

# Best Practices for Sourcing and Service Management



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Carnegie Mellon University established the IT Services Qualification Center in 2000



Capability Models:  
- Service Providers (eSCM-SP)  
- Client Organizations (eSCM-CL)

Authorized Evaluators, Lead Evaluators and Authorized Organizations

Certified Service Providers

**ITSqc Research Consortium**

- Capability Models
- Certification Program
- Model Validation Research

**Center for Service Sciences**

Services Science Research

**Professional Education**

- Executive
- Graduate

**Strategic Service Management Curriculum**

**Professional Executive Education**

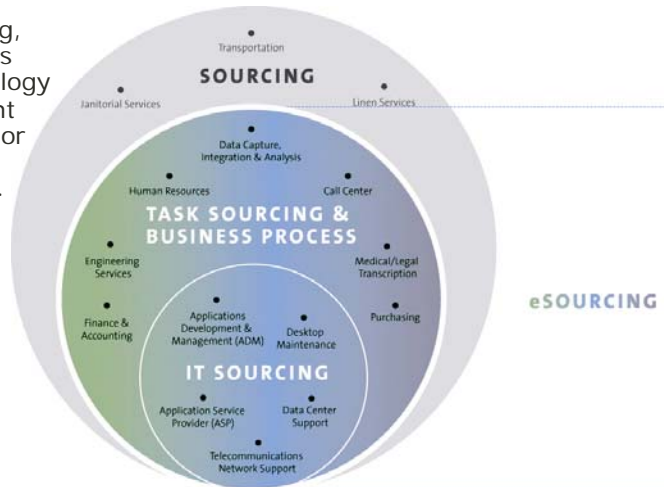
**Graduate Professional Education**

- Service Management Concentration within Masters of IS Management begun in AY 05-06
- Professional executive education and MS program in development

## Sourcing



IT-enabled sourcing, or **eSourcing**, uses information technology as a key component of service delivery or as an enabler for delivering services.



## eSourcing Characteristics



- Relationships usually last a long time.
- Integration between client and service provider is complex.
- Delivery of services is typically networked, or highly dependent on information technology.
- There is repetition of service delivery.
- Often global in scope.

Motivation—the current sourcing situation

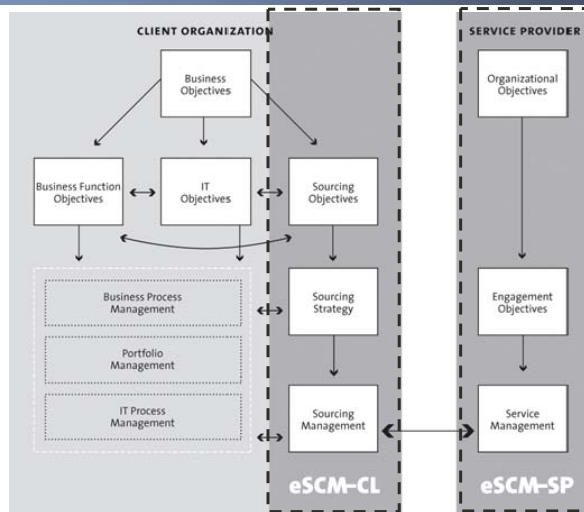


“It may be years before it becomes clear how much benefit companies get from outsourcing.”

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

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

Organizations operate in a complex eSourcing environment...



...where sourcing is part of many client organization's standard business processes...



**73% of organizations are involved in outsourcing, making it the fourth most commonly used management tool.**

- Only 33% of organizations use offshoring
- Of large organizations,
  - 85% use outsourcing, but
  - Only 51% use offshoring

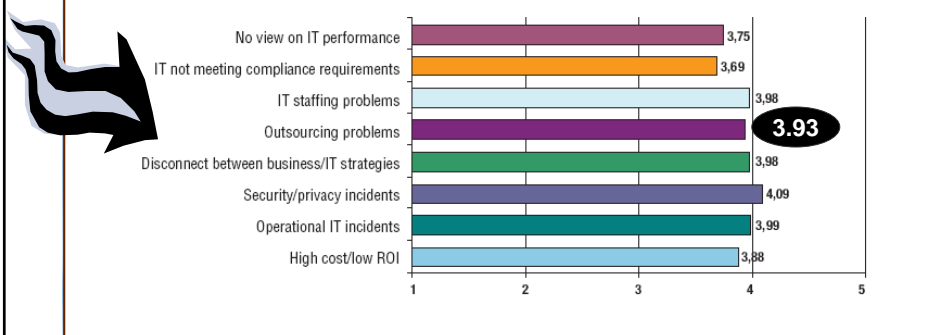
**73% of executives believe that they “could dramatically boost innovation by collaborating with outsiders”**

Source: [Top] Darrell Rigby & Barbara Bilodeau. The Bain 2005 Management Tool Survey. *Strategy & Leadership*, 33(4), pgs. 4-12, 2005.  
[Bottom] Darrell Rigby & Barbara Bilodeau. *Management Tools and Trends 2005*. Bain & Company, 2005.

...and outsourcing governance issues exist...



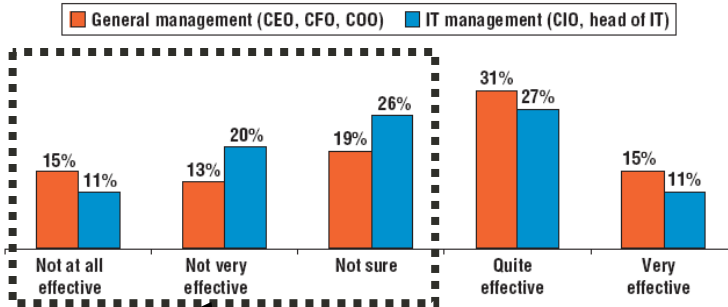
Figure 19—Importance of Addressing the Problems



Source: *IT Governance Global Status Report—2006*  
IT Governance Institute, 2006.

...and outsourcing is not seen as extremely effective

Figure 21—Effectiveness of IT Outsourcing, by Job Function

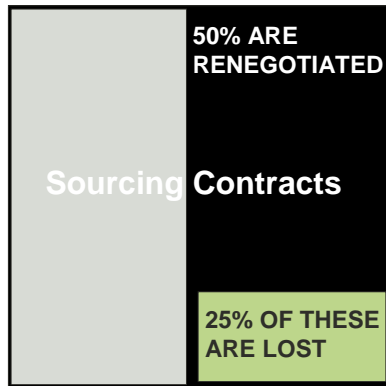


Buyer perspectives on the effects of poor working relationships with their service providers



Source: Danny Ertel, Sara Enlow and Katerine Barr.  
Managing Outsourcing Relationships:  
Essential Practices for Buyers and Providers.  
Vantage Partners, Boston, 2006.

This situation is also evidenced in churn ...



Over half of all outsourcing clients report having renegotiated a contract and in nearly 25% of these the original service provider lost the account. <sup>1</sup>

<sup>1</sup> Gartner Group, Dataquest's 1999-2004 Market Forecast for Business Process Outsourcing (BPO) <http://www4.gartner.com/Init/>  
<sup>2</sup> Dun & Bradstreet, The Barometer of Global Outsourcing, <http://www.dnbcollections.com/kbarom.htm>

... and failed relationships



50% of the relationships will fail within five years. <sup>2</sup>

20% and 25% of all outsourcing relationships fail in any two-year period. <sup>2</sup>

<sup>1</sup> Gartner Group, Dataquest's 1999-2004 Market Forecast for Business Process Outsourcing (BPO) <http://www4.gartner.com/Init/>  
<sup>2</sup> Dun & Bradstreet, The Barometer of Global Outsourcing, <http://www.dnbcollections.com/kbarom.htm>

## Primary causes of sourcing failures

**Criteria for success are not well understood or agreed up front.**

**Trade-offs between providing better service, faster service, or cheaper service are not always fully articulated.**

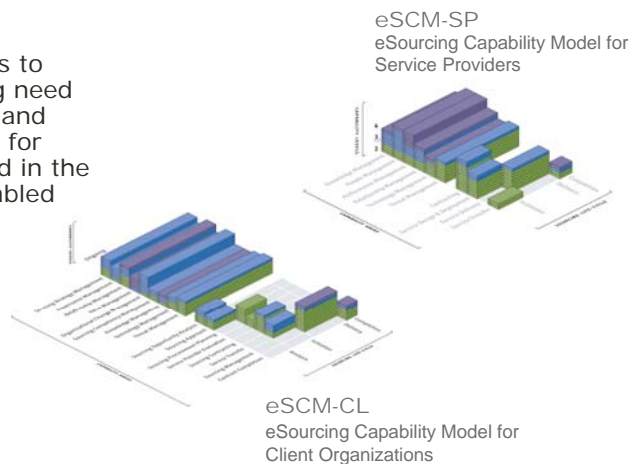
*Clients often have little experience in outsourcing and so have no standard criteria for service provider selection.*

*Clients frequently lack expertise to manage relationships and risks throughout the sourcing life cycle.*

## ITSqc perspective on eSourcing

### eSourcing

The ITSqc's mission is to address the emerging need for capability models and qualification methods for organizations involved in the evolving Internet-enabled economy.



## Critical Issues for eSourcing - 1

Good relationships are the foundation for success



**Establishing and maintaining trust with stakeholders**

**Ensuring the effectiveness of interactions with stakeholders**

**Managing cultural differences between stakeholders**

**Managing stakeholder expectations**

**Managing supplier and partner relationships to ensure that commitments are met**

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

## Critical Issues for eSourcing - 2

Retaining a motivated workforce is key



**Managing employee satisfaction, motivation, and retention**

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

**Establishing and maintaining an effective work environment**

## Critical Issues for eSourcing - 3

Well defined and delivered services



**Establishing well-defined contracts with stakeholders, including clients, suppliers, and partners**

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

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

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

## Critical Issues for eSourcing - 4

Managing common business threats is expected



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

**Managing clients' security**

**Ensuring compliance with statutory and regulatory requirements**

## Critical Issues for eSourcing - 5

World-class services, always improving



### **Capturing and using knowledge**

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

**Maintaining a competitive advantage**

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

## Critical Issues for eSourcing - 6

Managing service transitions well



**Smoothly transferring services and resources**

**Maintaining continuity of the service delivery**

**Capturing and transferring knowledge gained to the client during contract completion**

## Existing quality frameworks – different models for different areas of focus



Sourcing (service providers/clients)	<b>eSourcing Capability Models</b>
Software/systems development	<b>CMM® for Software, CMMI®</b>
Human capital management	<b>People CMM®</b>
Quality management	<b>ISO 9001: 2000</b>
Data-driven decision making	<b>Six Sigma®</b>
Infrastructure management	<b>ISO® 20000/BS15000/ITIL®</b>
Information security management	<b>ISO/IEC 17799, 27001</b>
Customer-centric service delivery	<b>COPC-2000®</b>
Generally accepted IT control objectives	<b>COBIT®</b>

CMMI® and CMM® are registered trademarks of Carnegie Mellon University. COBIT® is a registered trademark of the IT Governance Institute (ITGI). COPC-2000® is a registered trademark of Customer Operations Performance Center, Inc. ISO® is a registered trademark of International Organization for Standardization. ITIL® is a registered trademark of the U.K. Office of Government Commerce. Six Sigma® is a registered trademark of Motorola, Inc.

## eSourcing Capability Model for Service Providers



### **Focuses on eSourcing services**

**Covers the full life cycle – it provides crucial coverage of Initiation and Completion phases of sourcing**

**Provides service providers best practices to adopt for continuous improvement**

**Enables clients to compare service providers using a consistent basis**

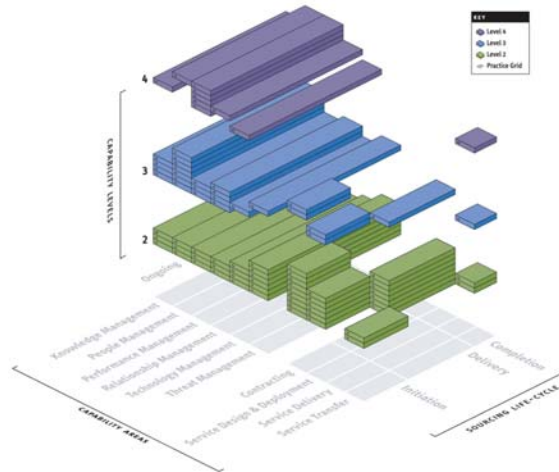
**Is compatible with and complementary to other quality models**

- Many mappings available to assist organizations improve
- Is compatible with eSCM for Client Organizations

**Freely available, open standard available for download**

**Supported by independent, third-party evaluation and certification by Carnegie Mellon**

# eSCM for Service Providers

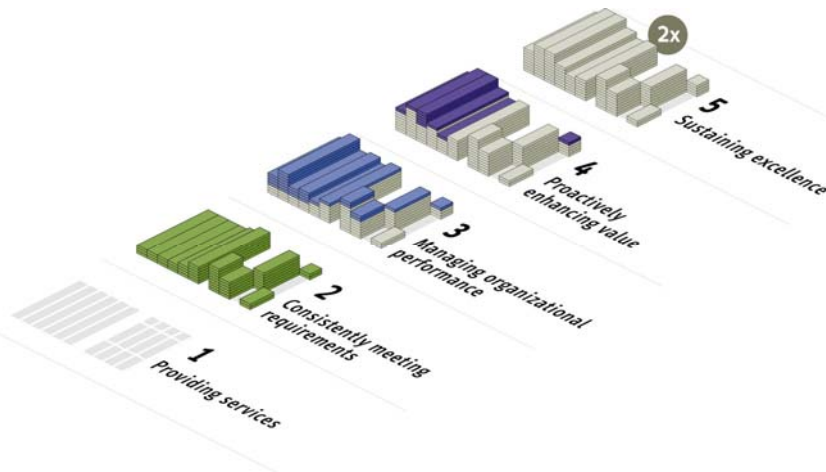


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# Five Capability Levels for the eSCM-SP



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## eSCM-SP Capability Areas Ongoing (Management) -1



**Knowledge Management:** managing information and knowledge systems

**People Management:** managing, retaining and motivating personnel to effectively deliver services

**Performance Management:** Management of the organization's performance to ensure that the client's requirements are being met, that the organization is continually learning from its experience, and that the organization is continually improving across engagements

## eSCM-SP Capability Areas Ongoing (Management) -2



**Relationship Management:** Actively managing relationships with stakeholders, including clients, suppliers and partners, who are integral to the delivery of services to the client

**Technology Management:** Managing the availability and adequacy of the technology infrastructure used to support delivery of service

**Threat Management:** Identifying, and actively managing, threats to the organization's ability to meet its objectives and the client's requirements

## eSCM-SP Capability Areas Sourcing Life-cycle Phase Specific



**Contracting:** Effectively managing the process of gathering client requirements, analyzing them, and negotiating a formal agreement that describes how the service provider will meet those requirements

**Service Design & Deployment:** Translating the client requirements and contract language of “what” will be provided into a detailed design for “how” it will be provided. Then, effectively deploying that design

**Service Delivery:** Ongoing delivery of service according to the commitments made to the client, based on the service design

**Service Transfer:** Transferring resources between the service provider and the client, or another service provider

## Uses of eSCM-SP



### By clients

- Use evaluations to determine provider capabilities
- Evaluate multiple potential providers in a consistent and comparable manner
- Reduce risks in sourcing relationships

### By service providers

- Systematically assess their existing capabilities
- Improve their capability to form, manage, and expand sourcing relationships with clients
- Demonstrate their capability through Certification
- Reduce risk of failure

## Critical Issues for eSourcing - 7

Managing from the Client Perspective



**Establishing a strategy for the organization's sourcing activities**

**Being an informed buyer of eSourcing services**

**Actively managing sourcing risks**

## eSourcing Capability Model for Client Organizations (eSCM-CL)



**Addresses the entire Sourcing Life-cycle**

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

**Is intended to be *complementary* to existing quality models**

- Is compatible with eSCM for Service Providers

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

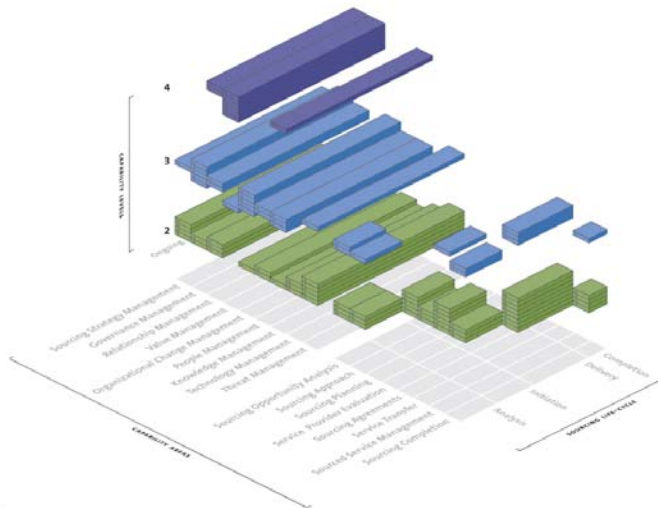
**Provides a structured framework to examine status and improvement areas**

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

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

**Provides risk mitigating information to clients about their capabilities**

## eSCM for Client Organizations



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## The eSCM-CL Sourcing Life-cycle



Ongoing: **Ongoing Practices** represent functions that are needed throughout the **Sourcing Life-cycle**.

**Analysis:** Practices concerned with analyzing the client organization's business functions and business processes, and identifying potential sourcing opportunities.

**Initiation:** Practices concerned with effectively preparing for sourced service delivery.

**Delivery:** Practices concerned with managing the delivery of sourced services to the client organization.

**Completion:** Practices concerned with completion of service and termination of the engagement - this includes the transition of resources to the client, or a third party, from the service provider.

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## eSCM-CL Capability Areas Ongoing (Management) -1



**Sourcing Strategy Management:** determining the sourcing strategy and setting organizational objectives or goals for sourcing

**Governance Management:** establishing organizational structure for sourcing and organizational process management for sourcing processes and procedures

**Relationship Management:** establishing and managing long-term relations with the service providers, and developing relationships with service providers

## eSCM-CL Capability Areas Ongoing (Management) -2



**Value Management:** fostering and managing the culture of continuous improvement so that the client derives value from the sourcing relationship, and ensuring ongoing alignment of the sourcing strategy and the organization's sourcing performance with the organization's objectives

**Organizational Change Management:** change management processes to guide the client's adoption of new systems (organizational and technological) and new ways of achieving business objectives through sourcing

**People Management:** providing and managing skilled resources and the necessary environment for the organization's sourcing activities

## eSCM-CL Capability Areas Ongoing (Management) -3



**Knowledge Management:** managing information and knowledge systems so that personnel have easy access to the knowledge needed to effectively perform their sourcing work

**Technology Management:** monitoring and managing the technology infrastructure

**Threat Management:** identifying and actively managing threats to the client organization's ability to meet its business and sourcing objectives and requirements

## eSCM-CL Capability Areas Sourcing Life-cycle Phase-specific (Analysis)



**Sourcing Opportunity Analysis:** functional analysis of the current operations of the organization and identification of potential functions, processes or services that could be sourced

**Sourcing Approach:** deciding on the type of sourcing for a specific sourcing opportunity

## eSCM-CL Capability Areas Sourcing Life-cycle Phase-specific (Initiation)



**Sourcing Planning:** planning for implementation of the sourcing approach for a planned sourcing action

**Sourcing Provider Evaluation:** soliciting potential service providers, screening the set of potential service providers, and selecting the preferred service providers

**Sourcing Agreements:** carrying out service confirmation, negotiating terms and conditions of the agreements (including SLAs, etc), and entering into agreements with the selected service providers

**Service Transfer:** successfully transferring resources between the client organization and its service providers

## eSCM-CL Capability Areas Sourcing Life-cycle Phase-specific (Delivery & Completion)



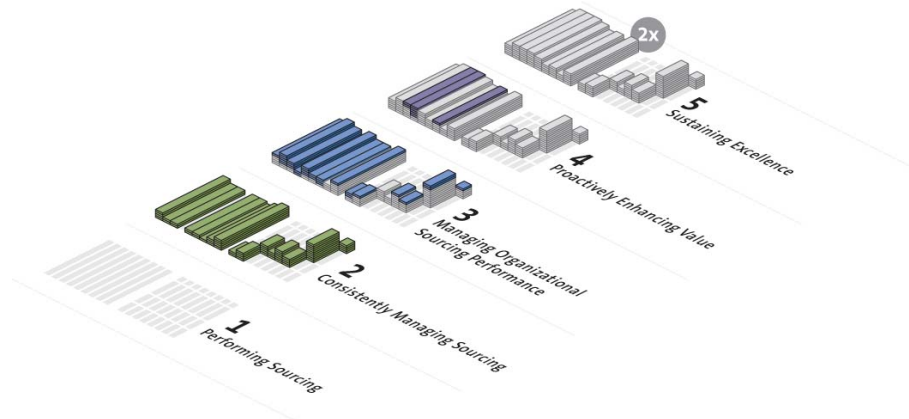
### Delivery

**Sourced Service Management:** having the capability to manage service providers, and the issues and challenges that arise after the agreement has been reached

### Completion

**Sourcing Completion:** transferring resources between the service provider and the client, or another service provider

## Five Capability Levels for the eSCM-CL



Source:  
ITSQC (IT Services Qualification Center), Carnegie Mellon. itsqc.cmu.edu  
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## Uses of eSCM-CL



### By clients

- Use eSCM-CL Practices to guide implementation of improved sourcing processes and procedures
- Use self-appraisals (or evaluations) to determine sourcing capability
- Improve their capability to form, manage, and expand sourcing relationships with service providers
- Reduce risks in sourcing relationships
- Demonstrate their capability through Certification

### By service providers

- To understand their client's capability

## Comparing the eSCMs to other frameworks



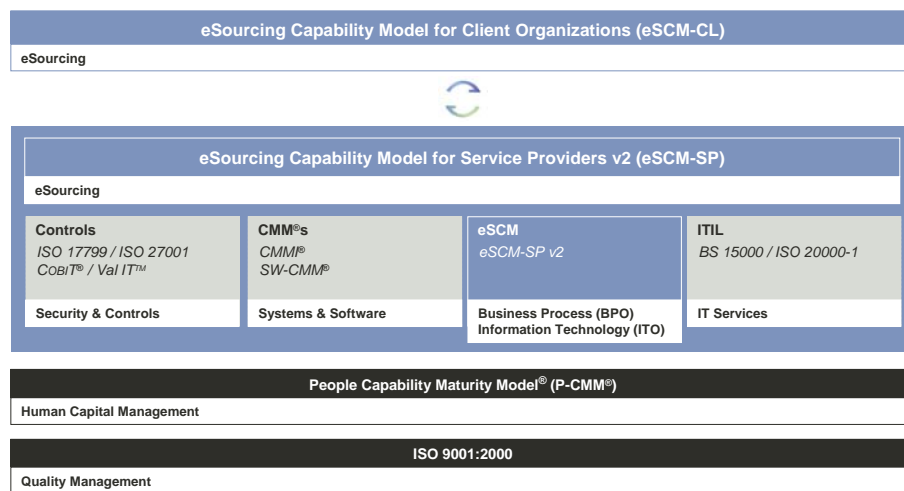
**eSCM Models cover topics important to organizations not explicitly addressed in other frameworks, i.e., the full sourcing life cycle: analysis, initiation and completion**

**eSCM Models are complementary and supplementary to other frameworks**

- addresses topics outside the scope of more focused frameworks, e.g., CMMI
- addresses service-oriented topics outside the scope of more generic models, e.g., ISO 9001

**There are no known incompatibilities between existing frameworks and the eSCMs**

## eSCM relationships



## Accenture's Holistic Approach to Quality

SIG Conference, 3 May 2006



**External: industry quality models provide an objective view into best practices and a common yardstick to compare companies**

- different models have different "sweet spots"

Quality Management		
ISO 9001 – focus on process standards and process management		
Six Sigma – focus on data-driven decision making and improvement		
Systems Integration	Outsourcing	
CMMI – focus on systems development/ maintenance	eSCM-SP – focus on sourcing life cycle and best practices	
	AO	BPO
	CMMI – systems dev./maint.	COPC – call centers
		IO
		ITIL – IT service mgmt

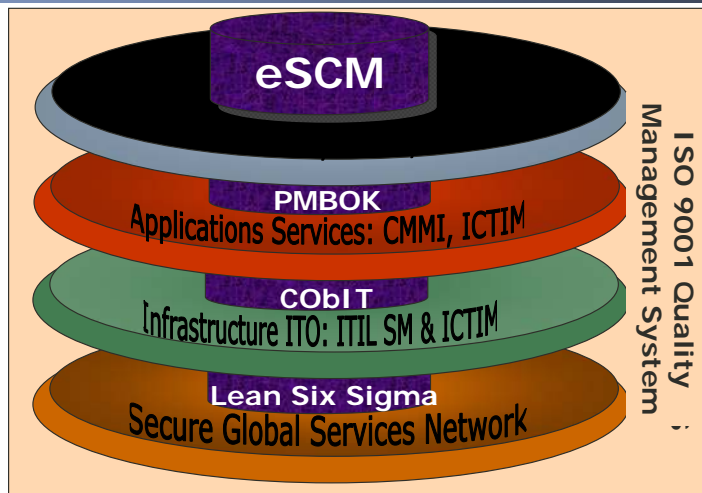
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## EDS's Perspective on IT Services

SIG Conference, 3 May 2006



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## Certification

### Authorized organizations and professionals trained by Carnegie Mellon perform evaluations for certification

- Authorized lead evaluators and evaluators on website since mid 2003
- First evaluations for certification completed during 2003

### Carnegie Mellon's Certification Board reviews data and issues certificates for service providers indicating:

- span of organization being certified (sites)
- duration of certification
- service area(s) being certified

### Carnegie Mellon website provides clients with a list of Certified organizations

- Certifications are valid for two years

## Five Capability Determination Methods

	Evaluation for Certification	Evaluation	Self-Appraisal
Full	<ul style="list-style-type: none"> <li>• For certification</li> <li>• External team, trained &amp; authorized by Carnegie Mellon University</li> <li>• Lead evaluator required</li> <li>• Sponsored by client or service provider</li> <li>• Full scope of model</li> </ul>	<ul style="list-style-type: none"> <li>• For external evaluation of the organization's capabilities. No certification.</li> <li>• External, trained &amp; authorized by Carnegie Mellon University</li> <li>• Lead evaluator required</li> <li>• Sponsored by client or service provider</li> <li>• Full scope of model</li> </ul>	<ul style="list-style-type: none"> <li>• To prepare for a Full Evaluation, or to launch or validate an improvement effort. No certification.</li> <li>• Internal, external, or combination</li> <li>• Lead evaluator strongly recommended</li> <li>• Sponsored by the organization</li> <li>• Full scope of model</li> </ul>
Mini		<ul style="list-style-type: none"> <li>• To prepare for a Full Evaluation or Full Evaluation for Certification, or to identify strengths and opportunities for improvement. No certification.</li> <li>• External, trained &amp; authorized by Carnegie Mellon University</li> <li>• Lead evaluator required</li> <li>• Sponsored by client or service provider</li> <li>• Reduced scope of model (subset of model Practices)</li> </ul>	<ul style="list-style-type: none"> <li>• To launch or validate an improvement effort. No certification.</li> <li>• Internal, external, or combination</li> <li>• Lead evaluator recommended</li> <li>• Sponsored by the organization</li> <li>• Reduced scope of model (subset of model Practices)</li> </ul>



## For further information

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### Current consortium members\*



\*Other consortium members under NDA