, information technology outsourcing, ITO, IT-enabled sourcing, ITES, IT-enabled outsourcing services, IT-enabled services, knowledge process outsourcing, KPO, outsourcing, insourcing, shared services, captive centers, offshoring, outsourcing models, sourcing, sourcing models, governance, sourcing relationships.

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eSourcing Capability Model for Client Organizations (eSCM-CL)

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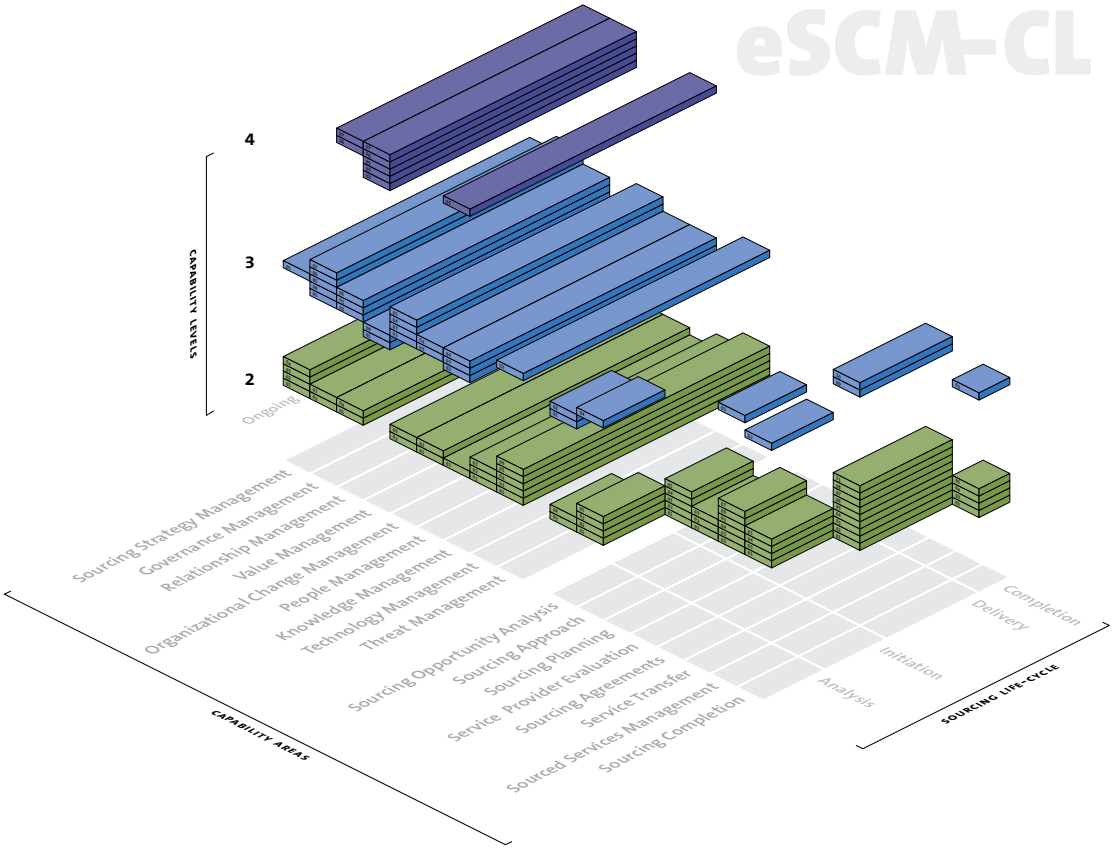

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Acknowledgments

The eSCMs were developed at Carnegie Mellon University. This work was supported by the members of the ITSqc Research Consortium and ITSqc Sponsors. Members of the ITSqc Research Consortium were Accenture; CA; DBA Engenharia de Sistemas (DBA) (Brazil); Deloitte; EDS; Hewlett-Packard (HP); IACCM; IAOP; IBM Global Services; itSMF-USA; itSMF-Brazil (Brazil); Mellon Bank; Outsourcing Institute; Phoenix Health Systems; Satyam Computer Services, Ltd.; STQC (the Standardisation, Testing and Quality Certification Directorate, an attached office under the Department of Information Technology, Government of India); TPI; COPPE, Federal University of Rio de Janeiro; and an undisclosed client organization. ITSqc Sponsors were TPI and La Poste (France).

This effort was made possible through the assistance of many individuals, as members of the ITSqc Advisory Board, reviewers, members of the eSCM-CL working group, participants in workshops, students, and ITSqc colleagues and visiting scholars. A full listing of these many individuals can be found in the V1.1 technical reports [Hefley 2006a, 2006b]. Without their participation, this work could not have come to fruition.



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Foreword - Michael Corbett

Twenty years ago, IBM and Kodak entered into a ground-breaking business relationship under which IBM would take over responsibility for Kodak's central information technology operations, including consolidating these operations from three centers to one. For many, this contract was ground zero of a fundamental restructuring of business that continues unabated today. Call it sourcing, outsourcing, virtualization, or e-sourcing, the result is the same: huge portions of most company's operations – operations that are central to their survival and growth - are now performed by specialized outside companies working under long-term contracts. James Brian Quinn, emeritus professor of management at the Amos Tuck School at Dartmouth, has called this "one of the greatest organizational and industry structural shifts of the century." And few would argue that he overstated the case.

But, as with any change of this magnitude, the gap between what companies hope to achieve through outsourcing and the results they actually get is still significant. Surveys of members of the IAOP (International Association of Outsourcing Professionals), a global network of 100,000 professionals in this field, have found that by an 8-to-1 margin most organizations report a 'mixed-bag' result from outsourcing: achieving some, but not all, of their intended benefits from sourcing.

Although this may seem to suggest that outsourcing doesn't work as well as its proponents suggest, the fact that companies are accelerating their outsourcing efforts – not reducing them – argues something else. It argues that outsourcing, just like the deployment of new technology systems or the merger of previously separate companies, is a necessary, powerful and yet inherently complex undertaking. We may be 20-years down range from the IBM-Kodak deal but there is still much about making outsourcing work yet to be learned. And, just as importantly, much of what has been learned has yet to be applied systematically – through a methodology that brings people, processes, and technology together into an effective, results-driven system.

In response, just as other areas of business have matured to become recognized professions with a well understood role in contributing to organizational success enabled by the skills and professionalism of its practitioners, the same is now happening with outsourcing. Outsourcing professionals are emerging across the business, operating within specific functions and in company-wide capacities. They are increasingly helping to shape the organization's policies and practices, and they are also leading efforts to make outsourcing work effectively, efficiently, and creating value for their organizations. They are increasing the recognized, go-to resource for ensuring better outcomes. At the same time, outsourcing professionals face many challenges themselves, and the effort to develop and codify the field's body of knowledge is really just underway.

IAOP has made addressing the needs of these professionals the centerpiece of its role as the global, standard-setting organization and advocate for the profession. IAOP's Certified Outsourcing Professional (COP) designation – the industry's de facto standard of professional competency

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and excellence – provides those responsible for the design, implementation, and management of outsourcing relationships with a framework for developing and demonstrating their professional capabilities. Whether working as a customer, provider, or advisor, individuals who have achieved the COP designation know how to utilize the industry's best-practices, embodied in the Outsourcing Professional Body of Knowledge (OPBOK), to effectively lead an organization through an outsourcing engagement – from concept to ongoing delivery management.

But, what about the organization, itself? How do organizations take that professional expertise and turn it into a repeated set of management processes that will ensure high-quality results, each and every time? That is where the eSourcing Capability Models, or eSCMs, comes in. By addressing both sides of the client and service provider relationship, they provide the missing process maturity definitions and standards that can be broadly applied by both clients and service providers. These models, as well as professionalism activities, such as the COP designation, support the development of sourcing competencies - both in organizations involved in sourcing and in individuals engaged in these increasingly complex endeavors.

For companies that provide outsourcing services, especially in the information technology-centric areas, eSCM helps them manage and reduce their risks and improves their capabilities across the entire sourcing life-cycle. Companies use eSCM to first evaluate their current capabilities and to then put in place action plans to improve them. It guides organizational processes that not only ensure delivery of the services customers expect but just as importantly guiding their efforts in designing and implementing those services.

For companies that use outsourcing services, the client model, called eSCM-CL, addresses the organizational best practices needed to successfully source IT-enabled services. It defines proven, repeated management processes for developing the organization's sourcing strategy, planning for sourcing and service provider selection, initiating the agreement, managing the service delivery, and managing the transitions at the completion of sourcing arrangements.

Today's highly-complex and rapidly changing global economy demands that organizations look outside their walls for the solutions and services their customer need. Quite simply, no organization can survive relying solely on its own, internal resources. But, working across the boundaries of companies, working collaboratively to bring forward new innovative solutions, is a lot easier said than done. Models, such as eSCM, and professional certifications, such as the COP, do just that – they take the collective experience of the industry and package it in a way that makes those learnings actionable and repeatable.

IAOP and eSCM's developer, ITSqc, are delighted to be working together on this book series - the ITSqc series in association with IAOP - and are pleased to introduce the first volumes documenting the eSourcing Capability Models. Our goal is simple; to further support their adoption and use globally so that organizations will achieve the benefits anticipated and possible through sourcing.

Michael F. Corbett
Chairman, International Association of Outsourcing Professionals® (IAOP®)

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Foreword - Marie-Noëlle Gibon

For a long time companies were very integrated. Today, due to the globalization, they focus much more on their core business activities. As a result, the outsourcing market has seen unprecedented development. In 1996, the outsourcing market in France came to 1,829 M€. Ten years after, in 2007, it amounted to 8,140 M€. And it continues to grow up.

To cope with the competition and stay alive, the companies are (and indeed must be) more reactive, flexible and efficient; IT has to be aligned with the company objectives and strategy. There is a strong need for the IT managers to organize both the internal and external resources so that they can meet the business objectives and contribute to the expected value creation. Sourcing, including outsourcing, is a key activity.

For that reason, good relationships between the Client and the Service Providers are the foundation for success. The potential for value creation depends on the optimization of the Client-Service Provider relationships. To build such trusting relationships, the deployment of good practices is a absolute necessity. The eSCM Model is the only valuable response.

The eSCM Model: a practical guide to successful outsourcing

Most CIO's consider outsourcing activities as being strategic and critical because they help them to achieve the company goals. Thus, it is compulsory to better manage risks related to the externalisation of the IT activities and functions as well as relationship with the service providers. eSCM is really a handy guide for successful outsourcing.

eSCM allows us to define how to implement a sourcing strategy. eSCM is the good compass to navigate to the destination, to meet the organization's needs by delivering the expected services in due time, and by providing the right human resources at the right time. Finally, for client organizations, eSCM is the only model which addresses the different areas of a sourcing policy.

To integrate sourced services with the businesses ongoing activities, it is vital to get on well together. eSCM allows us to share a common language and set up a clear allocation of roles and responsibilities in managing sourced services. Doing this allows client organizations to avoid many pitfalls.

An outsourcing agreement is, primarily, a relationship between two people. To sustain a good relationship, two things are necessary: mutual trust and a minimum of transparency. So,

eSCM is a true "everyday guide" for developing and maturing a successful one-to-one relationship. eSCM addresses all the points of married life, from beginning the relationship, through to handling the conflicts as well as the legal separation; all the details of the legal separation are settled in advance in order to make it less distressing for the two parties. (Indeed, several Practices are devoted to the completion phase).

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The eSCM Model: the "lethal weapon" to ensure company performance and value creation

Service Providers must do more than just to understand the needs of their clients; they must actively contribute to the Client's value creation by performing well the sourced services, by ensuring appropriate knowledge management between the stakeholders, and by fostering innovation. The value is based on a Client-Service Provider coproduction. A well balanced relationship is the key success factor for achieving successful coproduction of value for both parties, as is a relationship based on mutual trust, as trust constitutes the foundation of value creation.

Service Providers substitute for the internal resources to deliver the requested services as agreed. If they fail to fulfil their obligations or if the Clients do not perform well enough the sourcing activities within their own organization, the expected value creation will be seriously impacted. The deployment of the eSCM framework allows client organizations to increase the value of the sourced services by managing and reducing risks related to their sourcing (or externalisation) processes. Value Management is the ultimate goal of the eSCM model usage.

Finally, eSCM also contributes to increase the value of intangible assets, especially the value of the organization's capital and its human capital through the eSCM certification system. Investments in competence upgrading result in creating something of value for the individuals, as well as for the overall organization. It reinforces people motivation and improves the global performance of the organization delighted with the recognition of its demonstrated capabilities.

From the profession faith to the action : the Ae-SCM association and its toolkit

The French Association named Ae-SCM has been created for facilitating the eSCM adoption by the different stakeholders: Clients, Service Providers, and consulting companies. The early adopters, such as La Poste, were faced with a lack of knowledge related to the eSCM model. To make the eSCM model famous, an association was set up to ensure the active promotion of it. But to deploy such a model either as a client or as a service provider, the paper documentation is necessary but not sufficient. Therefore, the working groups of the Ae-SCM association delivers implementation tools such as eSourcing BSC (Balanced Scorecard), CL/SP assessment, CL/SP Maturity Graphs and of course eSCM Pocket Guides …in French.

In a nutshell, eSCM is more than a best practices sourcing framework - the model really instills a new culture of collaboration between Clients and their Service Providers. Shouldn't eSCM be a globally-used "2.0" framework?

Marie-Noëlle Gibon
President of the Ae-SCM

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Introduction

Allocating business activities to an outside organization in order to derive cost and quality benefits is not a new concept to organizations; outsourcing has been widely used since the mid-twentieth century. Initially outsourcing was used primarily for the manufacturing of industrial components, as well as for some non-core services such as facilities management. Outsourcing of information technology (IT) started in the 1960s when organizations commonly used timesharing of computer resources as a way to manage costs. In the 1970s organizations started to outsource parts of their data processing operations to external service providers in an effort to achieve significant cost savings. The 1980s and 1990s witnessed the establishment of some landmark outsourcing agreements that involved the shifting of entire IT operations to external service providers.

The rapid globalization of business and the increased focus on core competencies in the late 1980s and the 1990s also led organizations to extend the concept of outsourcing to IT-intensive business processes. These business processes included customer care, finance and accounting, human resources, information services, and logistics. More recently, IT-intensive projects and tasks, including engineering services, geographical information systems, multimedia content development, and transcription services are also being increasingly outsourced, as are other knowledge-intensive processes, such as various types of knowledge process outsourcing (KPO) or legal process outsourcing (LPO). The primary drivers for this trend are increasing competitive pressures, a need to access world-class capabilities, and a desire to share risks. The allocation of selected business activities to a common shared services center to gain benefits of standard practices also gained widespread acceptance during the same timeframe.

Organizations are increasingly delegating IT-intensive business activities to service providers to take advantage of new growth in the global telecommunications infrastructure and emerging information and communication technologies (ICT) capabilities. The business processes being outsourced range from routine and non-critical tasks, to strategic processes that directly impact revenues. Over the past several years, many kinds of organizations, from manufacturing firms to banks to hospitals, have been delegating IT-enabled activities to external service providers because

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they are focusing on core competencies or lack their own in-house capabilities. In many cases, they have not been satisfied with the results of these sourcing relationships.

The actions of the client organization and those of the service provider in these sourcing relationships are both critical for success. Managing and meeting client expectations is a major challenge for service providers in these business relationships, and examples of failure abound. Challenges that client organizations face include:

- Establishing an appropriate sourcing strategy,
- Identifying capabilities that could be sourced,
- Developing appropriate approaches for sourcing activities,
- Managing risks throughout their sourcing activities,
- Identifying, selecting, and negotiating with service providers,
- Conducting service provider governance and performance management, and
- Managing relationships with their service providers.

eSourcing Capability Models

The eSourcing Capability Models were developed to help both client organizations and service providers alleviate these problems. The eSourcing Capability Models were originally developed at Carnegie Mellon University. These efforts focused on the IT-enabled services (ITES) segment of the global sourcing market by creating capability models and qualification methods to improve sourcing

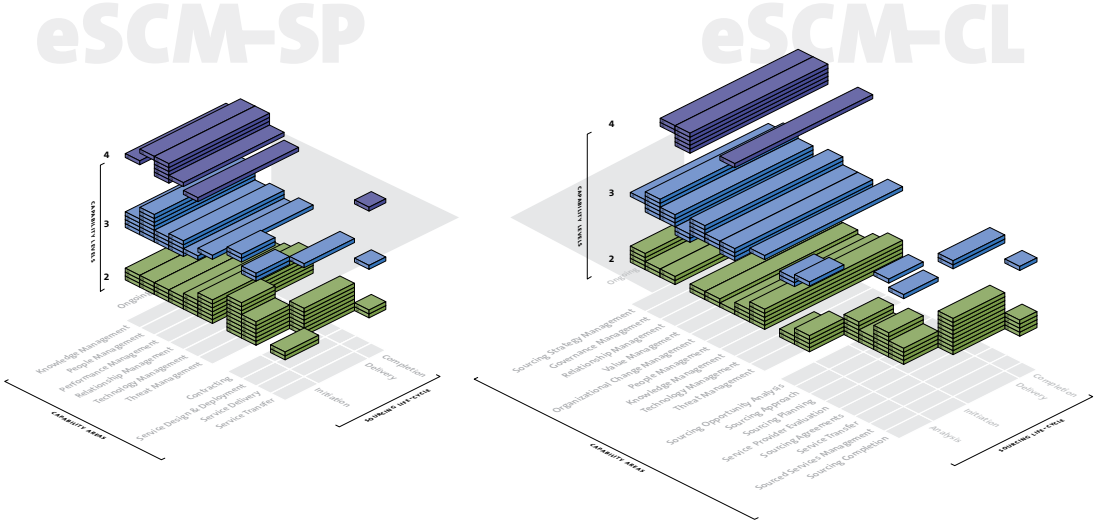

Figure 1.
Complementary Models
The eSourcing Capability Models are complementary Models, addressing both sides of a sourcing relationship

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relationships in the Internet-enabled economy. The eSourcing Capability Models are designed to be complementary Models, addressing both sides of a sourcing relationship, as shown in Figure 1.

The eSCMs enable client organizations and service providers to appraise and improve their capability to foster the development of more effective relationships, better manage these relationships, and experience fewer failures in their client-service provider relationship. The ultimate success of these Models will be demonstrated when Model adopters see fewer sourcing relationships that end due to deficiencies in service providers' performance, more effective and efficient management of service providers, better relationships between client organizations and their service providers, and increased business value arising from client organization's sourcing activities.

eSourcing Capability Model for Service Providers (eSCM-SP): A Comprehensive Solution for eSourcing

The eSourcing Capability Model for Service Providers (eSCM-SP) helps sourcing organizations manage and reduce their risks and improve their capabilities across the entire sourcing life-cycle. The eSCM-SP was developed specifically to address the difficulties in providing eSourcing services. The Model's Practices can be thought of as the best practices associated with successful sourcing relationships. It addresses the critical issues related to IT-enabled sourcing (eSourcing).

The eSCM-SP is a "best practices" capability model with three purposes: (1) to give service providers guidance that will help them improve their capability across the sourcing life-cycle, (2) to provide clients with an objective means of evaluating the capability of service providers, and (3) to offer service providers a standard to use when differentiating themselves from competitors. Prospective clients can differentiate between service providers based on their eSCM-SP level of certification and Practice Satisfaction Profile.

The eSCM for Service Providers v1.0 was released in November 2001. After significant evaluation and revision, eSCM-SP v1.1 was released in October 2002. Version 2 was released in April 2004. The current version, the eSCM-SP v2.02, is composed of 84 Practices that address the critical capabilities needed by IT-enabled service providers [Hyder 2009].

eSourcing Capability Model for Client Organizations (eSCM-CL): Completing the Sourcing Relationship

In order to provide complete coverage of the eSourcing relationship, the eSourcing Capability Model for Client Organizations (eSCM-CL) addresses the difficulties of the relationship from the client's perspective. Existing frameworks do not comprehensively address the best practices needed by client organizations to successfully source IT-enabled services. Our preliminary investigation showed that most current quality models do not address all phases of the client's sourcing process. The eSourcing Capability Model for Client Organizations (eSCM-CL) addresses a full range of client-organization tasks, ranging from developing the organization's sourcing strategy, planning for sourcing and service provider selection, initiating the contract, managing service delivery, and completing the contract.

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The eSourcing Capability Model for Client Organizations (eSCM-CL) is a "best practices" capability model that gives client organizations guidance in improving their capability throughout the sourcing life-cycle. The eSourcing Capability Model for Client Organizations (eSCM-CL) enables client organizations to appraise and improve their capability to foster the development of more effective relationships, better manage these relationships, and experience fewer failures in their client-service provider relationship. The eSourcing Capability Model for Client Organizations (eSCM CL) has two purposes: (1) to give client organizations guidance that will help them improve their capability across the sourcing life-cycle, and (2) to provide client organizations with an objective means of evaluating their capability.

The eSCM-CL allows client organizations to continuously evolve, improve, and innovate their capabilities to develop stronger, enduring, and more trusting relationships with their service providers, and to meet the dynamic demands of their business while effectively managing service delivery by their service providers. It is intended to be a companion model to the eSCM-SP, focusing on the client aspects of successful sourcing relationships; it contains client-focused counterparts to more than half of the eSCM-SP Practices. Each Practice in the eSCM-CL is distributed along the same three dimensions as the eSCM-SP, though the Sourcing Life-cycle is expanded to cover activities the client must perform prior to the beginning of the sourcing relationship.

The eSCM-CL gives client organizations both guidance to improve their sourcing activities and a well-defined standard to use in evaluating these activities to achieve certification and demonstrate their sourcing capabilities through certification. Client organizations can be differentiated by prospective service providers based on their eSCM-CL level of certification and Practice Satisfaction Profile. Client organizations can also use their certifications to signal to customers, regulators, and investors that they have achieved a known level of capability in their sourcing activities.

The eSCM-CL enables client organizations to appraise and improve their capability to foster the development of more effective relationships, better manage these relationships, and experience fewer failures in their client-service provider relationship. The ultimate success of the model will be demonstrated when model adopters see fewer sourcing relationships that end due to deficiencies in service providers' performance, more effective and efficient management of service providers, better relationships between client organizations and their service providers, and increased business value arising from client organization's sourcing activities.

The eSCM for Client Organizations (eSCM-CL) is composed of 95 Practices that address the critical capabilities needed by client organizations involved in sourcing IT-enabled services. The 95 Practices are arranged along three dimensions: Sourcing Life-cycle, Capability Areas, and Capability Levels. The Sourcing Life-cycle includes Analysis, Initiation, Delivery, and Completion, each of which represents an individual phase of the Life-cycle, plus Ongoing, which spans the entire Life-cycle. Capability Areas are groupings of Practices with similar content and focus. Capability Levels represent a path of improvement for client organizations.

Version 1.1 of the eSCM-CL was released in 2006, following the release of Version 1.0 earlier that year. The current version, the eSCM-CL v1.11, which is contained in this book, is composed of

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95 Practices that address the critical capabilities needed by clients of IT-enabled services. The Practices are taken directly from version 1.1 of the Model [Hefley 2006b], but the other material in the book has been updated and expanded from that available in the technical reports. A more detailed history of the eSCM-CL is contained in Appendix E.

Chapter 1 of this book deals with the concepts of eSourcing and IT-enabled services. Chapter 2 describes the critical issues that led to the development of the eSCM-CL and its complementary Model, the eSourcing Capability Model for Service Providers (eSCM-SP) [Hyder 2009]. Chapter 3 describes the three dimensions of the Model structure: Sourcing Life-cycle, Capability Areas, and Capability Levels. The Sourcing Life-cycle includes Analysis, Initiation, Delivery, and Completion, each of which represents an individual phase of the Life-cycle, plus Ongoing, which spans the entire Life-cycle. Capability Areas are groupings of Practices with similar content and focus. Capability Levels represent a path of improvement for client organizations. Chapter 4 discusses the use of the Model: implementing the Model and evaluating client organization capabilities. Chapter 5 describes using the Model in capability determinations (such as assessments, evaluations, appraisals, audits) and certification of client organizations against the Model. Chapter 6 describes the internal structure of the Practices. Chapter 7 addresses interpreting the Model correctly in different environments. Chapter 8 is the bulk of the book: the 95 Practices. These are followed by the glossary, references, summaries of the Practices, a mapping of the overlaps and interdependencies between the eSCM-SP and the eSCM-CL and between the IAOP's Outsourcing Professional Body of Knowledge (OPBOK) [IAOP 2008] and the eSCM-CL, and a brief history of the development of the eSCM-CL.

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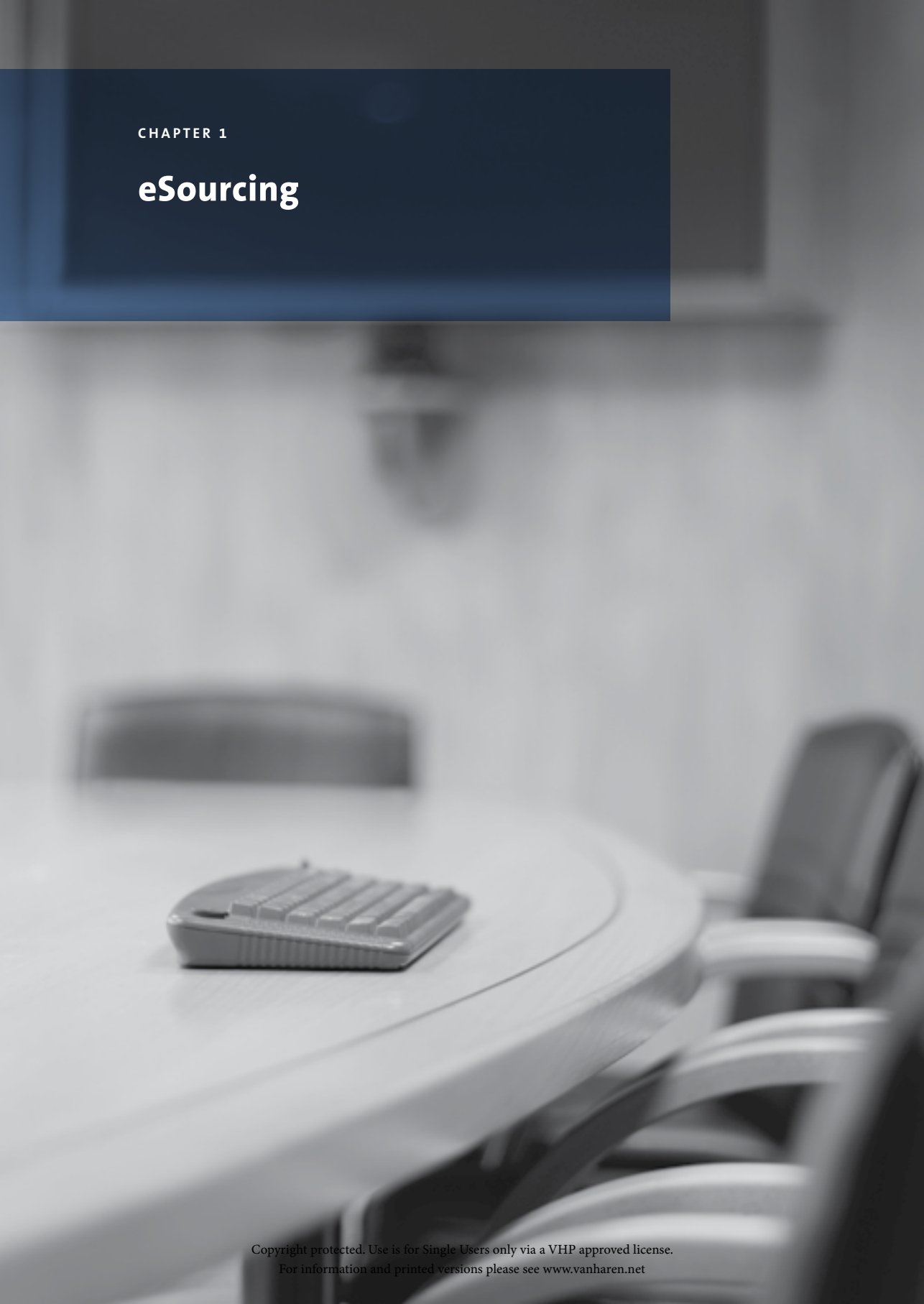
CHAPTER 1

eSourcing



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IT-enabled sourcing, or eSourcing, uses information technology as a key component of service delivery or as an enabler for delivering services. eSourcing is often provided remotely, using telecommunication or data networks. These services currently range from routine and non-critical tasks that are resource intensive and operational in nature to strategic processes that directly impact revenues. eSourcing relies on information and communication technologies as an integral part of the service delivery.

There are several common characteristics of eSourcing. Service design and deployment activities focus on designing the delivery processes, setting up a technology infrastructure, and managing the skills needed for service delivery. The client organization may transfer personnel, knowledge, and the service delivery infrastructure to the service provider. The service delivery phase typically spans multiple years, and often includes continuous or repetitive tasks. The service provider may transfer personnel, knowledge, and the service delivery infrastructure back to the client at the completion of the sourced service.

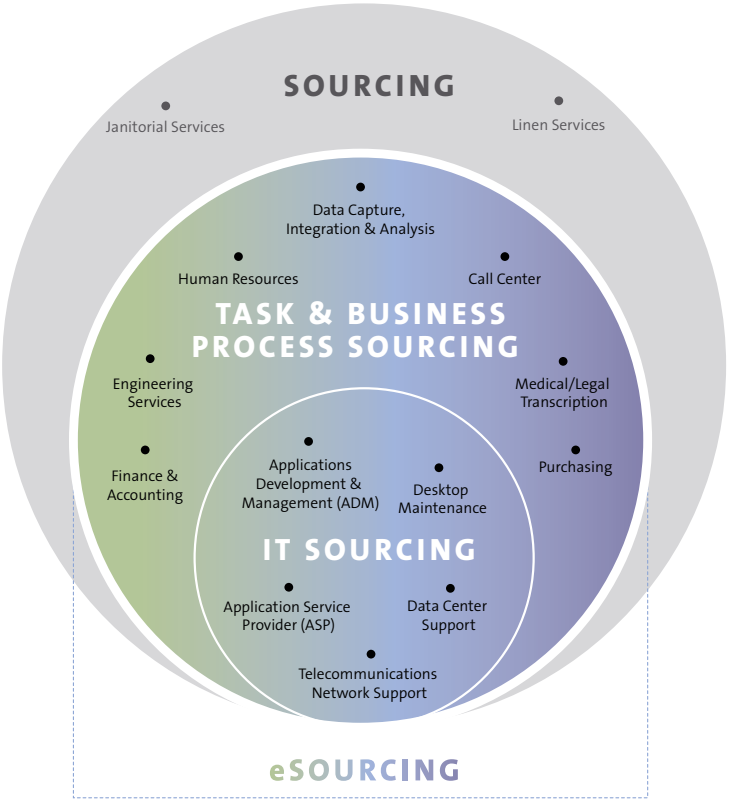

Figure 2.
Types of sourcing
The central two circles, IT Sourcing and Task & Business Process Sourcing, are covered by eSourcing. The outer circle, Sourcing, is excluded from eSourcing.

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Figure 2 shows examples of the types of sourcing services, highlighting the differences between sourcing as a whole, traditional IT sourcing, and task and business process sourcing. eSourcing includes the two middle circles: traditional IT sourcing, and task and business process sourcing. eSourcing typically excludes services such as janitorial services, which are not delivering technology or using technology as a key enabler for delivering service.

Types of Sourcing Relationships

The rapid evolution of the Internet and the increased availability of bandwidth have facilitated the formation of geographically dispersed organizations. This ability to extend past geographical boundaries has contributed to the growth of eSourcing and has made possible the formation of a wide variety of sourcing relationships. These relationships typically fall broadly into one of the following categories:

- Traditional: a single service provider delivers service to a single client.
- Co-sourcing: two service providers work together to deliver service to a single client. Often, one of these providers is internal and the other is external to the client.
- Multi-sourcing: multiple service providers provide services to a single client. The client takes responsibility for managing and integrating the services of the various service providers.
- Alliance: multiple service providers collaborate to serve one or more clients. Often, one of the service providers has a primary role in interfacing with the client on behalf of the alliance. An alliance is sometimes referred to as a Delivery Alliance.
- Joint Venture: multiple service providers form a collaborative business venture to serve one or more clients. Often, the first client may be part of the joint venture.

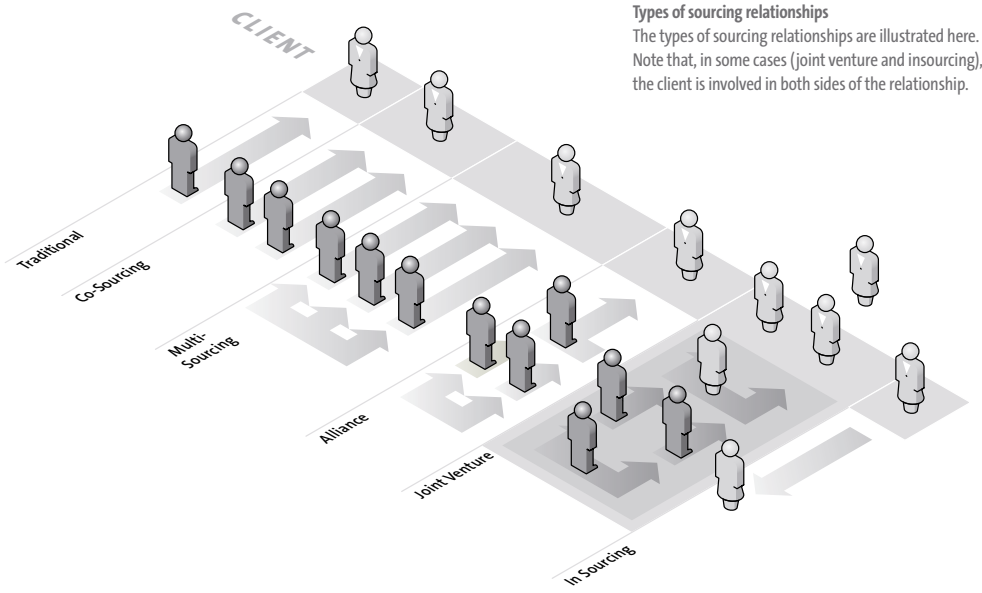

Figure 3.
Types of sourcing relationships
The types of sourcing relationships are illustrated here. Note that, in some cases (joint venture and insourcing), the client is involved in both sides of the relationship.

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- Insourcing: a group within the client organization is selected as a service provider, but is largely managed as an external entity. Often this group must compete with external suppliers or service providers for work. Insourcing may refer to services provided to the client organization by a shared services center, which could be located onshore or offshore, or by a dedicated delivery center, which also could be located onshore or offshore. The latter are often referred to as captive centers or global delivery centers.

Sourcing, as used in this document, refers to any and all of these types of relationships. Figure 3 provides a graphic depiction of these sourcing relationships.

Service provider, as used in the eSCM-CL, refers to the entities that provide IT-enabled sourcing services to a client organization. The role of service provider is performed by any organizational units, whether internal or external, that delivers and supports IT-enabled sourcing services to a customer. The service provider is managed as a separate entity from the client organization in a sourcing relationship between the client organization and the service provider. The client organization is the buyer of sourced services from their service providers.

Types of Sourcing

Sourcing can be broadly divided into three categories. These three categories are:

(1) Selective sourcing is where a portion of a business function is sourced. This ranges from a single task (e.g., check printing) to an entire process (e.g., payroll processing) within a business function.

(2) Total sourcing occurs when an entire business function is sourced (e.g., Human Resources).

(3) Transitional sourcing is the practice of temporarily sourcing during a period of transition. For example, sourcing legacy payroll systems while a new payroll system is being developed. The intent of transitional sourcing is not to source the function long term, but only for the duration of the transition period [Willcocks 1998].

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CHAPTER 2

Sourcing Issues & a Solution



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Growth of eSourcing

IT-enabled services are being sourced at a rapid rate. The evolution of the Internet and the global telecommunications infrastructure has provided client organizations with a choice of service providers located anywhere in the world. Simultaneously, competitive pressures have driven organizations to find the most cost-effective way to get the IT-enabled services they need while maintaining or improving their quality of service.

Many studies confirm outsourcing's current rapid growth path. According to a study by AMR Research, 50% of IT companies were predicted to outsource a portion of their business in 2006, up from 20% in 2003 [Gardner 2003]. Approximately 30% of the companies that participated in a 2003 survey by Accenture and the Economist Intelligence Unit reported that they currently outsource finance and accounting functions, with two-thirds of those characterizing the arrangement as successful or very successful [Business Wire 2003]. State and local government spending on IT outsourcing were projected to reach $23 billion by fiscal year 2008, more than doubling the amount in 2003 [Chabrow 2003]. Actual results have kept apace. Offshoring, outsourcing, and shared service centers have been identified as thee of the twenty-five most popular management tools, with outsourcing being one of the top ten most used tools [Rigby 2007]. The global offshore outsourcing market for IT and business services exceeded $55 billion in 2008 and some forecasts predict an annual growth rate of 20% over the next five years [Oshri 2009]. Over 200 firms from the Forbes 2000 companies and 50 per cent of the Fortune Global 500 have offshored IT and business process activities through captive centres, making a total of about $9bn of business [Oshri 2009]. In spite of recent economic fluctuations, Gartner has predicted the continued growth of the worldwide outsourcing services market to over $500 billion US dollars by 2013, as shown in Figure 4 [Harris 2009].

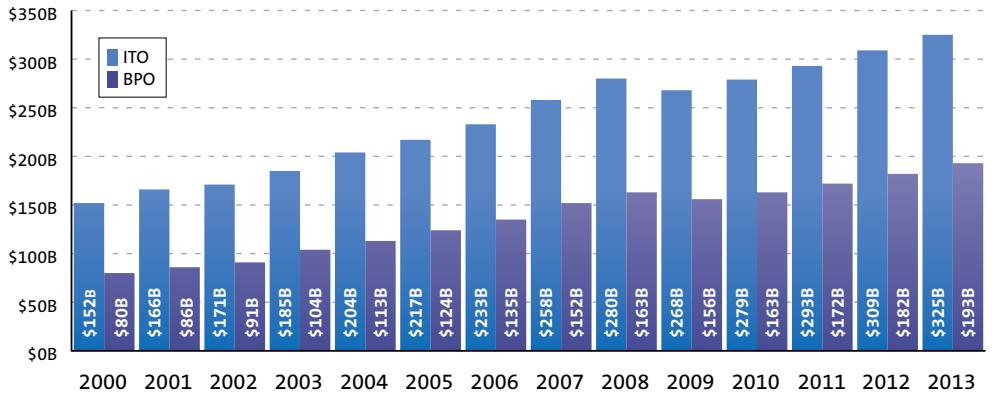

Figure 4.
Continued growth of the worldwide outsourced services market
The ITO and BPO market is predicted to grow to over $500 billion US dollars by 2013.

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Perhaps the most obvious reason for the growth of outsourcing was cost savings. Outsourcing certain business functions often costs less than hiring, maintaining, and training in-house staff, and acquiring the necessary technology and infrastructure to handle these functions, many of which are highly-regulated [TrainExcel 2002]. Service providers strive to achieve economies of scope (across customer portfolio) and economies of scale (across service portfolio), which may result in lower unit costs for services.

Outsourcing operational and administrative functions that do not generate revenue enables companies and departments to focus on their core business and on their customers' needs. For example, by outsourcing human resources (HR) tasks like payroll administration, and data-entry and maintenance of employees' information, the HR department is free to focus on being the company's employee advocate, business change agent, and strategic business partner [TrainExcel 2002].

In addition to these factors, recent advances in network security, leased lines, and storage have made it technically easy to outsource [Gardner 2003]. Technological barriers to outsourcing are being diminished.

Companies that are considering significant technology upgrades often find outsourcing a beneficial alternative. Service providers invest in the technologies, methodologies, and people required to excel in their area of expertise. They work with many clients facing similar challenges, and become experts in solving those particular problems. The clients also gain experience and an ability to innovate by taking advantage of the service providers' expertise and capable people.

Business Process Outsourcing (BPO) is a special class of outsourcing that deals with business functions that have been traditionally tightly-coupled (or integrated) to the client organization's business than those functions that have been traditionally outsourced. BPO occurs when a client sources one or more of its key processes to an external organization to enable higher business performance, reduce costs, or improve operational efficiency. These may even include strategic processes that have otherwise been kept in-house. According to a 2003 Forrester report [Ferrell 2003], four business segments are excellent candidates for successful and effective BPO. These candidates for successful BPO are:

- Straightforward bulk transactions, including credit card and stock transactions, are expected to reach $57 billion of annual BPO market space by 2008.
- Broad shared-services outsourcing, including finance, administration, human resources, and indirect procurement, are also expected to reach $57 billion of the annual BPO market space by 2008.
- High-volume vertical processes, including policy administration, claims, and loan applications, are expected to reach $6 billion of the annual BPO market space by 2008.
- More complex and specialized vertical applications, including monitoring chemical control processes and environmental data reporting, are expected to reach $5 billion of the annual BPO market space by 2008.

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Knowledge process outsourcing (KPO) is another class of outsourcing that typically deals with unscripted, knowledge-based tasks [Martorelli 2005]. KPO typically requires skill and knowledge levels in service provider personnel which are higher-level, specialized, or differentiated from many rule-based or scripted BPO operations.

An International Data Corp. (IDC) study of over 175 senior executives from a wide range of industries found that organizations are expanding beyond traditional IT outsourcing, delegating business processes that are closer to their core competencies, including some human resources processes (19% of the respondents), call center or customer care activities (18%), and some logistics and supply chain management processes (16%). An even greater number of respondents said they are likely to outsource more of these business-related functions and processes in the future [Canada Newswire 2003].

Reasons for sourcing are numerous. Global sourcing of business services is continuing to increase in scale and scope, and firms are now demanding more than mere cost savings [Sharma 2009]. Reasons for outsourcing often include reducing costs, transforming or reengineering processes, leveraging technology expertise, improving customer value, gaining competitive advantage, market responsiveness, consolidating assets or resources, increasing shareholder value, gaining access to new skills due to a lack of in-house resources, gaining access to new technologies, access to cheaper labor, increased flexibility, portfolio relationships with providers, and making global operations more effective [Deloitte 2008, Hyatt 2009, Kakabadse 2005]. Organizations are developing a distinct orientation around business processes that unite technology and operations, and this is evidenced in three emerging key drivers for sourcing: cost, as organizations strive to achieve substantial and sustainable improvements in their total costs of operations; capability, as they employ sourcing to develop and deploy new and innovative services that support attainment of their strategic business objectives; and capacity, as sourcing provides organizations with access to scaleable and resilient sources of talent and infrastructure to enable them to better achieve their business goals [TPI 2008].

Critical Issues for eSourcing

The advantages of sourcing do not come without risk. A 2003 study released by Accenture and the Economist Intelligence Unit [Business Wire 2003] cited the three risks most often considered. These risks are:

- the risk of valuable data falling into competitors' hands (52%),
- the risk that the cost of outsourcing will exceed expectations (48%), and
- the erosion of in-house knowledge (45%).

Even after overcoming these initial concerns and contracting with a service provider, clients often find that sourcing is not fully meeting their needs. Twenty percent of respondents to an InformationWeek survey said that their outsourcing experiences had not met their expectations. In addition, many clients need to renegotiate sourcing contracts and reevaluate their choice in service providers [Gareiss 2002].

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According to a Dataquest study, more than half of all sourcing customers report having renegotiated a contract, and in nearly one-quarter of these renegotiations the original service provider lost the account [Gartner 2000]. In Dun & Bradstreet's Barometer of Global Outsourcing, companies reported that between 20% and 25% of all outsourcing relationships fail in any two-year period. Some 50% of the relationships fail within five years. The reasons cited for failure are remarkably similar across all types of relationships. Nearly 70% of the respondents noted that the outsourcing supplier "didn't understand what they were supposed to do" and "the cost was too high and they provided poor service" [Ozanne 2000].

In spite of the problems reported by many respondents, clients continue to plan to increase their outsourcing in the years beyond 2000. Over 30% of the companies presently outsourcing functions of their businesses are actively engaged in searching for outsourcing opportunities in additional functional areas [Ozanne 2000]. This trend is continuing today [Corbett 2009].

eSourcing Perspective

Sourcing failures are largely related to a core set of critical issues affecting sourcing relationships. Based on literature review [Kumar 2001] and interviews with IT-enabled sourcing service providers and clients, 23 issues were identified as critical for successful eSourcing [Hyder 2004a]. In developing the eSCM-CL, we have conducted an extensive literature review [Khera 2007], and have held multiple interviews with IT-enabled sourcing service providers, clients, and advisors and consultants. This additional perspective has provided new insights into these 23 common issues, as well as provided a unique client perspective on issues, which will be addressed in the following section.

The common issues facing eSourcing are:

Establishing and maintaining trust with stakeholders.

Building a trusting relationship with stakeholders is critical to success, especially in global sourcing, where sourcing relationships often span multiple years. This is particularly the case between clients and service providers, but is also important for all suppliers and partners involved in the sourcing relationship. By managing expectations and effectively responding to personnel, clients, and end-users, the service provider establishes trust with its stakeholders to help establish long-term relationships.

A trusting relationship is also important with client personnel in order to overcome in-house resistance. Resistance to change often occurs when individuals react to change, especially in situations where their information is limited or their fears of the new situation great. Many clients typically do not effectively execute communication plans for internal and external audiences to overcome these barriers.

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Managing stakeholder expectations.

A common source of failure in sourcing relationships is a difference in expectations between the client, the service provider, and their suppliers and partners. Identifying and managing those expectations helps to ensure a common understanding of what is necessary for success.

Client organizations often have difficulty with expectation management. End-user expectations about service delivery and performance, perspectives of senior management and key stakeholders are all critical to success. Buy-in and support from management, power-brokers, and other key stakeholders (e.g., unions or key employees) is very important in establishing and sustaining sourcing efforts. Successful communications plans that tailor messages to audiences and clearly help set expectations can be a crucial, but often overlooked, aspect of expectation management.

Translating implicit and explicit needs into defined requirements with agreed-upon levels of quality.

A frequent cause of failure in sourcing is that the service provider does not fully understand the needs of the client. This may be due to the inability of clients to adequately express their needs, ambiguity in scope or the definition of services, difficulties in defining service levels, as well as by a lack of rigor by the service provider in gathering and analyzing those needs. Many client and service provider teams interpret scope of engagements differently. Some service providers have difficulty in understanding their client's business. In Dun & Bradstreet's Barometer of Global Outsourcing, nearly 70% of the respondents noted that the outsourcing supplier "didn't understand what they were supposed to do" and "the cost was too high and they provided poor service" [Ozanne 2000].

Successful service providers rigorously gather and analyze the stated and unstated needs, then translate those needs into a set of documented requirements. Successful sourcing relationships also recognize that needs change over time and establish provisions for gathering and analyzing modifications to the sourced services. However, many clients do not baseline their existing operations or benchmark the desired state for service provision, so they do not bring realistic expectations into the stated requirements.

Establishing well-defined contracts with stakeholders, including clients, service providers, suppliers, and partners.

Poorly written contracts are a common cause of failure in sourcing, resulting in a significant number of contracts being renegotiated. Sourcing arrangements are typically long-term in nature and require agreements that are clear and detailed, as well as being flexible enough to account for business changes. Formal mechanisms are required in order for the provider to identify changing needs, modify services based on those changes, and amend agreements to reflect the current requirements and commitments.

Many clients report feeling that they are at a disadvantage regarding their limited experience in performing many sourcing tasks, such as service provider identification, selection, and negotiation. This perceived disadvantage stems from clients, who infrequently engage in these tasks, facing off against service providers who routinely engage in entering into

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complex agreements for service delivery. This lack of experience and lack of appropriate processes for service provider selection leads to inappropriate service provider selection. Resulting agreements may be ambiguous, lack flexibility or ability to adapt over time, or be overly long or overly restrictive. Some clients report difficulties arising out of an over-reliance on service providers' standard contracts.

Reviewing service design and deployment to ensure adequate coverage of the requirements.

Frequently, failure in sourcing is caused by the service provider not fully addressing the needs of the client or understanding the client's business. To ensure that the service delivery will meet the client's needs, successful engagements include rigorous reviews of the service design and deployment activities by the clients and the service provider prior to service delivery. These client reviews are difficult when clients do not fully understand or baseline their existing operations, have measurements for current operations, or can clearly describe benchmarks for the desired state for service provision.

Ensuring the effectiveness of interactions with stakeholders.

Sourcing, especially global sourcing, often involves a combination of face-to-face and remote interactions. Interactions between clients and service providers need to be managed in order to effectively understand their needs; clear communications with all stakeholders can have a strong positive impact on the ability to effectively perform work. Ambiguity or lack of clearly defined roles and responsibilities for both client and service provider personnel can impact the effectiveness of these interactions.

Managing relationships between clients and service providers, as well as supplier and partner relationships, to ensure that commitments are met.

A successful relationship requires efforts by both parties. Clients cannot relinquish responsibility for their services when they transfer the service to a service provider. However, some clients tend to abdicate entire responsibility to providers after their sourcing agreement is signed.

Meeting commitments requires that these commitments be clearly established and understood. In many cases, both clients and service providers are challenged when they try to interpret service level agreements (SLAs). This leads to situations where client and service provider teams interpret the requirements or scope of engagements differently. ITSqc research shows that clients are often focused on the meaning of the measures (i.e., the business results), while service providers place more emphasis on the values of the measures (i.e., whether their service levels are meeting the required SLAs).

Sourcing engagements often include multiple service providers working together to meet the client's needs. Regardless of the type of relationship (such as alliance, joint venture, subcontractor, and supplier), suppliers and partners of the service providers can have a significant impact on the effectiveness of the service delivery and they must be actively managed. Challenges to be overcome include an actual or perceived lack of supplier responsiveness, and getting suppliers to work together in constructive manners that add value for the client organization.

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Ensuring compliance with statutory and regulatory requirements.

Clients are faced with numerous statutory and regulatory requirements. In many sourcing arrangements, they are accountable and held responsible for compliance, while the actual service delivery is managed and controlled by the service provider. In global sourcing, service providers are often faced with the need to comply with a large variety of laws and regulations, including laws in unfamiliar countries or regions. Effectively operating in this environment requires rigorous analysis and management of all applicable legal requirements to protect themselves and their clients, establishment of appropriate operational or security controls, and procedures to ensure confidentiality, integrity, and availability of information.

Managing clients' security.

Managing security and controlling critical data and assets are critical to establishing trust. Security management includes protection of intellectual property, confidentiality, and privacy concerns. Breakdowns, such as security breaches, can impact the service provider's ability to provide adequate service and can irreparably damage the relationship with the client. Clients often face issues surrounding protection of end-user information, and the sharing of confidential information with service providers.

Managing cultural differences between stakeholders.

In sourcing relationships, there are many potential cultural differences between service providers, clients, end-users, suppliers, and partners. These include differences between country, region, and organizational culture. These cultural attributes need to be identified and addressed in order to guard against breakdowns in communication.

Monitoring and controlling activities to consistently meet the service delivery commitments.

Successful service providers rigorously monitor their service delivery activities to ensure that the client's commitments are being met. Actions are taken to resolve and prevent problems, thereby escalating issues as appropriate to ensure that they are addressed in a timely basis.

Governance of sourcing engagements and performance management are not activities that client organizations can leave solely for service providers to perform. Difficulties arise when clients engage in passive managing and monitoring, have inadequate measures of service level performance, or an absence of effective controls and independent validation. Ineffective cost monitoring and control can lead to cost escalation. A lack of viable contingency plans can expose the client organization to unnecessary risks.

Monitoring and managing clients' and end-users' satisfaction.

Success is not always defined in terms of meeting the agreed-upon commitments, because clients and end-users may be unsatisfied even when commitments are being met. Successful sourcing engagements monitor the satisfaction levels of stakeholders to identify problems and take action.

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Building and maintaining the competencies that enable personnel to effectively perform their roles and responsibilities.

Sourcing is often highly dependant on specialized competencies, without which personnel cannot effectively perform the work assigned to them. Clients need to know the skill sets and competencies needed in their own organization and from the service provider's staff. Many clients report a managerial or governance skill shortage, resulting in a lack of appropriately trained and qualified personnel to manage and monitor their ongoing sourcing engagements. Client organizations need to retain, develop and deploy appropriate technical and managerial skills to manage, oversee, and coordinate with service providers. Service providers need to manage the competencies of individuals as well as the workforce as a whole, in order to ensure that work is effectively performed and that the client's requirements are met.

Clients are also seriously challenged by both internal and external change management efforts posed to accomplish successful sourcing. Sourcing management staff, as well as other retained staff, all must deal with changes as new means of service delivery are deployed. Any staff, whether transferred or retained, must also deal with change and adapt while maintaining service delivery.

Managing employee satisfaction, motivation, and retention.

IT-enabled sourcing often involves challenges during transition and deployment, and during service delivery. High employee turnover jeopardizes the service provider's ability to meet its clients' requirements, and undermines their expected gains and performance levels. Ensuring that appropriate competencies are developed in client and service provider personnel can increase employee satisfaction, reduce stressful situations, and create conditions that enhance motivation and retention of critical sourcing personnel. Proactively monitoring and managing employee satisfaction and motivation can improve personnel retention and effectiveness, as well as assist in guiding ongoing change management activities. Proactive communication can assist these actions.

Establishing and maintaining an effective work environment.

A work environment that is well suited to the service being delivered and managing the service enables personnel to effectively perform their work. It also contributes to employee satisfaction and retention.

Maintaining a competitive advantage.

Service providers need to effectively demonstrate their capabilities relative to competitors. This is initially done to differentiate the service provider from the competition in such a way that they will be chosen over other providers. On an ongoing basis, this is done to continually improve the organization's capabilities and demonstrate to clients that the current service provider is the organization best equipped to meet clients' changing needs. An important aspect of being competitive is demonstrating financial stability and longevity. For client organizations, an important aspect of competitiveness is focused on understanding

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the organization's sourcing performance and its alignment with the organization's objectives and sourcing strategy.

Innovating, building flexibility, and increasing responsiveness to meet unique and evolving client requirements.

The most successful sourcing relationships are those where both parties are able to be flexible and responsive to clients' changing needs. Adopting innovations is one way to add value and meet new needs. Another is to actively manage the performance of the organization and continuously improve its capabilities. A focus on innovation and value creation is the responsibility of both client organizations and their service providers in robust, successful sourcing relationships.

Managing rapid technological shifts and maintaining the availability, reliability, accessibility, and security of technology.

By definition, technology is a key component of eSourcing; without technology, the delivery of IT-enabled services could not be possible. Major challenges for the service provider include keeping pace with rapid changes in technology and effectively managing the technology infrastructure while changes are incorporated. Clients face challenges remaining involved in managing their technological strategies, architectures, and infrastructures.

Capturing and using knowledge.

Managing knowledge is critical to avoid rework and improve the consistency and quality of work performed by personnel on all sides of a sourcing relationship. This includes the effective storage, retrieval, and use of knowledge gained on engagements. A key aspect of establishing this knowledge management is successful, and adequate, knowledge transfer during the Initiation phase of the Sourcing Lifecycle. Equally important is the transfer and retention of knowledge during the Completion phase.

Smoothly transferring services and resources.

A common cause of failure in sourcing is the ineffective management of the transfer of services and resources to and from service providers, leading to service delivery problems or failures. Successful clients and service providers rigorously control the transfer of services and resources to ensure that the new service provider is able to adequately deliver the service and that service continuity is maintained. Successful knowledge transfer, along with appropriate training of client personnel to manage the service provider and of service provider personnel in the client's business, assists in the transfer of services.

Maintaining continuity of the service delivery.

Effectiveness of sourcing is related to the ability to maintain service continuity despite any problems that arise. Successful clients plan and prepare for business continuity throughout the life-cycle. Successful providers manage service continuity by effectively controlling and preventing problems during service delivery, preparing and responding to threats (e.g.,

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disasters and risks), and coordinating the transfer of service during periods of transition (e.g., during Initiation and Completion).

Capturing and transferring knowledge gained to the client during completion.

A frequent concern of clients who consider sourcing is that in-house knowledge will be eroded, making it impossible to bring sourced services back in-house. Successful relationships address this concern by making provisions for capturing and transferring knowledge back to the client during completion.

Measuring and analyzing the reasons for termination, to prevent reoccurrence.

Termination may happen for a number of reasons, including an inability of the service provider to meet changing client needs, resolve problems, meet commitments, or match the capabilities of competitors. Rigorously analyzing the reasons for termination and taking action based on the findings helps to prevent issues from recurring and ensure the long-term success of sourcing relationships.

Client Organizations' Perspective

Client organizations face a number of additional critical issues affecting their sourcing relationships or their performance of sourcing activities. There are three issues which comprise an additional client-focused perspective on eSourcing. These client-focused issues are:

Establishing a strategy for the organization's sourcing activities.

Client organizations often have an inadequate focus on Analysis, Initiation, and Completion activities. They may not have a strategy for sourcing, or may have a strategy that is not synchronized or aligned with the IT or corporate strategies of the client organization. The sourcing strategy should clearly describe sourcing objectives; be in alignment with the organization's business, growth, and continuity strategies; clearly have executive sponsorship, as opposed to weak or non-existent executive sponsorship; be defined, documented and followed; and be regularly updated as conditions change.

The organization's sourcing strategy should guide analysis activities to prepare for and overcome difficulties in the initial decision making. It should ensure that the organization understands which capabilities or processes (strategic/non-strategic, core/non-core, or key/non-key) should be retained in the organization, that non-core activities often may be outsourced too automatically, and that the organization gives adequate consideration to the full economic impact of its sourcing activities.

Being an informed buyer of eSourcing services.

Client organizations should be an informed customer of sourced services. Client organizations often make decisions to source without considering the fit with broader or long-term business strategies, the impact on short-term organizational performance, whether sourcing is appropriate or if they are joining a fad, or the risks of losing internal expertise.

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Client organizations should be actively involved in managing the activities in the Analysis and Initiation phases of the Sourcing Lifecycle. Some client organizations tend to rely on consultants to conduct source selection. This can result in a lack of appropriate consideration of consequences (e.g., lack of direct communication with potential providers) or inadequate involvement by the client organization in the decisions and risk management of the sourcing process.

Sourcing should be a part of the organization's process management approach, rather than an exception. This requires developing competency in sourcing and managing sourcing relationships. Many organizations view their sourcing activities as separate isolated projects, i.e., single events or transactions, rather than as an integral part of their ongoing management processes. Some client organizations establish special sourcing projects named to convey popular images to investors, e.g. "right sourcing" or "global sourcing," rather than addressing sourcing as a part of the organization's standard business processes. Others learn the hard way that "distress outsourcing," which is outsourcing a problem area as a way to solve that problem, often leads to more distress. Passing a problem to a service provider does not eliminate the problem; rather it increases the number of parties involved in or trying to solve it. Often, this leads to additional distress or continuing problems after the sourcing engagement begins [ITGI 2005]. Some clients have found that they have better outcomes and are able to negotiate better arrangements when they involve internal team bids, treating insourcing as another potential type of sourcing relationship.

Actively managing sourcing risks.

Sourcing does not necessarily transfer the governance, accountability, or the risks associated with the outsourced activity. Client organizations should actively identify, manage, and mitigate all relevant risks. Key client risks that may arise include:

- poor strategic planning with respect to sourcing,
- inadequate alignment of the sourcing strategy, corporate strategy, and IT strategies,
- potential changes in client's business practices and processes,
- in-house resistance and poor communication,
- change management efforts are often neglected or ignored,
- lack of clear division of responsibilities between client organizations and their service providers,
- communications difficulties with the service providers due to cultural differences or poorly-defined service provider interactions,
- potential dependency on service providers, and
- reputation risks, where a highly visible problem at the service provider is a potential problem for the client due to adverse publicity.

Applying Frameworks to eSourcing

Existing Frameworks do not comprehensively address best practices client organizations need to successfully source IT-enabled services. Our preliminary investigation showed that most

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current quality models do not address all phases of sourcing process (spanning Analysis, Initiation, Delivery, and Completion activities). The development of the eSCM-CL is described in Appendix A.

The eSourcing Capability Model for Client Organizations (eSCM-CL) addresses a full range of client organization tasks, ranging from developing the organization's sourcing strategy, planning for sourcing and service provider selection, initiating agreements, managing service delivery, and managing service completion.

The Intent of the eSCM for Client Organizations

Over the past several years, many organizations, from manufacturing firms to banks and financial institutions to hospitals, have been delegating computer-intensive activities to external service providers because they are focusing on core competencies or lack their own in-house capabilities. Organizations are also making effective use of shared services arrangements which offer centralized management of activities for multiple users within an organization [Kearney 2004]. Effective use of sourcing can deliver substantial reductions in and control over costs, and, thus, can help firms gain competitive advantage and to focus on core competencies. Nevertheless, numerous sourcing relationships experience severe problems and fail to demonstrate the business value of sourcing IT enabled services to the organization. Additionally, exhaustive literature review and interactions with professionals in the sourcing industry has helped ITSqc identify other key issues in sourcing of IT-enabled services from clients' perspective. The eSCM for Client Organizations seeks to address these key issues.

The eSourcing Capability Model for Client Organizations (eSCM-CL) is a "best practices" capability model with two purposes. These purposes are to:

Provide client organizations with guidance that will help them improve their capability across the sourcing life-cycle.

- To provide client organizations with a set of best practices that will help them improve their capabilities across their sourcing activities.
- To help client organizations establish, manage, and sustain continuously improving sourcing relationships.
- To provide guidance to the clients in mitigating the business, regulatory, and legal risks in sourcing IT-enabled services.
- To help client organizations build competence to manage their sourcing strategies.
- To guide client organizations in focusing on their core competencies and operations strategic to the client organization through improved sourcing management capabilities.
- To help client organizations measure the business value of the sourcing relationships.
- To ensure stakeholder satisfaction across all phases of the sourcing process.

Provide client organizations with an objective means of evaluating their sourcing capability.

- To provide clients with an objective means for evaluating their own capabilities in sourcing IT-enabled services.

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- To support client organizations in using multiple Capability Determination methods for evaluating their sourcing capabilities,
- To become the preferred resource for best practices and Capability Determination methods for clients of IT-enabled sourcing services,
- To ensure compatibility of this Model with other major client-focused models to avoid duplication of effort by client organizations.

Thus, the eSCM-CL gives client organizations both guidance to improve their sourcing activities and a standard to use in evaluating these activities to achieve certification and demonstrate their sourcing capabilities through certification. Client organizations can be differentiated by prospective service providers based on their eSCM-CL level of certification and Practice Satisfaction Profile.

The ultimate success of the Model will be demonstrated when Model adopters see fewer sourcing relationships that end due to deficiencies in service providers' performance, more effective and efficient management of service providers, better relationships between client organizations and their service providers, and increased business value arising from client organization's sourcing activities.

Audience for eSCM-CL

Organizations that will find the eSCM for Client Organizations useful are primarily client organizations who:

- procure or source IT-enabled services,
- delegate one or more of their information technology (IT)-intensive business activities to a service provider (either internal, shared services, or external),
- need guidance in improving and measuring their capabilities for successfully managing their sourcing relationships,
- wish to assess their sourcing capabilities, or
- wish to undergo an external evaluation or certification of their sourcing capabilities.

Additionally, advisors or consultants will find eSCM-CL useful in guiding best practice implementation in client organizations.

Guiding Principles for eSCM-CL

A number of principles have guided the development of the eSCM-CL. These twelve Guiding Principles and their rationales are described below.

1. Focus on sourcing management for IT-enabled services.

The eSCM-CL focuses on a client organization's activities for managing and executing within the sourcing life-cycle. The eSCM-CL is not a general business model or a general model for IT management, IT portfolio management, or IT value management

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2. Building confidence and trust with all stakeholders

Client organizations need to build a culture of openness that instills confidence in their stakeholders. This should aid in building confidence and trust within the entire service value chain, between client and its service providers, within the client organization, and with the end users (who may be either internal or external customers) of the client. This promotes the ability to establish and nurture mutually beneficial and trusting relationships with their service providers. Multi-national and organizational cultural differences between the client's sourcing function and their internal stakeholders, between the client organization and its service providers, and cultural differences between the service provider and end-users may impact the quality of interactions and the overall quality of the sourcing relationships. Building confidence with all stakeholders enables better management of these cultural differences. Building confidence and trust also facilitates a coordinated service procurement, design, deployment and delivery that matches well with the users' context and requirements. Additionally, building confidence and trust promotes a culture of innovation that can enhance value for the client organization.

3. Communicating effectively with all stakeholders

Client organizations need to communicate effectively with stakeholders. Stakeholders include customers, business partners, investors, the business environment and employees. Ineffective communications strategy and execution are major causes of sourcing failures. Communication is a vital link between the various organizational elements and it enables the achievement of organizational objectives through the elements' coordinated functioning. Open communication fosters sharing of client and end-user related knowledge across the organization. When performing sourcing activities, communication is a primary means of providing information and quelling unrest and dispelling rumors in the workforce, each of whom may be concerned about adapting to the changes that sourcing may bring to their situation.

4. Increased agility through improved capability to effectively manage change

Sourcing initiatives affect many different parts of the organization, regardless of whether the sourcing is to an in-sourced shared services center or to an outsourcing service provider. Successful implementation of the technical and business changes and transformations in sourcing often requires adaptations in the human element of the system. The resulting cultural changes may affect all levels of the organization's workforce. Forrester suggests that it can be more efficient and less costly to achieve the desired end state "if organizations implement a programmatic approach to organizational change management" [Roehrig 2005].

Properly incorporating a change management program as an integral part of the sourcing activities to help manage fears and emotions will help to bring about cultural adaptation, address employee resistance and facilitate participation from across the organization. Change management captures the impact of outsourcing on various human or "soft" dimensions of the organization at the beginning of a sourcing engagement and then enables addressing these issues. 'Re-badging' is an example where effective use of change

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management, especially in human resources and knowledge transfer, can facilitate a smooth transfer of personnel, skills, and knowledge.

5. Managing risks effectively

The sourcing of services has rapidly become a tool in management's set of capabilities. With these sourcing activities now involving a multitude of participants and stakeholders, grounded in an ever-changing business and world environment, significant opportunities for risks to successful performance exist. The complex nature of these services and these relationships add to the potential sources for risks that affect the sourcing relationship.

Outsourcing does not necessarily transfer the governance, responsibility and accountability, or the risks associated with the outsourced activity [FSA 2005, HB 240:2000 2000]. These potential risks, along with management's need for controls and compliance, require that a disciplined risk management process be applied in eSourcing settings. Such a process allows demonstration that all of the identified risks have been considered in terms of their consequences and likelihood; and appropriate risk management plans are in place to avoid, reduce, mitigate, transfer, or retain identified risks.

6. Effective business controls

Organizations today face increasing demands for controls and compliance from multiple external directives, including Sarbanes-Oxley compliance (US), HIPAA (US), Financial Standards Authority (UK), Organisation for Economic Co-operation and Development (OECD) Corporate Governance Principles, Basel II Accords, International Organization for Standardization Code of Practice for Information Security Management (ISO 17799), the COSO Model for Technology Controls, or other national regulations covering controls [IIA 2005]. Internal controls also provide assurance that compliance with applicable standards and relevant laws and regulations are routinely occurring. Effective controls must support business management and governance, as well as provide controls over information technology and its infrastructure. Appropriate controls must extend over any sourcing activity to provide for assurance related to the security, confidentiality, and reliability of information and information services and to assist in managing and mitigating the risks associated with a client organization's use of a service provider.

7. Continual improvement of process and performance

Client organizations often have sourcing goals relating to improvements in quality or reductions in cost. These efficiencies may not be attained solely through the service providers, but are influenced by the internal workings of the client organization itself. Therefore, the client organization has a need to enhance their internal performance by continually enhancing their sourcing capabilities. This is achieved by aligning organizational sourcing objectives with changing needs of the customers, ensuring that sourcing activities meet these objectives, and that sourcing activities are efficiently and successfully performed.

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8. Focus on core competencies and strategic operations

A core competency is a deep proficiency that enables a company to deliver unique value to customers. Organizations that understand their core competencies are able to invest in the strengths that differentiate them, especially because these competencies are difficult for competitors to copy or procure, and set strategies that unify their entire organization by building on these competencies.

Many believe that organizations can leverage the skills and resources comprising these competencies to generate increased competitiveness and enhanced value. In doing so, organizations should engage in the concept of strategic sourcing by determining whether they could perform that service better than anyone else in the world, and by moving less important functions to sources able to excel at these functions [Quinn 1992, 1994]. When doing so, an organization can utilize a shared services center or an outsourced third party service provider to perform these non-core business activities. This focus on the organization's core competencies is often cited in studies of sourcing as one of the most important reasons, other than cost, for engaging in sourcing activities.

A source of competitive advantage for client organizations is the capability to provide continually increasing value to its stakeholders. This value can also be achieved through taking a strategic view of the organization's operations and treating sourcing as a strategic option, one that allows the organization to develop a comprehensive sourcing strategy that focuses on the managing the organization's capabilities to return the greatest value for the organization [Gottfredson 2005].

This value can be in monetary terms, or in terms of efficiencies and increased productivity or quality. This is often achieved by establishing a challenging environment that manages and promotes performance across all phases of the sourcing process, allowing the organization to focus on those areas where it can generate the greatest value for its stakeholders and making use of service provision, where appropriate, to achieve focused, high performance in all of the organization's business processes, without the organization having to master each process.

9. Building and sustaining the competence to effectively manage the sourcing strategy and sourcing engagements

To perform these sourcing activities efficiently and successfully, as well as to continually improve these internal capabilities (or to even develop a core competency in strategic sourcing), the client organization must foster an internal workforce competency in sourcing. Individuals involved in sourcing activities must have the knowledge, skills and processes available to them to execute their assigned responsibilities. In addition, the skills required to deliver a service are often different from the skills required to manage the relationship that delivers a service. In many cases, client organizations are experiencing difficulties in hiring and training individuals to perform these complex roles.

These individuals often find themselves in a quandary, attempting to stabilize their abilities to manage sourcing, while existing in an environment that demands an innovative and

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responsive culture. Client organizations need to create value for stakeholders in an ever-changing, highly competitive business environment. Client sourcing functions should be structured in a way that innovation, responsiveness to, and alignment with customer and business requirements become a part of their culture and daily work.

10. Improved sourcing governance

Many client organizations do not follow a sourcing process that encompasses the entire sourcing life-cycle, thus leading to many difficulties. Issues such as inadequate service provider selection, over-reliance on service provider standard contracts, inadequate executive sponsorship for sourcing and a resulting lack of sourcing objectives and strategy all lead to potential difficulties in successfully managing sourcing. Service transfer, performing value analyses, and planning for completion are also often neglected in many client organizations. Implementing a robust and disciplined sourcing process that considers the needs of the organization, the controls that are required to ensure financial and regulatory compliance, and manages the relationship with realistic performance standards is crucial for effective sourcing activities in the client organization.

11. Enhanced supplier/partner relationship management capabilities

Global sourcing often involves a combination of face-to-face and remote interactions. Interactions with service providers need to be managed in order to effectively understand their issues; clear communications with all stakeholders can have a strong positive impact on the ability to effectively perform work. The client sourcing organization must manage its service provider relationships to ensure that commitments are met. Sourcing engagements often include multiple service providers working together to meet the client's needs. Regardless of the type of relationship (such as alliance, joint venture, subcontractor, and supplier), service providers can have a significant impact on the effectiveness of the service delivery and their relationship must be actively managed by the client. At the same time, the client must maintain active communication and coordination with the internal stakeholders to understand their needs and expectations, solicit their feedback, and provide them with relevant status and performance information. These communication needs require an effective relationship management approach that addresses internal stakeholders, as well as relationships with service providers.

12. Measurement supports action

Client organizations need to manage their sourcing relationships by identifying and utilizing measures or indicators that best represent the factors that lead to improved customer, operational, and financial performance. Information (facts) forms the basis for understanding both the service and contractual performance needed to understand service provider performance, as well as internal sourcing management performance, and guide improvements. Analyzing information generated internally as well as collected from external sources helps in making process improvements to better manage sourcing. Other

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sources of improvement suggestions result from review of sourcing performance and appraisals or audits of sourcing activities.

Limitations of eSCM-CL

According to Guiding Principle 1, the eSCM-CL focuses on sourcing activities. Figure 5 provides one view of this focus, emphasizing the strategic management aspects of the organization.

The eSCM-CL focuses on the sourcing activities of the client organization. It does not address all business processes within the client organization; in fact, the eSCM-CL relies on the client organization having in place a number of fundamental practices that support the accomplishment of the organization's sourcing activities. These include:

- Organizational objectives are established and maintained through a strategic planning process.
- Process management systems are implemented within the organization to support the establishment and use of organizational policies and procedures, and perform business process management functions.
- Knowledge management systems are in place that can encompass the sourcing activities.
- Personnel and human capital management systems in place that can support the establishment and competency growth of a sourcing competency in the client organization.

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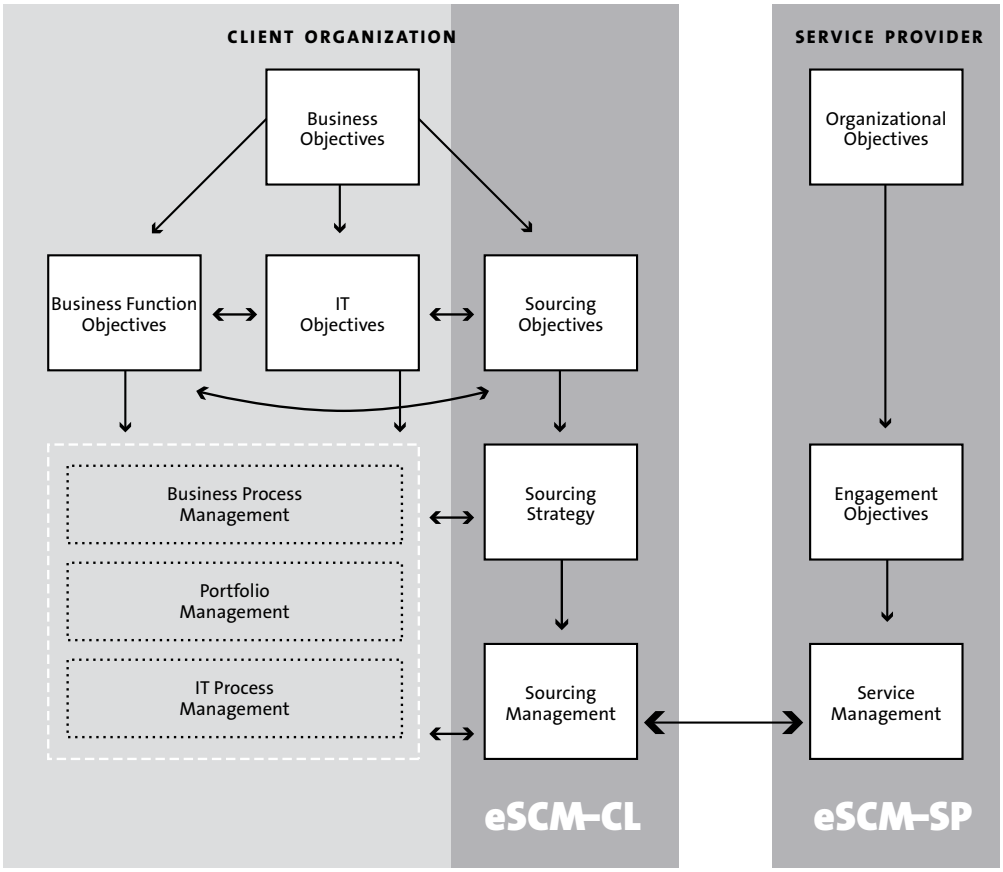

Figure 5.
eSCM-CL focuses on sourcing activities
This perspective emphasizes the strategic planning and sourcing management processes within the client organization.

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CHAPTER 3

Understanding the Model



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Complementary Models

In order to address both sides of eSourcing relationships, both the eSCM for Client Organizations (eSCM-CL), which addresses the challenges of sourcing relationships from the client's perspective, and the eSourcing Capability Model for Service Providers (eSCM-SP) [Hyder 2009] were developed. The eSCMs were developed at Carnegie Mellon University. The eSourcing Capability Model for Client Organizations (eSCM-CL) addresses a full range of client organization tasks, ranging from developing the organization's sourcing strategy, planning for sourcing and service provider selection, initiating the agreement, managing service delivery, and completing the service.

The Client Model is designed to be complementary to the eSCM-SP; it contains client-focused counterparts to more than half of the eSCM-SP Practices. Appendix C shows related Practices in each of these models. Each Practice in the eSCM-CL is distributed along the same three dimensions as the eSCM-SP, though the Sourcing Life-cycle is expanded to cover activities the client must perform prior to the beginning of the sourcing relationship, such as establishing a sourcing strategy, identifying potential service providers, developing a sourcing approach, and activities later in the sourcing relationship dealing with assuring alignment and value from the sourcing activities.

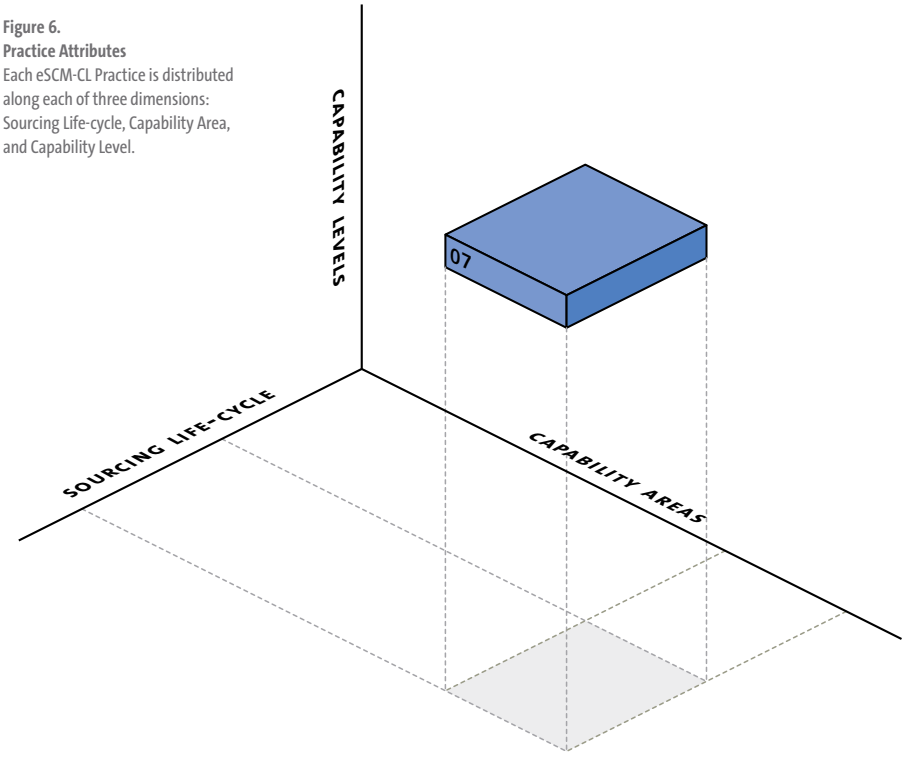

Figure 6.
Practice Attributes
Each eSCM-CL Practice is distributed along each of three dimensions: Sourcing Life-cycle, Capability Area, and Capability Level.

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Practices

The eSCM-CL is composed of 95 Practices, which can be thought of as the "best practices" that are associated with successful sourcing relationships. These 95 Practices are tasks that client organizations successfully performing sourcing of IT-enabled services, or eSourcing, would typically perform. Each Practice is arranged along three dimensions: Sourcing Life-cycle, Capability Area, and Capability Level. Figure 6 illustrates these dimensions.

Each Practice in the eSCM-CL includes a statement summarizing the best practice, a description of the best practice, a list of activities needing to be performed, and supplemental information that helps clarify those activities. More information on the structure of the Practices is in Chapter 6, "The Practice Structure."

Sourcing Life-cycle

The Sourcing Life-cycle is divided into Ongoing, Analysis, Initiation, Delivery, and Completion. Ongoing Practices span the entire Sourcing Life-cycle, while Analysis, Initiation, Delivery, and Completion Practices occur in specific phases of that Life-cycle.

During Analysis, the client organization analyzes its operations and potential functions to identify those that can be sourced, and develops the approach to be taken to sourcing the identified opportunities. During Initiation the organization prepares to select one or more service providers, depending on the sourcing approach chosen; evaluates potential service providers; negotiates with service providers; agrees on requirements; and transfers that service, process, or function to the selected service providers. Initiation may also include transfer of knowledge, personnel, technology infrastructure or other assets, and intellectual property. During Delivery, the client organization monitors the ongoing service delivery according to the agreed-upon commitments and manages the sourcing relationship. During Completion, the client organization plans and ensures the transfer of resources back to the client, or to the client's designee, and ensures the continuity of service delivery. Figure 7 shows the Sourcing Life-cycle.

Ongoing Practices represent management functions that need to be performed during the entire Sourcing Life-cycle. In order to meet the intent of these Practices, it is important to perform them across the whole Sourcing Life-cycle; an organization that only performs an Ongoing Practice during Delivery is not meeting the intent of the Practice.

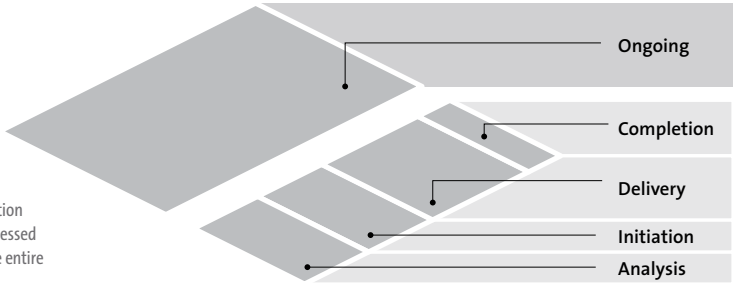

Figure 7.
The Sourcing Life-cycle
Analysis, Initiation, Delivery, and Completion are phases of the Sourcing Life-cycle addressed by the eSCM-CL, while Ongoing spans the entire Sourcing Life-cycle.

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Some Ongoing Practices typically take place at the level of a particular sourced service, crossing all phases of the Sourcing Life-cycle for that sourced service. These are usually performed on a periodic or as-needed basis, with the frequency being defined by the needs of the client organization. For example, ocm05, "Communicate Organizational Changes," addresses establishing and implementing communications strategies and plans. This Practice is specific to a sourced service and happens during all phases of an engagement. Each sourced service has its own communications plan, which needs to be established and implemented to ensure that all stakeholders have the appropriate information about the sourced service. When the engagement is completed its communication plans are typically completed as well, and are no longer needed or tracked.

Other Ongoing Practices are implemented across sourced services, at the organization level. For example, thr02, "Organizational Risk Management," addresses establishing and implementing procedures to manage risks across multiple sourced services and service providers. These risk identification, management, and mitigation activities may not be specific to any sourced service, however, they may be related to (or derived from) risks encountered in specific sourced services. These risks can exist, and be managed, tracked, and communicated independent of any specific sourced service or service provider engagements. As long as the client organization exists then its organizational risk management program needs to exist.

Capability Areas

eSourcing is performed through a series of interdependent functions that enables client organizations to effectively manage their sourcing activities and relationships. The second dimension of the eSCM-CL, Capability Areas, provides logical groupings of Practices to help users better remember and intellectually manage the content of the Model. These groupings allow client organizations to build or demonstrate capabilities in each critical sourcing function, addressing all of the critical sourcing issues discussed in Chapter 2. Figure 8 depicts the seventeen Capability Areas of the eSCM-CL.

Practices in the same Capability Area have related content and focus; considering why a Practice has been placed in a Capability Area may help provide context for interpreting that Practice. For example, gov01, "Sourcing policy," is in the Governance Management Capability Area, not

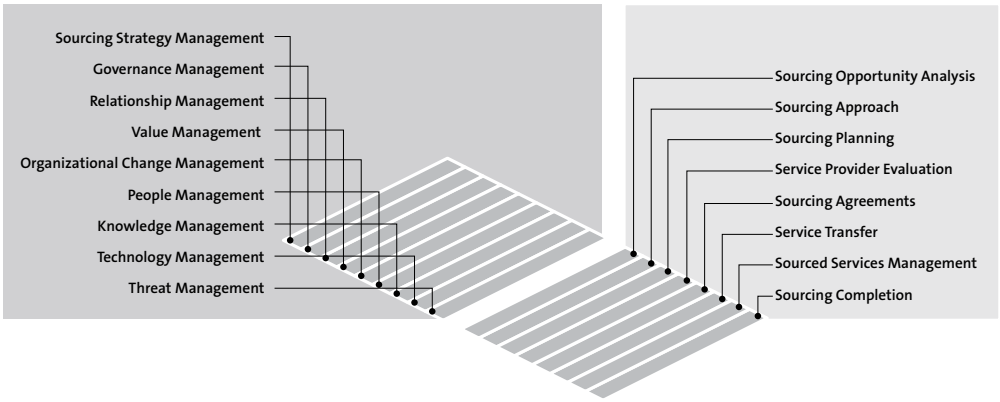

Figure 8.
The Capability Areas
All of the Ongoing Practices are contained within nine Capability Areas. The other eight Capability Areas are associated with a single, temporal phase of the Sourcing Life-cycle.

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the Sourcing Strategy Management Capability Area. Although the content of the Practice deals with implementing the client organization's sourcing strategy, the primary focus of this Practice is on providing organizational policy that sets in place the organization's guiding principles for its sourcing activities that have been established by senior management, adopted by the client organization, and intended to guide, influence, and determine sourcing and sourcing management decisions. In this case, the context of the Capability Area helps to clarify that focus.

All of the Ongoing Practices are contained within nine of the seventeen Capability Areas: Sourcing Strategy Management, Governance Management, Relationship Management, Value Management, Organizational Change Management, People Management, Knowledge Management, Technology Management, and Threat Management. These Ongoing Capability Areas are presented by focus in the following order:

Governance-Focused
- Sourcing Strategy Management (str)
- Governance Management (gov)
- Relationship Management (rel)
- Value Management (val)

Competency- and Change-Focused
- Organizational Change Management (ocm)
- People Management (ppl)
- Knowledge Management (knw)

Environment-Focused
- Technology Management (tch)
- Threat Management (thr)

The other eight Capability Areas are temporal and are associated with a single phase of the Sourcing Life-cycle: Analysis, Initiation, Delivery, or Completion. These eight Capability Areas are Sourcing Opportunity Analysis, Sourcing Approach, Sourcing Planning, Service Provider Evaluation, Sourcing Agreements, Service Transfer, Sourced Services Management, and Sourcing Completion. These temporal Capability Areas (by phase) are:

Analysis
- Sourcing Opportunity Analysis (opa)
- Sourcing Approach (app)

Initiation
- Sourcing Planning (pln)
- Service Provider Evaluation (spe)
- Sourcing Agreements (agr)
- Service Transfer (tfr)

Delivery
- Sourced Services Management (mgt)

Completion
- Sourcing Completion (cmp)

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Figure 15 depicts the full structure of the eSCM-CL. Each of these seventeen Capability Areas are described in the following paragraphs.

Sourcing Strategy Management (str)

These Sourcing Strategy Management Practices focus on determining the sourcing strategy and setting organizational objectives or goals for sourcing. All Sourcing Strategy Management Practices are Ongoing. This Capability Area addresses the critical issues of establishing a strategy for the organization's sourcing activities and being an informed buyer of eSourcing services. Sourcing Strategy Management covers the following issues:

- Sourcing strategy: Determining the sourcing strategy of the organization, not of any particular sourced service. Managing this strategy is iterative and will have inputs from sourcing history of the organization. Will help address issues like what will the organization be sourcing, how to structure the sourcing, and what kind of sourcing strategy to follow in terms of the forms of sourcing relationships that the organization may choose to pursue.

An organizational vision is a prerequisite for successful, value-adding sourcing activities. The eSCM-CL assumes that the organization already has an organizational strategy or vision documented in organizational objectives. The focus of the Sourcing Strategy Management Capability Area is on ensuring that the sourcing strategy of the organization exists and is aligned with the organization's objectives and strategies.

Governance Management (gov)

These Governance Management Practices focus on establishing organizational structure for sourcing and organizational process management for sourcing processes and procedures. Although the Governance Management Capability Area is specifically focused on issues of sourcing governance, governance is a broad topic and aspects of this broad topic are covered in multiple Capability Areas. These Capability Areas (by Life-cycle) include:

Ongoing

- Sourcing Strategy Management (str)
- Governance Management (gov)
- Relationship Management (rel)
- Organizational Change Management (ocm)
- People Management (ppl)
- Knowledge Management (knw)
- Technology Management (tch)
- Threat Management (thr)

Initiation

- Sourcing Agreements (agr)

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Delivery

- Sourced Services Management (mgt)

Completion

- Sourcing Completion (cmp)

All Governance Management Practices are Ongoing. This Capability Area addresses the critical issues of ensuring the effectiveness of interactions with stakeholders; managing relationships between clients and service providers, as well as supplier and partner relationships, to ensure that commitments are met; innovating, building flexibility, and increasing responsiveness to meet unique and evolving client requirements; being an informed buyer of eSourcing services; and actively manage sourcing risks. Governance Management covers the following issues:

- Organizational sourcing functions: Deals with establishing an office or capability to coordinate the organization's sourcing process.
- Sourcing processes and procedures: Establish and improve procedures and processes for sourcing, and effectively managing the use of process assets for sourcing across the organization, ensuring consistency as appropriate. Reusing process assets to improve the effectiveness of personnel and to take advantage of expert practices.
- Aligning sourcing with the business: Ensuring alignment of sourced services with the client organization's strategy and architecture. Addresses issues related to aligning sourcing with the technology strategy, control of technology architecture and design, and future technology direction for the client organization.

Relationship Management (rel)

These Relationship Management Practices focus on establishing and managing long-term relations with the service providers, and developing relationships with service providers. All Relationship Management Practices are Ongoing. This Capability Area primarily addresses the critical issues of managing stakeholder expectations, establishing and maintaining trust and ensuring the effectiveness of interactions with stakeholders, managing relationships between clients and service providers, managing the cultural differences between stakeholders, and monitoring and managing the client's and end-users' satisfaction. This Capability Area also addresses innovating, building flexibility, increasing responsiveness, establishing well-defined agreements with stakeholders, and maintaining a competitive advantage. Relationship Management covers the following issues:

- Relationship establishment: Deals with establishing the long-term relations with the service providers and the mechanisms that will be used for interacting with service providers.
- Relationship management: Focus on managing long term relations with the service providers and may span Initiation, Delivery, and Completion phases. Some of the issues addressed are managing agreements, managing expectations, and managing issues and managing operations. These Practices focus on long-term relationships with service providers, aligning the client goals with those of the service provider through open and collaborative processes between the client and the service provider, and focusing on mutual benefits throughout the Sourcing Life-cycle.

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Value Management (val)

These Value Management Practices focus on fostering and managing the culture of continuous improvement so that the client derives value from the sourcing engagement, and ensuring ongoing alignment of the sourcing strategy and the organization's sourcing performance with the organization's objectives. All Value Management Practices are Ongoing. This Capability Area addresses the critical issues of establishing a strategy for the organization's sourcing activities, by reviewing and evaluating sourcing performance and alignment. It also addresses maintaining a competitive advantage and innovating, building flexibility, and increasing responsiveness to meet unique and evolving client requirements.

The organization's sourcing value management activities encompass two aspects of evaluating the value of the sourcing activities. The first deals with evaluating the benefits and impacts of a specific sourcing action, which is covered in Sourced Services Management. The second deals with evaluating the value of the organization's sourcing activities, which is covered here in Value Management. The Value Management Capability Area covers the following issues:

- Reviewing and analyzing sourcing performance: reviewing the sourcing performance against market benchmarks by benchmarking the sourcing performance of the organization, competitive analysis of its sourcing performance as compared to that of other client organizations, and analyzing performance of internal sourcing processes.
- Reviewing the sourcing strategy for business alignment and assessment: Deals with ongoing review of the organization's sourcing strategy and activities, reviewing the realization of required benefits, aligning the business processes with the new capabilities and needs, analyzing the success of the agreement in light of business objectives, and ensuring alignment of sourcing activities with the objectives of the organization.
- Fostering innovation: Institutionalizing the culture of innovation, ensuring that continuous improvement enables relationships where the client organization and the service provider can effectively meet or exceed stakeholder value drivers.

Organizational Change Management (ocm)

These Organizational Change Management Practices focus on the change management process to guide the client's adoption of new systems (organizational and technological) and new ways of achieving business objectives through sourcing. Ensuring readiness for change, and involving relevant sponsors and stakeholders are essential parts of this Capability Area. Planning for change, managing change activities, and communication regarding the changes are integral aspects of this Capability Area. All Organizational Change Management Practices are Ongoing. This Capability Area primarily addresses the critical issues of establishing and maintaining trust with stakeholders, managing stakeholder expectations, and ensuring the effectiveness of interactions with stakeholders, and monitoring and managing clients' and end-users' satisfaction. It also addresses the issues of managing cultural differences between stakeholders; managing employee satisfaction, motivation, and retention; and establishing and maintaining an effective work environment. Organizational Change Management can also address issues of maintaining a competitive

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advantage, smoothly transferring services and resources, and maintaining continuity of the service delivery. Organizational Change Management covers the following issues:

- Planning for change management: Preparing for the change management process to guide the client organization's adoption of the new systems (the organizational and technological changes), defining the proper strategy for managing change, developing a team of change management leaders, identifying and employing long term change management practices, and engaging employees and service providers.
- Designing the future state: Re-engineering the organization and business processes and workflows to fit the new structure.
- Communication: Developing and executing the communication strategies and plans, both internal and external, is very critical for the entire organizational change process.
- Managing the human aspects of change: Human resource strategies and plans ensure that all aspects of personnel-related change are addressed in the organizational transformation that may occur as sourcing occurs. These changes may include reorganization and realignment of staff and strategic resources and training and education to support new roles and assignments.
- Managing organizational change: Managing ongoing change and overcoming resistance to change and implementing methodologies to ensure effective and successful overall management of the organizational change.

People Management (ppl)

These People Management Practices focus on providing and managing skilled resources and the necessary environment for the organization's sourcing activities. They also deal with training that enables sourcing activities to be effectively performed. All People Management Practices are Ongoing. This Capability Area addresses the critical issues of building and maintaining the competencies that enable personnel to effectively perform their roles and responsibilities and managing employee satisfaction, motivation, and retention. People Management covers the following issues:

- Well-understood sourcing roles: Clearly defining and communicating sourcing roles and responsibilities to personnel.
- Developing sourcing competencies: Identifying workforce and personnel competency needs, and developing (i.e., training) or acquiring personnel with the necessary competencies to perform the organization's sourcing activities.

The focus of People Management is on the personnel directly involved in performing and carrying out the organization's sourcing activities. Retained and transferred personnel are addressed in the human resource focus of the Organizational Change Management Capability Area.

Knowledge Management (knw)

These Knowledge Management Practices focus on managing information and knowledge systems so that personnel have easy access to the knowledge needed to effectively perform their work. All

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Knowledge Management Practices are Ongoing. This Capability Area addresses the critical issues of capturing and using knowledge, and monitoring and controlling activities to consistently meet service delivery commitments. It also addresses the issues of establishing and maintaining an effective work environment, capturing and transferring knowledge gained to the client during Completion, and measuring and analyzing the reasons for termination, to prevent reoccurrence. Knowledge Management covers the following issues:

- Providing access to sourcing information: Ensuring that sourcing information is appropriately made available, and providing the information needed by personnel in a knowledge system that allows controlled, but efficient, access.
- Lessons learned: Maintaining information and lessons learned to improve current and future sourcing performance.
- Market and provider awareness: deals with understanding the market and screening the potential set of service providers and assisting them in understanding the organization's needs.

Technology Management (tch)

These Technology Management Practices focus on monitoring and managing the technology infrastructure. These Practices focus on issues related to integration of the client's technology infrastructure with the service provider's, as well as change management of the technology base. All Technology Management Practices are Ongoing. This Capability Area addresses the critical issue of managing rapid technological shifts and maintaining technology availability, reliability, accessibility, and security. It also addresses innovating, building flexibility, and increasing responsiveness, and maintaining a competitive advantage. Technology Management covers the following issues:

- Technology change management: managing the change of the technology base and ensuring that technology strategy and architecture are managed consistent with business needs.
- Managing technology assets: Managing technology assets and the licensing of technology.

Threat Management (thr)

These Threat Management Practices focus on identifying and actively managing threats to the client organization's ability to meet its business and sourcing objectives and requirements. This includes an active focus on risk management, with a particular focus on risks associated with security, privacy, and confidentiality; business continuity, disaster recovery and development of contingency plans; and protection of intellectual property. All Threat Management Practices are Ongoing. This Capability Area addresses the critical issues of actively manage sourcing risks, paying particular attention to the risks associated with security, confidentiality, privacy, infrastructure, and disasters that may disrupt service or fail to meet the requirements of the client organization; managing clients' security; and ensuring compliance with statutory and regulatory requirements. It also addresses maintaining the continuity of service delivery, managing rapid technological shifts, and maintaining the availability, reliability, accessibility, and security of the technology. Threat Management covers the following issues:

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- Risk management: Managing sourcing risks, consistent with the organization's existing risk management policies, by identifying, assessing, and controlling risks.
- Protecting against specific threats: Managing security, privacy, confidentiality, and intellectual property threats.
- Business continuity: Ensuring business continuity, including concerns regarding recovery from disasters.
- Compliance: Monitoring statutes and regulations to ensure compliance.

Sourcing Opportunity Analysis (opa)

These Sourcing Opportunity Analysis Practices focus on the functional analysis of the current operations of the organization and identification of potential functions, processes or services that could be sourced. All Sourcing Opportunity Analysis Practices are in the Analysis phase of the Sourcing Life-cycle. This Capability Area addresses the critical issues of being an informed buyer of eSourcing services and translating implicit and explicit needs into defined requirements with agreed-upon levels of quality. It also addresses the issues of maintaining a competitive advantage, innovating, building flexibility, and increasing responsiveness to meet unique and evolving client requirements. Sourcing Opportunity Analysis covers the following issues:

- Documenting the current state: understanding the current business processes of the organization.
- Determining the criteria for selecting sourcing opportunities: These criteria for determining which capabilities are potential candidates for outsourcing and which should be retained in-house may be as simple as identifying the core and non-core activities for the organization, or may be much more complex based on business value and strategic direction.
- Analyzing sourcing opportunities: Analyzing the options that the organization has to source the services, like assessment of the criticality of the business activity, assessment of the external supply market (identification of potential service providers), deciding on the types of external supplier relationship, and aligning sourcing decisions with performance and business needs.

These Practices will help identify the preliminary potential sourcing scope in terms of resources, activities or functions, geographies involved, etc.

Sourcing Approach (app)

These Sourcing Approach Practices focus on deciding on the type of sourcing for a specific sourcing opportunity. These Practices will help addressing issues like how to structure the sourcing for a specific agreement and what kind of sourcing relationship to establish for the proposed relationship, consistent with the client organization's sourcing objectives and strategy. Outcomes from sourcing approach will feed into the Sourcing Planning Capability Area. All Sourcing Approach Practices are in the Analysis phase of the Sourcing Life-cycle. This Capability Area addresses the critical issues of being an informed buyer of eSourcing services and actively managing sourcing

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risks. It also addresses the issue of translating implicit and explicit needs into defined requirements with agreed-upon levels of quality. Sourcing Approach covers the following issues:

- Determine the proposed sourcing approach: Deciding on the type of sourcing arrangements desired, including the sourcing approach and the operational governance model of the proposed sourcing action.
- Business case: Preparing a business case for sourcing which includes carrying out a cost-benefit analysis and determining stakeholder buy-in.
- Impact and risk analyses: Analyzing the impact and risks of the proposed sourcing action.
- Decide to source: Making the decision whether or not to source the proposed sourcing action.

Sourcing Planning (pln)

The Sourcing Planning Practices focus on planning for implementation of the sourcing approach for a planned sourcing action. The procurement methods adopted may vary according to the complexity of the procurement, the size of the expenditure, the requirement, the circumstances, and the market. Some of the planning issues addressed by this Capability Area include capacity planning, identifying the in-house skill-set, identifying the need for third party assistance, defining the procedures for service provider selection, establishing agreements, and maintaining agreements. Other important issues that this Capability Area deals with are preparation of Services Requirements Document or Services Definitions Documents and definition of services/scope along with risks identification and mitigation. The outcome from this Capability Area is the organizational readiness to pursue the proposed sourcing action. All Sourcing Planning Practices are in the Initiation phase of the Sourcing Life-cycle. This Capability Area addresses the critical issues of being an informed buyer of eSourcing services and actively managing sourcing risks. It also addresses the issues of translating implicit and explicit needs into the defined requirements and establishing well-defined agreements with stakeholders. By establishing the operational governance mechanisms for each engagement, this Capability Area also addresses establishing and maintaining an effective work environment. Sourcing Planning covers the following issues:

- Sourcing project: Establishing a capability to plan and manage the sourced service. Ensuring that all resources, including manpower, are ready to execute the sourcing agreement.
- Plan sourcing: Developing a sourcing implementation plan for a planned sourcing activity. Develop service provider selection procedures and criteria to be used in evaluating and selecting service partners.
- Define requirements and agreement: Developing the Services Requirements Document or Services Definitions Document, and having the basic structure of the agreement in place. Developing any documentation needed to communicate the client organization's inquiries, requests, and requirements to prospective service providers.

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Service Provider Evaluation (spe)

These Service Provider Evaluation Practices focus on soliciting potential service providers, screening the set of potential service providers, and selecting the preferred service providers. These Practices help in comparing and assessing alternative solutions and service providers in their ability to create business value, benefits and cost savings, delivery service quality, and flexibility to accommodate business changes throughout the planned duration of the agreement. All Service Provider Evaluation Practices are in the Initiation phase of the Sourcing Life-cycle. This Capability Area addresses the critical issues of being an informed buyer of eSourcing services and actively managing sourcing risks. It also addresses the issues of translating implicit and explicit needs into the defined requirements and establishing well-defined agreements with stakeholders. It also addresses maintaining competitive advantage. Service Provider Evaluation covers the following issues:

- Service provider selection: Soliciting, evaluating, and selecting potential service providers.

Sourcing Agreements (agr)

These Sourcing Agreements Practices focus on carrying out service confirmation, negotiating terms and conditions of the agreements (including SLAs, etc.), and entering into an agreement with the selected service providers. This Capability Area also has Practices dealing with renegotiation and making changes to agreements. All Sourcing Agreements Practices are in the Initiation phase of the Sourcing Life-cycle. This Capability Area addresses the critical issues of being an informed buyer of eSourcing services and actively managing sourcing risks. It also addresses the issues of translating implicit and explicit needs into the defined requirements and establishing well-defined agreements with stakeholders. It also addresses maintaining competitive advantage. Sourcing Agreements covers the following issues:

- Negotiations preparations: Preparing for negotiation by having an organizational position on cost and other topics that need to be negotiated.
- Defining targets and measures: Defining formal service level agreements and service provider performance measures.
- Confirming capabilities: Understanding service provider's capabilities by gathering information about the service provider. Working with service providers to confirm the assumptions that impact commitments.
- Negotiations: Establishing a formal agreement with service providers that clearly articulates the clients' and service provider's responsibilities and commitments.

Service Transfer (tfr)

These Service Transfer Practices focus on successfully transferring resources between the client organization and its service providers by creating and implementing a transfer plan; creating client/service provider teams; identifying key skill sets/personnel to retain in-house or transfer to the service providers; ensuring service design meets the client's needs; and transferring resources, personnel, and knowledge to service providers. All Service Transfer Practices are in the Initiation phase of the Sourcing Life-cycle. This Capability Area addresses the critical issues of smoothly

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transferring services and resources. It also addresses reviewing service design and deployment to ensure adequate coverage of the requirements, and maintaining continuity of service delivery. Service Transfer covers the following issues:

- Manage service transfer: Planning and managing the service transition.
- Verify design: Reviewing the service provider's service design information.
- Transfer knowledge, people and skills: Transferring knowledge and personnel to the service provider.
- Transfer resources: Transferring resources, including technology infrastructure and work environment to the service provider.

Sourced Services Management (mgt)

These Sourced Services Management Practices focus on having the capability to manage service providers, and the issues and challenges that arise after the agreement has been reached. These Practices deal with managing performance expectations of the services defined and delivered by the service provider in their agreement. All Sourced Services Management Practices are in the Delivery phase of the Sourcing Life-cycle. This Capability Area addresses the critical issues of monitoring and controlling activities to consistently meet service delivery commitments, and maintaining continuity of service delivery. It also addresses establishing well-defined agreements with stakeholders; managing relationships between clients and service providers, as well as supplier and partner relationships, to ensure that commitments are met; translating implicit and explicit needs into defined requirements with agreed-upon levels of quality; and maintaining a competitive advantage. Sourced Services Management Practices address multiple aspects of the ongoing governance of the sourced service and relationship with the service provider:

- Performance monitoring: Focuses on operational issues like measuring performance against the SLAs, monitoring SLAs, managing performance, and taking corrective action, if required.
- Financial management: Responsibility for managing and monitoring the financial control for the agreement.
- Agreement management: Responsibility for the administration of the agreement, and ensuring that the service provider is executing according to the terms and conditions of the agreement.
- Relationship management: Focus on managing relations with the service providers of a sourced service, addressing fostering realistic expectations of the service provider performance (expectation management), and managing problems. The Practices in this Capability Area are closely linked to the Practices in the Relationship Management Capability Area in the Ongoing phase.
- Managing changes: Deals with issues of managing change to services and changes in the technology base for a specific sourced service. These Practices are related to the Practices in the Governance Management Capability Area in the Ongoing phase, which are focused on carrying out the responsibility for managing technical strategy and architecture.

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- Value analysis: Focus on reviewing the service provider's performance against the agreed-upon deliverables required business benefits, soliciting and evaluating feedback from stakeholders, and reviewing performance against the agreed upon service commitments and deliverables. Finally these Practices aid in making the decision about renewal, termination, or exploring new sourcing options.

Sourcing Completion (cmp)

These Sourcing Completion Practices focus on planning and making provisions for the closure of the relationship/sourced service and ensuring that the hand off is smooth. All Sourcing Completion Practices are in the Completion phase of the Sourcing Life-cycle. This Capability Area addresses the critical issues of smoothly transferring services and resources, and capturing and transferring the knowledge gained during the engagement to the client during Completion. It also addresses maintaining continuity of service delivery, and establishing well-defined agreements with stakeholders, including clients, suppliers, and partners. Sourcing Completion covers the following issues:

- Completion analyses: Assessing the outcome of the sourced service as well as the performance of the service provider and in-house teams.
- Continuity of service: Ensure continuity of service during Completion.
- Document results: Ensuring that the project effectiveness, lessons learned, best practices, and key project metrics are documented. These enable the client to evaluate performance measures across other sourcing projects and can serve as guides for undertaking future sourcing initiatives.
- Perform completion: Following a formal process for concluding the sourced service, ensuring all deliverables are consolidated and are handed back to the client, along with required knowledge transfer, as directed by the client organization.

Mapping Capability Areas to Critical Issues

There are a number of issues in eSourcing that are critical to success (these were identified in "Critical Issues for eSourcing" in Chapter 2). The eSCM-CL is intended to address each of these critical issues in one or more Practices. Table 1 provides a summary of which Capability Areas contain Practices that primarily address each critical issue. In several cases, multiple Capability Areas include Practices that significantly contribute to addressing a given critical issue.

Table 1. Mapping Critical Issues to Capability Areas

CRITICAL ISSUE	CAPABILITY AREA
Establishing and maintaining trust with stakeholders.	rel, ocm
Managing stakeholder expectations.	rel, ocm
Translating implicit and explicit needs into defined requirements with agreed-upon levels of quality.	opa, app, pln, spe, agr, mgt
Establishing well-defined contracts with stakeholders, including clients, service providers, suppliers, and partners.	rel, pln, spe, agr, mgt

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CRITICAL ISSUE	CAPABILITY AREA
Reviewing service design and deployment to ensure adequate coverage of the requirements.	tfr
Ensuring the effectiveness of interactions with stakeholders.	gov, rel, ocm
Managing relationships between clients and service providers, as well as supplier and partner relationships, to ensure that commitments are met.	gov, rel, mgt
Ensuring compliance with statutory and regulatory requirements.	thr
Managing clients' security.	thr
Managing cultural differences between stakeholders.	rel, ocm
Monitoring and controlling activities to consistently meet the service delivery commitments.	knw, mgt
Monitoring and managing clients' and end-users' satisfaction.	rel, ocm
Building and maintaining the competencies that enable personnel to effectively perform their roles and responsibilities.	ppl
Managing employee satisfaction, motivation, and retention.	ocm, ppl
Establishing and maintaining an effective work environment.	ocm, knw, pln
Maintaining a competitive advantage.	rel, val, ocm, tch, opa, agr, mgt
Innovating, building flexibility, and increasing responsiveness to meet unique and evolving client requirements.	gov, rel, val, tch, opa
Managing rapid technological shifts and maintaining the availability, reliability, accessibility, and security of technology.	tch, thr
Capturing and using knowledge.	knw
Smoothly transfer services and resources.	ocm, tfr, cmp
Maintaining continuity of the service delivery.	thr, ocm, tfr, mgt, cmp
Capturing and transferring knowledge gained to the client during completion.	knw, cmp
Measuring and analyzing the reasons for termination, to prevent reoccurrence.	knw
Establishing a strategy for the organization's sourcing activities.	str, val
Being an informed buyer of eSourcing services.	str, gov, opa, app, pln, spe, agr
Actively managing sourcing risks.	gov, thr, app, pln, spe, agr

Capability Levels

The third dimension in the eSCM-CL is Capability Levels. The five Capability Levels in the eSCM-CL describe a path of improvement for client organizations. This path starts from a desire to manage eSourcing services, and continues to the highest level, demonstrating an ability to sustain excellence in sourcing activities.

The eSCM-CL is a capability model, not a maturity model. Therefore, client organizations will often implement higher-level Practices to meet specific near-term goals. It is perfectly acceptable for a client organization to begin implementing some Capability Level 4 Practices before it has completed implementing Capability Level 2 and 3 Practices. Nevertheless, Practices are assigned a Capability Level for a reason, which must be understood before the intent of the Practice can be fully appreciated (see Chapter 7, "Interpreting the Intent of the eSCM-CL"). Figure 9 illustrates the Capability Levels and the Practices associated with each.

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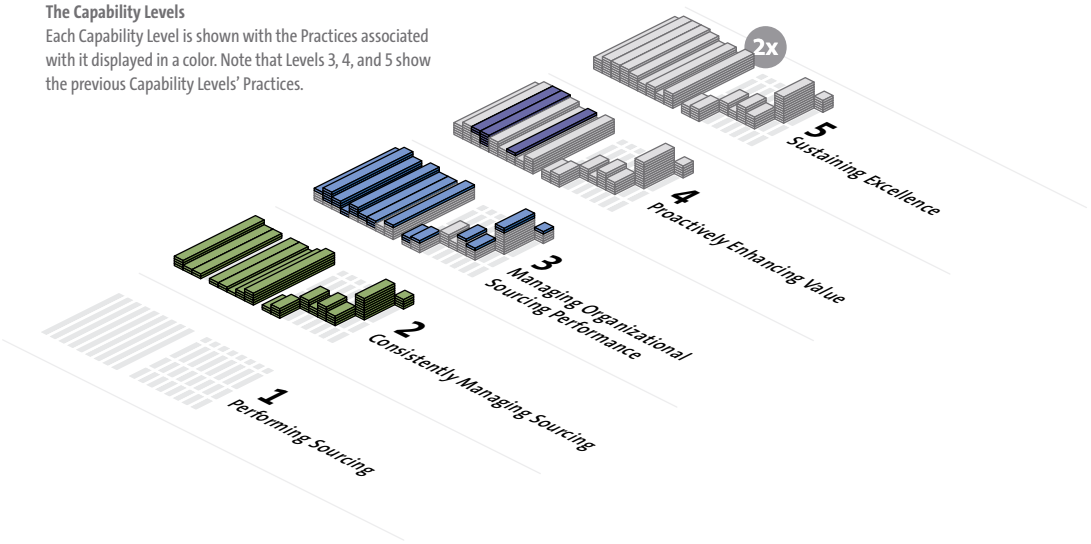
Figure 9.
The Capability Levels
Each Capability Level is shown with the Practices associated with it displayed in a color. Note that Levels 3, 4, and 5 show the previous Capability Levels' Practices.



Capability Level 1: Performing Sourcing

Figure 10.
Capability Level 1: Performing Sourcing
Capability Level 1 has no Practices associated with it.

Client organizations operating at Capability Level 1 have not implemented all of the Capability Level 2 Practices; there are no Capability Level 1 Practices (see figure 10). The capability of these Capability Level 1 client organizations varies widely. Some may have almost none of the eSCM-CL Practices implemented. These client organizations are very likely to be a high risk for sourcing success because they may not have realistic expectations, a readiness for managing change or their sourcing activities, and may not be prepared to manage the sourcing engagements or to align sourcing with their business needs. Many of these organizations see sourcing as a tactical exercise, rather than as a strategic part of their overall management capabilities. Other client organizations may have many of the eSCM-CL Practices implemented, including some Practices at Capability Levels 3 and 4. Because these client organizations have not fully implemented all of the Capability Level 2 Practices, they may conduct their sourcing management activities successfully, but they will still be at risk of failure in areas where they have not implemented the necessary eSCM-CL Practices.

Capability Level 2: Consistently Managing Sourcing

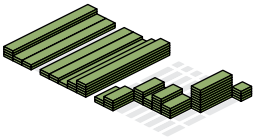


Figure 11.
Capability Level 2: Consistently Managing Sourcing
Capability Level 2 has 58 Practices, distributed throughout the Sourcing Life-cycle.

Client organizations at Capability Level 2 have successfully implemented all of the Capability Level 2 Practices (see figure 11). Client organizations at Capability Level 2 have formalized procedures for managing their sourcing activities. Client organizations are able to manage sourcing activities, but may not do so in the same manner across the entire organization and provided the services do not significantly vary from the organization's prior experiences. At Capability Level 2,

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the client organization has executive support and objectives for sourcing, selects and manages service providers, identifies sourcing opportunities and stakeholders, and ensures that sourcing management personnel have the skills and knowledge necessary to effectively manage and monitor sourcing using performance measures. Capability Level 2 client organizations have implemented all of the Capability Level 2 Practices and can demonstrate their effective usage.

Practices within Capability Level 2 should be interpreted in the context of how they contribute to meeting the requirements of the client organization and other stakeholders. These Practices are expected to have a benefit to the service provider as well, but the primary focus of these Practices is on enabling the client organization to manage their sourcing activities. At Capability Level 2, Practices are implemented for at least one engagement or sourced service, but could be applied to a larger organizational span.

For example, gov03 is "Establish and implement procedures to manage internal stakeholders" At first look, this Practice may appear to only benefit the client organization, enabling it to have consistent internal dealings with the business units and end-users. However, in order for the client organization to have a successful agreement with the service provider, the service provider must also have clear governance and communication channels that enable appropriate communications with and feedback from these internal stakeholders.

Capability Level 3: Managing Organizational Sourcing Performance

Client organizations at Capability Level 3 have effectively implemented all Capability Level 2 and Capability Level 3 Practices (see figure 12). Client organizations at Capability Level 3 are able to manage their sourcing activities according to an organizational strategy. As a result, they are capable of managing the sourcing of services that meet their requirements, even if those requirements differ significantly from their previous experience. At Capability Level 3, client organizations are able to manage their sourcing performance across the organization; understand targeted markets and service providers, including specific cultural attributes; identify and manage risks across sourcing engagements; and manage their sourcing activities based on common, established organizational processes.

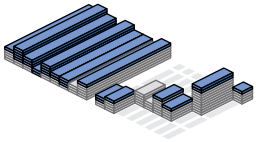

Figure 12. Capability Level 3: Managing Organizational Sourcing Performance
Capability Level 3 has 29 Practices. To achieve Capability Level 3, a client organization must implement all Capability Level 2 and 3 Practices.

Capability Level 3 client organizations improve themselves in reactive, measurable ways. Having established systems for managing service provider relationships, client organizations at Capability Level 3 continuously aim to improve their sourcing management capabilities. Improvements are reactive and are typically generated from the reviews of sourcing management performance and stakeholder inputs. The Level 3 client organization demonstrates measurable improvements across the organization, which are aligned with their organizational sourcing objectives and sourcing strategy, and are typically generated from measurement and verification activities. Organizational learning improves performance with respect to organizational objectives, sourcing strategy, and across sourcing engagements.

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While Capability Level 2 Practices can be implemented for a single engagement or sourced service, starting at Capability Level 3, Practices cover a more complex organizational span (e.g., managing multiple sourced services simultaneously). Capability Level 3 client organizations share and use knowledge gained from their previous sourcing activities, develop a workforce competency so the organization has competent individuals available to support its sourcing activities, and manage their organizational change activities. They understand the varying issues of sourced services, including specific cultural attributes.

Both the service provider and the client share in the economies of scale achieved by the client organization's improvements. For example, thr02, "Establish and implement procedures to manage risks across multiple sourced services and service providers," is broader than the Capability Level 2 risk management Practice, thr01, "Establish and implement procedures to identify, assess, and manage sourcing risks." The Capability Level 2 Practice is focused on risks for a single sourced service, while the Capability Level 3 Practice is focused on managing risks across the client organization's sourcing activities. This broader focus enables the client organization to manage a portfolio of sourced services to achieve balanced risk while still achieving overall organizational sourcing objectives.

Capability Level 4: Proactively Enhancing Value

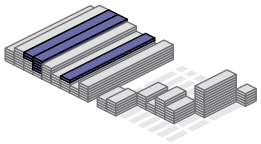

Figure 13. Capability Level 4: Proactively Enhancing Value
Capability Level 4 has 8 Practices. To achieve Capability Level 4, a client organization must implement all Capability Level 2, 3, and 4 Practices.

Capability Level 4 providers have effectively implemented all of the Capability Level 2, 3, and 4 Practices (see figure 13). Client organizations at Capability Level 4 are able to continuously innovate to add value to the organization. At Capability Level 4, the client organization is able to customize its approach to sourcing management for various relationships with service providers, develop relationships that focus on adding value and encouraging innovation, understand the value of its sourcing activities, and predict its performance based on previous experiences. The client organization supports this capability through systematically setting performance goals from a comparative analysis of its current performance as well as from internal and external benchmarks. Capability Level 4 client organizations support their abilities by leveraging their existing workforce competencies. They have effectively implemented all of the Capability Level 2, 3, and 4 Practices.

Capability Level 4 focuses on systematically enhancing performance across the entire organization through a set of programs that cut across the client organization's sourced services and relationships with its service providers, including those that use innovation to achieve objectives. This focus benefits the client organizations that are able to use those programs to achieve enhanced value and alignment with their own strategic objectives as a result of their sourcing capabilities. It also enhances the value of the client organization's sourcing activities to service providers who benefit from the client's innovative approaches and industry best practices.

Capability Level 4 organizations systematically plan, implement, and control their own improvement, typically generating these plans from their own performance benchmarks and value analyses.

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To illustrate this organization-wide focus, consider val06, "Analyze the business value and impact of organizational sourcing performance." This Practice specifies that the client organization regularly evaluate their sourcing performance in light of the impacts to the business and the value that its sourcing activities return. Doing this affects more than a single sourced service as these impacts may be broader than just a single function, cutting across and providing broad benefit to the entire client organization.

Capability Level 5: Sustaining Excellence

Client organizations at Capability Level 5 have demonstrated measurable, sustained, and consistent performance excellence and improvement by effectively implementing all of the Capability Level 2, 3, and 4 Practices for two consecutive Evaluations for Certification covering a period of at least two years (see Figure 14). There are no additional Practices required to reach Capability Level 5; effective, continued implementation of the 95 eSCM-CL Practices in a rapidly changing environment shows an ability to sustain excellence in its sourcing activities throughout the client organization over time.

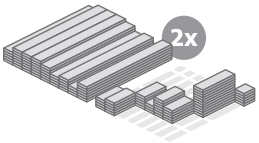

Figure 14. Capability Level 5: Sustaining Excellence
Capability Level 5 has no new Practices associated with it. Achieving Capability Level 5 requires sustained implementation of all 95 Practices by a client organization over the course of two consecutive Evaluations for Certification.

The eSCM-CL Focus by Capability Level

Each of the Capability Levels in the eSCM-CL focuses on a particular aspect of sourcing and organizational management, with higher capabilities required at higher levels.

For client organizations, Capability Level 2 focuses on managing the sourcing activities for each engagement. Capability Level 3 uses capabilities in organizational management, and takes advantage of information from performance, stakeholder inputs and feedback, and strategic analyses, to improve the quality and effectiveness of sourcing management across the sourcing activities within the client organization. Capability Level 4 adds a focus on using innovation and producing value to proactively enhance sourcing management results.

With respect to organizational management, Capability Level 2 primarily focuses on effectively managing single sourcing engagements to meet the identified sourcing objectives and client needs. Capability Level 3 expands on this to focus on effective management across sourcing engagements to achieve long-term organizational objectives and satisfy the organization's sourcing strategy. This focus also results in the organization's ability to take advantage of its experience gained from each sourcing engagement for use across a portfolio of sourced services. Capability Level 4 further expands this focus to managing sourcing using data from both internal and external sources, including statistical management using capability baselines and benchmarking, and improving performance by applying innovation and organizational learning across the organization. Capability Level 5 is attained by successive organizational certifications demonstrating achievement of all 95 eSCM-CL Practices. It focuses on sustained capability and increased innovation and value achieved over time.

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Table 2. The eSCM-CL focus by Capability Level

	CAPABILITY LEVEL 2 CONSISTENTLY MANAGING SOURCING	CAPABILITY LEVEL 3 MANAGING ORGANIZATIONAL SOURCING PERFORMANCE	CAPABILITY LEVEL 4 PROACTIVELY ENHANCING VALUE
BENEFIT TO CLIENT ORGANIZATIONS	Sourcing activities are planned and managed. Requirements are consistently understood and met.	Meet organizational objectives and comply with sourcing strategy by measuring and optimizing performance across sourced services.	Meet organizational objectives by systematically innovating and establishing programs to measure and optimize sourcing performance compared to the industry. Ensure business value is achieved through sourcing.
BENEFIT TO SERVICE PROVIDERS	Client requirements form basis of defining success. Client organization exercises consistent governance.	Consistent sourcing process across engagements with the client organization. Client deploys sourcing competency across their sourced services.	Client focus on value, innovation, and collaborative win-win relationships.
ORGANIZATION SIZE	One or more sourced services.	Two or more sourced services under one management structure.	Two or more sourced services under one management structure.

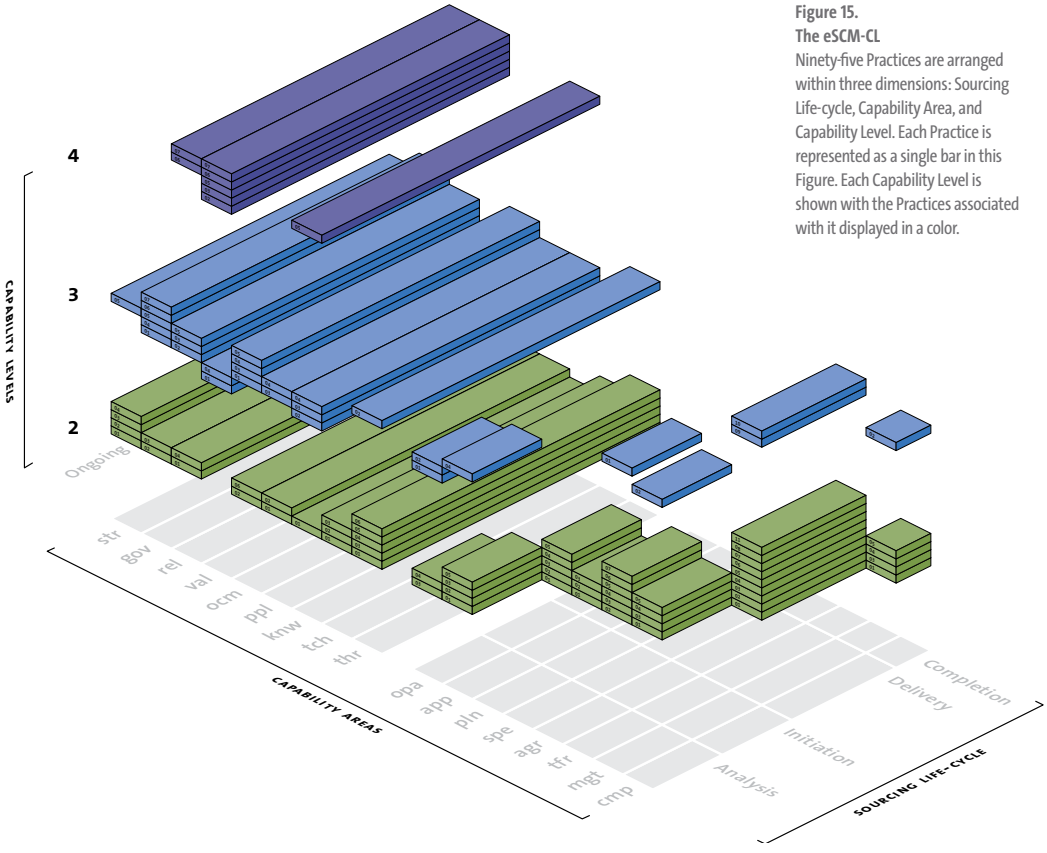

Figure 15.
The eSCM-CL
Ninety-five Practices are arranged within three dimensions: Sourcing Life-cycle, Capability Area, and Capability Level. Each Practice is represented as a single bar in this Figure. Each Capability Level is shown with the Practices associated with it displayed in a color.

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The Model Structure

The eSCM-CL is composed of 95 Practices, each arranged along three dimensions: Sourcing Life-cycle, Capability Area, and Capability Level. Figure 15 shows the complete Model structure.

Each of the 95 Practices of the eSCM-CL are associated with a specific combination of these three dimensions. Table 3 shows the Phases of the Sourcing Life-cycle, Capability Areas, and Capability Levels of the eSCM-CL and the number of Practices associated with each.

Appendix A is a summary of the Practices. Appendix B contains a list of Practices by Capability Area. Note that each Practice is uniquely identified by its Practice identifier, which specifies which Capability Area and what sequence within that Capability Area identifies that specific Practice. Appendix C contains a list of Practices and their related eSCM-SP Practices. Appendix D contains a mapping between the IAOP's Outsourcing Professional Body of Knowledge (OPBOK) [IAOP 2008] and the related eSCM-CL Practices.

Table 3. eSCM-CL Practices by Capability Area and Capability Level

		CAPABILITY LEVEL			
SOURCING LIFE-CYCLE	CAPABILITY AREA	2	3	4	TOTALS
50 Ongoing	Sourcing Strategy Management (str)	**4**	**1**		5
	Governance Management (gov)	**2**	**5**		7
	Relationship Management (rel)	**2**	**3**	**2**	7
	Value Management (val)		**2**	**5**	7
	Organizational Change Management (ocm)	**2**	**4**		6
	People Management (ppl)	**2**	**2**		4
	Knowledge Management (knw)	**1**	**3**	**1**	5
	Technology Management (tch)	**3**			3
	Threat Management (thr)	**5**	**1**		6
9 Analysis	Sourcing Opportunity Analysis (opa)	**2**	**2**		4
	Sourcing Approach (app)	**4**	**1**		5
20 Initiation	Sourcing Planning (pln)	**5**			5
	Service Provider Evaluation (spe)	**3**			3
	Sourcing Agreements (agr)	**6**	**1**		7
	Service Transfer (tfr)	**4**	**1**		5
11 Delivery	Sourced Services Management (mgt)	**9**	**2**		11
5 Completion	Sourcing Completion (cmp)	**4**	**1**		5
	Totals	**58**	**29**	**8**	**95**

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