eSourcing Capability Model for Service Providers

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eSCM-SP

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eSourcing Capability Model for Service Providers - eSCM-SP

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eSCM-SP

eSourcing Capability Model for
Service Providers (eSCM-SP)

Van Haren
P U B L I S H I N G

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. 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 is a major challenge in sourcing of IT-enabled services, and examples of failure abound.
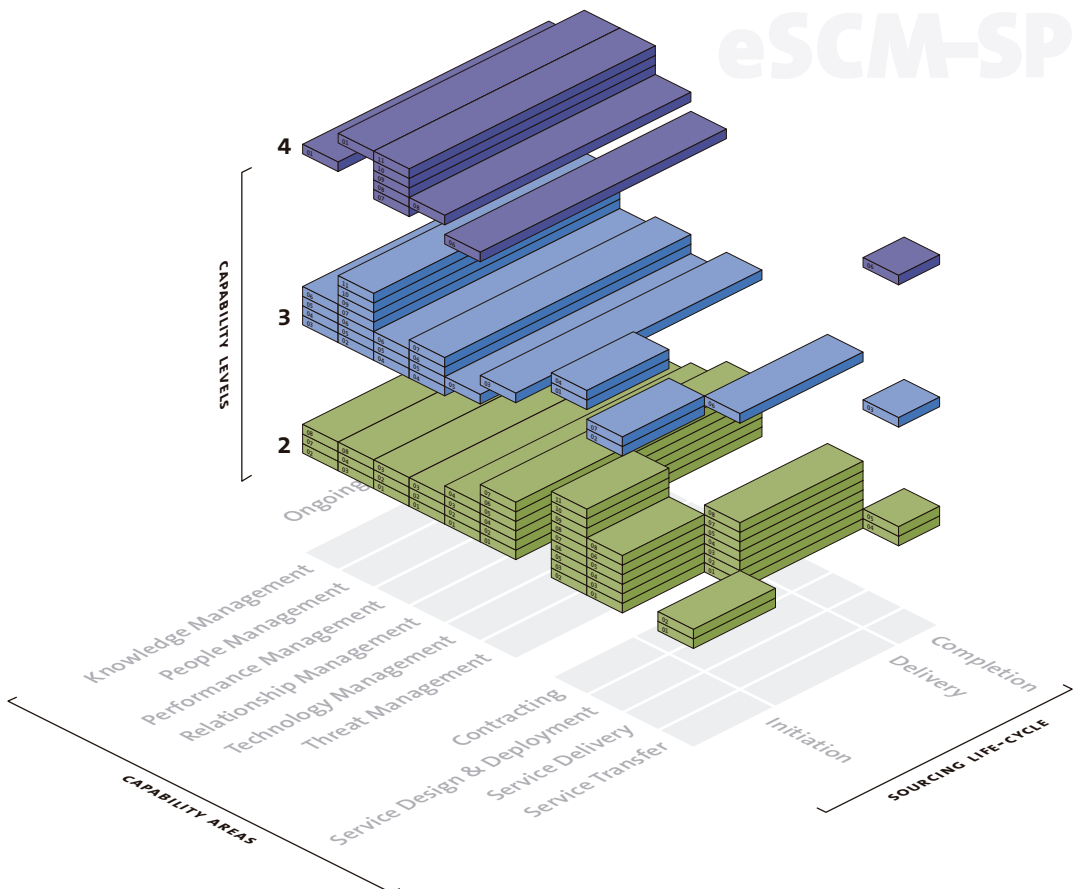
The eSourcing Capability Model for Service Providers (eSCM-SP) is a "best practices" capability model with three purposes: (1) to give service providers guidance that will help them improve their capability across the sourcing life-cycle, (2) to provide clients with an objective means of evaluating the capability of service providers, and (3) to offer service providers a standard to use when differentiating themselves from competitors.

The eSourcing Capability Models were originally developed at Carnegie Mellon University. In November 2001 the eSCM-SP v1.0 was released. After significant evaluation and revision, the eSCM for Service Providers (eSCM-SP) v1.1 was released in October 2002. The current version, the eSCM-SP v2, is composed of 84 Practices that address the critical capabilities needed by IT-enabled service providers. This document provides valuable information about the eSCM-SP, its implementation, and methods to evaluate and certify service providers.

The eSourcing Capability Model for Service Providers (eSCM-SP) is a "best practices" capability model developed to give IT-enabled sourcing service providers guidance toward improving their capability across the sourcing life-cycle. This helps service providers differentiate themselves from competitors. Additionally, it provides clients with an objective means of evaluating service providers' capabilities. It is comprised of 84 Practices that address the critical capabilities needed by IT-enabled sourcing service providers. This document contains the details of the 84 eSCM-SP Practices. Each Practice is arranged along three dimensions: Sourcing Life-cycle, Capability Area, and Capability Level. The Sourcing Life-cycle is divided into Initiation, Delivery, and Completion, plus Ongoing, which spans the entire life-cycle. The ten Capability Areas are logical groupings of Practices that help users to remember and intellectually manage the content of the Model. The five Levels, numbered 1 through 5, describe an improvement path that progresses from a limited capability to deliver a service that meets a client's particular requirements up to the highest level of sustaining excellence over time.

eSourcing Capability Model for Service Providers (eSCM-SP)

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CAPABILITY LEVELS

4

3

2

eSCM-SP

Ongoing

Knowledge Management
People Management
Performance Management
Relationship Management
Technology Management
Threat Management

Contracting
Service Design & Deployment
Service Delivery
Service Transfer

Initiation
Delivery
Completion

CAPABILITY AREAS

SOURCING LIFE-CYCLE

Acknowledgments

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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 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 deliver outsourcing services, the service provider model, called eSCM-SP, addresses the organizational best practices needed to successfully deliver IT-enabled services and develop robust relationships with their clients. It defines proven, repeated management processes for developing the organization's sourcing capabilities, planning for service delivery, initiating the agreement, service transfer, 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®)

Foreword - Anthony Macina

Since its emergence in the late 1980s, the Information Technology services industry has suffered from a lack of consistency. More often than not, assuming control of a client's customized IT systems has led to difficulties in contracting, costing and, more importantly, the ability to standardize and realize promised efficiencies. What was needed was a standard methodology that would address not only quality in IT operations, but also standards and methods for contracting, and client-provider relationship management. Failure to satisfy these latter needs is the largest cause of failed services contracts. As an executive responsible for the execution of IT services contracts, I have experienced firsthand what it is like to operate without a comprehensive standard. My clients often expressed support for greater standardization in both operational processes and contract administration.

In the early 1980s I acted as an industry advisor for the Software Engineering Institute during the development and proliferation of their Capability Maturity Model (CMM), a methodology that fundamentally changed the way the industry approached software development. I was struck by the power of CMM to change behavior and markedly improve development results. When the IT Services Qualification Center (ITSqc) at Carnegie Mellon University decided to address the more complex issue of excellence in the IT Services Industry, I was encouraged. And, when the ITSqc came to me and requested that I join the advisory board for development of their eSourcing Capability Models (eSCM), my answer was obvious.

Today there are numerous standards and models that address many aspects of IT operations and development, but only eSCM comprehensively addresses IT services relationships from both the client and the provider perspectives. In addition, eSCM allows for incorporation of many other high-quality, but less exhaustive industry standards and models into its overall framework.

The complexity of IT systems will continue to increase, along with the dependency of enterprises on reliable, available and efficient IT systems. All of this will expand the need for service providers to develop and operate those systems. A standard like eSCM will be critical to guide clients and providers to successful contracting relationships.

Anthony Macina
General Manager, Integrated Technology Delivery (Retired), IBM Corporation

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 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.

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 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.

Figure 1.
Complementary Models
The eSourcing Capability Models are complementary Models,
addressing both sides of a sourcing relationship
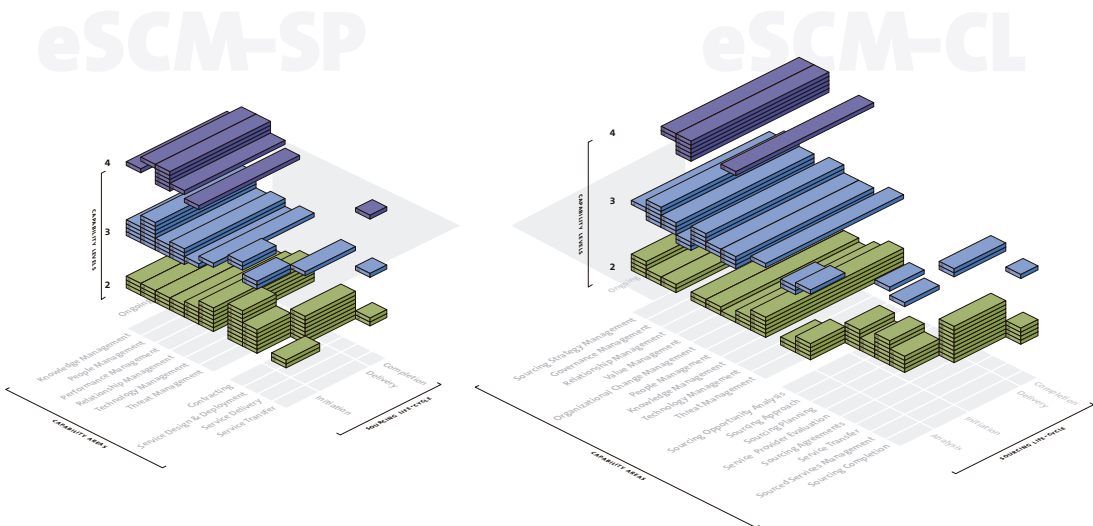
eSourcing Capability Model for Service Providers (eSCM-SP):
A Comprehensive Solution for eSourcing

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. The eSCM-SP gives service providers both guidance to improve their sourcing and service management activities and a well-defined standard to use in evaluating those activities and demonstrate their capabilities via certification. 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, eSCM-SP v2.02, which is contained in this book, is composed of 84 Practices that address the critical capabilities needed by IT-enabled service providers. The Practices are taken directly from version 2 of the Model [Hyder 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-SP 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-SP and its complementary Model, the eSourcing Capability Model for Client Organizations (eSCM-CL) [Hefley 2009]. Chapter 3 describes the three dimensions of the Model structure: Sourcing Life-cycle, Capability Areas, and Capability Levels. The Sourcing Life-cycle includes 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 service providers. Chapter 4 discusses the use of the Model: evaluating service provider capabilities, implementing the Model, integrating the Model with other process and quality frameworks. Chapter 5 describes using the Model in capability determinations (such as assessments, evaluations, appraisals, audits) and certification of service providers against the Model. Chapter 6 describes the internal structure of the Practices. Chapter 7 addresses interpreting the Model correctly in different environments and how the eSCM-SP provides guidance for measuring sourcing and services. Chapter 8 is the bulk of the book: the 84 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-SP, and a brief history of the development of the eSCM-SP.

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 [Hefley 2009]. 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 frameworks do not address all phases of the client's sourcing process.

The eSourcing Capability Model for Client Organizations is a "best practices" capability model that gives client organizations guidance in improving their capability throughout the sourcing life-cycle. 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 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.

The eSCM for Client Organizations 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, is composed of 95 Practices that address the critical capabilities needed by clients of IT-enabled services [Hefley 2009].

eSourcing

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.

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 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 at the completion of the contract.
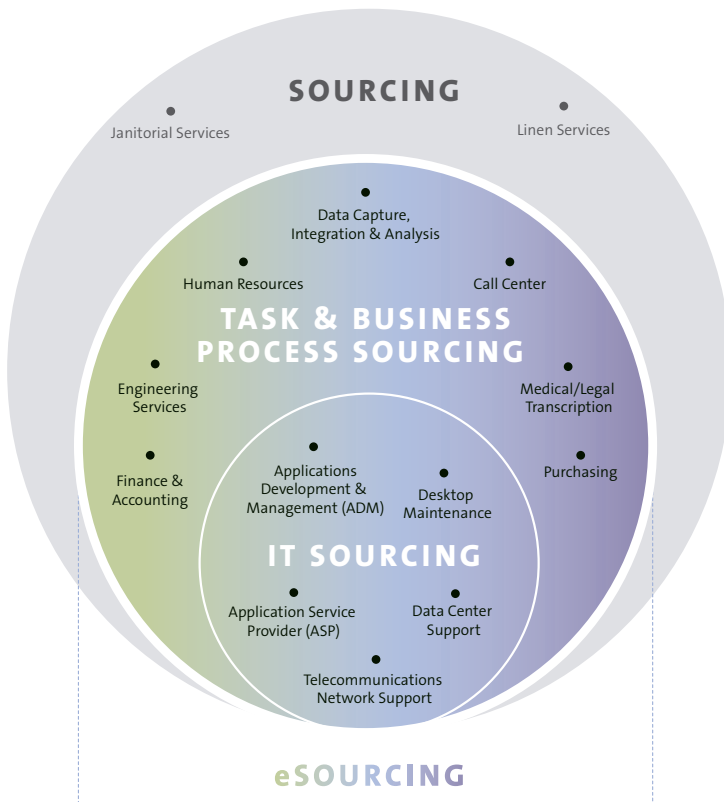

Figure 2.
Types of sourcing
The central two circles, IT Sourcing and Task & Business Process Sourcing, are covered by eSourcing. The outer circle, Sourcing, is excluded from eSourcing.

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.
- 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.
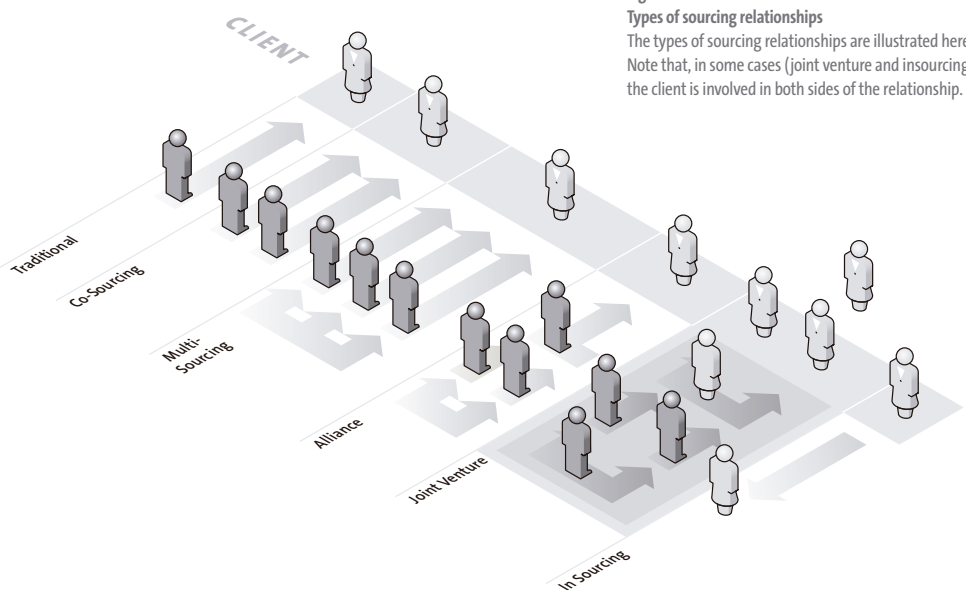

Figure 3.
Types of sourcing relationships
The types of sourcing relationships are illustrated here. Note that, in some cases (joint venture and insourcing), the client is involved in both sides of the relationship.

- In-sourcing: 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.

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.

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].