IMPLEMENTING
Strategic Sourcing

A Manager's Guide to World Class Best Practices

Christine V. Bullen,
Richard LeFave
and Gad J. Selig

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Implementing Strategic Sourcing

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Colophon

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Forewords
A foreword by Suraj Prakash

Strategic sourcing has become an integral part of many organizations' strategy to create a more cost effective and innovative organization. A wide array of sourcing solutions is offered by a growing number of global and local service providers to small, medium and large clients on a global basis.

Sourcing has become too critical to success to relegate to a mere afterthought. A comprehensive and well executed sourcing strategy and plan coupled with superior transition activities can make the difference between an organization consumed by basic, routine tasks and marginal effectiveness and one that is focused on becoming more innovative, creative and transformational in building for the future.

This book represents an excellent collection of easy to read, pragmatic and useful global sourcing frameworks, checklists, current and emerging best practices, case studies and lessons learned. It represents a comprehensive, information rich and uniquely valuable reference and resource for customers, vendors and educators.

The book is practical and filled with real-world knowledge examples and actionable steps to enable anyone to tackle this opportunity intelligently and confidently from Board members to executives to sourcing practitioners.

Suraj Prakash
Vice President, Atlanta Development Center
WIPRO Technologies

A foreword by Jerry Brace

Global sourcing is an integral part of delivering information technology products and services and the landscape of sourcing solutions has expanded into varied and multi-faceted approaches, providers and locations. Having a guide through the process and best practices from strategy to execution is a valuable resource and this book takes you on that journey.

As a global CIO who has delivered complex sourcing solutions, I welcome the lessons learned and approaches brought out in the book. This book fills the gap for the board member who wants to understand how a sourcing strategy can bring value, to the project manager who is looking for critical success factors in executing a sourcing engagement.

The book represents an excellent source of references, checklists, case studies and pragmatic current and emerging sourcing principles and best practices that work and are implementable.

Jerry Brace
EVP IT and CIO
Rogers Communications

A foreword by Brian D Smith

This book will become an essential companion for all those involved in the sourcing market, as the authors have taken a broad view, and unlike many books that focus on specific aspects of sourcing this book achieves a balance between the interests of all the participants in this rapidly evolving market. Over the past 20 years, as the sourcing market has evolved, an entire industry has been created around the initially simple idea of "division of labor" articulated by Adam Smith in "An Inquiry into the Nature and Causes of the Wealth of Nations" in 1776. Now in the early 21st century, we are still refining that model at every level within all enterprises, and on an increasingly global basis. In taking a broad view, the authors have also captured the essential defining characteristic of sourcing transactions – the characteristic that makes them different from other business transactions such as mergers – sourcing transactions have a defined life cycle, and from inception they are planned to change, and to end. Planning with the end in mind, the subject of Chapter 9, is critical to understanding the nuances of crafting sourcing transactions that work and allow both parties, the buyer and seller (service provider), to understand the implications for their respective businesses when changes in the business environment lead to a need to change a sourcing solution.

Strategic sourcing has emerged as an essential corporate function, and it is now normal to find a Chief Sourcing Officer in most companies. The role of that position varies widely, ranging from commodity procurement to the management of critical supply chain components, ant it is often associated with outsourcing and offshoring. Global sourcing, as a general term, is evolving to mean the creation and management of wide ranging sourcing solutions for services, products and components. It is a critical management function, is attracting more and more practitioners and is emerging as an essential stop on the career path of ambitious executives.

The biggest challenge for global sourcing executives is navigating the complexities of business imperatives and politics – and that's really no different than the challenges of the 18th century when firms struggled to balance the need to build large factories close to their markets to with the availability of labor, raw materials, transport infrastructure and customers. The challenges today are global because business operates in an increasing transparent, interconnected and accessible environment, and that globality offers new opportunities. Success will come to those firms that master the art, as well as the science, of global sourcing.

The general approach to sourcing is well established, and is described in this book in detail. However, successful sourcing arrangements, although they have to be built on a solid solution design and contracting process are the result of successful relationships being established between individuals and organizations. These relationships have to be able to withstand change – political, environmental and in the underlying business models of the parties to the sourcing arrangement – over time, and therefore require attention and investment by both parties. The failure to develop and sustain these relationships is the most common cause of failure, and this book provides sound advice on the steps that should be taken to establish solid working relationships from inception.

Sourcing relationships also require active as opposed to passive governance, and as relationships become more complex, the need for active governance becomes even more essential. The trend towards "Multi-Sourcing" is accelerating, resulting in complex arrangements between multiple service providers collaborating to provide their client with an integrated solution where the value is in the integrated whole, as opposed to any individual part. To make these solutions viable, it is critical that all parties have a common vocabulary and understanding, and therefore establishing

that common understanding has become an increasingly important role in business education. This book provides that framework, and will provide the reader with a solid foundation in both the art and science of sourcing as currently practiced.

Brian D Smith, Partner & Managing Director, TPI, Inc.

Preface

"Outsourcing is one of the greatest organizational and industry structural shifts of the 21ˢᵗ century."
James Brian Quinn, Dartmouth College

Introduction and objectives

As the sourcing of services, manufacturing, logistics and other areas has grown globally, the issues, opportunities and challenges of planning, managing and governing strategic sourcing initiatives have become a major concern of the Board and executive management in enterprises on a global basis. All forms of sourcing have become an integral part of many organizations' business strategy and are fundamental to reduce costs, help focus on growth, innovate, facilitate transformation and support continuing operations in most private and public organizations. Leaders in IT, corporate services, manufacturing, logistics, R&D and other functions have embraced global sourcing as a means to secure high quality technical resources to execute complex business investments. In many cases, it is no longer a pure economic play but also a means to obtain access to exceptional talent and to additional and scalable assets and resources.

The authors view the use of sourcing as one of the critical focal points for more effective management around which there are many important issues, risks and opportunities. None of this is easy, or obvious, and this pragmatic and actionable "how to guide" is intended to pull together, from about 200 sources, current and emerging best practices and draw from many best practice case studies. Some of these case studies are included in the book. In addition, this book reflects insights gained through many years of research studies, consulting assignments and managing multiple outsourcing initiatives in the private and public market segment in which the authors participated.

The purpose of this book is to describe the important planning, economic, management, governance, control, legal and organizational change considerations necessary to manage both strategic and tactical sourcing. The material in this book is valuable to executives and managers in companies and organizations, both private and public, who are considering sourcing some aspects of their business or operation (e.g. business process, manufacturing, logistics, information technology, legal, medical, R&D, etc.); to companies who provide global sourcing services; and to educators who are responsible for teaching people how to source effectively. Topics covered include strategic decision making, feasibility and business case considerations, day-to-day management, provider selection and relationships, project management of outsourcing contracts and governance functions (e.g. managing metrics and other service level management using dashboards effectively, measuring and assessing value, project prioritization, resource allocation) and the "sunset" decision to close out a sourcing agreement and either reintegrate the functions and processes within the organization or continue to outsource it with the same or another service provider. The content of this book will provide a valuable outsourcing management skill-set and checklists for the 21ˢᵗ century marketplace for any organizations: foreign and domestic, corporate, non-profit, government and educational institutions.

The major objectives of the book are to:
• Present global sourcing as a strategic business activity as well as discussing the tactical aspects of sourcing;
• Outline the key factors in sourcing from the viewpoint of the client (customer) and service provider (provider);
• Formulate the strategic and tactical sourcing planning and governance process for managing short and long term sourcing policies, plans and initiatives;
• Learn how to engage and gain the sponsorship of executive management for sourcing initiatives and defining the overall requirements for sourcing;
• Optimize the process of re-integrating services when sourcing is discontinued;
• Design and apply a business case study for evaluating sourcing options in terms of the current (as is) versus future (to be) environments;
• Determine the qualifications of service providers, as well as selecting, evaluating, negotiating, contracting and managing on-going relationships;
• Identify issues related to various forms of sourcing – on-shore, off-shore, near shore, rural shore, best shore, etc;
• Evaluate proposals for sourcing from a client's perspective;
• Develop new business development strategies and tactics and winning proposals from a service provider's perspective;
• Review additional issues and impacts of and/or on-sourcing, e.g. legal, regulatory, contractual, relationship management and organizational change;
• Discuss the future of sourcing.

In reviewing the current literature, completing many case studies and conducting numerous private and public sourcing workshops, graduate courses and consulting assignments, both domestically and internationally over the past few years (attended by thousands of executives, managers and practitioners), we find that much has been written and documented about the individual components (e.g. legal aspects, provider selection, contract administration, information technology outsourcing, business process outsourcing, business case analysis, etc.) of sourcing.

However, what is missing is a comprehensive book of current and emerging best practices that applies to the general theme of sourcing in the global marketplace. Understanding the use of sourcing and the impacts of sourcing in organizations, in any industry and involving any process or function is increasing in importance as the instances of sourcing multiply around the world and the sourcing industry continues to grow globally. This book attempts to fill the void with a pragmatic and straightforward discussion of the "how to's" such as:
• How to develop, implement, manage and govern an effective global sourcing strategy and plan;
• How to put in place policies and processes that can be monitored to provide a balanced approach to sourcing;
• How to build a strategic top-down framework coupled with an operational roadmap;
• How to incorporate bottom-up implementation principles and practices that work;
• How to ensure a coordinated, cost-effective and value-delivery plan and operating environment for strategic and tactical sourcing.

In addition, the book is differentiated from other current sourcing and outsourcing books because it addresses the following areas in a comprehensive, yet easy to use and practical manner:
- Integrates strategic and operational concepts and practices;
- Covers both clients and providers (Chapter 10 is written primarily for providers to help them better understand how to successfully generate new business);
- Supports the practice of global sourcing by leveraging and integrating professional rigor for best practices and academic foundations for increased understanding;
- Provides practical knowledge, techniques, checklists and methodologies that can be used in any environment globally;
- Includes many examples of current and emerging best practices;
- Is broad and comprehensive, yet drills down to specific 'how to' details in all chapters;
- Provides a global view of sourcing.

The book can serve as a guideline for any organization in any industry to formulate and tailor an effective approach to global strategic and operational sourcing for its environment and to help the organization make the transition to a higher level of competitiveness by improving its maturity, effectiveness and responsiveness.

The market for this book

Many executives, managers and practitioners have expressed the need for a comprehensive, yet practical guide, based on real world experiences, on the subject of implementing and sustaining global sourcing successfully.

The book has been written by former business executives, practitioners and academics who have managed organizations, managed strategic change and advised major public and private organizations on business and outsourcing strategy and governance, completed numerous consulting assignments and case studies, conducted private and public workshops, conducted international research projects and graduate business and engineering courses on the fundamentals of managing strategic sourcing and outsourcing.

Our intended audiences include the following groups:
- **Directors of corporate boards** – who have overall fiduciary accountability to provide oversight for the business and key functions of the business.
- **Executives** – who are primarily responsible for developing and/or approving business strategy and then overseeing its implementation and governance, including sourcing and outsourcing (The "C" suite of Corporate Officers).
- **Managers and professionals** – who are primarily responsible for implementing and governing sourcing departments and initiatives in their organizations and institutions.
- **Consultants, advisors and market analysts** – who are involved in advising, planning, organizing, directing and sourcing providers to help transform businesses and organizations to compete more effectively around the world.
- **Academicians, graduate and upper level undergraduate students** – who must teach and master a fundamental understanding of sourcing and outsourcing and how it affects businesses, management, employees, the regulators and investors.

The demand for a comprehensive, pragmatic and actionable "how to" guide to help managers and practitioners plan, deploy and sustain an effective sourcing environment and culture has been expressed by many managers and professionals in the private, public and education sectors.

Organization of the book and summary of the chapters

The book is presented in six parts and twelve chapters. A summary of each of the chapters follows:

Part I – Foundation of Strategic Sourcing

Chapter 1: Overview of issues and opportunities
Chapter 1 is an introduction to the book, setting the context of global sourcing with some historical review and discussing the foundation of the basic economic and business arguments supporting the value of sourcing as a corporate strategy. Key topics covered include a discussion of the primary drivers of global sourcing and the issues and opportunities related to "shoring" questions. A brief overview of the leading countries and players in the outsourcing marketplace is provided, as well as a discussion of terminology with common interpretations and misunderstandings.

Chapter 2: Creating a sourcing strategy
Chapter 2 describes how to develop a sourcing strategy, plan and business case. It covers the linkage and integration between a business and sourcing strategy formulation and development framework. It illustrates the pros and cons of selected models for sourcing and provides a detailed customer sourcing planning checklist. It concludes with steps to make sourcing real.

Chapter 3: Fundamentals of the global sourcing process
This chapter is intended to provide the "how to" fundamentals for executing a sourcing engagement. The chapter looks at sourcing phases including preparing for the sourcing engagement, managing the initial decision, establishing the team, describing the Request for Proposals (RFP) process, managing the evaluation and completing the provider selection.

Part II – Management, risk, governance and legal considerations

Chapter 4: Sourcing management governance and control
Chapter 4 focuses on the sourcing program governance and the role that project management plays in providing sourcing management oversight. Measuring performance is discussed in the chapter along with the related metrics. Disputes need to be anticipated and approaches to resolve conflicts between clients and providers are an important part of this chapter. Sourcing program reporting is instrumental in fostering effective communications and can support a viable sourcing engagement. Establishing sourcing program standards and policies are discussed in the chapter, as well as establishing and maintaining a means to measure and address customer satisfaction. This chapter also includes an approach to identify and manage sourcing operational issues and how the client and provider can mitigate related risks by establishing a joint risk management program.

Chapter 5: Legal and contracting considerations

The legal side of global sourcing is increasing in complexity as agreements are created all over the world and with multiple providers. There is no substitute for expert legal support in negotiating and finalizing contractual provisions in a sourcing engagement. The purpose of this chapter is to outline and summarize some of the key issues in the legal and contracting areas to help managers increase their awareness of the complexities.

Part III – Organizational change, innovation and relationship management

Chapter 6: Managing organizational change, innovation and transformation

Three areas of focus based on change management involve the management of internal organizational change in the context of implementing a sourcing strategy, the coordination of innovation management with a sourcing partner and the use of global sourcing to lead a fundamental transformation of the organization. Chapter 6 addresses these aspects of change management.

Chapter 7: Relationship management

A fundamental skill associated with all sourcing is the ability to coordinate the various teams brought together to achieve the goals of the engagement. Some of these will be in-house teams, some will be provider teams and others will be a mixture of both in-house and provider personnel. In addition the teams may be co-located or distributed over different geographic locations, cultures and time zones. All of these factors contribute to the complexity of project management and demand skills and capabilities to nurture the relationships in pursuit of a successful outcome. Chapter 7 focuses on relationship management issues, techniques and solutions, including the creation of effective communication models.

Part IV – Transition planning and the end game

Chapter 8: Transition planning and actions

Chapter 8 addresses the transition phase of a sourcing engagement. The major components of the transition plan include defining transition terms, establishing a communication program, maintaining scope control with a change management program, and implementing organizational structures that support the transition. The focus of the transition phase is to migrate the sourced scope of work, related assets and people. This chapter defines the client and provider roles and responsibilities during the transition phase.

Chapter 9: Knowing what the end game is from the beginning

Planning the end game of a sourcing engagement begins in the early engagement phases. Chapter 9 defines the strategy for disengagement (voluntary or involuntary) or renewal and the associated processes including planning, milestones, approaches and possible exposures and risks. The chapter also looks at multiple exit options beyond extending sourcing engagements to include alternatives such as changing scope of support with multi-providers or executing an in-sourcing approach.

Part V – Successful principles for new business development from a service provider perspective

Chapter 10: Successful principles and practices for new and recurring business development for service providers

Chapter 10 is primarily written for service providers to describe how they must continuously align, adjust and re-invent their marketing, sales, business development and service delivery models and approaches to attract new business and retain existing business in a rapidly changing global industry. It provides insights to help current and emerging providers by staying relevant, differentiated and capitalize on the growing demand for outsourcing services. The chapter describes the competitive landscape and provides an in-depth analysis of four major global service providers headquartered respectively in North America, Europe and Asia. From a client perspective, Chapter 10 provides information about what good providers should do to obtain and retain the client's business.

Part VI – Future trends, summary and lessons learned

Chapter 11: Future trends, careers and stakeholder diversity

The nature of global sourcing and its stakeholders is growing in complexity and diversity. In addition to the clients and providers, there are increasing numbers of stakeholders in government organizations, non-government organizations (NGOs), non-profit charitable organizations, professional organizations and academia all becoming involved in aspects of global sourcing that range from purely business interests to concerns associated with sustainable practices. In addition, there is a focus on the pipeline of resources throughout the world feeding the growth of sourcing and providing the skills and capabilities required to carry out the work. This chapter provides a discussion of these stakeholders and career issues and includes a brief look at where the future trends may be in the global sourcing marketplace

Chapter 12: Summary, lessons learned and critical success factors

Chapter 12 provides a summary of the key checklists contained in all of the previous chapters in the book. It also summarizes the lessons learned and critical success factors identified in each chapter, which are required to make sourcing successful, effective and to improve the level of sourcing maturity in organizations.

Bibliography
Glossary
Appendices

Acknowledgements: all authors

Acknowledgements: Christine V. Bullen

My initial work in global sourcing started in 1989 at the MIT Center for Information Systems Research (CISR) when we worked with Kodak in their pioneering efforts in outsourcing. Therefore it is fitting to begin with acknowledging my CISR colleague Jack Rockart for helping to set me on the path of research in global sourcing. More recently Jerry Luftman and Ted Stohr (both of Stevens Institute of Technology) supported my efforts in continued global sourcing research and in designing the four-course graduate program in outsourcing that we currently offer at Stevens. I was fortunate to work with a multi-institution research team sponsored by the Society for Information Management (SIM) looking at the impacts of global sourcing on the IT workforce. This team has been instrumental in producing new ideas and I want to acknowledge the current members starting with Kate Kaiser who has chaired the team, and including Judy Simon, Cynthia Beath, Steve Hawks, Keith Frampton, Kevin Gallagher, Tim Goles, and Tom Abraham. It goes without saying that the numerous executives who have taken the time to contribute to my research and teaching have been central to developing the practices discussed in this book. My co-authors, Gad and Dick have been a delight and I consider myself fortunate to be working with them.

I would like to dedicate this book to my family: my husband Rick who has been supportive and patient through the many hours of writing and my two daughters, Valerie and Georgia who keep me thinking young. All three are the inspiration for everything I do.

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Acknowledgements: Gad J. Selig

I would like to dedicate this book to my wife and life-long partner, Phyllis, for her love, dedication, understanding and the support that she has given me throughout the many years we have been together. Our children, Camy, Dan, Gabe, our children through marriage, Beth and Andy and our grandchildren, Jason, Jacob, Jesse and Samantha also inspired me to finish the project so that I could devote more time to them.

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workshop over the years as well my students who have attended my graduate classes. All of them have contributed to my knowledge and challenged me to learn more and stay current in a rapidly changing field. My co-authors, Christine and Dick were both inspirational and fun to work with and the results are truly an example of a synergistic and outstanding team effort.

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Christine Bullen is a faculty member at the Howe School of Management, Stevens Institute of Technology where she is the director of the four-course concentration/major in IT Outsourcing in the MSIS and MBA programs and the coordinator of the capstone course in strategic issues in IT. She is currently conducting research on the IT workforce as part of a team of academics under the sponsorship of the Society for Information Management (SIM). She is developing an IT Workforce Decision Model looking at the impact of sourcing strategy on the in-house needs for IT skills.

Dr. Bullen is a founder of the Global Sourcing Council (GSC) and is serving as its first president. The GSC is a non-profit, volunteer organization that is focused on socially responsible sourcing. The Global Sourcing Council (GSC) sponsors forums, white papers and a website all of which helps create an exchange of ideas and information among businesses, trade organizations, government agencies, non-profit organizations and academics leading to action that defines socially responsible practices in global sourcing. More information can be found at www.gscouncil.org

She earned her PhD from Stevens Institute and her MS from MIT, where she served as the Assistant Director of the MIT Center for Information Systems Research (CISR) for 17 years. She is an active member of AIS, the New York Chapter of SIM, INFORMS, and the IAOP. Christine is currently serving as a reviewer for U.S. Department of Commerce National Telecommunications and Information Administration on BTOP (Broadband Technology Opportunities Program), which is an essential component of President Obama's broadband strategy.

Dr. Bullen has co-authored and contributed to eight books and numerous articles in the areas of impacts of outsourcing on the IT workforce, computer-supported cooperative work, electronic communications, critical success factors, managing the I/S function, in a variety of journals, including *CAIS, MIS Quarterly, IBM Systems Journal, Harvard Business Review,* Auerbach Publications, and MIT CISR working papers.

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Richard (Dick) LeFave founded a consulting firm in May 2008 that specializes in executive level Information Technology (IT) strategies and transformations. The company, D&L Partners, LLC has completed engagements with CIOs and executive teams in various high tech companies related to sourcing, strategic organization and IT transformations. He has been engaged in due diligence efforts and is an active advisor to Wall Street analysts on IT related topics. His background of over 30 years in the IT space coupled with over 15 years as a CIO for Fortune 1,000 and Fortune 50 companies has provided LeFave with a sound background to advise corporate boards on IT related engagements and IT effectiveness.

His background includes successfully executing IT synergy attainment resulting from mergers and acquisitions. He has developed high performing IT teams and promoted IT as a business through collaboration and involvement. He is a high energy individual whose background spans the breadth of manufacturing, financial services, and telecommunications. He has successfully re-engineered multiyear system backroom transformations with companies such as Oracle, Amdocs and global sourcing programs with IBM, EDS and Sapient.

LeFave is a published author and speaks on topics ranging from IT synergy attainment to driving IT successfully within a business. His background includes positions with The Boeing Company, The Boston Company, American Express, Southern New England Telecommunications, SBC, Nextel and Sprint. He retired from Sprint in May 2008 and formed his own consulting company and advises multiple corporations on IT developments.

LeFave is a decorated veteran of the US Army where he served in Korea and Guam and served as a Company Commander on both active duty and in the reserves. He has a Bachelor of Science degree from Boston University, a Master of Business Administration from The University of Puget Sound, a Master of Science in Systems Management from the University of Southern California and he has completed the Advanced Management Program (AMP) from the Harvard Business School.

He is also actively engaged with the Harvard Business School Community Partners volunteer organization focused on advising not-for-profits on enhancing business development.

Gad J. Selig

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Gad J. Selig is the Associate Dean for Business Development and Outreach in the Graduate Studies and Research Division of the University of Bridgeport. Formerly, he was the Director, MS in Technology Management and Dual Graduate Business and Engineering Degree Programs. He earned degrees from City, Columbia, and Pace Universities in Economics, Engineering, and Business. He has authored three books and numerous articles, chapters in books and conference proceedings. He is a dynamic and popular speaker at industry conferences and corporate events in the U.S. and abroad.

Dr. Selig is Managing Partner and founder of GPS Group, Inc., a consulting, research and education firm that focuses on strategic marketing and growth, business and technology transformation, new product development, product management and innovation, IT strategy and governance, program/project management and strategic sourcing issues and opportunities. Selected clients include Fortune 1000 companies, start ups, early stage firms and government agencies.

Dr. Selig has more than thirty years of diversified domestic/international executive, management and consulting experience with both Fortune 500 and smaller organizations in multiple industries. His experience includes: marketing, sales, planning, operations, business development, mergers and acquisitions, general management (with full P & L responsibility), systems/network integration, strategic sourcing and outsourcing, MIS/CIO, electronic commerce, product development, project management, business process transformation, governance and entrepreneurship. Dr. Selig has worked for the following companies: Marketing Corporation of America, Advanced Networks and Services, Continental Group, Contel Information Systems, NYNEX (Verizon), Standard Kollsman Industries, CBS and AT&T.

Dr. Selig has been a Board member of Telco Research, BIS Group, LTD. and AGS. He is a member of: the Academy of Management, Society for Information Management (SIM), Project Management Institute (PMI), ASEE, IAOP, ISACA and the Connecticut Technology Council. He holds a Top Secret Clearance with the Federal Government.

PART I: Foundation of Strategic Sourcing

1   Overview of issues and opportunities

"By now we've become accustomed to statistics reflecting the spectacular growth of the world's two emerging economic superpowers China and India. But let's look again at two statistics that put the story in a nutshell: By 2025, India's share of the world GDP, will have risen from 6 percent to 13 percent, making it the third largest economy in the world. China, by that time, will have become the largest economy, and together China and India will account for a 39 percent share of the global output – about equal to the present share of the United States and Europe combined." – Jagdish N. Sheth, *Chindia Rising*, 2008

1.1   What is covered in this chapter

This introduction to the book provides an overview of the topic of global sourcing and a brief guide to the process that will be described to support professionals who are engaged in sourcing activities, whether they are:
- the board members and executives in client companies, that is, those who consider the decision to buy sourcing
- providers who supply sourcing products and/or services
- advisors who support those engaging in sourcing
- government agencies who oversee sourcing in their locations
- academics who study and teach the phenomenon of global sourcing
- individual thought-leaders with an interest in the global sourcing process

Topics covered:
- An overview of the primary drivers of global sourcing
- A brief history of sourcing, its economic roots and forces driving its growth
- An introduction to the "shoring" issues and opportunities
- An overview of key countries and players
- An overview of the terminology and its pitfalls

1.2   Overview of global sourcing

The world of global sourcing is rich and varied. The dollar value of global sourcing engagements covers a broad range from quite small (e.g. $100,000) to substantial (many billions). The time periods of engagements are similarly wide-ranging, from a few months to five-seven years or more. The many words and phrases associated with this phenomenon of employing individuals and organizations who do not – necessarily - directly work for your organization contribute to a general sense of complexity and confusion.

Estimates of the worldwide market for sourcing vary greatly, but the National Association of Software and Services Companies (NASSCOM - the trade body and chamber of commerce of the software and services companies in India) estimated the global market for Information

Technology (IT) and Business Process Outsourcing (BPO) in 2008 at $967 billion, with an average annual growth of 6.3%.[1] Even more dramatic, NASSCOM claims that while this market has tripled in the period 2004 to 2008, the longer-term opportunity is five times the current size. Global sourcing is a significant market and deserves clear understanding and careful consideration in every business environment. The positioning of global sourcing as an integral part of an organization's strategic plan is a key element of the philosophy incorporated in this book and will be a focus for discussion.

The information technology (IT) and business process outsourcing (BPO) markets are a significant aspect of global sourcing and garner huge amounts of reviews, research and reporting. However, historically, the areas of logistics and procurement (e.g. parts purchasing and after-sales repairs) and manufacturing (e.g. everything from textiles to electronics) have accounted for the largest sectors in global spending – each of these is twice the size of IT sourcing. Part of the explanation here is that the manufacturing and other areas have been engaged in global sourcing for a much longer period of time. Starting with the industrial revolution in the eighteenth century, organizations began moving from total vertical integration to acquiring some of their raw materials and components from outside specialists. Therefore the concept of outsourcing is very old. In fact some date outsourcing to 1600 when the East India Company initiated global trade.

How can an organization understand global sourcing and gain value from engaging in this approach to achieving work? The answer to this question is a primary goal of this book. The use of global sourcing approaches as part of an overall management strategy for delivering optimal efficiency and effectiveness in the organization will be discussed. An overview of best practices is given in the "Strategic Sourcing Lifecycle Roadmap" (see Figure 1.1) and these will be presented, discussed in detail and illustrated through case studies and material that will be discussed in subsequent chapters. Many organizations have successfully engaged in global sourcing projects and been highly satisfied with the results. Others have not understood the fundamentals of managing these engagements and they have been extremely disappointed with the experience.

Global sourcing approaches have been used in many industries, for many processes and functions and for many years. In 1948 there was an NACA (National Advisory Committee for Aeronautics) Bulletin[2] published on procedures for controlling materials handled by subcontractors, which may be one of the first formal documents addressing issues related to outsourcing, and this is also the year that Manpower was founded and established the general practice of contracting for outside personnel. After World War II the US increased its foreign trade and in the early 1950s the seeds of sourcing in some industries, such as textiles and apparel, were sown. In the 1970s and 1980s the US began sourcing electronics, toys and automobile parts.

Most of the attention was drawn to global sourcing as the information technology industry began seeking help in preparing for the Year 2000 ("Y2K") date error that many predicted would bring down computer systems worldwide. In the rush to fix the dating procedure (which had been designed into many systems as a 2-digit abbreviation for the year that would make no sense

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1   NASSCOM Strategic Review 2009, http://www.nasscom.org/Nasscom/templates/NormalPage.aspx?id=55816
2   Smith, N. L. 1948. Control procedure for materials in the hands of subcontractors. *N.A.C.A. Bulletin* (December 1): 403-407

	Phase 0: Strategy Formulation	Phase 1: Feasibility	Phase 2: Preparation	Phase 3: Evaluation	Phase 4: Commitment	Phase 5: Transition	Phase 6: On-going Management & Governance
			Provider Selection				
Objectives	• Determine business need • Align with business strategy • Develop sourcing strategy and identify areas of opportunity • Identify key drivers	• Develop business case • Develop base case (as is state before sourcing) and future scenarios (future state after sourcing) • Decompose into discrete components • Perform risk assessment: - Function - Country - Culture - Security - Etc	• Develop detailed requirements/scope • Finalize/issue RFP • Formulate provider selection criteria and weights	• Evaluate contract & provider pricing • Evaluate providers • Internal Audit review for controls	• Select and negotiate provider proposals • Develop transition program • Finalize organization plan • Sign contract • External and internal communications • Manage organizational change	• Implement phased transition plan • 30/60/90 day phases • Establish relationship management strategy	• Manage to contract • Manage scope and changes • Monitor business value of engagement via business case • Issues management • Reorient retained organization
Deliverables & Decisions	• High level sourcing strategy • Validate strategy - Internal - External • Secure sponsor and management team • Inform executive team • Identify sourcing areas of opportunities and priorities • Examine sourcing geographic alternatives - on, off, best shore	• Business case • Identify PM and Macro Plan • Outsourcing market overview • Determine core vs. non-core functions, processes, technologies, etc. • Risk assessment and mitigation plan • Consulting contract (optional) • External Counsel agreement (optional) • Review and approve at appropriate levels: - Functional head/ Business unit - CEO - Board of Directors	• RFP • Identify resource requirements • Form pre-transition team • Identify providers (Could use RFI to eliminate unqualified providers)	• Score vendors • Conduct due diligence - benchmark - site visits - references • Short list providers • Draft Master Service Agreement (MSA) and Statement of Work (SOW) • Approve budget • Change Management process and authorization	• Finalize and sign contract – MSA and SOWs (Statement of Work) • Transition – Pre and post checklist • Form post transition team • Risk mitigation, backup and contingency plan • Develop human resources and asset transfer and retention plan • Finalize governance plan, process, metrics and roles • Finalize training plan • Finalize pilot testing and/ or validation plan	• Execution of transition plan • Implement relationship management plan • Assess results of initial transition and fix issues • Knowledge transfer and finalize documentation • Clear hand-offs – who, what, when, how, where and finalize documentation	• Governance - schedule of activities and process • Change control process • Escalation process and roles • Management and Performance reporting • Updated business case • Renew, expand or disengage contract • Build client/provider high performance teams • Institutionalize: - Sourcing process and continuously improve - Improve governance process - Lessons learned - Critical success factors
	go/no go	go/no go	go/no go	go/no go	go/no go	go/no go	
Enabling Checklists, Tools and Technologies	• Template - Business plan - Sourcing plan - Sourcing business case (See chapters 1, 2, 12)	• Business case template • Risk assessment template and framework (See chapters 2, 4, 12)	• Vendor evaluation scorecard and criteria • RFI/RFQ/RFP Table of Contents (See chapters 3, 12)	• Criteria for vendor due diligence template • Master Service Agreement (MSA) (See chapters 4, 5, 12)	• Transition plan template • Communication and governance plan - Metrics - Framework - Escalation (See chapters 6, 10, 12)	• Transition Checklists - Pre-transition - Post-transition • Relationship management practices (See chapters 7, 8, 9, 12)	• Governance framework • The end game checklist (See chapters 4, 6, 8, 9, 11, 12)

Figure 1.1 Strategic Sourcing Lifecycle Roadmap

when we returned to a '00 year in 2000) programming help was sought outside the organization and from any location in the world. The contracting of these professional services is seen as the birth of the major service industry global sourcing.

The service-based sourcing has expanded beyond IT outsourcing (ITO) to general business process outsourcing (BPO) and many specialized segments such as Human Resource outsourcing (HRO), financial systems outsourcing (FSO), and legal resource outsourcing (LRO). These service-based offerings have joined with the increasing sourcing activity in manufacturing, supply chain management, research and development, etc., resulting in a fast-growing global market in outsourcing of all kinds. Figure 1.2 shows an estimate of the global IT and business process outsourcing market in 2008. The total market value is shown as $828 billion with $616 billion in ITO and the remaining $212 billion making up all other BPO areas.
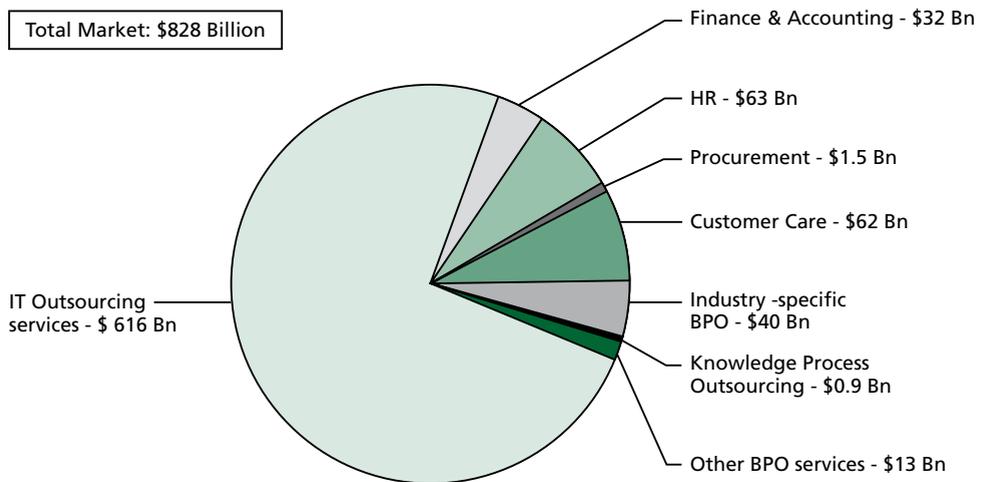
Figure 1.2 Global IT and Business Services Outsourcing Market
Source: AMR Research Inc., 2009

Forrester, among others is predicting the evolution of the largest Indian IT service providers into competitors in the general area of business technology (Andrews, 2010). These firms will need to transform their offerings from commodity IT services to providing strategic business services to the marketplace. Forrester provides an overall SWOT analysis of the leading players as well as individual analyses for each. The keys to evolving for these firms are to use the strengths they have developed in process expertise along with their strong reputations for reliability while building their expertise in transformational strategies.

It is useful to understand how global sourcing has evolved and its relationship to economic theory. The basis of economic theory comes from Adam Smith's work in 1776 as published in "An Inquiry Into the Nature and Causes of the Wealth of Nations."[3] This traditional economic theory suggests that, because the market is "efficient" (i.e. those who are best at providing each good or service most cheaply are already doing so), it should always be cheaper to contract out than to hire. Therefore in 1776, Adam Smith was advocating sourcing!

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3   Full text of Smith's essay can be found here: http://www.econlib.org/library/Smith/smWN.html

Economic theory also discusses the concept of comparative advantage. Historically, comparative advantage referred to an *inherent* advantage that one person or area had over another. For example the climate and geography in France makes it the perfect place to grow grapes for wine. The same conditions do not exist in England; therefore France has a comparative advantage over England in wine grape production. This concept becomes considerably more complex when the "advantage" is based on education and skill development which can be created anywhere. For example, India has no inherent comparative advantage over the US in the existence of intelligent people. However, India has focused its educational resources on producing graduates with skills in computer science and information technology and thereby creating a large population of the skills needed for information technology outsourcing (ITO). India has "manufactured" comparative advantage.

In 1937, Ronald Coase, in his treatise on "The Nature of the Firm" (where he developed theory on why corporations exist at all), discussed the idea that corporations exist to economize the costs of buying and selling nearly everything and thereby minimize the transaction costs of suppliers, employees, customers, etc.[4] Building on Smith's work, Coase argued that because of transaction costs, it may not always be cheaper to contract out rather than hire. Transactions costs include those associated with finding the best provider of the good or service (search and information), negotiating with that person (bargaining costs), devising a contract, policing and enforcement costs, etc. Coase then concludes that corporations arise when the transaction costs are too great and the equivalent quality good/service can be created more economically by hiring the talent required into the developing corporation.[5]

This question of hire versus contract out is the key debate at the heart of global sourcing. Every organization seeks to create the highest quality good or service by employing the lowest cost resources. And, by the way, Coase was awarded the Nobel Prize in Economics in 1991, fifty-four years after this groundbreaking work on transaction costs theory.

Part of this economic roots discussion is saying that the questions and debates we see today taking place around global sourcing are not new. Finding the best mix of the use of in-house resources versus external resources to produce the good or service of the desired quality is the on-going management challenge. What is new is that the marketplace in which this question arises is now global. Reliable, practically instantaneous worldwide communication extends each organization's ability to search for and secure the resources it needs with reasonable transaction costs. And with this global marketplace come the controversial issues of job creation and loss within the specific geographic boundaries of the home nation of the organization.

An important consideration that will be discussed later is the extent to which organizations truly understand the full transaction costs associated with their decisions to source globally. Grasping this concept is a key to whether or not a sourcing engagement will deliver the value that is desired.

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4   "The Nature of the Firm" is a brief essay in which Coase tries to explain why the economy is populated by a number of business firms, instead of consisting exclusively of a multitude of independent, self-employed people who contract with one another. Given that "production could be carried on without any organization [i.e. firms] at all", Coase asks, why and under what conditions should we expect firms to emerge? http://www.jstor.org/pss/2626876

5   Coase expands on these concepts, discussing the "natural limits" to growth due to "decreasing returns to the entrepreneur function" which enter the picture when in-house overhead costs grow and managers become overwhelmed with work. These factors add to the complexity of finding the optimal mix of resources.

The value of outsourcing is often discussed in terms of what is "core" to the business. The prevailing wisdom is that you can outsource anything other than what is core. The term 'core' is a difficult one and has caused endless debates in management meetings, as every executive wants his or her area to be considered core to the business. Core business is defined as "the main area upon which a business is built or operates; the main activity a business takes part in."[6] A closely related concept is "core competence," a term that was introduced by Prahalad and Hamel in 1990. This phrase has evolved over time but is generally associated with a key strength or ability of an organization that differentiates it from others and provides competitive advantage.

One of the issues in today's successful organizations is that there is a tight integration of processes from various areas throughout the organization. This integration is part of what makes the organization successful in its competitive environment. It is difficult to pull out a specific strength and title it "core." The glue of the integration is information and communication technologies. So while a company may not be in the business of information technology and therefore no one would consider it the business core, in fact, IT has become critical to the organization's success in the marketplace.

Examples abound of organizations that have outsourced aspects of their business that would have been traditionally termed core. One such instance is illustrated by telecommunications companies who outsource the running of their network to third parties. Traditionalists would argue that this is an extremely risky thing to do since the network is core to what the company provides to its customers. However, following Adam Smith's advice, if there is someone who can do it just as well and at a lower cost, then it is a candidate for outsourcing.

The question of risk here is an important one and will be discussed in detail later in this book. However, the key issue is to determine what will make the organization *more competitive*. This is much more important that labeling something as "core." The answer will be a determining factor in the strategy for global sourcing.

Questions to help evaluate processes or tasks that should be outsourced are presented in Chapter 2. However the following Figure 1.3 provides an abbreviated approach that incorporates two key questions by comparing an organization's internal competency levels with the impact of the process or task being considered for outsourcing. The recommendations given can be summarized:
• When an organization's competency is good, that is "favorable" to "clear leader," and the process/task is either strategic or important, then the direction is to retain the process internally for the highest rated or use outsourcing in a shared service mode
• When an organization's competency is good but the task or process is considered a commodity, then it can be outsourced
• When an organization's competency is weak or tenable but the process/task is strategic, the recommendation is to find someone better equipped to carry out the process through an outsourcing or equity partnership. The process is too valuable to be outsourced in a traditional way.
• When an organization's competency is weak but the process/task is a commodity, the recommendation is to determine whether the process should be reengineered internally and

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6   http://dictionary.reference.com/browse/core+business

then either kept inside or outsourced. This is an important area where organizations have made the mistake of taking a "broken" process and outsourcing it in the hope of it being fixed. This often ends in failure. It is better to try to better understand and repair the process before determining if it should be outsourced.

Internal Competency Levels				
Weak	Tenable	Favorable	Strong	Clear leader

(Process Impact — vertical axis: Strategic, Important, Commodity)

- Strategic / Weak–Favorable: Outsource Partnership or Equity Partnership
- Strategic / Strong–Clear leader: Retain the Process* Onshore or Offshore* Shared Service
- Commodity / Weak–Favorable: Assess whether to reengineer, then outsource
- Commodity / Strong–Clear leader: Predominantly Outsourced or Offshored

*The process is Competitively Differentiating and therefore critical to retain some level of ownership or control

Source: Brian Smith, TPI, Inc.

Figure 1.3 Organizational Constructs

1.3   Forces driving global sourcing

With a clear understanding of the historical context, it is easier to focus on the forces in the marketplace which are driving global sourcing – both real and imagined.

The following list is an overview of the seven primary drivers of global sourcing:
- **Economics** – this driver focuses on the fundamental question of how to bring together the best mix of resources to produce the quality product or service for the marketplace. The pressure from top management to reduce costs is a fundamental factor in this driver. This focus on lowering costs fuels the interest in global sourcing because of the labor arbitrage (that is, exploiting price differences) benefits of using resources housed in a lower-wage location. Therefore economics is a fundamental issue in the "shoring" question: is work performed in an on-shore, near-shore or off-shore location? The answer to this question raises both issues and opportunities, which will be discussed later in this book. Another aspect of the economic question is the structure of the relationship. This can range from a simple contract for work performed to a much more complex arrangement involving, for example, the investment of capital from a client organization into a provider organization or the transfer of assets from one to the other. In some instances, client organizations are required to carry out part of their business in a location to be able to market to the population. More detail on all of these factors will be presented in this book.

Research funded by the Sloan Foundation[7] provides some useful guidelines in the economic decision driver. This research states that when the wage differential between two trading countries is sufficiently large, then the loss of industry to the low-wage location may well benefit both countries at the national level. That is, the high-wage location gains value from lower costs to achieve its goals and the lower-wage location gains value from the income provided. However, as the low-wage location improves, that is, its cost of living increases through the trade arrangement, then the high-wage location client must reconsider the value proposition. And when salaries are only 10% lower than those in the high-wage location, the differential is not enough to warrant the trade. This trade-off is becoming important as sourcing to off-shore locations grows and has an impact on the location's economics and in terms of currency exchange rates fluctuating.

- **Resource management** – this driver addresses the strategy adopted to access the best resources to achieve the product and service goals of the organization. "Best" is defined in a variety of ways - for example, least costly, specialized, those enhancing or supplementing existing capabilities, the provision of unique or scarce capabilities, the use of specialized resources for a finite period of time, and access to innovative approaches.
- **Decreasing time to market** - while related to resource management, this driver is important and should be viewed independently. In the current global, fast-paced marketplace, an organization's ability to get its product or service to the customer, in a timely manner, is critical to its competitive success. The resources – human, technological, capacity - required to decrease the time to market can be obtained through sourcing.
- **Flexible and scalable operations and technology** – flexibility and scalability allow organizations to move and change with the demands of the marketplace. For example, if an organization needs specialized resources such as people or manufacturing capacity on a short-term basis, it can acquire the resources on a temporary, as-needed basis, without committing the organization to long-term expenditures on these resources. This allows scaling up when needed and down when the opportunity is no longer present. This driver also allows an organization to experiment with new products or services without significant investment.
- **Transformation and innovation** – seeking innovation outside the organization through outsourcing has been used as a transformation technique. This driver can be deployed in a variety of ways: bring in innovative ideas by using external resources working with internal staff, use specialized external resources with new and different skills, processes or technology to carry out innovation for the organization, and use the concepts of "open innovation" [Chesbrough, 2003] to make the organizational boundary porous.
- **Regulatory and legal issues** – the regulatory and legal landscape of a location can become important factors in the sourcing decision. This is not restricted to off-shore considerations. Within a specific country, there can be differing regulations that may affect sourcing engagements in both positive and negative ways. Some of the regulatory issues are related to economics -for example, there may be incentives provided by the local government to encourage the establishment of sourcing business in their area. Others may be logistical issues such as problems associated with trans-border data flow. Legal issues run the range of contracting provisions to intellectual property protection. When an organization is engaged with a multiplicity of providers, there may be an increasing level of complexity associated with this driver. These issues will be the focus on Chapter 5.

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7   Gomory and Baumol, 2001

- **Enabling mechanisms** – The availability of reliable, world-wide communications and software tools has provided an enabling mechanism that supports global sourcing. In addition there is the development of advisory firms, consultants and specialized legal services to assist any organization getting started with global sourcing as well as the organizations and websites evaluating sourcing providers, and even the somewhat informal sites connecting "elancers"[8] (those with services to sell) to buyers.

This list is an overview and a simplification of the drivers. Each of these has many facets that must be examined in developing an organization's overall strategy for global sourcing and, in many instances, the drivers interact to create even more pressure to pursue a specific direction. For example, the ability to access global talent involves the enabling communications technology that makes it possible to find and work with talent anywhere in the world plus the economic driver making the talent attractive *plus* the specialized capabilities provided by the global talent that is missing in-house *plus* the flexibility to access the talent only when needed *plus* the potential to transform the product or service through the new resources. Secondary effects include the improvement in in-house staff from working with the global talent and the ability of the organization to improve its understanding and relationship with global customers. Many organizations are seeking customers in the world-wide marketplace and they learn about doing business in countries as part of their forays into sourcing engagements in those countries. Some countries, for example China, will not allow an organization to market within the borders of the country unless they are also carrying on business, e.g. manufacturing, in that country.

And of course, there are related issues and concerns: controlling access to organizational information *plus* ensuring the transfer of knowledge and innovation *plus* creating a dependence on the external resources (i.e. asset specificity) that locks the organizations together too tightly. In considering global sourcing an in-depth investigation of the pros and cons must be part of the decision.

A report by Cognizant and the Warwick Business School focused on understanding the value of outsourcing in the European marketplace across five regions: the UK, Germany, Switzerland, Benelux, France and the Nordic countries (September 2009). This survey was carried out across Europe's biggest companies and indicates that only 8% of CEOs are very confident that they know what their companies are spending on outsourcing. Further, less than half of CIOs and CFOs have tried to quantify the financial contribution of outsourcing to their businesses. This is a clear indication that there is a significant need for better understanding of the pros, cons and value that sourcing can deliver to an organization.

Many firms enter the global sourcing market in stages. An early piece of research on this approach was done in 2002 by Erran Carmel and Ritu Agrawal (Carmel & Agrawal, 2002), where they proposed four stages of offshore IT outsourcing:
- **Offshore Bystander**: the term used to describe the first stage in the model of off-shore outsourcing. This is a company that has no off-shore sourcing; it engages in domestic sourcing only

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8   The term "elance" was introduced in an article by Malone and Laubacher, "The Dawn of the Elance Economy," Sep-Oct, 1998, in *Harvard Business Review* to describe providers of service – "free lancers" - working electronically via the Internet – thus "elancers." See also for example http://www.elance.com and http://www.rentacoder.com

- **Offshore Experimeter**: the term used to describe the second stage in the model of off-shore outsourcing. This is a company that experiments with off-shore sourcing on an ad hoc basis.
- **Proactive Cost Focus**: the term used to describe the third stage in the model of off-shore outsourcing. This is a company where sourcing of non-core work is encouraged at off-shore centers, with a goal of cutting costs. Offshore management mechanisms are in the emergent stage.
- **Proactive Strategic Focus**: the term used to describe the fourth stage in the model of off-shore outsourcing. This is a company where core IT work is sourced to offshore centers, with the goal of achieving competitive advantage. Distance management mechanisms have become mature by this stage.

It is not uncommon for organizations to progress through these four stages as they are learning about how to carry out global sourcing engagements successfully. There is a learning curve and a definite period of confidence building; organizations often use consultants to help them ramp up more quickly and gain the efficiencies they seek. While this research was carried out looking at IT outsourcing, the stages are relevant to any global outsourcing activity.

1.4   Overview of key countries and players

The global landscape is always changing but there are a few countries and organizations that have been leaders in providing global services. One often hears that if the word "outsourcing" is used everyone assumes the answer is "to India." India has emerged as an important player in the world of IT sourcing, but also in other business process areas. Historically a different country was a pioneer in IT sourcing – Ireland. Long before IT sourcing was a major phenomenon, China emerged as an important location for manufacturing sourcing of, for example, textiles.

However, the true picture of global sourcing is considerably more complex. Today you will find articles on the most dangerous countries, the safest countries, organized by type of sourcing, by industry, by quality of management, etc. Keeping up with the current lists is a significant chore. And, unfortunately, these lists are overly influenced by single events. For example, while India overall is considered a good sourcing location in terms of safety and quality, after the terrorist bombing of a major hotel in Mumbai in 2009, that city in India was put on "dangerous" lists. Appendix I contains a variety of resources that may be useful in searching for information about global sourcing, including lists of advisory/consulting organizations, associations, websites and electronic publications, and related standards and guidelines.

The following discussion indicates specific countries and trends in global sourcing. Such a discussion raises the question of how lasting any trends of 2008 or 2009 may be. While this is a legitimate question, it has been clear for at least a decade which are the leading locations and organizations in the global sourcing marketplace, so this is a useful discussion for understanding an overview of the market.

Table 1.1 includes the results of a Gartner study of the leading locations for sourcing in 2008.[9] It should be noted that these results focus on services sourcing as opposed to manufacturing/ product sourcing.

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9   Reported by Denise Dubie in *Network World*, http://www.networkworld.com/news/2008/052008-gartner-top-offshore-locations.html?zb&rc=mgmt

Americas	
Argentina	Costa Rica
Brazil	Mexico
Canada	Uruguay
Chile	
Asia/Pacific Region	
Australia	Pakistan
China	Philippines
India	Singapore
Malaysia	Sri Lanka
New Zealand	Vietnam
Europe/Middle East/Africa	
Czech Republic	Russia
Hungary	Slovakia
Ireland	South Africa
Israel	Spain
Northern Ireland	Turkey
Poland	Ukraine
Romania	

Table.1.1 Gartner Study of Leading Locations for Sourcing in 2008

The Gartner results typify the kinds of lists that can be found; these lists have a set of criteria that is applied and focus on a specific time period. It is important than any organization planning on sourcing should determine its own list of criteria and perform research – due diligence – in evaluating the criteria by location and by individual provider. Typical location criteria include language capability, educational levels, safety, government support and stability, security, intellectual property protection, etc. However an individual organization may have specific criteria and weightings of the criteria, which would provide a different outcome from the published lists. Later in this book, an approach to developing criteria will be provided.

Another source of assessments and lists is the Black Book of Outsourcing[10] which does yearly surveys and publishes them on the Web. They dubbed 2009 as the "Year of Outsourcing Dangerously" based on political, economic, ecological and social uncertainty. As a result they have very well defined lists such as:
• Supportive Forces for Capitalism: Dublin Ireland; Singapore; Santiago, Chile
• Corruption & Organized Crime: Bogota, Columbia; Juarez, Mexico; Johannesburg, South Africa
• Environmental Protection Highly Enforced: Reykjavik, Iceland; Dublin, Ireland; Krakow/Warsaw, Poland

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10   http://www.theblackbookofoutsourcing.com

There are many more of these very specific lists on the site, including an overall assessment of the safest and riskiest locations.

One of the professional organizations, the International Association of Outsourcing Professionals (IAOP), publishes its list of the best outsourcing service providers and advisory firms, called "The Global Outsourcing 100." This list includes overall ratings and specific sub-lists by revenue, revenue growth, employee growth, locations worldwide, industry focus, etc. The full list of the top 100 from 2009 can be found in Appendix A. However, the following table shows the top 20.

RANK	COMPANY (LEADERS)	KEY STRENGTH
1	Accenture	Management Capabilities
2	IBM	Demonstrated Competencies
3	Sodexo	Customer References
4	Tata Consultancy Services	Customer References
5	Wipro Technologies	Demonstrated Competencies
6	Convergys	Customer References
7	ISS	Balanced Performance
8	CB Richard Ellis	Customer References
9	Infosys Technologies	Management Capabilities
10	Capgemini	Customer References
11	Genpact	Customer References
12	Colliers International	Customer References
13	CSC	Customer References
14	NCR	Balanced Performance
15	Jones Lang LaSalle	Management Capabilities
16	CGI Group	Balanced Performance
17	Sitel	Size & Growth
18	Unisys	Customer References
19	EDS, an HP Company	Balanced Performance
20	HCL Technologies	Management Capabilities

Table 1.2 IAOP Global Outsourcing 100 – 2009, top 20

The fundamental problem with all of these assessments is that they change quickly. The criteria used may not be of the highest importance to an individual organization; rising stars are often overlooked. For example, in Africa, there are additional countries that are breaking into sourcing, e.g., Egypt, Nigeria, and Kenya. The need to define criteria as part of the global sourcing strategy cannot be stressed enough.

Another well-regarded list of providers (in the IT and BPO spaces) is the Global Sourcing 100, published by Global Sourcing and NeoIT (2009). This list evaluates the responses of global sourcing providers on four parameters:

- **Size** (revenue, employee strength, global delivery capability, etc.),
- **Customers** (customer base, client references and case studies, average contract size, etc.),
- **Skills** (depth and breadth of offerings, delivery capability, quality initiatives, industry verticals covered, etc.), and
- **Employee Factors** (attrition, training initiatives, investment in employee retention, etc.).[11] The full list is shown in Appendix B; however, some of the summaries are provided in Figures 1.4 and 1.5.

The first figure (1.4) illustrates the headquarters locations of the 100 providers on the list. The United States leads with 44 providers and India is second with 31. These two account for three-quarters of the list and all other areas are far behind. The report notes that although 44 providers are headquartered in the US, many of these have roots in other parts of the world, including India, Eastern Europe, China and Latin America.

Global Services 100 Distribution
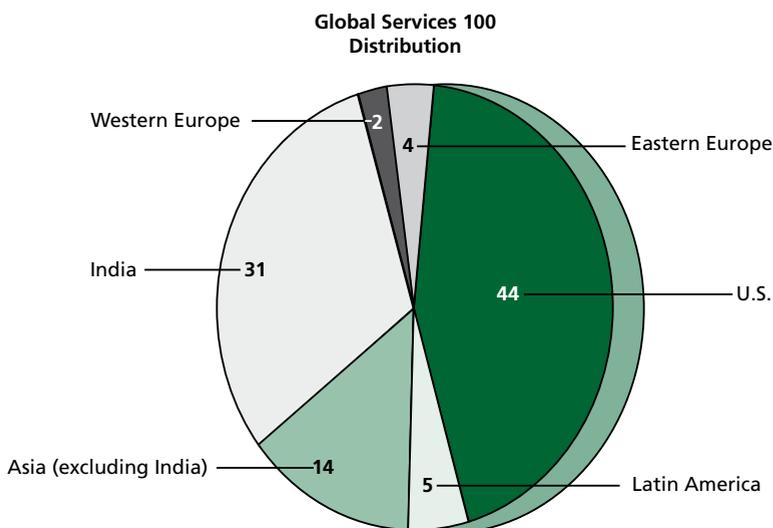
Figure 1.4 Location of Global Sourcing 100 Providers, 2009
Source: Global Services and/ ne OIT 100 II, 2009 Global Services 100 Study

The second illustration (Figure 1.5) looks at the locations of the clients of the Global Services 100. The United States leads with 95% of the providers having customers in the US. Second is Western Europe/UK with 84% of the providers working with customers in those locations. Also it is interesting to note that India and China, with 52% and 27%, respectively, also have a strong market for client work, indicating that the "local" markets in these two countries are developing as sourcing locations.

The climate within specific locations is often influenced by the incentives provided by governmental agencies to attract sourcing business to the country, city or area. One of the reasons that India has had such success is the existence of numerous incentives for both organizations and individuals. Table 1.3 illustrates a sampling of locations and incentives provided.

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11   In the 2008 study, Accenture, IBM and Cognizant did not participate; Satyam was excluded; Capgemini sent in only partial information.

Corporate Customer Locations (%)

Location	Value
Africa	18
Australia	42
Canada	54
China	27
India	52
Japan	36
Western Europe/UK	84
Eastern Europe	32
South America/Mexico	29
United States	95
Middle East	8
APAC (Other than India & China)	18
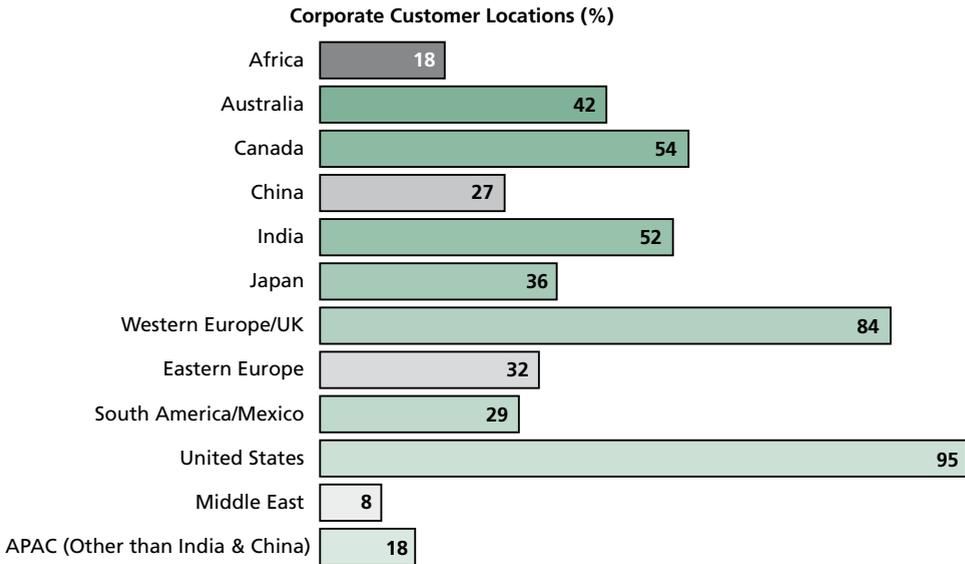
Figure 1.5 Location of Clients of Global Sourcing 100 Providers, 2009
Source: Global Services and ne oIT, 2009 Global Services 100 Study

Country	Incentives and Advantages
Africa	
Egypt	• Developing "free zones" for business and tax incentives • Strong government leadership for developing sourcing • Availability of educated workforce and strong language skills. • Time zone advantage for Europe and US • Destination for Middle Eastern clients – "Gulf markets"
Kenya	• Legal system to protect IP • Availability of educated workforce and strong language skills. • Time zone advantage for Europe and US
Mauritius	• Educated workforce and strong language skills • Strong people skills • Tax incentives in place • Geopolitical risk rated low • Time zone advantage for Europe and US • Government-sponsored technology park
South Africa	• Legal system to protect IP • Availability of educated workforce and strong language skills. • Geopolitical risk rated low • Tax incentives in place • Time zone advantage for Europe and US • Government investing in increased bandwidth

Country	Incentives and Advantages
Asia	
China	• Focus is on inbound investment • 5 year tax holidays to foreign companies engaged in manufacturing activities in Foreign Trade Zones • 15% tax cut for outsourcing industries • 20 cities designated for preferential enterprise tax rates • favorable loan rates • subsidies for college graduates employed on long-term contracts • 600,000 graduates in engineering-related fields/year (2009) • Asian language strengths • Thousand/Hundred/Ten project to promote services sourcing by developing base cities
India	• 8 year tax holidays for graduates from computer science and IT programs • 10 year tax holidays for ventures engaged in developing/maintaining/operating infrastructure or generating/distributing power • 5 year tax holiday for ventures providing telecommunications services • 10 year tax holiday for ventures developing/operating in designated special economic zones • 5 year tax holiday for new industrial units set up in backward states • Pool of talented workers • 400,000 graduates in engineering-related field/year (2009), 3.5 million graduates overall
Philippines	• English language skills • Well-education population • Traditional ties to the US • American financial structure
Vietnam	• Recent infrastructure improvements (roads, communicationso • Land costs low (less than China) therefore attractive for facilities • Shipping costs 6-8% lower than other Asian locations • Destination for provider subcontracting • Convenient for Japanese clients
Europe	
Ireland	• Very low corporate tax rate of 12.5% vs. Europe average of 30% • Incentives for software production in country - $6billion industry • Time zone advantage for Europe and US • Low turnover rates • Proximity for Europe • History in sourcing
Poland	• Economic zones with corporate tax incentives • Financial grants to companies for job creation and training • Infrastructure grants for fiber cabling and data centers • Well-educated labor force • Time zone advantage for Europe and US • Proximity for Europe • German language competence
CIS (former Soviet Union countries)	• Well-educated labor force • Population with advanced degrees • Proximity for Europe • Time zone advantage for Europe and US

Country	Incentives and Advantages
Latin America	
Brazil	• Federal incentives for reducing labor charges, reducing income taxes for education, innovation in R&D • Regional and local tax incentives for corporations • Time zone advantage for US • Proximity advantage for US • Large population • 1.7 million IT professionals • Strong technical skills
Chile	• Time zone advantage for US • Proximity advantage for US • Stable political environment • Government investing in education • Government investing in high technology (2006 = $200million) • Advanced telecomm infrastructure • Regional IT parks with incentives • Special initiatives to expand English language education
Mexico	• Time zone advantage for US • Financial advantage with devaluation of peso • Proximity advantage for US • Large population
North America	
Canada	• Language skills • Political stability • Legal system and business culture analogous to US • Incentives of up to 65% subsidy of salary to keep work in country • Nortel offers reduced infrastructure costs to keep work in country • Time zone advantage for US
US	• Comfort in keeping things on shore • Time zone advantage for US

Table 1.3 Selected Examples of Incentives and Advantages for Sourcing by Country Location
Source: Various reports from countries, advisors, AT Kearney, etc

The bottom line with all published ratings and lists of providers, advisory groups, locations, etc is that the organization must have criteria developed in order to use these resources effectively. Browsing the various publications and annual lists can be educational, but no single list should be viewed as the only source of information that is used in decision making.

To illustrate the comprehensive nature of global outsourcing today, the following table shows a sample of locations, clients and providers, type of sourcing relationships and overall value. You will see in Table 1.4 that the worldwide sourcing business is significant and every indication is that it will be growing in the future.

Location	Sourcing Types	Providers and Clients	Value
Africa			
Egypt	• IT • BPO • Call Centers	PROVIDERS: IBM, HP/EDS, Wipro, Infosys, Mahindra Satyam, SaudiSoft, Harf & Sakhr, Kuwaiti ITS, Xceed CLIENTS: Egyptian Telco & Software, Raya	• Labor costs • Telecomm infrastructure
Ghana	• Call centers & telemarketing • IT	PROVIDERS: ACS CLIENTS:	• New employment options for the country
Kenya	• Call centers & telemarketing • BPO	PROVIDERS: Kencall, Skyweb Evans, Preciss, Horizon Contact Centres CLIENTS	• New employment options for the country
Mauritius	• BPO • Human Resources outsourcing • manufacturing • textiles • Telecommunications	PROVIDERS: Accenture, Infosys, Hinduja Group CLIENTS: Ceridian, AXA, TNT, Orange, Teleforma	• English and French • sourcing since 1990's • strong democratic tradition
South Africa	• Call centers • Telemarketing • R&D	PROVIDERS: Deloitte, IBM, Fujitsu, TeleTech CLIENTS: Avaya, Siemans, Lufthansa, Virgin, Sykes, Avis, Car Phone Warehouse, Royal Dutch Shell	• New employment options for the country
Asia			
China	• IT and BPO • Manufacturing • Electronics • Manufacturing • Textiles • Automotive parts • Glass products • Other manufacturing	PROVIDERS: Infosys, HSBC, iSoftStone, Freeborders, Dextrys, CLIENTS: UPS	• Labor costs • Market in 2009 = $13billion and is expected to grow 50% CAGR through 2010.
India	• IT and BPO • Call centers	PROVIDERS: Infosys, TCS, Wipro, Accenture, IBM, HP/EDS, many more CLIENTS: Extensive US and Japan, Toshiba, Olympus, Fujitsu, Nissan Motor, Daiwa Securities Note: Nasscom promoting India as a location,	• Labor costs • Market in 2009 = $63billion • US = 60% of market in India

Location	Sourcing Types	Providers and Clients	Value
Philippines	• Accounting services • Call centers • Publishing • Legal Resources	PROVIDERS: Accenture, IBM CLIENTS: ISM, Citibank, P&G, Shell, Alitalia, Barnes & Noble, NEC, Chartis Insurance	• Close ties to American language, culture and business practices
Vietnam	• Low end processing	PROVIDERS: Luxoft CLIENTS:	• Cost advantage over other Asian destinations
Europe			
Ireland	• IT and BPO Services • Financial Services • e-government • Helpdesk	PROVIDERS: Accenture, Microsoft, IBM, Mazars CLIENTS: Exel, Dell, Allstate, Prudential, Fujitsu	• Market in 2007 = $357million
Poland	• IT and BPO • Business Analytics • Finance, accounting • HR • Communications infrastructure	PROVIDERS: Capgemini, HCL, Hewitt, LogicaCMG, Philip Morris International CLIENTS: ABB, Ford, Citibank, SAP, Daimler Chrysler, Lucent, Pilkington, PriceWaterhouseCoopers, Time Warner	• Provider expertise • Industry knowledge • Considered very safe location
CIS (Former Soviet Union Countries)	• IT and BPO • Communications infrastructure	PROVIDERS: Luxoft, Reksoft, DataArt, EPAM Systems, Softline CLIENTS: Sun, Intel, Boeing, Siemens, Motorola, LG, Lucent	• Talent pool • Stable power grid • Low communication costs • Market in 2008 in programming = $70million
Latin America			
Brazil	• IT and BPO • Engineering • Pharmaceutical domain	PROVIDERS: Accenture, Atos Origin, BRQ, BT, Cast, CPM Braxis, CISCO, Datasul, DTS, EDS, GPTI, GFT, HSBC, Hughes, IBM, Intel, Itautec, Microsoft, Politec, Promon, Satyam, Softtek, Siemens, Stefanini, Sun, TCS, Tivit, Totvs, Virtus, Ubik, Unisys CLIENTS: HSBC, Nestle, Note: Brasscom promoting Brazil as a location	• ITO Market in 2009 = $9billion

Location	Sourcing Types	Providers and Clients	Value
Chile	• IT and BPO • Manufacturing textiles • Biotech	PROVIDERS: TCS, Software AG, Evaluserve, CLIENTS: Delta, Air France, Citigroup, JPMorgan, Unilever, Zurich Financial Service, Synopsis, Yahoo, GE, Grupo Santander, Oracle,	• Labor costs • 96% literacy rate • US time zone advantage
Mexico	• Manufacturing of all types • IT and BPO	PROVIDERS: CLIENTS:	• Large labor pool, serving U.S. Hispanic market
North America			
Canada	• IT and BPO • Call Centers • Business Intelligence	PROVIDERS: Accenture, Panamsec, Sutherland, CapGemini CLIENTS: extensive, including Keating Technologies, Everest Group	• Comfort factor for US companies
US	• IT and BPO • Manufacturing • R&D	PROVIDERS: Extensive list; most large providers headquartered in other parts of the world maintain offices in US as well CLIENTS: extensive	• Protectionism value supersedes cost concerns

Table 1.4 Selected Global Sourcing Country and Company Examples

Additional research looking at the state of sourcing in the world ranks countries according to combination of factors in three categories: financial structure, people and skills available, and a business environment that contributes to their attractiveness as sourcing destinations.[12] The following figures look at this data in terms of regions of the world and are graphic summaries of some of the information provided in the previous tables.

Figure 1.6 covers the region of Asia and ranks India and China above all others in the attractiveness of their countries for sourcing. However, in terms of the largest providers of sourcing, India and The Philippines account for 50% of the world's business process outsourcing market. [13]

Figure 1.7 illustrates Central and Eastern Europe where the rapidly rising cost of labor has had a negative effect on the competitiveness of these countries in the world sourcing market. Some of this is due to currency fluctuations and is therefore subject to change. Bulgaria and Slovakia are shown as the leading locations in this region.

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12   A.T. Kearney, Global Services Location Index, May 2009, http://www.atkearney.com/images/global/pdf/Global_
       Services_Location_Index_2009.pdf
13   IBID.

India and China dominate the region, but other countries are reinforcing their positions

	Financial attractiveness	People and skills availability	Business environment
India	3.2	2.3	1.3
China	2.9	2.3	1.4
Malaysia	2.8	1.3	2.9
Thailand	3.2	1.2	1.6
Indonesia	3.3	1.5	1.1
Phillipines	3.3	1.2	1.3
Singapore	1.7	1.5	2.5
Vietnam	3.3	1.0	1.2
Sri Lanka	3.2	1.0	1.2
Pakistan	3.2	1.0	1.1

(#) indicates overall Index ranking

Index ranking
■ 1–10
□ 11–20
□ 21–30

China (2), India (1), Pakistan (30), Vietnam (19), Philippines (8), Thailand (4), Singapore (11), Malaysia (3), Sri Lanka (29), Indonesia (6)

Source: A.T. Kearney

A.T. Kearney │ OFFSHORING FOR LONG-TERM ADVANTAGE

Figure 1.6 Asian Region

New contenders in Central and Eastern Europe outshine more established locations

	Financial attractiveness	People and skills availability	Business environment
Bulgaria	3.2	1.0	1.5
Slovakia	2.8	1.0	1.8
Estonia	2.4	1.0	2.2
Czech Republic	2.4	1.1	2.1
Latvia	2.6	0.9	2.0
Poland	2.8	1.2	1.8
Hungary	2.6	1.0	2.0
Lithuania	2.5	0.8	2.0
Romania	2.9	0.9	1.5
Russia	2.6	1.4	1.2
Ukraine	2.8	1.0	1.1

Estonia (15), Latvia (17), Lithuania (28), Czech Republic (16), Poland (18), Ukraine (47), Russia (37), Slovakia (12), Hungary (24), Romania (33), Bulgaria (9)

Index ranking
■ 1–10
□ 11–20
□ 21–30
□ 31–40
□ 41–50

(#) indicates overall Index ranking

Source: A.T. Kearney

A.T. Kearney │ OFFSHORING FOR LONG-TERM ADVANTAGE

Figure 1.7 Central and Eastern Europe

The Middle East and Africa region, shown in Figure 1.8, is viewed as the "hot offshoring destination for the world" in the near future.[14] This is primarily because of the existence of large, well-educated populations in this region that combines with proximity to Europe, making the destinations very attractive to client companies in Europe who are beginning to ramp up their efforts in sourcing. Egypt and Jordan top this list in this region. Mauritius is a significant location

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in Sub-Saharan Africa even though it is quite small. As noted in the previous tables, Mauritius is seen as having specific benefits in language (English and French), in its long history of successful sourcing engagements (since the 1990s) and in its stable democratic government.

More companies are choosing to offshore in the Middle East and Africa

Country	Financial attractiveness	People and skills availability	Business environment
Egypt	3.2	1.1	1.3
Jordan	3.1	1.0	1.5
United Arab Emirates	2.7	0.9	1.9
Ghana	3.3	0.9	1.3
Mauritius	2.8	1.0	1.6
Tunisia	3.0	0.9	1.5
South Africa	2.5	1.2	1.6
Israel	2.0	1.3	1.9
Morocco	2.9	0.9	1.3
Senegal	3.2	0.8	1.1
Turkey	2.1	1.3	1.4

■ Financial attractiveness
□ People and skills availability
■ Business environment

(#) indicates overall Index ranking

Index ranking
■ 1–10
□ 11–20
□ 21–30
□ 31–40
□ 41–50

Tunisia (26), Turkey (48), Morocco (36), Israel (38), Egypt (13), Jordan (14), U.A.E. (20), Senegal (39), Ghana (27), Mauritius (25), South Africa (31)

Source: A.T. Kearney

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Figure 1.8 Middle East and Africa Region

Latin American nations are the biggest gainers in this year's Index

Country	Financial attractiveness	People and skills availability	Business environment
Brazil	2.6	1.8	1.5
Chile	2.7	1.2	1.9
Mexico	2.6	1.5	1.6
Uruguay	3.0	1.0	1.5
Argentina	2.9	1.3	1.3
Jamaica	2.8	1.0	1.5
Costa Rica	3.0	0.9	1.4
Panama	2.9	0.9	1.4

■ Financial attractiveness
□ People and skills availability
■ Business environment

(#) indicates overall Index ranking

Mexico (10), Jamaica (32), Costa Rica (34), Panama (41), Brazil (5), Chile (7), Uruguay (22), Argentina (23)

Index ranking
■ 1–10
□ 11–20
□ 21–30
□ 31–40
□ 41–50

Source: A.T. Kearney

A.T. Kearney │ OFFSHORING FOR LONG-TERM ADVANTAGE

Figure 1.9 Latin American Region

The Latin American region, Figure 1.9, is growing in popularity because of its proximity to the US. Brazil, Chile and Mexico lead the region. As the US Hispanic markets grow, this region becomes more attractive for sourcing activities.

Figure 1.10 shows a summary of sourcing in the developed world. This figure is from earlier research and therefore the ranking numbers cannot be compared to the previous four figures. However, there continues to be significant sourcing activity in these higher-wage areas and the US ranks fourteenth overall in the 2009 study.[15]

Companies are choosing near - and home-shore locations to minimize risks
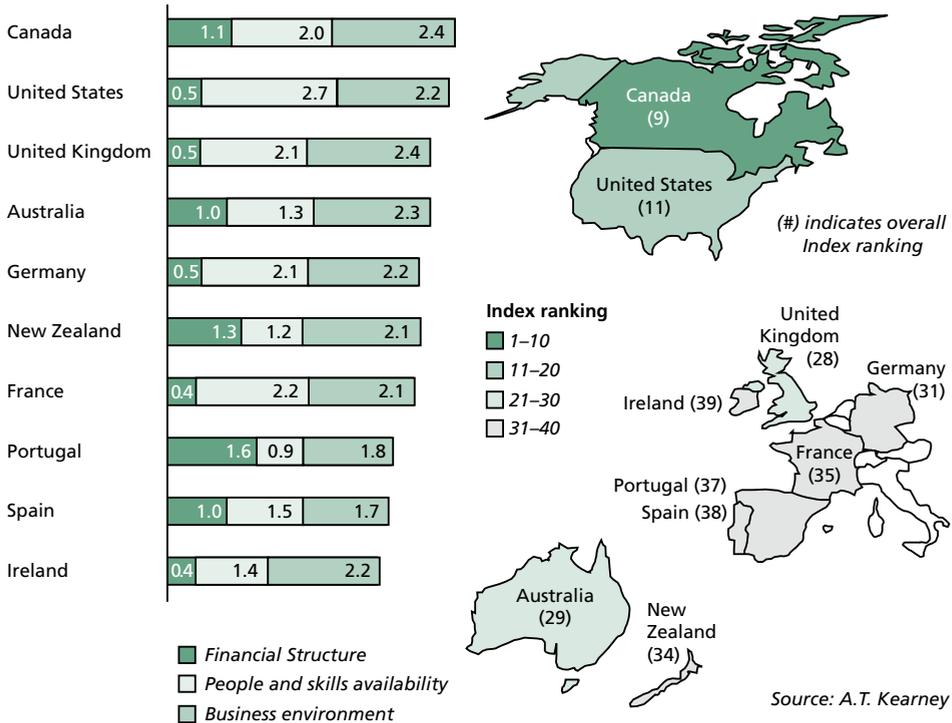
Figure 1.10 Developed World Summary

Looking at the data in Figure 1.11 (which comes from a survey in 2005), even though the order of attractiveness of specific countries may change from year to year, the same countries have been in the lead positions for the past years.

The previous discussion provides a view of locations for sourcing. Another focus is to look at the range of business that is being outsourced. Figure 1.12 provides a breakdown of eight areas in which companies are sourcing business around the globe. The top two shown in this data from 2006 are Logistics/Procurement and Manufacturing. The IT sourcing market is just about half as large as the leaders, but is the one that gets an enormous amount of attention. The figure refers to this as the "modular corporation" indicating that as organizations begin to send work of all kinds to others, outside their corporate boundaries, they modularize these activities. This

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modularization raises again the original questions that Coase investigated about what exactly is a corporation. If everything a company does can be modularized and sourced to the best provider for that work, then the company becomes a management firm that orchestrates the pieces to deliver a service or product to its customers. In effect it becomes a "virtual company."

Outsourcing Goes Global			
India still dominates services offshoring, with three-fifths of total industry revenues, but other countries around the world are trying to hone in on the lucrative work			
REGION	CENTRAL AND EASTERN EUROPE	CHINA AND SOUTHEAST ASIA	LATIN AMERICA AND CARIBBEAN	MIDDLE EAST AND AFRICA
Market Size	$3.3 BILLION	$3.1 BILLION	$2.9 BILLION	$425 MILLION
Top-Ranked* Countries	Czech Republic, Bulgaria, Slovakia, Poland, Hungary	China, Malaysia, Philippines, Singapore,Thailand	Chile, Brazil, Mexico, Costa Rica, Argentina	Egypt, Jordan, United Arab Emirates, Ghana, Tunisia
Up-and-Comers	Romania, Russia, Ukraine, Belarus	Indonesia, Vietnam, Sri Lanka	Jamaica, Panama, Nicaragua, Colombia	South Africa, Israel, Turkey, Morocco
Emerging Local Providers	Luxoft (Russia), EPAM Systems (Belarus), Softline (Ukraine), DataArt (Russia)	NCS (Singapore), Bluem, Neusoft Group, BroadenGate Systems (China	Softtek (Mexico), Neoris (Mexico), Politec (Brazil), DBAccess (Venezuela)	Xceed (Egypt), Ness Technologies (Israel), Jeraisy Group (Saudi Arabia)

Data: Gartner, A.T. Keamey, Nasscom, *BusinessWeek*

*Rankings by A.T. Keamey list countries in order of attractiveness for outsourcing based on costs, people skills, and business environment (Source: A.T. Keamey Global Services Location Index 2005)

Figure 1.11 Outsourcing Goes Global, 2005

Leading to What Some Have Called the Modular Corporation, the Estimated Value of the Outsourced Functions = $546 bn+ in 2005.

The Modular Corporation

Work processes in practically every big department of a corporation can now be outsourced and managed to some degree offshore. Some of the biggest sectors in terms of global spending in 2005:
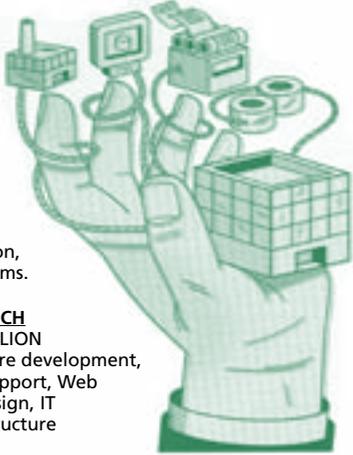
HUMAN RESOURCES
$13 BILLION
Includes payroll administration, benefits, and training programs.

ENGINEERING
$27 BILLION
Testing and design of electronics, chips, machinery, car parts, etc.

INFOTECH
$90 BILLION
Software development, tech support, Web site design, IT infrastructure

ANALYTICS
$12 BILLION
Includes market research, financial analysis, and risk calculation

CUSTOMER CARE
$41 BILLION
Call centers for tech support, air bookings, bill collection, etc.

MANUFACTURING
$170* BILLION
Contract production of everything from electronics to medical devices

FINANCE & ACCOUNTING
$14 BILLION
Includes accounts payable, billing, and financial and tax statements

LOGISTICS & PROCUREMENT
$179 BILLION
Includes just-in-time shipping, parts purchasing, and after-sales repairs

Data: IDC estimates. Analytics estimates by Evalueserve *Manufacturing estimate only for electronics
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Figure 1.12 The Modular Corporation

The founder of the mail-order flower and plant company, Calyx & Corolla, is Ruth Owades whose concept of her organization in 1988 was a cooperative venture among the growers, the credit card processors, the transportation providers and herself as the marketing department (Salmon and Wylie, 1995). It is an early example of a virtual company structure. Her goal was to bring the freshest product to her customers, which could only be achieved by shipping direct from the growers. She proposed to FedEx that they park trucks at the growers and train people to package the plants and flowers on site in order to get them into the distribution process without delay. FedEx had not yet grasped this aspect of their business and had to be convinced to work with Calyx & Corolla. In effect, Owades created a modular or virtual company, with everything but the marketing outsourced to the "best" providers. She was herself an expert in marketing and retained that function in house.

There are many who see global outsourcing as the beginning of an evolution of the form of the modern corporation. With worldwide, instantaneous communications, there is little stopping any company from taking the steps to increasing modularity, which can provide improved competitive positioning by manipulating a variety of factors. Though the specific trends may change, there are mega-trends and critical factors that will endure. At the time of writing, there is a great deal of interest in "cloud computing." The concept of the cloud is that third party providers will offer the computing power and specialized software that any organization will be able to use as required. A good analogy is the provision of electricity: it is reliably always available (barring any disaster scenarios) and each consumer may draw as much or as little as needed without any prior agreement. While there are many concerns about this concept – not the least of which is security of information – it presents a very attractive alternative to each organization managing its own computing function when that is not the primary business of the organization. In effect, cloud computing is universal outsourcing of the computing function. Some organizations have moved in this direction by, for example, having Google manage their email systems. It will be fascinating watching whether cloud computing succeeds and there will be other new approaches that may affect the global sourcing marketplace. This only highlights the imperative that managers understand how to achieve value through global sourcing and the practices in this book provide an excellent guide.

1.5   Practices overview

The practices discussed in this book are generic enough to be used in all aspects of product and service sourcing. It is important to understand the specific applications of global sourcing, but it is critical to comprehend the universality in managing global sourcing well.

The process leading to successful management of global sourcing with a phased approach will be outlined here and will help guide the manager through the process in a logical and useful manner. The practices discussed here are relevant to both the client and provider organizations. The following is a brief description of the phases which will be covered:
• Phase 0 – Strategy Formulation
• Align global sourcing with the organization's business strategy. Determine the business needs that are driving the investigation of global sourcing. Develop a high level sourcing direction and plan.
• Phase 1 – Feasibility

	Phase 0: Strategy Formulation	Phase 1: Feasibility	Phase 2: Preparation	Phase 3: Evaluation	Phase 4: Commitment	Phase 5: Transition	Phase 6: On-going Management & Governance
				Provider Selection			

Objectives	• Determine business need
	• Align with business strategy
	• Develop sourcing strategy and identify areas of opportunity
	• Identify key drivers
		• Develop business case
		• Develop base case (as is state before sourcing) and future scenarios (future state after sourcing)
		• Decompose into discrete components
		• Perform risk assessment:
		  - Function
		  - Country
		  - Culture
		  - Security
		  - Etc
			• Develop detailed requirements/scope
			• Finalize/issue RFP
			• Formulate provider selection criteria and weights
				• Evaluate contract & provider pricing
				• Evaluate providers
				• Internal Audit review for controls
					• Select and negotiate provider proposals
					• Develop transition program
					• Finalize organization plan
					• Sign contract
					• External and internal communications
					• Manage organizational change
						• Implement phased transition plan
						• 30/60/90 day phases
						• Establish relationship management strategy
							• Manage to contract
							• Manage scope and changes
							• Monitor business value of engagement via business case
							• Issues management
							• Reorient retained organization

Deliverables & Decisions	• High level sourcing strategy
	• Validate strategy
	  - Internal
	  - External
	• Secure sponsor and management team
	• Inform executive team
	• Identify sourcing areas of opportunities and priorities
	• Examine sourcing geographic alternatives - on, off, best shore
		• Business case
		• Identify PM and Macro Plan
		• Outsourcing market overview
		• Determine core vs. non-core functions, processes, technologies, etc.
		• Risk assessment and mitigation plan
		• Consulting contract (optional)
		• External Counsel agreement (optional)
		• Review and approve at appropriate levels:
		  - Functional head/ Business unit
		  - CEO
		  - Board of Directors
			• RFP
			• Identify resource requirements
			• Form pre-transition team
			• Identify providers (Could use RFI to eliminate unqualified providers)
				• Score vendors
				• Conduct due diligence
				  - benchmark
				  - site visits
				  - references
				• Short list providers
				• Draft Master Service Agreement (MSA) and Statement of Work (SOW)
				• Approve budget
				• Change Management process and authorization
					• Finalize and sign contract – MSA and SOWs (Statement of Work)
					• Transition – Pre and post checklist
					• Form post transition team
					• Risk mitigation, backup and contingency plan
					• Develop human resources and asset transfer and retention plan
					• Finalize governance plan, process, metrics and roles
					• Finalize training plan
					• Finalize pilot testing and/or validation plan
						• Execution of transition plan
						• Implement relationship management plan
						• Assess results of initial transition and fix issues
						• Knowledge transfer and finalize documentation
						• Clear hand-offs – who, what, when, how, where and finalize documentation
							• Governance - schedule of activities and process
							• Change control process
							• Escalation process and roles
							• Management and Performance reporting
							• Updated business case
							• Renew, expand or disengage contract
							• Build client/provider high performance teams
							• Institutionalize:
							  - Sourcing process and continuously improve
							  - Improve governance process
							  - Lessons learned
							  - Critical success factors

	go/no go	go/no go	go/no go	go/no go	go/no go	go/no go	

Enabling Checklists, Tools and Technologies	• Template
	  - Business plan
	  - Sourcing plan
	  - Sourcing business case
	(See chapters 1, 2, 12)
		• Business case template
		• Risk assessment template and framework
		(See chapters 2, 4, 12)
			• Vendor evaluation scorecard and criteria
			• RFI/RFQ/RFP Table of Contents
			(See chapters 3, 12)
				• Criteria for vendor due diligence template
				• Master Service Agreement (MSA)
				(See chapters 4, 5, 12)
					• Transition plan template
					• Communication and governance plan
					  - Metrics
					  - Framework
					  - Escalation
					(See chapters 6, 10, 12)
						• Transition Checklists
						  - Pre-transition
						  - Post-transition
						• Relationship management practices
						(See chapters 7, 8, 9, 12)
							• Governance framework
							• The end game checklist
							(See chapters 4, 6, 8, 9, 11, 12)

Figure 1.1 Strategic Sourcing Lifecycle Roadmap

- Develop the business case and future scenarios to determine the feasibility of employing global sourcing. Examine risk, contracting options and obtain review and approval
- Phase 2 – Preparation
- This is the first half of Provider Selection and entails developing the detailed requirements, issuing a Request for Proposal (RFP), formulating provider selection criteria, and forming the pre-transition team.
- Phase 3 – Evaluation
- This is the second half of Provider Selection and covers the evaluation of responses from the sourcing providers, determining the "short list" of the best options, drafting the Master Service Agreement (MSA) and obtaining budget approval.
- Phase 4 - Commitment
- Select and negotiate the provider proposal(s) as well as developing the phased transition program, finalizing the organizational plan and signing the contract. At this point the post transition team is formed.
- Phase 5 – Transition
- Execute the phased transition plan, including pilot testing, training and documentation
- Phase 6 – On-going Management
- Manage the engagement using the SLA and contract and monitoring the value of the relationship via the business case.

Figure 1.1 illustrates the strategic sourcing lifecycle roadmap, including each phase with its tasks, deliverables and selected checklist and template examples, which are referenced in various chapters in the book.

1.6   Why this book?

There are many articles about global sourcing in the industry publications focusing on parts of the process and usually motivated by a specific story of success or failure. Some management texts include chapters on this topic and there are entire books dedicated to aspects of the global sourcing market. However, this book is unique in tackling the entire management process including positioning global sourcing as part of the organizational strategic plan.

As global sourcing becomes more prevalent, it is important that management moves from the purely "operational" approach to sourcing (i.e., reacting to immediate pressure and thereby coming up with short-term solutions) and into the "strategic "approach allowing for a well-considered plan of:
- Evaluating under what circumstances sourcing is an option
- Following a consistent process of evaluating and approving a sourcing option
- Developing thorough cost/benefit analyses
- Having a governance approach to all sourcing engagements for monitoring, measuring, escalating and taking appropriate corrective actions.

This book presents the tools that client managers will need to determine their strategy for making and evaluating sourcing options. It will also be of value to provider managers in understanding their clients' motivations and needs, as well as providing a direction for their own organizational response to client inquiries, and improve their ability to win new and repeat business.

The goal is to provide a comprehensive approach to strategy development and operational execution that will ensure organizations reap the maximum value in their sourcing relationships.

1.7   Discussion of Terms and Definitions

Consistent with an evolving field, global sourcing contains a vast quantity of terms and phrases each with often various definitions, used in different ways by different stakeholders, and often resulting in confusion. We have included a glossary of terms to serve as a resource for understanding the multiple uses of words and phrases.

The numerous terms are used indiscriminately to describe the activity when a client organization allocates some of its work to be done by employees of another organization. Originally, this was called "outside contracting." In 1989, when Kodak undertook a huge amount of outside contracting to refocus its internal efforts on what it considered to be its main businesses, the press called this activity outsourcing. Kodak's activity differed in that it involved a close working relationship or partnership between Kodak and each of its primary providers (now called service providers because the term provider originally meant suppliers of products rather than services). This differentiated the outside contracting that Kodak was doing from other forms of contracting which were much more transactions oriented. The name 'outsourcing' stuck. However, in recent years, the term has been misused. It has been applied to any form of contract work being carried out by non-employees, and even more recently has been closely associated with work done in a foreign country. Many additional terms have evolved (and continue to evolve on a regular basis) to describe various forms of this outside work.

Perhaps the most difficulty is related to the use of the word 'outsourcing' itself. Initially, as applied in the Kodak story, this term was used to describe the basic action of using outside resources to accomplish internal work. Recently, the term has become synonymous with work being sent outside the political boundaries of the parent country of the organization engaged in the activity. This is because the "out" portion of the word has come to mean outside the country. In fact the "out" portion only means outside the organization. However, in order to avoid any confusion, in this book, we will use the shorter term "sourcing," eliminating the misunderstood "out." This very general term thus refers to any form of contracted work: within the organization's country, near to the country (near shore), or far from the country (off shore).

Some of the case studies and quotations we use may not be as consistent and the reader will also see the word "outsourcing" appearing in the text. The two words should be considered interchangeable and clarification will be given when necessary.

As a preview, the following are other terms (taken from the glossary) that have become popular and may be used in a variety of ways.
*   **Best-shoring** –this term is used to identify the best location for outsourcing and could be any of the shoring schemes or a combination of them. The term 'best' in this case could consist of several factors such as costs, government policies, education systems, etc.
*   **Captive centers** – term used to describe the office that a client organization sets up and owns in a location different from the headquarters location of the client organization. The purpose

of the office is to carry out activities in a lower-wage location than the client location. Some organizations refer to this as "off-shoring" their activities. Recently there has been an attempt to rename these as Pods.

- **Farming** – this refers to outsourcing to other parts of the client firm's country where the cost of living is lower than where the client firm is located. For example, in the US this is outsourcing to providers located in states like Nebraska and the Dakotas.
- **Home-shoring** – term used to describe people working from their homes who accept lower wages for the convenience of working from home. The majority of these workers are women caring for children and the disabled. This is frequently used for call center operations.
- **In-sourcing** – this term is used in three ways: 1) to describe the activities that are not outsourced, 2) to describe activities that are newly brought in house when others are outsourced and 3) to describe the bringing of activities back in house after they have been outsourced.
- **Near-shore** (also **near-shoring**) – outsourcing that takes place in a country other than the client firm's country, but one that is nearby. For example, outsourcing to a provider in Costa Rica is considered near-shoring for the US
- **Off-shore outsourcing** – outsourcing to a provider located in a different country
- **Off-shoring** – this term is used in two ways: 1) synonymously with off-shore outsourcing, and 2) to describe a company that has setup its own captive division operating in a foreign country. The second definition is generally becoming the more popular use of the term.
- **On-shore** (also on-shoring) – outsourcing to a provider within the same country.
- **Out-tasking** – this term is used to describe outsourcing when it is done on a task basis as opposed to on a project basis. For example, if the programming segment of a major system design were outsourced, but the rest of it was not.
- **Partnership** – this term in business has had a consistent problem. The primary issue is that it is a legal term defining a relationship between two legal entities. However, it is often used to describe a close working relationship between two organizations without the legal definition. As discussed above, originally it was this aspect of what Kodak was doing that resulted in the new term 'outsourcing' being coined to show that it was different from the traditional outside contracting. In this regard, partnership is still used to describe a close working relationship, one that requires an investment on both parties to maintain. This is as opposed to a transaction relationship that requires very little maintenance and is usually just a fee-for-service activity.
- **Project based outsourcing** – describes outsourcing when an entire project is outsourced to a provider.
- **Staff extension outsourcing** – describes outsourcing when an organization needs to augment the in-house staff. Also called staff augmentation and body shopping.
- **Strategic sourcing** or **transformational sourcing** – assets, processes and/or functions are transferred to the sourcing provider and the customer's organization goes through a major change or transformation, depending on the size, magnitude and scope of the transfer.
- **Sub-contracting** – the oldest term for outsourcing
- **Tactical sourcing** - staff supplementation with no asset, process and/or function transfer.
- **Utility computing** - when a provider makes available computer resources to client organizations and bases the charges on usage. Computing resources are metered analogous to purchasing electricity. This is also called **on demand computing**.

1.8   Summary and key lessons

Summary
In the complex, evolving marketplace of global sourcing, organizations need a guide for navigating the most effective path toward gaining value from this rich approach to supplementing resources. The practices presented here will serve as that guide.

Key lessons
- The secret to managing global sourcing well is to make it part of a strategic plan for resource utilization
- Client managers require a comprehensive guide for developing strategy for the use of global sourcing
- Provider managers require an understanding of the motivation and goals of clients
- An historical perspective helps to place global sourcing into a logical context
- Many resources are available to understand the sourcing marketplace, but these must be used in the context of each organization's concerns and requirements
- There are seven primary drivers of global sourcing
- Terminology is evolving and therefore words and phrases must be defined within a context to ensure all parties are communicating effectively

2   Creating a sourcing strategy

"Outsourcing is one of the greatest organizational and industry structure shifts of the 21st century." - James Brian Quinn, Professor, Dartmouth College

2.1   What is covered in this chapter?

This chapter:
- Identifies the principles and practices for effectively aligning and linking the sourcing strategy to the business strategy
- Discusses how to develop a sourcing strategy
- Illustrates a business and sourcing strategy formulation and development framework
- Describes the need for and illustrates a business case format for sourcing
- Identifies a customer's sourcing planning checklist
- Provides more details on the "how to" of developing a sourcing strategy which represents "Phase 0 – Strategy Formulation" of the Strategic Sourcing Lifecycle Roadmap described in Chapter 1.

2.2   Overview

Chapter 2 covers the objectives, deliverables and checklists described in Phase 0 (Strategy Formulation) and Phase 1 (Feasibility) of the strategic sourcing lifecycle roadmap illustrated in Figure 1.1.

In his book on outsourcing, Burkholder suggests that "Outsourcing is hardly a new or radical business practice. Outsourcing is one of the oldest hot business ideas." (Burkholder, 2006). According to Brown and Wilson, "US firms have begun to ship millions of knowledge jobs to foreign shores, where labor is an irresistible bargain and will probably remain so for a generation or probably longer." (Brown and Wilson, 2005). An article in *Business Week* (Figure 1.9 in Chapter 1) on outsourcing described the modular organization, which consisted of many modules or components that are outsourced. The three biggest outsourcing segments in 2006 were (in order of size): logistics and procurement, manufacturing and IT followed by various business process outsourcing segments such as human resources, engineering, customer care, finance and accounting and analytics. AMR Research, a market research company, estimated that the global IT and business services outsourcing market alone was over $800 billion in 2008.

A 2008 Deloitte Consulting outsourcing report surveyed over 300 business and IT executives representing outsourcing buyers, providers and advisors. It analyzed and documented the experiences and insights of the participants relating to outsourcing. Some general findings and/ or direct quotes from the report are: (Deloitte Consulting, 2008)
- When companies view outsourcing in a broader strategic context, and implement it systematically with proper financial analyses, governance, and methodologies, they can gain

greater business value. This, potentially, could provide a competitive edge over those that take a more traditional procurement-oriented and cost reduction view of outsourcing.

- Many companies recognized that they should be receiving more than just financial benefits from outsourcing, such as business transformation and innovation.
- "These lost opportunities may possibly be the result of the surveyed companies setting their outsourcing goals too low. They may have initially perceived outsourcing primarily as a tactic to reduce costs as opposed to a means to fundamentally (and strategically) transform their operations and drive dramatic improvements in efficiency, productivity, and reliability."
- "Executives should look at cost reduction as a basic requirement in an outsourcing arrangement – as a "given" – rather than as a primary driver. Why? While the cost savings that companies achieved from outsourcing are not to be minimized, most companies are foregoing the much greater benefits that would be generated with a more transformative approach."
- "Companies can reap substantial benefits when they do recognize their opportunity and when they explicitly establish transformation as the basis of their outsourcing strategies. When aligned with the company's greater business goals, transformational (strategic) sourcing can be used as a tool to improve the company's competitiveness and performance across finance, marketing, customer satisfaction, R&D, and other critical areas."

The Deloitte report echoes the advice of numerous consultants and academic researchers that many organizations should view sourcing as a strategic and, ultimately, a transformational opportunity.

The decision to engage in global sourcing is a strategic one. However, within the options of sourcing, there are two fundamental types: 1) strategic sourcing that involves a transfer of assets or transformation of the function or process and 2) tactical sourcing that involves the movement of work or processes to a provider outside the firm.

It is critical to link the sourcing strategy to the business strategy in order to support the business goals and objectives. The sourcing and business strategy should be linked through multiple processes and activities such as strategic, tactical and budget planning, the project management office, operations reviews, performance management, evaluation and other activities. The CEO and executive team should sponsor and drive the linkages and make them part of their organization's measurable performance objectives. More detail on how to strengthen the linkages between the sourcing and business strategy is found in subsequent sections of this chapter.

With increased globalization and fiercer competition, it is almost impossible for an organization not to outsource. Almost every organization outsources; the only question really is "how effectively and efficiently do they outsource and should they view outsourcing strategically or tactically?" The answer to that question is largely determined by each organization's level of maturity, experience, pressure points, executive commitment, business value, dedicated organizational resources, process discipline and other relevant factors.

Developing a sourcing policy for the organization

To gain the most value from global sourcing, many organizations are developing a corporate-wide formal sourcing policy, with guidelines to ensure that sourcing opportunities are evaluated in a consistent manner throughout the firm. These policies include an overall framework for

the organization as a whole on how to deal with sourcing decisions, justification, providers and responsibilities.

A sourcing policy for the organization should ensure that the development and implementation of any sourcing initiatives, processes, procedures, responsibilities and controls are executed in a consistent, scalable, objective and collaborative manner that ensures an organization's best interests are served. Typically, a sourcing policy should provide guidance and standards (often through templates) to ensure that the following areas (at a minimum) are described in any sourcing proposal: purpose, scope (what it covers and what it does not cover), objectives, approval authority, roles and responsibilities of key constituents, principles for dealing with providers, assessing outsourcing risks, business plan and business case linkage, security and privacy, treatment of impacted personnel, identification of key performance indicators, governance and control framework and related topics. A corporate policy may also be used to ensure that corporate social responsibility aims are carefully addressed in global sourcing engagements, including the application of sustainable practices in the use of resources.

Appendix D illustrates an outsourcing policy developed and used by the University of Alberta. It is primarily focused on the front end of the outsourcing policy (e.g. business plan, business case, RFP, treatment of human resource and responsibilities), but provides a good example. In some industries, for example financial services, specialized corporate policies exist relating to risk and security issues. In the banking industry, there are "guiding principles" resulting from the Basel Committee on Banking Supervision in 2005 that banks, worldwide consider quasi-regulatory guidelines focused on their activity in global sourcing. These are updated yearly and details can be found at http://www.bis.org/stability.htm. In this instance, an organization must develop corporate-wide policy that is consistent with generally accepted rules for the entire industry. The following is an overview of the guiding principles associated with global sourcing from the Basel Committee.

1. "A regulated firm seeking to outsource activities should have in place a comprehensive policy to guide the assessment of whether and how those activities can be appropriately outsourced. The board of directors or equivalent body retains responsibility for the outsourcing policy and related overall responsibility for activities undertaken under that policy.
2. The regulated firm should establish a complete outsourcing risk management program to address the outsourced activities and the relationship with the service provider.
3. The regulated firm should ensure that outsourcing arrangements neither diminish its ability to fulfill its obligations to customers and regulators, nor hinder effective supervision by regulators.
4. The regulated firm should conduct appropriate due diligence in selecting third-party service providers.
5. Outsourcing relationships should be governed by written contracts that clearly describe all material aspects of the outsourcing arrangement, including the rights, responsibilities and expectations of all parties.
6. The regulated firm and its service providers should establish and maintain contingency plans, including a plan for disaster recovery and periodic testing of backup facilities.
7. The regulated firm should take appropriate steps to require that service providers protect confidential information of both the regulated entity and its clients from intentional or inadvertent disclosure to unauthorized persons.

8. Regulators should take into account outsourcing activities as an integral part of their ongoing assessment of the regulated entity. Regulators should also assure themselves by appropriate means that any outsourcing arrangements do not hamper the ability of the regulated entity to meet its regulatory requirements.

9. Regulators should be aware of the potential risks posed where the outsourced activities of multiple regulated entities are concentrated within a limited number of service providers."[16]

The complexity of creating a corporate policy may very well be increased by the existence of such quasi-regulatory or, in some cases, true regulatory guidelines. Organizations should be aware of regulatory issues for policies and subsequent strategy formulation in their specific locations.

How does the question of sourcing arise?

Sourcing represents both opportunities and risks. However, in recent years, the growth and size of the global outsourcing market and the growing number of countries that are providing incentives to attract new or existing outsourcing providers (e.g. Malaysia, Philippines, Egypt, South Africa, Romania, etc.) to locate in their countries suggest that client companies, in general, are pursuing outsourcing opportunities and developing a sourcing strategy of some kind based on the drivers identified in Chapter 1.

Typically, companies may decide to outsource based on one or more of the drivers. The decision will often depend not only on the drivers, but also on the underlying causes, issues, pressure points, opportunities and potential risks associated with the decision. The decision to source or not to source can be facilitated by obtaining answers to a series of strategic, value and operational questions.

Key questions and considerations that can help to make the sourcing decision

Table 2.1 provides a sample of key questions and considerations that will assist an organization in making the sourcing decision. The questions are categorized by the following segments:
• Strategic questions
• Value questions
• Delivery and execution questions

The answers to each question may range from a simple yes or no to more complex explanations and considerations that should be evaluated carefully depending on the nature of the sourcing opportunity (e.g. strategic versus tactical, etc.). In addition, the importance and priority of each question will vary from company to company. The questions and considerations should be used by an organization as a guideline to help make the strategic sourcing decision (e.g. transformation), the tactical sourcing decisions (e.g. staff supplementation), a combination of both or a decision not to source.

Appendix C provides a more comprehensive list of sourcing decision questions and considerations.

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16   As summarized in Patel, Tanvi, "Risks Involved in Outsourcing Within the Financial Industry, Master's thesis, Stevens Institute of technology, March 2008.

Strategic questions:

- Is the sourcing strategy in line with our business vision and strategy and competitive differentiation?
- Do we understand the risks?
  - Financial, operational, security, privacy, intellectual property, other?
  - Do we have adequate provisions in place for disaster prevention, recovery and contingencies?
  - Do we understand regulatory compliance requirements that apply to the outsourcing work and subsequently to the provider?
- Can outsourcing add strategic value?
  - Can this sourcing opportunity be created as a revenue source for the company alone or through a joint venture?
  - Revenue growth; cost reduction/containment/ avoidance; reduce speed to market; business process transformation; etc.?
- How can we measure the value of global sourcing?
  - key performance measures
  - Impact on the business/function/department/process
- What organizational resources are required to support global sourcing?
  - Skills
  - Budget
  - Competencies
  - Certifications
- What governance, controls and consistent process should be institutionalized for effective sourcing?
- What experienced/qualified teams can we put in place?
  - For example: functional head, executive sponsor, auditor, accountant, lawyer, project manager and procurement
- Are there known providers for this service?
  - Do we understand their capabilities, capacity and scale to provide this service?

Value questions:

- Will we reap benefits?
  - Clear accountability for achieving the benefits
  - Linking benefits to MBOs (Management By Objectives) and incentive compensation schemes
  - An effective benefits realization process and sign-off within the company
- Do we have a clear current "as is" profile
  - Covering affected assets, people and processes
  - Understanding licenses, costs, equipment, facilities etc.
- Do we have the capability of effectively working with outsourcing providers?
  - What industry frameworks, standards and models should we use?
- Should we hire a consultant?
  - To assist in developing, review and/or validate our sourcing strategy and approach?
  - As an advisory firm to help choose the provider(s)
- Is this process or operation scalable?
  - Can it be leveraged with more volume, more customers, etc.?
- Is the cost of the operation competitive with what could be obtained in the market?
- Would de-skilling (loss of in-house expertise) have a negative impact?

Delivery and execution questions:
• Have we done in house benchmarking to determine: – Are we deploying well and effectively: Scalable, disciplined and consistent management, governance and delivery processes, capabilities and attitudes? – Are there appropriate and sufficient resources available with the right competencies, capabilities and attitudes at the right time? • Would loss of data or content of this service/product damage the firm? – How? What would be the impact? Financial? Business Disruption? • Overview of provider questions: – Is the provider certified vis-à-vis an industry standard (e.g. ISO, CMMI, PMI, ITsqc, etc.)? – Does the provider have local and international presence and capability? – Has the firm had previous experience with the provider?Does the provider have a superior reputation for delivering quality services at a reasonable cost? Is the provider financially stable? – What processes (e.g. transition management, project management, quality management, performance management, etc.) are being used by the provider? Are they acceptable? – Is the provider undertaking sustainable practices? • What is the "optimum" relationship management model to be established between the company and the service provider?

Table 2.1 Key Strategic, Value, Delivery and Execution Questions for Sourcing

Why do organizations outsource?

There are many reasons why organizations choose to outsource or in-source or deploy a combination of both strategies (hybrid). Figure 2.1 provides a list of outsourcing (or buy) and in-sourcing (or build) criteria that emanate from the drivers identified in Chapter 1.

BUY (OUTSOURCING) CRITERIA	BUILD (IN-SOURCING) CRITERIA
Cost Reduction, Containment and/or Avoidance	Competitive advantage (proprietary requirements)
Speed up time-to-market	Expertise available in-house
Assist a rapid growth situation or overflow situations	May be less expensive than buying
Aggressive schedule	Can be completed on time
Politically correct	Opportunity costs trade-offs
Share risk	No suitable vendors available
Improve flexibility and scalability	Fundamental business of the firm
Leverage new skills/resources/ management/ processes/technologies	Security, privacy and control are critical
Avoid major capital investments	Strategic initiative or function or process
Improve effectiveness and efficiency	Threat to intellectual property theft
Enable innovation and transformation	Lower risk

Figure 2.1 Outsourcing – Build versus Buy Criteria

Benefits of outsourcing from a customer perspective

There are many benefits to outsourcing from a customer's perspective. They include:
• Enables business to focus on strategic functions and decisions (e.g. opportunity cost theory of alternatives)
• Lowers annual operating costs and capital investments
• Frees up time and resources to focus on competitive strengths

- Increases speed to market
- Provides access to scarce, new or supplementary resources
- Capital infusion (depending on what is outsourced) for assets that are transferred
- More politically acceptable in certain situations, if the in-house function does not have a good reputation.
- Provides scalable resources and bench strength
- Enables greater innovation through access to new skills, processes, tools and technologies
- Improves productivity and quality through individual or company certifications

The discussion of outsourcing from a provider perspective is also very important and this will be covered in Chapter 10.

Understanding the barriers to and risks of outsourcing

While there are many good reasons to outsource, there are also barriers and risks that need to be overcome or mitigated from a client perspective, especially in dealing with off-shore deals. Selected barriers and risks are grouped by the following major categories:

- **Leadership and organizational maturity issues –** include the lack of leadership and organizational maturity to manage and govern the sourcing initiative. This is often identified as "too much too fast." This represents the issue of introducing sourcing too fast and is beyond the capability or maturity level of the organization to absorb effectively. In addition, companies fail to follow well–established, disciplined outsourcing procurement and management processes that support the organization's business goals. By short–cutting these processes, companies may achieve cost reductions but fail to take advantage of the opportunities that outsourcing provides to incorporate innovative new approaches that can fundamentally transform their operations. In some cases, these shortcuts in the process can have more serious consequences by creating problems that ultimately cause the outsourcing initiate to fail.
- **Control issues** – include issues such as perceived or actual loss of control, loss of flexibility due to poorly-constructed contracts, lack of security and privacy, poor or insufficient governance processes and metrics and lack of data protection, contingency and inadequate backup recovery resources.
- **Economic issues** – often the total costs of sourcing (management time, etc) are not included in business cases, thereby not reflecting the true costs and return on investment (ROI) of sourcing initiatives. In addition, foreign country labor and tax laws and foreign currency fluctuations must be considered.
- **Process issues** – corporate sourcing processes, including business case analysis, project management, provider selection governance and others are poorly defined or inconsistent and a sourcing initiative may be premature and fail based on broken processes in house.
- **Resource and cultural issues** – the provider may have inadequate or insufficient human, facility and technology resources available to do the work. Off shore corruption (e.g., payoffs) are a problem in certain cultures. Geographic time zone and language difference, managing virtual work, different work ethics and public holidays may cause other problems.
- **Legal and compliance issues** – regulatory compliance with legal, tax, ownership and adjudication laws is an issue in certain countries. Lack of intellectual property protection and loose enforcement is also a barrier.
- **Employee, customer and protectionism issues** – includes resistance to change and overcoming the resistance, the treatment of employees being outsourced and those remaining,

the reassignment of people whose work has been sourced, potential negative customer reactions and government policies on protectionism (keeping jobs home). This is gaining momentum in the US.

- **Sustainability and social responsibility issues** – as concerns about the use of human and environmental resources escalate, client organizations are becoming vulnerable to poor practices on the parts of their provider partners. While often enacting programs to improve these practices within their own organizations, the clients are unaware of their partner practices and can be damaged by association with those that disregard these issues. Part of "due diligence" in investigating potential providers should include investigating partner policies in the areas of, for example, sustainable use of resources, efforts to protect the environment, and labor protection.

Linking the Board and CEO roles to achieving business growth, improving profitability and creating a successful sourcing strategy

Historically, the Board of Directors of public companies has focused, through committees, on such issues as audit, executive compensation, executive succession planning, IT and others. With the growing dollar value and importance of sourcing in an increasing number of organizations, more Boards are focusing on large sourcing engagement as a strategy.

The role of the CEO and the executive management team is complex and requires a balance between sustaining growth and profitability while optimizing organizational effectiveness efficiently and complying with the growing and confusing number of regulatory requirements. The end goal is enhancing shareholder value.

Executing enterprise-wide strategic initiatives and managing effective business operations is a complex undertaking that requires well-conceived sourcing to play a growing role in how the CEO and the executive team deploy the organization's strategy, balancing both a short and long term view. The role of the CEO in managing strategic change in support of outsourcing is not easy. The pressures for change raise a number of questions such as: What can be done? What should be done? How to do it and why make the effort?

Figure 2.2 identifies the attributes that must be addressed to sustain growth and profitability. Effective outsourcing is a prominent component for both. Companies should consider the potential transformational impact of strategic sourcing on the following major business strategies: financial, operational, marketing, competitive, R&D, supply chain and logistics information technology and others.

Key components of managing change successfully

"It is better to be 70% correct and take advantage of an opportunity rather than 100% correct after the opportunity passed."
Norman Augustine, former Chairman and CEO of Lockheed Martin Corp.

Introducing strategic sourcing into an organization enacts a major organizational change and must be accomplished respecting the issues and techniques of managing change. Transforming an organization successfully requires the proactive management of change rather than thinking change will just happen.

Executing enterprise-wide strategic initiatives & effective business operations is a complex undertaking that requires a balance between growth, effectiveness and efficiency and sourcing (which can affect all three criteria)

- Speed (reduce time) to market
- Minimize risks and uncertainty
- Flawless execution
- Facilitation of best practices
- Reduce costs
- Reduce Capital Expenditures
- Reduce obstacles
- Reduce defects
- Increase customer loyalty
- Governance & Key performance indicators
- Code of Ethics

Growth (Maximize Value Proposition)
- Earnings per share
- Growth and sustainability
- Increase revenues /profits
- New products/services
- Mergers/acquisitions/jJVs
- New market entry
- Outstanding customer service
- Breakthrough innovations
- Focus on high value customer retention
- Portfolio Investment Management
- Financial Management
- Effective Asset Utilization & Optimization
- Program/Project Management
- Outsourcing

CEO Role

Optimize Effectiveness & Efficiency
- Continuous process improvement and quality management
- Cost reduction, containment, and avoidance
- Effective supply chain management
- Enabling enterprise wide technology and systems
- Service Management
- Change management
- Outsourcing
- Value chain optimization Human resource motivation, training, and life time learning
- Outsourcing

- Increase management/ employee competency/ training
- Implement strategic change in a planned, coordinated, and controlled manner
- Improve outcomes of implementation efforts
- Enhance team building dynamics and enterprise behavior
- Compliance

Companies need to consider the impact of sourcing on the following business strategy areas: Financial, Operations, Marketing, R&D, Supply Chain and Logistics, Information Technology, HR and other key areas.

Figure 2.2 Linking the Role of the CEO to Achieving Business Growth, Improving Stakeholder Value and Creating an Effective Sourcing Environment

Much has been written about managing change by leading experts looking at different aspects: Drucker on innovation, (1997), Kotter on leadership, (1996), Senge on learning organizations, (1990), McClelland on managing large scale change (1995) and others. Change should be thought of as a continuous process, not an event, which uses a wide range of tools, processes and technologies. Organizations have to consider how to deal with and accommodate resistance to change, and the psychological and social aspects of change.

The following list represents high level steps necessary to manage proactive change effectively as supported by several change and leadership experts:
- Create a sense of urgency – people resist change unless they feel – not just understand – the need. Some refer to this as creating the pain necessary to move people to change. This is best accomplished according to McClelland by engaging the top management to lead the change. Using sourcing as the example, these three steps are suggested:
  – Create the 'value proposition' and market the case for change (through sourcing)
  – Identify committed leadership (executive sponsor and key change agents)
  – Develop a sourcing plan (aligned to the business) and ensure consequence management

- Communicate the vision/plan – there is nothing more dangerous to a successful change management process than secrecy or the appearance of it. Both Kotter and McClelland suggest approaches including:
  - Cascading the plan down through the organization using motivated change agents to communicate with every level of management and across all the corporate 'silos'.
  - Mobilizing commitment through the use of successful examples, developing vignettes of successful sourcing engagements can work to help people understand the issues and get them to commit to the change.
- Measure progress – measuring and reporting results has been shown to be an excellent way to keep people on the change path. Initially, it may be useful to present the "As-Is" versus the planned "To-Be" scenarios. Then conduct regular, scheduled updates that demonstrate progress, which is useful for keeping the staff engaged. This can be accomplished by distributing the sourcing dashboard and status reports so that everyone can see how projects are progressing.
- "Refreezing" – this term was used by Lewin and Schein to describe the last crucial step in a change management process: ensuring that the new way of working becomes embedded in the organization. This is often very difficult as it is human nature to return to the old, easy way of doing things. Successful refreezing usually involves a change in the incentive system of the organization to support the new processes. For sourcing, this may mean new approaches to the review process where an individual or team's commitment to working with the provider team becomes part of the yearly performance review.
- Change systems, processes, structures, tools and training – major changes must be supported by new systems, processes, structures and training.

Depending on the type, size, scope and frequency of outsourcing, it certainly requires proactive change. The findings of McClelland, Kotter and others can facilitate proactive change brought on by outsourcing. As Gary Wendt (former CEO of GE Capital) suggested, "Improving costs and operational excellence is forever." This requires systems, processes, structures and organization.

Successful sourcing is built on three critical pillars

Effective sourcing is built on three critical pillars. These pillars include: 1) leadership, organization and decision rights; 2) flexible and scalable processes; and 3) the use of enabling technology.

- **Leadership, organization and decision rights** – a valuable governance plan defines the organization structure, roles and responsibilities, decision rights (sourcing decision influencers and makers), a shared vision and interface/integration touch points and champions for proactive sourcing:
  - Roles and responsibilities are well defined in each of the sourcing lifecycle phases, including the steering and review hierarchies for investment authorizations, resolution of issues and formal periodic reviews.
  - Clear hand-off and interface agreements and contracts exist for internal and external work and deliverables within the customer organizations and between the customer and the service provider.
  - Motivated leaders and change champions with the right skills, experience, drive and competencies.
  - Meaningful metrics linking sourcing results to the business.

- **Flexible and scalable processes** – well executed sourcing initiatives place significant emphasis on the importance of process transformation and improvement. Key processes include: business requirements analysis, business case analysis, project management, provider selection, mapping the business processes, managing risk, carrying out change management, planning transition management, performance monitoring, provider relationship management, etc. If these processes are broken or inadequate, they should be fixed before sourcing is begun as part of a sourcing initiative. Organizations often make the mistake of thinking that outsourcing a broken process will fix it. This never works and is often the reason for failure in a sourcing relationship. The following guidelines should be in place:
  - Processes are well defined and documented.
  - Processes define interfaces between organizations and ensure that workflow spans boundaries and 'silos' including customer and provider organizations, geographic locations, technology and intra-organizational functions.
  - Processes should be flexible, scalable and consistently applied, with common sense.
  - Organizations should have the "end state" of the sourcing initiative in mind as they develop and/or implement more effective processes. Serious consequences can arise if the organization has not anticipated a variety of end states from unexpected ones (business failures, poor provider performance) to carefully planned transitions either bringing the process in house or moving it to another provider.
- **Enabling technology** - leverage leading tools, templates and technologies that support the major sourcing components:
  - Processes are supported by software tools that support the sourcing activities (e.g. planning and budgeting, project management, risk and change management, service management, financial, asset and performance management and scorecards, etc.).
  - Tools and templates provide governance, communications and effectiveness metrics to accelerate decisions, follow-up and initiate management actions.

If any one of the above pillars is missing or ineffective, the sourcing initiative will not be effective or sustainable. In addition, dependence on one dimension over the others will result in sub-optimized performance.

2.3 Key principles and practices for outsourcing excellence

Overview

Based on an extensive review of the literature, selected case studies and numerous sourcing consulting engagements completed by the authors, there are a number of best practice principles and practices that can represent a checklist for helping companies achieve improvements and higher levels of outsourcing maturity and effectiveness in their environment. Even with the increased outsourcing initiatives in customer organizations, it appears that organizations continue to struggle with establishing and enforcing a formal, consistent and repeatable outsourcing policy, process and methodology. According to Hefley and Locshe at Carnegie Mellon University, "Managing and meeting client expectations is a major challenge for service providers in these business relationships, and examples of failures abound." (Hefley and Locsche, 2006). They go on to summarize the successful principles practiced by customer organizations, which are also re-enforced and supplemented by the International Association of Outsourcing Professionals (IAOP) in its Outsourcing Body of Knowledge: (IAOP, 2006).

To facilitate its use, the checklist is summarized by the major phases of the strategic sourcing lifecycle roadmap from a client perspective. In the following a single service provider is the example; however, the same general points apply to managing multiple providers:

- **Strategy Formulation (Phase 0):**
  - Establishing a clear outsourcing strategy, business case and plan that align with the business.
  - Identifying the appropriate outsourcing opportunities.
  - Creating executive alignment and commitment to outsourcing that creates a favorable outsourcing culture within the organization.
  - Ensuring the experience base – organizations can rapidly fill their experience deficit through subject matter expert coaching or outside consulting support. Experience has been shown to be an important factor in creating successful engagements.
- **Feasibility (Phase 1):**
  - Creating a well-defined process and consistent format for developing a business case
  - Obtaining executive approval and appropriate resources
- **Provider Selection (Phases 2 and 3):**
  - Identifying, selecting and negotiating a win-win deal with service providers
  - Establishing a consistent and formal process for service provider selection and contract negotiations.
- **Commitment (Phase 4):**
  - Establishing well defined roles and responsibilities for both the organization and the provider
  - Assigning a service provider account relationship manager as a single point of contact/ interface with the organization and establish a relationship model that clearly defines roles for both organizational and provider personnel.
  - Build key performance indicators into the contract performance evaluation system with both rewards for extra-ordinary performance and penalties for poor performance.
  - Make key performance indicators (KPIs) relevant, simple, comparable, easy to report and focused on measurable outcomes. Be sure that the provider is not being measured on factors over which it has no control.
  - Develop disengagement options and conditions as part of the contract that includes renegotiations options.
  - Make sure that a disaster prevention and recovery plan with contingencies is in place.
- **Transition (Phase 5):**
  - Manage the transition from the organization to the service provider as a project (see Chapter 8 for more details)
  - Develop an outsourcing communication plan, risk management process, and mitigation plan.
  - Keep close tabs on the relationship during the first 90 days of a contract and make any necessary adjustments swiftly.
- **On-Going Management and Governance (Phase 6):**
  - Implement governance plan for the provider and carry out performance management (see Chapter 4 for more details)
  - Create an atmosphere of empowerment - Let people do what they are suppose to do – hold them accountable, both on the service provider and customer side
  - Have an escalation policy and process in place with clear roles and responsibilities for both sides to avoid losing time in correcting any issues

- Conduct periodic formal progress reviews and reports based on specific metrics relating to the type of outsourcing service or project
- For large initiatives, establish a high level peer outsourcing governance board for joint reviews
- Balance stakeholder needs – companies that successfully outsource continuously "take the pulse" of all stakeholder groups to adjust their needs over time.
- Manage the expectations of all stakeholders well – deliver what is promised; don't over-promise things that cannot be delivered by either the organization or the outsourcing service provider – credibility is a fleeting attribute that if lost, is extremely difficult or almost impossible to regain.
- Do not rely on just SLAs – service-level agreements are extremely important and should be continuously refined and improved over the life of the contract. However, when parties in a relationship resort to the SLA, it implies very poor management of the relationship. The overall governance plan should be the primary way of managing the sourcing engagement. Satisfaction that the sourcing relationship is achieving its goals should be determined through a good relationship using both formal and informal communication and governance processes.

"The buyer needs a hundred eyes, the seller not one."
- Jacula Prudentum, Circa 1500

Avoiding the major pitfalls of outsourcing

As in all things, sourcing also has pitfalls. These include the following:
- Lack of executive management commitment
- Lack of a sourcing plan
- Not having a plan to mitigate through a sourcing evaluation
- Lack of a sourcing communications plan
- Lack of knowledge of outsourcing processes and techniques
- Failure to recognize outsourcing risks
- Failure to obtain assistance from outside outsourcing experts and professionals
- Not dedicating the best and brightest internal resources
- Rushing through the outsourcing requirements, scope, RFP and provider selection and contract phases
- Being unrealistic about benefits
- Not recognizing the impact of cultural differences (true whether onshore, near shore or off shore)
- Underestimating what it will take to get the provider to become productive
- Having no formal outsourcing governance program
- Putting all the sourcing 'eggs in one basket'. Split the work with at least two or a limited number of providers or designate a primary and secondary service provider for back-up purposes.
- De-skilling by outsourcing all of an organization's knowledge and experience in particular areas, thus creating a dangerous dependence on the service provider.

Business and sourcing steering and governance boards, outsourcing project and operating committees and roles

Many top performing companies have established multi-level and multi-disciplinary business/sourcing steering and governance boards and working committees with clear roles and responsibilities to ensure appropriate commitments, sponsorship, escalation, ownership, more effective communications and more formal visibility and commitment of the Board, executive management and other constituents.

Why are they important?

- Help to ensure alignment across all of the parts of an organization. It is recognized that the demand for sourcing resources will generally increase and establishing organization-wide and business unit priorities and consistent processes and metrics is essential.
- Provide a forum for investment decision-making which is synchronized with the business.
- Build an enterprise view that helps to eliminate or reduce the inefficiencies of 'stovepipe' sourcing initiatives, systems, processes, and duplication of efforts across an organization.

Primary focus

- To review and approve strategic plans, major programs/projects and establish priorities among competing requests for outsourcing resources to ensure that everyone is aligned on those initiatives with highest "value add" to the organization as a whole.
- To establish and support processes where needed to effectively fulfill the charge outlined in a consistent, repeatable, yet flexible manner.
- To conduct formal periodic reviews of major outsourcing initiatives, and operational service performance.

Roles and responsibilities:

- Review and approve overall sourcing strategy plans and initiatives
- Review, prioritize and approve major sourcing projects by value to be delivered
- Conduct formal periodic project progress and performance reviews
- Final escalation point for major sourcing issues resolution
- Support and sponsor sourcing policy and process improvement programs

Other steering and working committees:

- Successful sourcing requires multi-level and multi-functional participation. Many organizations establish additional Business/Sourcing Working Committees at the business unit level as well as major functional areas such as Supply Chain Management, Financials, Research and Development, Manufacturing, IT and others as necessary.
- Program and project management working groups focus on specific initiatives.

Figure 2.3 illustrates an example of the business/sourcing steering and governance boards and roles at multiple levels for a large federal government agency, starting with an executive board and ending with project or operations working groups. At each level, it identifies selected responsibilities of each of the groups. While this represents a sophisticated approach used by a particular organization, others may not require such a complex structure and can simplify or tailor it for their particular needs and environment.
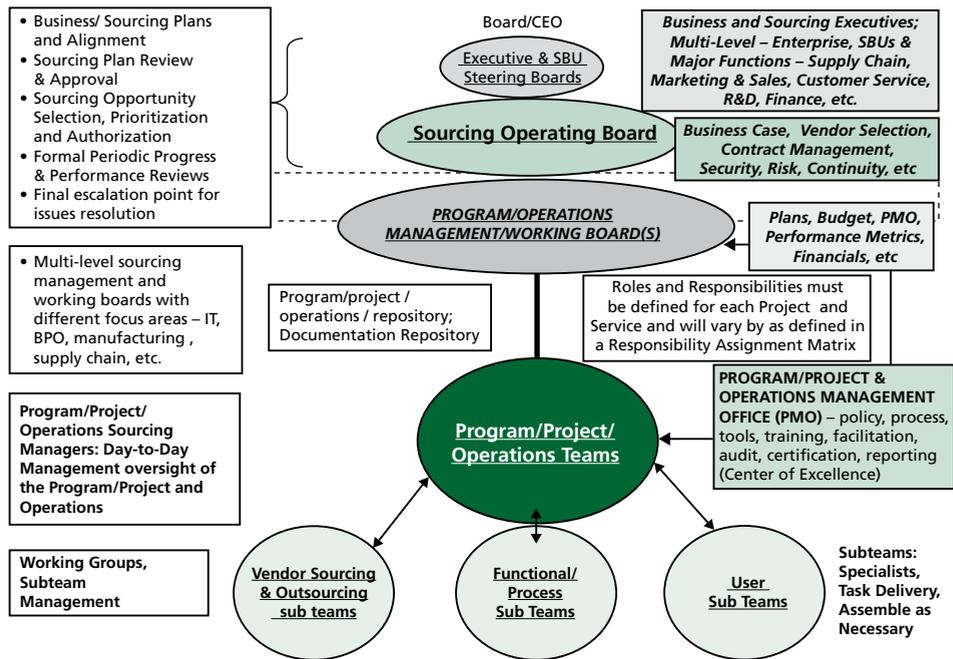
Figure 2.3 Business/Sourcing Steering and Governance Boards, Committees and Roles

2.4 Principles and practices for aligning sourcing to the business more effectively

Based on extensive research, including a review of best practice organizations such as GE, IBM, Starwood Hotels, Unilever, Avon, United Technologies case studies and secondary sources, there are several strategic planning, management control and supplementary principles and practices that should improve the business and outsourcing alignment environment, when deployed well.

Strategic planning practices

The strategic planning practice should be a formal process developed as a partnership and contract (in the loose definition of the word) between the business and the subunit engaging in sourcing. It should clearly focus on defining and relating the value that sourcing provides in support of the business. Specific planning principles and practices should be deployed such as: (Selig, 1983)

- **Strategic planning program and processes** - Develop a sourcing plan that is an integral part of the strategic business plan. The plan framework, format and process should be consistent, repeatable and similar, allowing for functional differences between the business units and functions, to facilitate alignment and integration.
- **Executive Steering Committee(s)** - Establishing a steering committee is a way to involve top management in the Business/Sourcing planning process to establish overall sourcing direction, and approval of major initiatives across the enterprise. Each business unit and corporate staff function should have an equivalent body to focus on their respective areas to establish sourcing priorities and formalize periodic reviews.

- **Sourcing portfolio management, sourcing initiatives and budgeting** – This aspect of the practice ensures that all sourcing initiatives are evaluated, prioritized, funded, approved and monitored using a consistent, but flexible process and a common set of evaluation criteria that are linked to the strategic and annual operating plans and budgets, both capital and expense, at multiple organizational levels.
- **Performance management and measurement** – At the strategic level, it is important to monitor plan outcomes based on a specific balanced scorecard and service level measurement categories and metrics and establishes organizational and functional accountability linked to MBO (management by objectives) performance criteria and reviews for key constituents.
- **Planning guidelines and requisites** – The strategic level of management should create a set of general instructions describing the format, content and timing of the business, sourcing plans and sourcing business case. These are general in nature as opposed to specific standards and should provide the business units some latitude and flexibility to accommodate variations in local conditions and flexibility.

Management control practices

These management control practices focus on the tactical and operating plans and programs and focus on the day-to-day operational sourcing environment.

- **Multi-level business/sourcing functional/operations/technology steering and governance boards** - These boards should be formalized with specific roles and decision rights in the day-to-day implementation and service management of the tactical sourcing plans, programs and services.
- **Tactical/operating plans and resource allocation** – It is important to establish annual and near term sourcing objectives, programs, projects and the resources to accomplish the objectives
- **Budget/accounting/charge-back** – An approach to establishing budgets and monitoring expenditures needs to be in place, defining how sourcing costs are charged back to the business or functional users to assure more effective involvement and ownership by the business.
- **Performance management and measurement** – An important part of day-to-day management is to create a scheme for collecting, analyzing and reporting on performance of results against objectives at a detailed and operational level as opposed to at the strategic plan level. In addition, formal periodic monthly and quarterly review meetings should be held to review the status of major sourcing initiatives and the on-going performance.
- **Business case refresh** – Establish the sourcing business case as a control point that is refreshed annually and measures the value of the sourcing initiative.

Supplementary practices

These practices will vary depending on the specific circumstances of the organization; however, they can result in improving sourcing and business alignment in many ways:

- **Relationship management model** – There are numerous relationships involved in the overall sourcing engagement. In addition to the key relationship between the client and its provider, there may be additional ones between the client and its primary customers (internal and external), the client and its higher level management, the client and its top management and board. In situations where there are multiple providers, the previous relationships become more complex and to them are added relationships between the providers who may be interacting. It is important to establish a relationship model to facilitate interfaces, decisions, resolution

of issues, collaborative plan development, better communications and build trust between the various parties and among all the segments that may be affected by the sourcing relationships. This model also has to focus on factors related to managing virtual teams and other aspects of being "distant." A detailed discussion of relationship management is presented in Chapter 7.

- **Sourcing Program Management Office (SPMO)** – A SPMO establishes the processes, tools and sourcing roles and responsibilities for program and project management. Initially, PMOs were established by IT to help manage IT programs and projects. As organizations recognized the increased benefits that a PMO brings to an environment, PMOs are being established at the executive level by a growing number of organizations to assure that major corporate business initiatives such as sourcing and others utilize the same or similar discipline and structure. Some organizations have set up SPMOs while others include sourcing projects as an integral part of their PMOs.

- **Marketing, public relations and communications program for sourcing** – Most departments engaged in sourcing activities are very weak in promoting and marketing their accomplishments and value. They do not understand the long-term value to the overall organization of promoting the successes they are achieving. This function creates awareness and promotes executive, management and employee education and commitment to the value of sourcing in support of the business through newsletters, web sites, press releases, testimonials and other marketing and public relation events. Some companies will not pursue this tactic because of the potential negative impact of job losses on various groups inside and outside the organization.

- **Sourcing charter** – Creating a charter for sourcing promotes effective and definitive interaction and links between sourcing and the business/functional groups they support. A charter can provide information on scope, roles and responsibilities, and provides specific sourcing project authority and limits to that authority.

- **Standards and guidelines** – Adopting a set of corporate-wide standards and guidelines supports maintaining best practices throughout the organization. The standards and guidelines should be flexible rather than rigid to allow them to be tailored to fit a specific engagement. In general these guidelines will describe and document sourcing strategies, processes, tools, templates and decision authority.

- **Organizational and people development, skills and competencies** – As mentioned earlier, experience in a very important factor in creating successful sourcing episodes. It is useful to develop a proactive learning environment by encouraging and rewarding outsourcing education, training and certification, both organizational and individual.

- **Annual/six-monthly sourcing best practice meeting** – Sharing knowledge across the organization is another way to benefit from the experience of previous sourcing engagements. Organizations have found value in conducting periodic sourcing/business management meetings to share best practices, discuss lessons learned, develop relationships, and address organizational wide issues and opportunities within the organization and between preferred providers and the organization.

2.5 A strategy formulation framework for sourcing as part of the business plan process

Previous discussions have defined practices, guidelines and roles from a general point of view. In this section the specific steps for creating a sourcing framework as part of the business planning process will be described.

A strategy for sourcing starts with input from the business and functional units, but must be integrated into the overall organizational business plan. Each significant sourcing objective should be identified in the business plan, linked to a specific business objective with a business owner, who is accountable for the results. Some companies make this part of their yearly business plan process. For example, in a large US manufacturing company, both business units and staff functions submit lists of proposed sourcing projects and budgets. A corporate group assembles these lists and helps top management, evaluate, select and approve or deny the initiatives. In this way, there is a top-down (across the organization) view of the overall resources committed to sourcing as well as the corporate risk associated with sourcing.

While the importance of planning in running a business has been questioned at times, there exists decades of research in organizations that supports the value contributed by business planning. See for example the work of Soden, Porter, Hamel, Wetherbe, Selig, Kaplan, Henderson, Hitt, Prahalad, Treacy, Rockart, Nolan, Norton and many others. The importance of having a business plan is suggested by the following factors which enumerate the value provided by a plan:
- Direction
  - Identify and focus on critical issues, opportunities, objectives, scope and deliverables in a phased and structured manner
  - Provide a road map and process for action
- Visibility
  - Minimize risks, obstacles and constraints
  - Obtain a better understanding of the alternatives
- Tracking
  - Provide a baseline for monitoring and controlling work and progress
  - Establish a foundation for more effective communications, commitment, buy-in and consensus building
- Managing expectations
  - Better anticipate and plan for change
  - Better manage the expectations of all constituents

High level flow – business/sourcing planning, approval, execution and evaluation

Figure 2.4 illustrates a high level flow linking the business plan to the sourcing opportunities list and the subsequent evaluation, deployment and evaluation of initiatives. It includes setting priorities, identifying project selection and approval criteria discussed in more detail in Chapter 3, managing and controlling initiatives and evaluating their results.

Traces the flow of process from plan through sourcing opportunity selection and execution
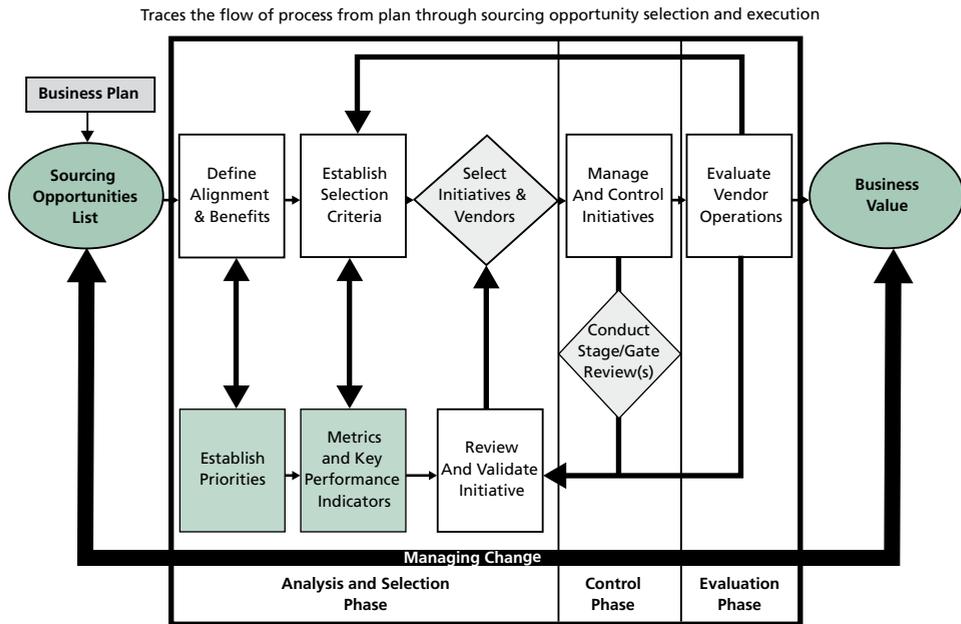
Figure 2.4 High Level Flow - Business/Sourcing Planning, Project Selection, Execution & Evaluation

Business and sourcing strategy and plan development frameworks

There are many strategic planning approaches that have been described in the literature (e.g. Hamel, 2000; Kaplan and Norton, 2001; Hitt, 2008; Porter, 1985; Prahalad and Hamel, 1990; Treacy and Wiersema, 1995 and many others).

Before discussing a practical business plan process, it is useful to introduce a key strategic analysis process. Figure 2.5 illustrates a generic strategic analysis process (Bullen and Luftman, 2009)
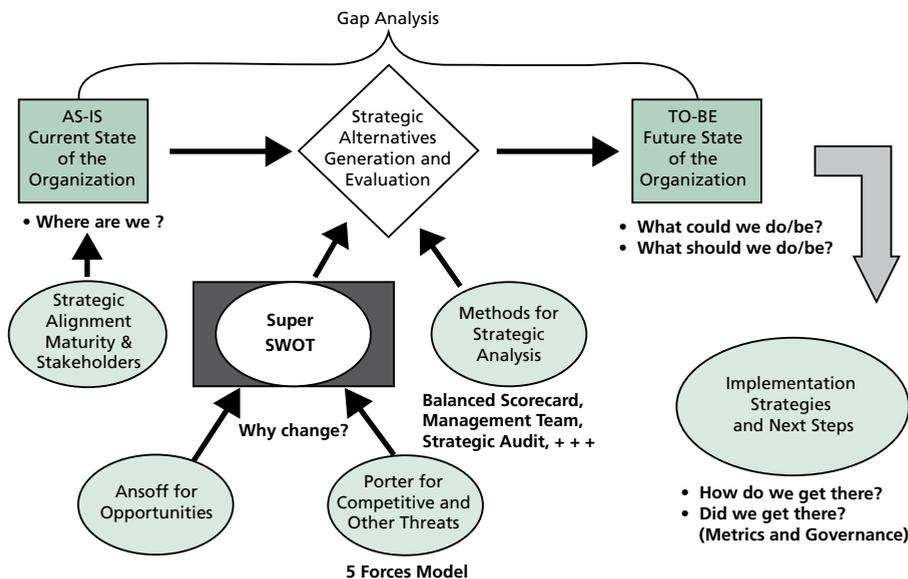
Figure 2.5 Generic Strategic Analysis Process

that identifies the elements of the analysis such as: the current or "as-is" state of the organization, identifying strategic alternatives and gaps, describing the future "to-be" state of the organization and the implementation strategies. It also factors in the work of Igor Ansoff on opportunity analysis (e.g. product/market matrix), Michael Porter on competitive and threat analysis and the five forces model, a super SWOT (strengths, weaknesses, opportunities and threats where each component is linked in the analysis [e.g. strengths and opportunities, etc.]) technique and discusses methods for strategic analysis (Ansoff, 1976; Porter, 1985). The process begins the activity of answering six basic planning questions described in the next section.

One of the businesses planning process that is pragmatic and has been used successfully in industry is called "Pressure Point Analysis." It is primarily based on analyzing internal and external pressures and trends and addressing six basic questions:

- **Where are we?** This question establishes the baseline or current state reference base or the "as is state" for either the business or sourcing plans. It considers internal factors, such the strengths, weaknesses, opportunities and threats. It also identifies core competencies and any gaps in the strategy. It documents current resources, costs, assets, people, flows, volumes and other necessary factors. External trends and pressures such as industry, competition, globalization, life style, regulations, technology, economics and environmental factors are evaluated as well as customer and prospect input.

- **Why change?** Since change is inevitable and rapid, the assumptions about the current baseline, plan and strategy will change. As Hamel stated, "If organizations are to survive and prosper, they must continuously reinvent themselves." (Hamel, 2000). This question identifies the reasons and motivations for change and examines high level alternatives for the business to consider, including sourcing as an actionable initiative that can evolve from a number of strategic plan imperatives such as: operational excellence, growth opportunities, maximizing stockholder value and others. Benchmarking studies comparing an organization to other best-in-class organizations can help answer this and the other planning questions.

- **What could we do?** If there were no constraints holding back an organization, this question helps an organization to dream of what could be done. It provides the list of options available to the organization.

- **What should we do?** This question narrows the strategic choices based on a company's vision, objectives, direction and any constraints such as capital, people resources, time, intellectual property, existing knowledge and experience, core competency and the risk of the initiative. It addresses the question of why that vision and its related goals, objectives and strategies are achievable and what should be done in the plan period relating to achieving the business objectives. The results of this step are a set of recommendations.

- **How do we get there?** Any business or sourcing plan should have "mandatory" strategies if an organization is to grow, prosper and survive. These mandatory strategy classifications are called strategic imperatives or must do's. For a business plan, selected imperatives should include: continuing growth, maximizing customer intimacy, maximizing shareholder value, achieving operational excellence and integrating technology into the organization seamlessly. How this is done will vary by organization. Figure 2.5 illustrates a business strategy and plan development framework. On the sourcing front, the imperatives can include such factors as choosing the right sourcing model, treatment of people and human resources, examining best shore alternatives and implementing a consistent sourcing life cycle and process. One outcome of the answer to this question can be a list of definitive next steps and implementation strategies.

- **Did we get there? Are we operationally sound and effective?** This question deals with performance metrics and management controls to ensure that the plan goals and objectives are met.

Figure 2.6 illustrates the business strategy and plan development framework.

Can be used as a template to develop a business plan in conjunction with a business plan detailed table of contents.
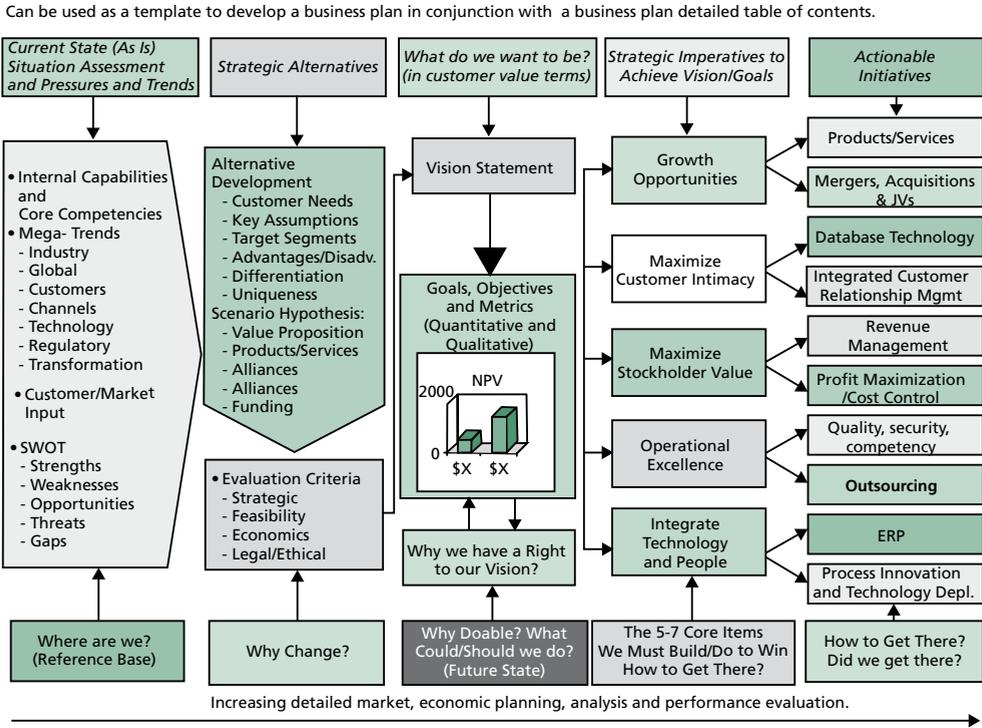
Figure 2.6 Business Strategy and Plan Development Framework (Pressure Point Analysis)

Figure 2.7 illustrates an outsourcing strategy formulation template that can be used to present a high level executive summary of key sourcing plan elements and maps them to the six business plan questions previously described. The intent of the template is to select the top two to three pressures, trends, alternatives and recommended actions and highlight them in each respective box. More details can be provided in a supplementary sourcing plan report and appendix.

Business plan and sourcing linkage, opportunity assessment and deployment framework

Once an organization's strategic business plan has identified sourcing as a strategic initiative, a number of sourcing opportunities may be identified by line and staff functions. Taken as a whole, these opportunities should be assessed against consistent evaluation criteria to determine which ones to pursue through the sourcing life cycle through deployment and on-going operations. Figure 2.8 illustrates the linkage of a business plan output as input to the sourcing opportunity assessment and ultimately, the deployment of the opportunity through the project management and sourcing life cycle. The intention of Figure 2.8 is to illustrate how sourcing initiatives identified in the business plan go through the evaluation, selection, deployment and governance processes.

PHASE 1
Where are we?
(situation assessment of current or "as is" state

External Pressures/Trends

Uncertainties/ constraints

Internal Pressures/Trends

Technical trends/pressures

Regulatory pressures

Environmental trends/pressures

Competitive pressures

Economic pressures

Customer pressures

(Current Company Profile)
General
Costs
Personnel
Process/Function considered as sourcing candidates
Process Maturity
Organization & Staff
Strengths/ Weaknesses
Opportunities/Theats
Gaps

Corporate (CEO) pressures

User pressures

Employee pressures

Business unit pressures

Legal pressures

PHASE 2
Where change?

Issues:
What are major issues?
What are majore opportunities?
What are major risks and threats?

PHASE 3
What could we do?

Strategic alternatives
• Economics/ Feasibility
• Sourcing Model
• Best Shore Alternatives
• Strategic Fit

Sourcing Opportunities, Impact

Top management vision, objectives

PHASE 4
What shoould we do?
How should we get there?

Implementation and Transition Strategies and Recommended action programs

Sourcing initiatives:
- Priorities
- Single/Multiple Vendors
- Life Cycle and Process
- Incremental/ Radical Outsourcing
- Strategic/ Tactical Outsourcing
- Best Shore

PHASE 5
Did we get there?

Validation, measurement, control & corrective actions

Have the sourcing initiative added value? Met the business case justification criteria? Met the operational performance metrics?

Figure 2.7 Outsourcing Strategy Formulation Template

Executive Management Business Units Corporate Staff Functions

Business plan

Vision, goals objectives, strategies and financials

Strategic sourcing initiatives (From Business Plan)

BPO
NPD
Mfg.
IT

Evaluate/Select

Portfolio Management

Asset Classes:
• Strategic
• Infrastructure
• Transactional
• Informational

Evaluation, selection, prioritization and funding of imperatives and initiatives

Key selection metrics: new/incremental revenues, reduce/contain/avoid costs, share of customer $, ROI, NPV, ROA, strategic fit, intellectual capital, barriers to entry (patent), degree of risk Vs reward, customer satisfaction, laws and regulations

Program/Project Management
(Key Metrics – Times, Cost, Risks, etc)

High visibility, large funding, complex, strategic, >6 months, high risk, etc. (Examples: enterprise -wide ERP; e-Business; complex new product or solution delivery; enterprise architecture; M and A;

Initiation
Planning
Execution
Termination

Flexible and scalable processes, templates and tools

Deploy

Standalone, limited scope projects or projects which are interrelated and part of a program

Sourcing Life Cycles
(Varies by type of initiative)

Plan
Feasibility (Build/Buy)
Vendor Selection
Transition (Test/Pilot/ Train)
Manage On-going RElationship

Flexible processes, tools and disciplines are used for development, but life cycle tasks will vary by project type (e.g. IT, eBusiness, new product, M and A etc.)

Ongoing Processes, Operations and Governance
(sourcing supports on going company processes and operations)

• Quality
• Purchasing
• Vendor Management
• Continuous process improvement

• Legal/Contract
• Administration
• Customer service
• Information Technology
• Sales/marketing

• Finance/accounting
• Transportation
• Training/Human Resources

Control/Measure/ Govern

Figure 2.8 Business Plan and Sourcing Linkage, Opportunity Assessment and Operational Deployment Triangle

Customer outsourcing summary planning checklist

It is always useful to have a checklist as a reminder of the activities that should be considered in developing a sourcing action plan. The following provides such a checklist for sourcing and is organized by the phases illustrated in the Strategic Sourcing Lifecycle Framework:

Phase 0 - Strategy formulation
- Use the sourcing life cycle framework as a reference
- Develop a sourcing plan which aligns to the business plan
- Develop sourcing opportunity assessment, selection, prioritization and evaluation criteria
- Identify executive sponsor (s)
- Develop a sourcing charter and organization to define boundaries (e.g. decision rights; corporate versus business unit roles and responsibilities, scope, etc.)

Phase 1 - Feasibility
- Appoint an outsourcing project team and manager – pre – sourcing stage and post-sourcing stage (if outsourcing is pursued)
- Identify critical success factors
- Develop a business case (Cost/Benefit Analysis, including an impact analysis on current employees and unions, where applicable)
- Develop a communications plan

Phase 2 - Preparation
- Develop an RFP identifying requirements, scope, etc
- Develop a resource plan
- Develop a risk management mitigation and contingency plan
- Develop a procurement and contracting process
- Develop a list of suitably qualified service providers for consideration
- Develop a governance plan and process
- Develop a change management plan

Phase 3 -Evaluation
- Develop a service provider selection and evaluation criteria with a consistent weighting scheme
- Conduct due diligence
- Draft Service Level Agreement (SLA) and Statement of Work (SOW)
- Develop a performance management plan with realistic metrics

Phase 4 - Commitment
- Negotiate with and select provider(s)
- Sign contract
- Develop an implementation, conversion and transition plan
- Identify disengagement criteria and plan
- Develop human resources and asset transfer plan

Phase 5 - Transition
- Implement phased transition plan
- Implement relationship management plan
- Identify clear handoffs and sign offs
- Develop human resources and asset transfer plan

Phase 6 - Ongoing management
- Manage the contract
- Manage relationship
- Manage performance and governance

2.6 Applying the overall strategy to specific sourcing decisions

Once an organization has decided to pursue outsourcing as a strategy and includes outsourcing and its potential benefits as part of the measurable objectives of the management team, outsourcing opportunities should be identified by various parts of the organization. Then the key questions to answer are: which outsourcing opportunity should be pursued, why and based on what selection criteria?

Why this sourcing deal?
The evaluation of sourcing opportunities is very much analogous to portfolio investment management in project management or investment management. Table 2.2 identifies a number of sourcing evaluation criteria to help filter and set priorities for the sourcing opportunity choices and make the appropriate decisions.

The business case for outsourcing
Once outsourcing opportunities are identified, several questions should be answered: "Should the opportunity be pursued, what value proposition does it represent, what evaluation criteria should be used?" The answer requires a business case analysis. Table 2.2 identifies key sourcing business case evaluation criteria and related questions and considerations.

Scope, Impact, Business Need and Feasibility
What is the scope and impact of the request? Enterprise wide? Geography? Number of people?   Is the solution operationally feasible? Economically feasible? Legally feasible?   Is the opportunity identified in the strategic and/or operating plan and budget?   What is the impact of the proposed solution on the user community? High? Medium? Low?   What business need will be satisfied by approving this business case? High impact? Low impact?   Mandatory? Strategic? Discretionary?
Financial Risk and Value
Is this a funded (budgeted) requirement or opportunity defined as part of the strategic plan and annual budget process?   Is this an unplanned and unfunded opportunity?   Does the request require a reallocation of previously approved funding?   What are the projected financials such as ROI, NPU, Payback, etc.?   Do the benefits warrant the risks? Can the risks be mitigated? Shared? Fair?
Process, Function or Technology Opportunity
Does the proposed service affect the current environment?   Does the service represent a standard solution? A proprietary solution?   Is the proposed service independent or is it dependent on other process, functions or components?   Does it comply with any standards and guidelines?   Does the solution require back-up, redundancy and contingency plans?   What degree of risk does the proposed service pose? High? Medium? Low?   Is the capacity of the scalable to accommodate growth in volume? Locations? Employees? Other functions?   Is this an innovation?   Is performance in speed, service levels, quality or volume comparable to best-in-class?

Legal, Regulatory and Security
Is the opportunity legal? Is this opportunity ethical? Does this opportunity comply with current regulatory and compliance policies and guidelines? Does the opportunity comply with published security and privacy regulations and guidelines?
Organization
Does management sponsorship exist? Does the culture embrace organizational change readily? If not, who will champion the sourcing change and how?
Human Resources
What would be the impact on employee satisfaction or attrition? Is there an adequate provider labor pool? What is bunch strength? What labor laws and costs must be considered that may impact the deal?
Core Competencies
Do we have the core competencies to do the work in-house? Do we have sufficient and the right kind of human resources to implement the solution? What provider selection criteria are appropriate – financial, strategic, experience, cost, risk us reward, added value, access to new resources, scalability, etc.?
Alternatives Considered
What alternatives have been analyzed? In-sourced? Outsourced? Hybrid? Why was the recommended alternative selected?
Providers
Are experienced providers available? Do we sole source or source to multiple providers? Do we onshore, offshore, nearshore or best shore?
Metrics
Are pragmatic metrics available? Trackable? Comparable? Actionable? Are the governance, control and metrics definable? Enforceable? Brand/ Image/Marketing Is the activity done to raise brand awareness? Can the sourcing activity strengthen/weaken the brand? Does the activity directly impact customers?
Current Environment vs Future Environment (As Is Baseline)
Are all current processes and functions documented in terms of budget, flows, volumes, controls, costs, assets, etc.? Is there a basis for comparing baselines to best-of-breed of future outsourcing scenarios?

Table 2.2 Outsourcing Business Case Evaluation Criteria

Appendix D provides an example of an actual business case analysis and format used by a major telecommunications company.

Figure 2.9 summarizes the major sourcing business case evaluation criteria. The key categories identified above and the related questions provide a guideline to help companies evaluate sourcing business case opportunities. The importance of each category will vary by company.

Figure 2.10 illustrates a generic outsourcing business case outline.

This includes an executive summary, a description of the current (as is) environment, a proposed future scenario with sourcing, an assessment of the value proposition with sourcing, a recommended sourcing approach and various supporting appendices.

Select Criteria Used to Help Evaluate an Outsourcing Opportunity and Business Case
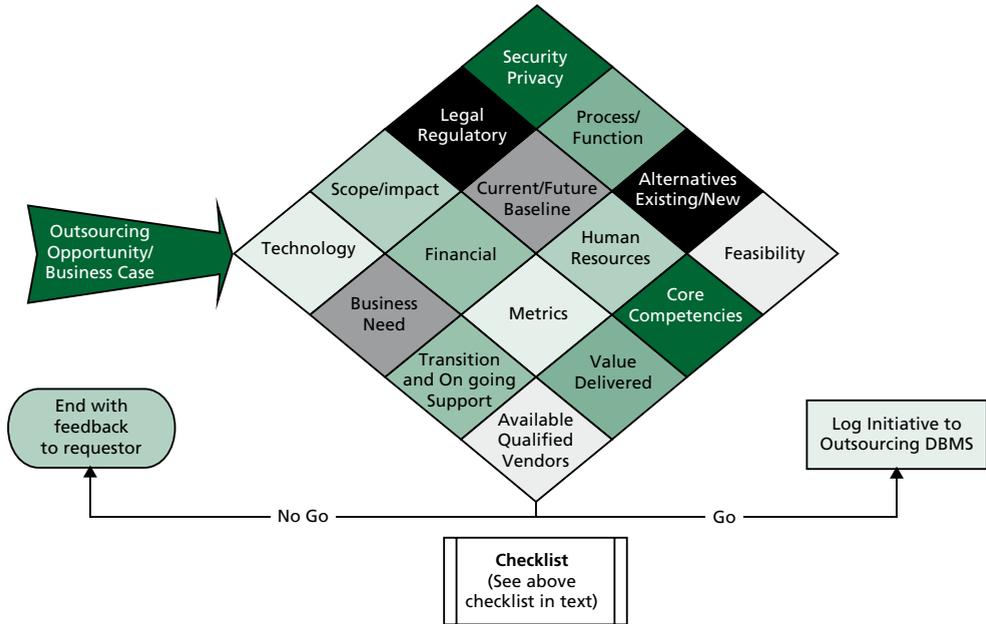
Figure 2.9 Outsourcing Opportunity Business Case Evaluation Criteria Summary

1. Executive Summary (Synopsis of Business Case):	**5. Recommended Sourcing Approach**
Purpose, Objectives, Strategy and Scope	Structural Model (The Business Deal
Description of Opportunity, Value and Alignment	and Structure)
Financial, Operations, HR, Risks	Contractual Model
Dependencies, Assumptions, Constraints	Critical Success Factors
Sponsaor and Management Team	Macro Plan, Milestones and Schedule
2. Assessment of Current (As Is) Environment (Reference	Transition Team
Base ñ Where are we today?):**	Division of Assets
Current Processes, Functions and Technology	Day-to-Day Management
Current Costs, Resources, Volumes, Locations	Key Performance Indicators
Major Issues, Constraints and Sensitivities	**6. Appendices**
3. Proposed Business (Outsourcing) Scenario:	Proposed Project Plan
Proposed Requirements, Processes, Functions and	Proposed Risk Management Plan
Technology	Proposed Contingency and Backup Plan
Proposed Cost/Benefit Analysis	Proposed Communications Plan
Major Issues, Constraints and Sensitivities	Proposed Transition Plan
Impact on the Organization, Resources, People	Proposed Governance Plan
Roles and Responsibilities of Customer and Vendor	
4. Change Analysis (Why Change?)	
Value Proposition Analysis	
Financial Analysis (description and quantification; full	
economic	
life cycle; best case, worse case, most likely case; cash	
flow;	
costs/savings)	
Non-Financial Analysis (Impact on Operations, R&D, etc.)	
Risk Analysis & Mitigation	

Figure 2.10 Generic Outsourcing Business Case Outline

Figure 2.11 shows an outsourcing business case outline used by a large network company. The major sections of the plan outline are: executive summary, overall outsourcing strategy and its impact on business operations, human resources, financials, a communications plan and supporting appendices. It illustrates one example of the level of detail necessary for a superior business case analysis.

Executive Summary	**Human Resources**
	• Division of Human Resources
Outsourcing Strategy	• Diagnostic of Stay-behind HR Needs
• Overall Strategy	• Diagnostic of the Provider's HR Policies
• Strategic Outsourcing Objectives	• Diagnostic of the Displaced Employee Needs
• Strategic Alternatives and Comparison of Base Case Before and After Outsourcing	and Legal Considerations
• Implementation Strategy	**Financials**
• Exit Strategy	• Financial Baseline of Company
	• Incremental Impact of Transition on Company
Business Operations	• Incremental Impact of Transition on the Provider
• Division of Functions, Roles and Responsibilities	• Provider Evaluation ñ Due Diligence
• Transition activities	• Management of the Service Provider Financial
• Division of Assets, Systems and People	Processes
• Management of day to day operations	• Management of Internal Financial Process
• Management of overall relationship	
• Management of Outsourcing Contract Performance	**Communication Plan**
• Service Provider's Operational Planning Process	• Employees
• Contingency/Disaster Recovery Process/Plan	• Customers
	• Regulatory
	• Government
	• Community
	Appendices

Figure 2.11 Outsourcing Business Case Outline – Major Network Company

Selected models for sourcing deals

Sourcing is a broad term and can be implemented in a variety of ways. People usually associate IT sourcing with the use of a provider that augments the client's staff to assist in the production of software. However, there are many other forms or models of outsourcing that can be pursued by organizations. Figure 2.12 represents a modification of sourcing models first identified by Rottman and Lacity, in the area of IT outsourcing. (Rottman and Lacity, 2004). They identified four types of sourcing models:

- Captive Model – the customer builds owns, manages, staffs and operates this entity, usually at an offshore location.
- Joint Venture Model – the customer and provider share ownership in operations and both contribute selected resources.
- Build – Operate – Transfer Model (Turnkey) – the provider builds (including designs), staffs and operates on behalf of the customer and then transfers the entire operation to the customer.
- Fee-for-Service Model – this is the most common outsourcing model when the service provider provides a service to the customer for a fee.

It illustrates each of these models in terms of description, cost, selected risks and degree of control and provides examples. It should be noted that these models are not definitive in the sense that there are organizations that construct hybrids or other possible combinations of these models.

Model Type	Captive Model	Joint-Venture Model	Build-Operate-Transfer Model (Turn-Key)	Fee-for-Service Model
Description	The customer builds, owns, staffs and operates	The customer and supplier share ownership in operations and both contribute select resources	The vendor owns, builds, staffs and operates the facility on behalf of the customer; ownership, assets and employees transfer to the customer after completion	The customer signs a contract for services in exchange for paying the vendor a fee
Set-up cost	Highest	High	Medium to High	Low
Financial risk	Low	Medium	Low	Low
Operational risk	Low	Medium	Low	Medium
Security, privacy and IP risks	Low	Medium	Low	Varies with vendor, a country's laws and culture
Ability to control	Highest	Depends on the amount of ownership	Medium	Low
Examples	IBM, Cisco, Accenture	TRW/Tech Mahindra, Citigroup Tata	Bechtel, Haliburton	Pfizer, Westchester County, Morgan Stanley, Dell,+++

Figure 2.12 Selected Sourcing Models

Business and outsourcing performance management and the balanced score card

A performance management plan with metrics must be developed for outsourcing. The development of the performance management plan should be a collaborative effort within the client organization and between the client and the provider. It should be based on a number of objectives, which should:

- Be consistent with strategic objectives
- Provide a financial benefit
- Improve customer relationship
- Increase customers and markets
- Improve product or service quality
- Improve process and product innovation
- Make operations more effective or efficient or both

It is important to measure the performance of outsourcing initiatives and services in realistic and practical terms that can be understood by the business. It is equally important that the measurements are fair to the provider and that performance is within the control of the provider. For example, it is inappropriate to penalize the provider for poor performance when the client's own processes created the situation for poor performance.

A critical question that should be answered is: what key performance indicators (KPIs) should be tracked? The answer will depend on the objectives of the specific outsourcing service that is provided, and may include the following components:

- Costs (reduction/avoidance/containment)
- Revenues (new or incremental)
- Customer satisfaction
- Reliability, availability and scalability of the service
- Speed to market
- Business transformation through process, product and technology innovation
- Program/project management outcomes (e.g. time, cost, quality, service levels, etc.)
- Service management outcomes
- Business and sourcing relationship and engagement management – level of executive and business function or process owner's commitment and involvement to outsourcing (e.g. frequency of contacts reunion, meetings, funding, etc.)

The execution of these plans and objectives must be monitored and measured by a combination of balanced scorecard (as defined by Kaplan and Norton) and KPIs as well as formal and informal status review meetings and reports (e.g. report cards, dashboards). (Kaplan and Norton, 1996) Figure 2.13 illustrates high level business and sourcing expanded balanced scorecard categories and related metrics. The outcomes should link critical success factors (CSFs) to KPIs that are measurable, part of a standard reporting system and linked to a governance and performance management process. If the results cannot be measured, they do not count. Chapter 4 provides more details on governance, performance management, controls, balanced scorecard and other metrics.

What CSFs & KPIs Should Be Tracked for outsourcing? Remember, You Get What you Measure, so it is Important to Measure the Right Performance and Predictive Attributes as Identified in the Balanced Scorecard.

- **Critical Success Factor (CSFs) Categories:**
  – Financial*
  – Customer*
  – Employee
  – Process Innovation*
  – Program/Project Management
  – Service Management
  – Learning and Growth*

- **Key Performance Indicators (KPIs):**
  – Financial – ORI, ROE, ROA, EPS, etc.
  – Customer – Internal& External
  – Performance – Team & Individual
  – Program/Project Performance
  – Service reliability & responsiveness
  – Measure Current/Future State Chane

(*Original Balanced Scorecard Components)

- **Attributes:**
  – Performance (Historic)
  ✓ Time & Schedule
  ✓ Cost–Reduction, Containment & Avoidance
  ✓ Profitability – Direct or Indirect
  ✓ Responsiveness
  ✓ Quality
  ✓ Availability
  ✓ Capacity
  ✓ Reliability
  – Predictive (Future)
  ✓ Maturity Level – 1 to 5
  ✓ Capability/Skills
  ✓ Alignment Criteria
  ✓ Key Issues/risks
  ✓ Process innovation
  ✓ Use of Technology & Absorption Factor

Reality Check – Do the CSFs and KPIs…
- Translate into specific actions?
- Help align business and Sourcing?
- Provide leverage to institute change?
- Manage end-to-end results across silos?
- Drive performance and process improvements?
- Allow for benchmarking to compare best practice performance?
- Enhance your ability to compete in the future?
- Drive learning and innovation?
- Predictors of Future Poor Performance?

Figure 2.13 CSFs and KPIs for the Business and Outsourcing Initiatives Based on the Balanced Scorecard

A first step - assess current maturity level of outsourcing in an organization

As an organization develops its outsourcing strategy and plan, it is useful to assess the level of maturity of the organization's outsourcing environment and readiness. An industry standard methodology that is helpful for this purpose is SEI's Capability Maturity Model Integrated

(CMMI®) framework (Software Engineering Institute, 2002 and 2005). The model consists of five levels of maturity and can be used to analyze the current state of the major sourcing components and to establish a targeted future state maturity level for each major sourcing component. The CMMi framework is most often thought of in terms of a certification for providers. However, it can be used by a client organization to measure its readiness to work with providers who have attained specific maturity levels in the CMMi framework. In addition the result of the analysis can be used by organizations to develop a migration plan to move from a lower level of sourcing maturity to a higher and more effective level of maturity.

The framework consists of five levels of maturity:

1. **Initial Level**: The outsourcing processes are characterized as ad hoc and occasionally even chaotic. Few processes are defined and success depends on individual efforts.
2. **Repeatable Level**: Basic outsourcing processes are established. The necessary discipline is evolving to repeat earlier successes.
3. **Defined Level**: The outsourcing processes are documented, standardized, and integrated into the management policies and procedures. All governance processes are implemented using approved versions as part of the outsourcing policy and framework.
4. **Managed Level**: The organization is able to define, collect and make decisions based on each outsourcing component's measurements. Outsourcing processes and metrics are quantitatively understood, reported and controlled on an enterprise level.
5. **Optimizing Level**: Continuous process improvement is enabled by quantitative feedback from the process, from piloting innovative ideas and from adopting external industry best practices and standards.

Figure 2.14 provides an illustration of the CMMI® model levels and illustrates an insurance company's current state maturity (level 1) and its objective to achieve a targeted future state maturity of (level 3) within a 12 to 18 months time frame. The time period to achieve a more mature and effective sourcing environment will vary from company to company and depends on many factors such as executive commitment, resources and budget, degree of difficulty with current situation, etc.

Illustratesan Insurance Company Organization's Current and Future Targeted State of Outsourcing Maturity. All Organizations Require a Roadmap and Plan to Move Up to Higher Levels of Maturity and Effectiveness
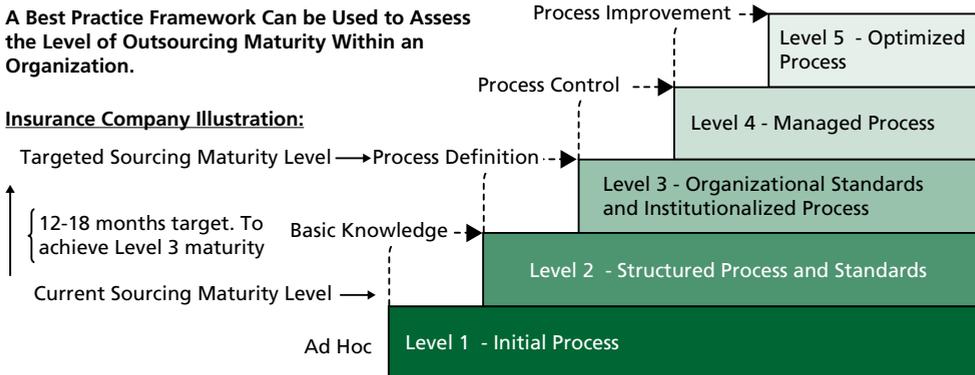
Figure 2.14 High Level Assessment of Outsourcing Process Maturity Based on the CMMI Model

Figure 2.15 illustrates a complementary approach to assess the maturity of outsourcing in an organization, which can lead to an organizational certification (either client or service provider) for outsourcing. It was also developed at Carnegie Mellon University by the ITSqc (IT Service Qualification Center). (Hyder, Heston and Mark, 2006). While the CMMi model focuses on the ability of an organization to deliver its product, the eSCM model takes a more comprehensive view of maturity, assessing the complete sourcing lifecycle. There will be more discussion on certifications in sourcing in Chapter 3.

Two eSourcing Capability Models (one for Clients and one for Service Providers was developed by ITsqc (IT Service Qualification Center) at Carnegie Mellon University
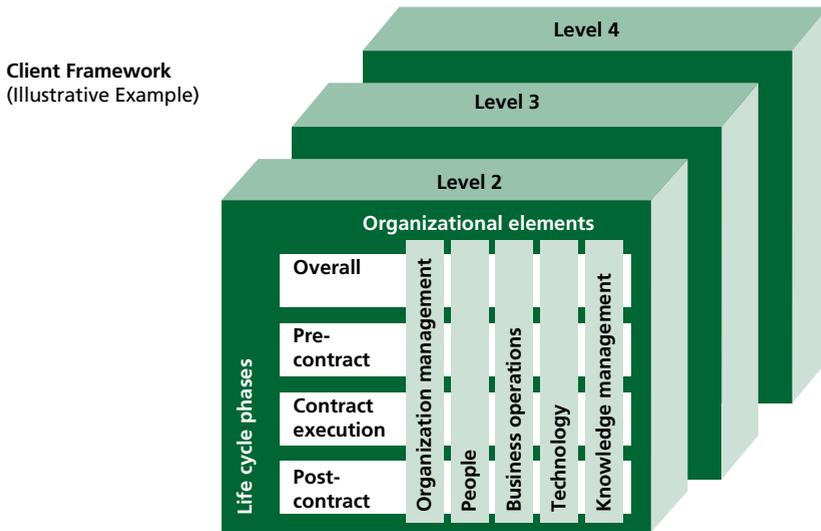
The eSourcing Capability Model groups its 93 practices across three different dimensions: the Life Cycle Phases of an outsourcing engagement, the outsourcer's Organizational Elements and the outsourcer's Capability Levels. For certification, authorized evaluators will look at all 93 practices and determine whether to recommend certification. Carnegie Mellon reviews the recommendation of the evaluators and supporting data to determine whether to award a certification.

Source: ITsqc

Figure 2.15 Outsourcing Maturity and Certification via the ITSqc (IT Service Qualification Center)

Outsourcing - current and future state transformation roadmap

In order to develop and/or improve an organization's outsourcing maturity level, an organization must assess its current and future outsourcing state and develop a transition roadmap for its outsourcing transformation.

Figure 2.16 illustrates a roadmap for an organization to follow as it makes the transition from its current state to its desired future outsourcing state.

Outsourcing Process Improvement Flow - In order to develop and/or improve a governance process (business or Outsourcing), an organization must assess its current & future outsourcing state and develop a plan to transform to a higher level of outsourcing effectiveness.

(Define Future State of IT Governance and Components including Assumptions – This is an interative process)	**Where do we want to be?** ┄┄ **Vision and business objectives**	• Imperatives (must do's) • Strategies & Actions
(Assess Current State of outsourcing using a leading Best Practice Framework like CMMI or equivalent)	**Where are we now?** ┄┄ **Assessments**	• SWOT Analysis (Strengths, Weaknesses. Opportunities & Threats) • Caps • Core Competencies
(Develop & Implement Strategies and Actions For Transformation from Current to Future State)	**How do we get where we want to be?** ┄┄ **Process change**	• Adopt best practices & industry models • Executive Champion • Project Management • Deliverables • Technology enablers/on-ramps
(Performance Management – Monitor, measure progress & take action)	**How do we know we have arrived?** ┄┄ **Metrics**	• Balanced Scorecard

Figure 2.16 Outsourcing – Current and Future State Transformation Process Flow

Steps in making outsourcing real

Outsourcing represents a journey towards continuous improvement and greater effectiveness. The journey is difficult, but can be facilitated by the following steps:

- **Gather Support and Resources:**
  - Must have a corporate mandate from the top - the Board and the executive team are committed to implementing and sustaining a robust outsourcing environment.
  - Must have dedicated and available resources - identify executive champion and multi-disciplinary team (to focus on each outsourcing opportunity).
  - Have realistic expectations as to savings and performance improvements. Build in the risk side as well. Do not over-sell – sourcing is not a 'magic bullet'.
  - Market and communicate the sourcing "value proposition" and celebrate wins.
- Do Homework:
  - Educate yourself on past, current and emerging sourcing best practices
  - Make sure the issues within the scope of sourcing engagement are clear to the leadership team. Sometimes the truth hurts. Is the environment is a mess and that fact is not clear? Sourcing will in many cases make it very clear – very fast.
  - Market the outsourcing value propositions and benefits to the organization - develop and conduct a communications, awareness and public relations campaign.

- Follow A Plan :
  - Develop a tailored outsourcing framework and roadmap for your organization based on current and emerging industry best practices.
  - Assess the "current state" of the level of outsourcing maturity, or other frameworks that relate to specific outsourcing components such as project management, provider management, (performance management (balanced scorecard) and others as a reference base (Where are we today?), using a leading industry best practice framework such as CMMI or ITSqc or another framework that may apply to a specific component of outsourcing. Develop a "future state" outsourcing blueprint (where you want to be) and keep it in focus.
  - Decompose the outsourcing components into well defined work packages (assign an owner and champion to each process component).
- Make the Process Visible:
  - Develop an outsourcing action plan, identify deliverables, establish priorities, milestones, allocate resources and measure progress.
  - Sponsor organizational and individual certifications in the outsourcing component areas, where they are available (e.g. PMP, COP, ITSqc, PRINCE II, etc.)
  - Identify enabling technologies to support the outsourcing initiative.
  - Establish a "Web Portal" to access outsourcing policies, processes, information, and communications and provide support.
  - Market and communicate the sourcing "value proposition" and celebrate wins.
  - Plan for and sustain outsourcing process improvements and link to a reward and incentive structure. Create a "Continuous Outsourcing Improvement" group to sustain the framework.

• **Develop a Plan and Build a Business Case**
 – Baseline model
 – Requirements & scope
 – Costs (realistic)/savings
 – Contingency Plan
 – Assumptions/Constraint
 – Obstacles
 – Metrics ñ OLAs, SLAs, Cost, Schedule, Other
• **Go/No-Go**
 – Communicate decision to stakeholders
• **RFP**
 – Preparation
 – Narrow the field - RFI, RFQ
 – Invitation to Vendors
  - Vendor briefings
  - Site visits
  - Vendor proposals
• **Evaluation & Selection**
 – Multidisciplinary team
 – Qualitative & quantitative evaluation criteria
 – Cultural match/bench strength
 – Due Diligence
 – Final selection
	• **Contract Negotiation/Signing**
	 – It takes two to tango
	 – Contract types
	  - Fixed price (well defined)
	  - Time & material (not well defined)
	  - Cost & fixed fee
	  - Cost & variable fee
	  - Unit price contract
	 – Terms & Conditions
	 – Change and Risk Management
	 – Governance, Metrics and Escalation
	 – Contingency and Disaster Recovery Options
	 – Disengagement Options & Responsibilities
	  - Triggers and Conditions
	  - Ownership
	  - Transition Roles/Responsibilities
	• **Transition Management, Contract Management & Performance Monitoring**
	 – Transition Planning, Roles, Pilot, Training & Readiness Validation
	 – Assure compliance with project or service objectives, scope, schedule, & deliverables
	 – Measure and evaluate delivered work
	 – Vendor governance and reporting
	 – Integrate vendor tasks and deliverables into Project Plan
	 – Assign Senior Manager/Director/VP to manage vendor relationship with ìcloutî

Figure 2.17 Summary Checklist for Managing Successful Outsourcing Deals: from Plans to Deals

Figure 2.17 provided a summary checklist of managing successful outsourcing initiatives from planning to deal making.

2.7   Case study – major financial services organization

A number of outsourcing case studies are included in the book, representing mid-size to large global organizations in a variety of industries including consumer products, manufacturing, financial services, pharmaceuticals, entertainment, telecommunications and diversified industries. The identities of the organizations have been kept confidential. The data for each of the case studies was collected through primary and secondary research through interviews with executives, managers and professionals as well as a review of appropriate plans, budgets, metrics, controls and processes and has been anonymized to protect the identity of the participating organizations.

The format of the case studies is consistent with Figure 2.18, which represents an outsourcing case study for a major financial services organization.

Environment	Areas of Outsourcing and Opportunities

• Annual Revenue Range –$ 60 - 120 Billion
• Number of Employees Range– 70,000 - 100,000
• Number of Major Divisions – 3-6 with operations in over 100 Countries
• Sourcing Structure:
  – Decentralized/With Centralized shared services
  – Number of Employees - 500+
  – Head of Sourcing : Chief Procurement Officer
  – (CPO) – Reports into CXO of Operations and Systems (into which business unit heads and shared services report) including IT
  – There are 2 primary sourcing organizations, one for IT and one for all other functions
• Management Philosophy – Opportunistic
	• First outsourcing contract issued in mid -1990's for IT software maintenance. Results after two years :
	  – SLA's poorly written at best and were not being met
	  – Business user lost faith in IT Department
	  – Business users started to develop their own systems with their own consultants. This caused lots of problems.
	• In early 2000's , a more formal sourcing policy and process was developed as a pilot in one division pursuing a multi-vendor strategy:
	  – IT (5+ Vendors – On and Off Shore, including Captives)
	  – Call Centers – (3-4 Vendors - On – Off Shore and Captives)
	• Pilot Division Experience was successful and is being n migrated to other divisions.

Issues, Challenges and Drivers
• Drivers
  – Cost Reduction, Containment and Avoidance
  – Focus on non-core activities for sourcing
  – Access to innovation and thought leadership
  – Access to best practice processes
• Issues
  – Initially, business culture averse to sourcing but resistance has reduced over time (for staff augmentation)
  – Risk of strategic disruption of service mitigated by multi-vendor sourcing strategy
• Challenges/Obstacles
  – Best sourcing approach is more complex for multi-vendor management. It took over 5 years to optimize , after several false starts.
  – Difficult to share and adopt global best practices for sourcing in a large decentralized organization
  – Reduce dependence on a single sourcing vendor (Initial bad experience)
	Approach
	• A structured sourcing approach has been institutionalized including the following components:
	  – Master Service Agreements (MSAs) Individual
	  – Statement of Work (SOW) – (To cover specific work)
	  – Service Level Agreements (SLA's) for fixed price work
	  – Vendor selection end-to-end proposal and selection process (for one business unit)
	  – Change Management
	  – Fixed rate tables (hourly labor rates) and job descriptions for off-shore vendors and their workers

Vendor Characteristics	Results – Transition

• Number of Vendors – 5+ IT ; (e.g. Hardware, Software, Network Service, etc) ; 3-6 BPO and Back Office (e.g. documentation, call center, etc)
• Types of Contracts – Managed Services, Staff Augmentation and Fixed Price
• Duration of Contracts – 3 to 5 years with renewable clauses
• Type of Work Being Outsourced (IT, Call Centers, Document Management, Date Entry, Technical Business Functions ,etc.)
• Key Preferred Vendor Selection Criteria:
  – Price, Performance, Domain Experience, Geographic Capabilities, Reputation, Risk Assessment (E.g. Country, Financial, Execution, Customer, Organizational, Regulatory, Political, etc) and others
	• Pre and post transition checklists used
	• Do's – Define roles and responsibilities of Client and Vendor teams; monitor schedule and results closely; spend time on documentation and training.
	• Post-Transition Reviews
	• Transition Service Concerns
	  – Loss of control over process
	  – Loss of in-house expertise
	  – Risk of strategic disruption of service
	  – Privacy and Compliance

Results – The Deal(s)	**Results – Governance, Performance and Key Metrics**

• Executive Sponsorship – Varies by Business Unit and/or function (Business unit or Corporate Staff function); CPO signs off on deal)
• Type of Work sourced - Staff Augmentation; Project; BPO
• Duration of Deals – Varies - 2 to 5 years
• Multiple Vendors Strategy – Best shore strategy based on multiple preferred vendor list
• Communicating the Deal - Limited
• People Impacted and Treatment - Reasonable
• Value of Deal - Low to multi million $
• Approximate average ROI for Deals – Target 20+ %
	• Governance Process in place
	• Key Metrics used which are dependent on deal
	• Escalation Process – Vendor and Client roles defined in contract
	• Reward/Penalties – defined in contract
	  – Remedy for failure to meet obligations
	  – Reward for exceeding targets
	  – Both parties must have a stake in success
	• Monthly key metrics are distributed to key constituents
	• Monthly performance reviews conducted between client and vendors

Results – Future of Sourcing	**Critical Success Factors**
• Non-core functions, processes and technology will continue to be sourced as long as they are cost justified	• SLA's and the contract are not enough – Need solid relationship management interface and environment • Experience matters • Stakeholders must be both included and committed • Balance of experienced people, flexible process and enabling technologies are important for success on both sides • Customer wanted access to use vendors best practices and processes to improve effectiveness
Lessons Learned	
• Vendor must be (or become) a trusted partner • Vendor must have process, functional and/or industry expertise • Level of customer service provided by Vendor should be equivalent to that or better than provided in house • Seek cultural synergy	

Figure 2.18 Case Study - Major Financial Services Organization

2.8   Summary and key lessons

Summary

Outsourcing is a broad and complex topic with many parts. Outsourcing represents a journey. It is not a onetime event. Outsourcing should be persistently pursued both from a top down and a bottom up perspective as long as it creates value. Creating and sustaining a more effective outsourcing environment will take time and resources and the organization should be focused on

achieving incremental outsourcing successes in priority areas based on their value proposition or reduction of major "pressure points" to the organization.

It is critical to break down or segment the outsourcing initiative into manageable, assignable and measurable components or work packages (as in a work breakdown structure) with targeted deliverables as illustrated in the outsourcing life cycle roadmap. It is important to define clear roles for the board, executive management and the outsourcing project team, including ownership and accountability for each component and the overall initiative.

Outsourcing requires three critical pillars to succeed: leadership, organization and people, scalable and flexible processes and enabling technologies.

Key lessons

The approach to outsourcing must be consistent, but yet scalable and tailored to each organization's environment and management style, level of maturity, audit/legal requirements, available resources and cultural readiness. Remember, sourcing represents a journey and if an organization is undertaking sourcing, it needs to do it right – with clear goals and objectives, as a part of the strategic plan with proper managerial leadership, commitment and sufficient resources.

"Customers are now adopting more disciplined approaches to the evaluation, selection, management and governance of outsourcing opportunities. The better the provider can understand the customer's process, the more successful the provider will be."

The Advisory Council, 2009

Contract Date: Any date specified in the contract or imposed on any project activity or event that impacts the activity/project schedule.

Contract Price/Contract Target Price: The total value, including fee, for the contract.

Contract: A contract is a mutually binding agreement, which obligates the seller to provide the specified product, and obligates the buyer to pay for it. Contracts generally fall into one of three broad categories: Fixed price or lump sum contracts—this category of contract involves a fixed total price for a well-defined product. Fixed price contracts may also include incentives for meeting or exceeding selected project objectives such as schedule targets. Cost reimbursable contracts—this category of contract involves payment (reimbursement) to the contractor for its actual costs. Costs are usually classed as direct costs (costs incurred directly by the project, such as wages for members of the project team) and indirect costs (costs allocated to the project by the performing organization as a cost of doing business, such as salaries for corporate executives). Indirect costs are usually calculated as a percentage of direct costs. Cost reimbursable contracts often include incentives for meeting or exceeding selected project objectives such as schedule targets or total cost. Unit price contracts—the contractor is paid a preset amount per unit of service (e.g., $100 per hour for professional services or $2.00 per cubic yard of earth removed) and the total value of the contract is a function of the quantities needed to complete the work.

Control Charts: Control charts are a graphic display of the results, over time and against established control limits, of a process. They are used to determine if the process is `in control" or in need of adjustment.

Control: The process of comparing actual performance with planned performance, analyzing variances, evaluating possible alternatives, analyzing issues and taking appropriate corrective action as needed.

COP: Certified Outsourcing Professional. This is an individual certification issued by the international association of outsourcing professionals.

Core Competencies: The unique internal skills and knowledge sets that define an organization's competitive advantage and strengths.

Corrective Action Log: A log established to monitor action items and corrective actions.

Corrective Action: Changes made to bring expected future performance of the project into line with the plan.

Cost Benefit Analysis: Evaluation of the estimated cost to achieve project objectives against the value (benefits) of the project or phase. Uses selected project investment choices using one time and recurring costs and benefits. Various financial measures may be used such as Net Present Value (NPV), Return on Investment (ROI), Payback Period and others.

Cost Budgeting: Allocating the cost estimates to individual project elements or tasks.

Cost Control: Controlling changes to the project budget.

Cost effectiveness: Ensuring that there is a proper balance between the quality of service on the one side and expenditure on the other. Any investment that increases the costs of providing IT services should always result in enhancement to service quality or quantity.

Cost Estimate: An evaluation of all costs of the elements of a project or effort as defined by an agreed-upon scope.

Cost Estimating: Estimating the cost of the resources needed to complete project activities.

Cost Management: All the procedures, tasks and deliverables that are needed to fulfill an organization's costing and charging requirements.

Cost of Money: Capital cost of money (cost of capital) is an imputed cost determined by applying cost-of-money rate to capital employed in contract performance. Capital employed is determined without regard to whether its source is equity or borrowed capital.

Cost of Quality: The costs incurred to ensure quality. The cost of quality includes quality planning, quality control, quality assurance, and rework.

Cost Plus Fixed Fee (CPFF) Contract: A type of contract where the buyer reimburses the seller for the allowable costs (allowable costs are defined by the contract) plus a fixed amount of profit (fee).

Cost Plus Incentive Fee (CPIF) Contract: A type of contract where the buyer reimburses the seller for the seller's allowable costs (allowable costs are defined by the contract), and the seller earns its profit if it meets defined performance criteria.

Cost Proposal: An all-inclusive statement of work effort and associated cost factors, which includes, but is not limited to equipment and human resources, software development, training, etc.

Cost Sharing: On a cost plus incentive fee (CPIF) type contract, a clause is included which defines a share ratio for cost over/underruns which normally is 80/20%. That is, the customer will reimburse the contractor 80% of the total overrun (100% of the - overrun, less 20% of the overrun amount, from the fee) on underrun the contractor receives an additional 20% of the underrun amount as incentive fee.

Cost: Cost is a measurement, in monetary terms, of the amount of resources used for some purpose.

Countermeasure: A check or restraint on the service designed to enhance security by reducing the risk of an attack (by reducing either the threat or the vulnerability), reducing the Impact of an attack, detecting the occurrence of an attack and/or assisting in the recovery from an attack.

CPM: Critical Path Method

Critical Path Method (CPM): A network analysis technique used to predict project duration by analyzing which sequence of activities or tasks (which path) has the least amount of scheduling flexibility (the least amount of float). Early dates are calculated by means of a forward pass using a specified start date. Late dates are calculated by means of a backward pass starting from a specified completion date (usually the forward pass's calculated project early finish date).

Critical Path: In a project network diagram, the series of activities (tasks) which determines the earliest completion of the project. The critical path will generally change from time to time as activities are completed ahead of or behind schedule. Although normally calculated for the entire project, the critical path can also be determined for a milestone or a subproject. The critical path is usually defined as those activities with float equal to zero. See critical path method.

Critical versus Core: Many operations are critical to a business's operations but do not represent a differentiating competitive capability; that is, they are not core competencies. A classic example is payroll. Processing payroll accurately and timely is critical to the success of any organization, but is a core competency of very few organizations – mainly those that provide this service to other companies as their business.

Customer Reporting Level: The lowest level of the Work Breakdown Structure at which performance data is reported to the customer.

Customer: The recipient and/or ultimate owner of the deliverable produced as a result of an agreement.

CV: Cost Variance

D:

Data Management: The function of organizing, cataloging, structuring, locating, storing, maintaining, retrieving, securing, and recovering data, including the processes of data modeling, data mining, data warehousing and data base administration.

Deadline: A date by which a project, activity and/or task must be finished.

Definitive Software Library (DSL): The library in which the definitive authorized versions of all software CIs are stored and protected. It is a physical library or storage repository where master copies of software versions are placed. They should be separate from development and test filestore areas. The DSL may also include a physical store to hold master copies of bought-in software, e.g. fire-proof safe. Only authorized software should be accepted into the DSL, strictly controlled by Change and Release Management. The DSL exists not directly because of the needs of the Configuration Management process, but as a common base for the Release Management and Configuration Management processes.

Deliverable: Any measurable, tangible, verifiable outcome, result, or item that must be produced to complete a project or part of a project.

Dependency: See logical relationship.

Depreciation: The loss in value of an asset due to its use and/or the passage of time. The annual depreciation charge in accounts represents the amount of capital assets used up in the accounting period. It is charged in the cost accounts to ensure that the cost of capital equipment is reflected in the unit costs of the services provided using the equipment. There are various methods of calculating depreciation.

Detail Schedule: Lowest-level method of scheduling and determining status of a work package that is contained in the Cost Account Plan or budget.

Deviation: A departure from established requirements. A deviation in the work product may be classified as an imperfection, nonconformance, or defect, based on its severity in failing to meet or unnecessarily exceed the requirements.

Direct Costs: Any cost which can be identified specifically with a particular final cost objective. It consists of those costs (labor, material, etc.), that can be directly charged to the contract or product or service without distribution to an overhead unit.

Direct Labor: Any labor cost that can be specifically identified with a particular final contract objective. It consists of labor that can be directly charged to the contract or project without distribution to an overhead unit. It excludes materials, as well as overhead costs, and cost of money.

Disaster Recovery Planning: A series of processes that focus only upon the recovery processes, principally in response to physical disasters that are contained within Business Continuity Plan.

Disaster Recovery: The process of executing a definitive plan for recovery from any act natural or man-made that caused the system, product or facility to fail.

Discounted Cash Flow: An evaluation of the future net cash flows generated by a project by discounting them to their present-day value.

Division/Department: A group with a common operational orientation, such as Technical, Operations, Quality Assurance, Finance or a Strategic Business Unit.

Duration (DU): The number of work periods (not including holidays or other nonworking periods) required to complete an activity or other project element. Usually expressed as workdays or workweeks. Sometimes incorrectly equated with elapsed time. See also effort

E:

Effort: The number of labor units required to complete an activity or other project element. Usually expressed as staff hours, staff days, or staff weeks. Should not be confused with duration.

Eighty-Hour rule: All project work should be decomposed into 80-hour periods (two weeks) when deliverables should be produced and formal project status reviews should be held. No magic to the rule. It creates discipline, and incremental deliverables - can be shorter, but should not be any longer.

End item: The final product or service when completed and ready for release.

Engagement Model (EM): Used to develop better relationships between customers & IT built on trust, open communications, credibility, knowledge and understanding of each other's environments. The IT Engagement Manager is the interface between the customer & the IT organization.

eSCM®: The eSourcing capability models developed by the IT Services Qualification Center (ITsqc) at Carnegie Mellon University to improve sourcing relationships in the internet-enabled economy. ITsqc developed the eSourcing capability models for both service providers (eSCM-SP) and for client organizations (eSCM-CL).

eSourcing Capability Model for Service Providers (eSCM-SP): A framework to help IT Service Providers develop their IT Service Management Capabilities from a Service Sourcing perspective. eSCM-SP was developed by Carnegie Mellon University.

eSourcing Model for Client Organizations (eSCM-CL): A framework to help organizations guide their analysis and decisions on sourcing models and strategies. eSCML-CL was developed by Carnegie Mellon University.

E-Sourcing: Internet-based outsourcing that takes advantage of the application service provider (ASP) delivery model. See ASP

Estimate: An assessment of the likely quantitative result. Usually applied to project costs and durations and should always include some indication of accuracy (e.g., ± x percent). Usually used with a modifier (e.g., preliminary, conceptual, feasibility). Some application areas have specific modifiers that imply particular accuracy ranges (e.g., order-of-magnitude estimate, budget estimate, and definitive estimate (in engineering and construction projects). Estimating should become more accurate with each project phase and with more experience.

Exception Report: Document that includes only major variations from plan (rather than all variations).

F:

Family Tree: Hierarchical product, process or functional structure.

Fast Tracking: Compressing the project processes (schedule) by overlapping activities (tasks) that would normally be done in sequence, such as design and construction and using iterative life cycle methodologies to frequently validate the results with the sponsor or customer.

Fee: The charge for the use of one's services to the extent specified in the contract.

Financial Management of IT Services: One of the ITIL processes that addresses the budgeting, costs, benefits and charging methods for IT services.

Firm Fixed Price (FFP) Contract: A type of contract where the buyer pays the seller a set amount (as defined by the contract) regardless of the seller's costs.

Fiscal Year: The grouping of twelve accounting months.

Fixed Price Contract: See firm fixed price contract.

Fixed Price Incentive Fee (FPIF) Contract: A type of contract where the buyer pays the seller a set amount (as defined by the contract), and the seller can earn an additional amount if it meets defined performance criteria.

Forward Pass: The calculation of the early start and early finish dates for the unstarted portions of all network activities. See also network analysis and backward pass.

Forward Pricing Rates: The progressively escalated rates used to develop an escalated estimate. See Forward Pricing.

Forward Pricing: Use of progressively escalated rates to develop an escalated estimate. (Contrasted with "constant dollar pricing" which uses a single unescalated set of rates to develop an unescalated estimate.)

FPIF: Fixed Price Incentive Fee

Full cost: The total cost of all the resources used in supplying a service i.e. the sum of the direct costs of producing the output, a proportional share of overhead costs and any selling and distribution expenses. Both cash costs and non-cash costs should be included, including the cost of capital.

Full Risk Mitigation PM Process: Also known as classical or traditional program or project management, where the PM process is followed and no compression or short cuts are taken (see fast tracking)

Functional Manager: A manager responsible for activities in a specialized department or function (e.g., engineering, manufacturing, marketing). See Division/Department.

Functional organization: An organization structure in which staff are grouped hierarchically by specialty (e.g., production, marketing, engineering, and accounting at the top level; with engineering, further divided into mechanical, electrical and others).

Functional Process Outsourcing: A company's business processes end at its true customers, the people paying the bills. There are, however, many internal processes that exist to support people within the company and are often performed within a single department. Human resources, finance and accounting, travel, and facilities services are examples. When these functional processes are outsourced, along with the supporting technologies and supply chains that feed into them, it is referred to as functional process outsourcing.

Funding: Funding represents the actual dollars available for expenditure in the accomplishment of contract effort. Funds are normally issued by the customer on a fiscal year or annual basis. Actual release of funds is frequently on an incremental basis within the year. The planning of work and the time-phasing of baselines for a given period must be consistent with the known available funding.

Funds: The sum of money authorized for a specific project or contract. Funds or funding refers to the transactions of real money, which is accounted for in expenditure and commitment reports.

G:

Gain-sharing: A contract structure where both the customer and provider share financially in the value created through the relationship. One example is when a service provider receives a share of the savings it generates for its client.

Gantt Chart: See bar chart

Governance: The oversight and accountability of all aspects of a business, a function like IT or a project. It also defines rules, responsibilities and decision authority of the board, executive management team and others in an organization. Areas of focus include: strategic management, investment management, project management, business/IT alignment, regulatory compliance, performance management, operational management, risk management, ethics and integrity and others.

Graphical Evaluation and Review Technique (GERT): A network analysis technique that allows for conditional and probabilistic treatment of logical relationships (i.e., some activities may not be performed).

H:

Hardware/Software Evaluation: Assessment of compatibility between existing or required hardware and new application (or operating systems or database) software that will operate in the environment.

Hierarchy: An outline structure. Any group of tasks with indented levels of detail.

Histogram: A graphic representation of resource availability and utilization levels. A histogram represents these levels by means of a series of rectangular bars above a time scale, with different sizes representing different levels.

Hybrid SDLC: Refers to a systems/software development life cycle process that combines waterfall (sequential) and spiral (iterative) methodologies. See also waterfall and spiral.

I:

IFB: Invitation For Bid (similar to RFI and RFP)

Impact analysis: The identification of critical business processes, and the potential damage or loss that may be caused to the organization resulting from a disruption to those processes.

Indirect Costs: Costs that because of their incurrence for common or joint objectives, are not readily assignable to a particular contract or deliverable item. Therefore, indirect costs are allocated to the products/contracts involved on some consistent basis, which is in general accord with the extent to which each product/contract has benefited from the objective for which the costs were incurred.

Information Distribution: Making needed information available to project stakeholders in a timely manner.

Information Planning: Long and short-range goal setting and action planning with respect to a client firm's information technology activities, strategy formulation.

Initiation: Committing the organization to begin a project phase and should include such components as project charter, objectives, needs, deliverables, authorization, etc.).

Intermediate Recovery: Previously called 'Warm stand-by', typically involves the re-establishment of the critical systems and services within a 24 to 72 hour period, and is used by organizations that need to recover IT facilities within a predetermined time to prevent impacts to the business process.

International Organization for Standardization (ISO): The International Organization for Standardization (ISO) is the world's largest developer of Standards. ISO is a non-governmental organization which is a network of the national standards institutes of 156 countries. Further information about ISO is available from http://www.iso.org/

Inventory: Raw materials, work in process, and finished products required for plant operation or the value of such material and other supplies.

Invitation for Bid (IFB): Generally, this term is equivalent to request for proposal (RRP). However, in some application areas, it may have a narrower or more specific meaning.

Ishikawa Diagram: A technique that helps a team to identify all the possible causes of a problem. Originally devised by Kaoru Ishikawa, the output of this technique is a diagram that looks like a fishbone.

ISO 17799: Information Security Standard

ISO 20000: ISO Specification and Code of Practice for IT Service Management. ISO/IEC 20000 is aligned with ITIL Best Practice.

ISO 27001: ISO Specification for Information Security Management. The corresponding Code of Practice is ISO 17799.

ISO 9000: A generic term that refers to a number of international Standards and Guidelines for Quality Management Systems. See http://www.iso.org/ for more information. See ISO.

ISO 9001: The internationally accepted set of standards concerning quality management systems.

Issue: A problem (or opportunity) that should be resolved to continue progress on a task, activity or project. The number of open issues on a project should be kept to a minimum.

IT Service Continuity Management: This process addresses the preparation and planning of disaster recovery measures for IT services in the event of a business interruption. It emphasizes the links with all the measures necessary to safeguard the continuity of the customer organization in the event of a disaster (Business Continuity Management) as well as the measures to prevent such disasters. An ITIL process.

IT Service Management (ITSM): The implementation and management of Quality IT Services that meet the needs of the Business. IT Service Management is performed by IT Service Providers through an appropriate mix of people, process and information technology.

IT Service Management Forum (itSMF): The IT Service Management Forum is an independent organization dedicated to promoting a professional approach to IT Service Management. The itSMF and its membership contribute to the development of ITIL and associated IT Service Management Standards. See http://www.itsmf.com/ for more information

Iterative SDLC: Refers to a systems/software life cycle methodology that has frequent validations by the customer and other project constituencies as the system is built to ensure frequent corrections or adjustments to the scope, requirements and in-process system development efforts. See also Spiral SDLC.

ITIL(IT Infrastructure Library): A set of best practice guidance for IT Service Management. ITIL is owned by the OGC and consists of a series of publications giving guidance on the provision of Quality IT Services, and on the processes and facilities needed to support them. ITIL focuses on operational or infrastructure IT services. It consists of twelve IT Service Management and Delivery Processes. (Incident Management, Problem Management, Configuration Management, etc.). ITIL is being revised to a more IT Service Life Cycle process approach. See http://www.itil.co.uk/ for more information.

J:

K:

Key Performance Indicators (KPIs): The metrics used by management to assess the performance of an organization, function, process, individuals and/or teams.

L:

Level of Detail: A policy or expression of content of plans, schedules, and reports in accordance with the scale of the breakdown of information.

Level of Effort (LOE): Support-type activity (e.g., provider or customer liaison) that does not readily lend itself to measurement of discreet accomplishment. It is generally characterized by a uniform rate of activity over a specific period of time.

Leveling: See resource leveling.

LF: Late Finish Date
Life-cycle Costing: The concept of including acquisition, operating, and disposal costs when evaluating various alternatives.
Lifecycle: A series of states, connected by allowable transitions. The lifecycle represents an approval process for systems or infrastructure phases with going to gates.
Line Manager: (1) The manager of any group that actually makes a product or performs a service. (2) A functional manager.
LOE: Level Of Effort
Logical Relationship: A dependency between two project activities (tasks), or between a project activity and a milestone. See also precedence relationship. The four possible types of logical relationships are Finish-to-finish: the" "from" activity must finish before the "to" activity can finish. Start-to start: the "from" activity must start before the "to" activity can start. Start-to-finish: the "from" activity must start before the "to" activity can finish. Finish-to-start: the predecessor activity must finish before the successor activity can start.
Loop: A network path that passes the same node twice. Loops cannot be analyzed using traditional network analysis techniques such as CPM and PERT. Loops are allowed in GERT.
LS: Late Start Date
M:
Maintenance: Post-delivery modification of a software/hardware product to correct faults, to improve performance or other attributes, or to adapt the product to a changed environment.
Make versus Buy: Outsourcing is often referred to as a 'make versus buy' decision on the part of the customer. The question is, "Is it in the organization's best interests to continue to (or start to) perform the activity itself using its own people, process expertise, and technology or to 'buy' the activity from the service provider marketplace?"
Management Control Systems: The systems (e.g. planning, scheduling, budgeting, estimating, work authorization, cost accumulation, performance measurement, etc.) used by customers and contractors to plan and control the cost and scheduling of work.
Management Reserve Budget: An amount of the total allocated budget withheld for management control purposes, rather than designated for the accomplishment of a specific task or set of tasks.
Management Reserve: A separately planned quantity used to allow for future situations, which are impossible to predict (sometimes called "unknown unknowns"). Management reserves may involve cost or schedule. Management reserves are intended to reduce the risk of missing cost or schedule objectives. Use of management reserve requires a change to the project's cost baseline.
Man-Month: The equivalent number of hours worked in a month by one person working standard time, taking into consideration the average labor loss factors.
Market-Driven Sourcing: A market-driven approach to sourcing means that the organization's sourcing decisions are in direct response to the capabilities of the marketplace of available providers. Where the organization's internal capabilities are superior to the marketplace of providers, the activity is performed internally; where they are not, the activity is performed externally.
Master Schedule: A summary-level schedule which identifies the major activities and key milestones. See also milestone schedule.
Material Requirements Planning (MRP): A system which uses bills of material, inventory and open order data, and master production schedule information to calculate requirements for materials. It makes recommendations to release replenishment orders for material. Further, since it is time-phased, it makes recommendations to reschedule. Open orders when due dates and need dates are not in phase.
Material: All direct costs excluding labor and other direct costs (ODC). It consists of materials (including spares) and subcontract effort.

Matrix Organization: Any organizational structure in which the project manager shares responsibility with the functional managers for assigning priorities and for directing the work of individuals assigned to the project.

Maturity Model: The degree to which an organization improves its level of effectiveness and efficiency based on an industry framework such as SEI's CMMI (Capability Maturity Model Integrated).

Measurement: The act or process of measuring to compare results to requirements. A quantitative estimate of performance. See Key Performance Indicators (KPIs)

Metrics: Specific quantitative measures that help in monitoring and controlling the progress of a program or project (e.g. CPI, SPI, budget/actual cost and schedule variances, number of open issues, status of tasks on critical path, etc.) or service (service level) or function.

Milestone Schedule: A summary-level schedule which identifies the major milestones. See also master schedule.

Mitigation: Taking steps to lessen risk by lowering the probability of a risk event's occurrence or reducing its effect should it occur.

Modern Project Management (MPM): A term used to distinguish the current broad range of project management (scope, cost, time, quality, risk, customer satisfaction, etc.) components.

Monitoring: The collection, analysis, and reporting of project performance, usually as compared to plan through the use of metrics.

Monte Carlo Analysis: A schedule risk assessment technique that performs a project simulation many times in order to calculate a distribution of likely results.

N:

Network Diagram: A schematic display of activities and logical relationships of activities/tasks that comprise the project. Two popular drawing methods for scheduling are "arrow" and "precedence" diagramming methods.

O:

Objective: A predetermined result; the end toward which effort is directed.

OBS: Organization Breakdown Structure.

Offshore Outsourcing: The outsourcing of any operation, be it information technology, a business process, or manufacturing, to a firm whose principal base of operation is outside the country. Terms such as near-shore outsourcing or close-shore outsourcing are also used to indicate that while still outside the country, there is a closer proximity between the customer organization's primary operations and that of the provider. For example, for a U.S. company, Canada might be considered near-shore while India is offshore.

Offshoring: Performing or sourcing any part of an organization's activities at or from a location outside the company's home country. Companies create captive centers offshore, where the employees work for them, or outsource offshore, where the employees work for the outsourcing provider.

OLA (Operational Level Agreement): An internal agreement covering the delivery of services which support the IT organisation in their delivery of services.

OPBOK: The Outsourcing Professional Body of Knowledge (OPBOK) was developed by the international association of outsourcing professional as a framework for understanding what outsourcing is and how it fits within contemporary business operations.

Operating Plan: The organized collection of short-range (1 year or less) objectives and initiatives that provide direction for an organization.

Operational Costs: Those costs resulting from the day-to-day running of the IT Services section, e.g. staff costs, hardware maintenance and electricity, and relating to repeating payments whose effects can be measured within a short timeframe, usually less than the 12-month financial year.

Operational Planning: Planning concerned with the development of control mechanisms to assure the effective implementation of actions in the strategic or tactical plans. Operational planning provides a basis for the measurement of actual performance relative to the plan and usually has a planning horizon for one year or less.

Opportunity Cost: The value of a benefit sacrificed in favor of an alternative course of action. That is the cost of using resources in a particular operation expressed in terms of foregoing the benefit that could be derived from the best alternative use of those resources.

Order of Magnitude Estimate: See estimate.

Organizational Breakdown Structure (OBS): A depiction of the project organization arranged so as to relate work packages to organizational units, i.e. Division/Department.

Organizational Planning: Identifying, documenting, and assigning project roles, responsibilities, and reporting relationships.

Organizing: The process of defining certain parameters by which a project can be effectively administered.

Original Budget: The budget established at, or near, the time the contract or project authorization was signed and based on the negotiated contract cost.

Outline: The organization of tasks into related task groups or sub-projects. An outline illustrates a hierarchy by indenting successively lower levels of detail.

Outputs: Materials or information provided to others (internal or external customers).

Outsourcing at the Customer Interface: Outsourcing where a provider assumes responsibility for direct interaction with an organization's customers. This interaction may be in person, over the telephone, via email, mail, or any other direct means.

Outsourcing Framework: The outsourcing framework is a structure for mapping all of the activities of an organization in a way that allows consistent evaluation, planning, implementation, and management of sourcing decisions.

Outsourcing Process Maturity: Use an industry best practice framework (such as CMMI) to analyze current and target state maturity levels for outsourcing

Outsourcing Process: A repeatable, multistage, management process for identifying outsourcing opportunities and moving those opportunities from concept though implementation and ongoing management.

Outsourcing Teams: Multi-disciplinary working groups that form for specific purposes throughout the outsourcing process.

Outsourcing: A long-term, results-oriented relationship with an external service provider for activities traditionally performed within the company. Outsourcing usually applies to a business or IT process or function. It assumes a degree of managerial control and risk on the part of the provider and buyer.

Overall Change Control: Coordinating changes across the entire project.

Overhead (OH): Costs, which because of their incurrence for common or joint objectives, are not subject. readily to treatment as direct costs (e.g. Maintenance).

Overhead Costs: Overhead costs are a specific category of indirect costs.

Overhead Pool: Grouping of incurred cost identified with two or more cost objectives but not identified specifically with a final cost objective. The cost within each pool has similar beneficial or causal relationships to cost objectives.

Overlap: See lead.

Overrun (Underrun): The value for the work performed to date minus the actual cost for that same work. When value exceeds actual cost, an underrun exists, When actual cost exceeds value, an overrun condition exists. See earned value.

P:
Parametric Estimating: An estimating technique that uses a statistical relationship between historical data and other variables (e.g., square footage in construction, lines of code in software development) to calculate an estimate.
Pareto Diagram: A histogram, ordered by frequency of occurrence, that shows how many results were generated by each identified cause.
Percent Complete (PC): An estimate, expressed as a percent, of the amount of work which has been completed on an activity or group of activities (tasks).
Performance Measurement Baseline (PMB): The time-phased baseline plan against which contract or project performance is measured. It is formed by the baselines assigned to schedules work and the applicable indirect baseline. For future effort, the performance measurement baseline also includes undistributed baselines. It equals the Total Contract baseline less Authorized Undefined Work 9committed, but not incurred or used yet)
Performance Measurement: The methods for measuring accomplishment on work package task(s), scheduled in accordance with achievement of higher level schedules.
Performance Reporting: Collecting and disseminating information about project performance to help ensure project progress.
Performance: The term performance is used as an attribute of the work product itself and as a general characteristic. The broad performance characteristics that are of interest to management are quality (effectiveness), cost (efficiency), and schedule. Performance is the highly effective common measurement that links the quality of the work product to efficiency and productivity.
Performance-Based Pricing: Contractual pricing mechanisms that link compensation to meeting specific performance objectives or outcomes.
Performing Organization: The enterprise whose employees are most directly involved in doing the work of the project.
PERT Chart: A specific type of project network diagram. See Program Evaluation and Review Technique.
PERT: Program Evaluation and Reviewing Technique
PF: Planned Finish Date
Phase: See project phase.
Plan: A predetermined course of action over a specified period of time which represents a projected response to an anticipated environment or condition in order to accomplish a specific set of objectives and actions.
Planning: The determination of an initiative's objectives, scope, requirements and deliverables with identification of the activities/tasks to be performed, processes and resources to be used for accomplishing the tasks, assignment of responsibility and accountability, and establishment of an integrated plan to achieve completion as required. It is also a process to produce a plan (e.g. Business, Project, etc...)
PM: Project or Product Manager
PMB: Performance Measurement Baseline
PMBOK: Project Management Body Of Knowledge - Developed by PMI (Project Management Institute)
PMCS: Program or Project Management and Control System
PMP: Project Management Professional who is certified through PMI (Project Management Institute). It is an individual certification.
Policy: A statement of principles and beliefs, or a settled course, adopted to guide the overall management of affairs in support of a stated aim or goal. It is mostly related to fundamental conduct and usually defines a general framework within which other business and management actions are carried out.

Portfolio Management: Process that ensures that IT investments are evaluated, prioritized, funded and approved in a consistent manner.

Precedence Diagramming Method (PDM): A network diagramming technique in which activities/tasks are represented by boxes (or nodes). Activities are linked by precedence relationships to show the sequence in which the activities are to be performed.

Precedence Relationship: The term used in the precedence diagramming method for a logical relationship. In current usage, however, precedence relationship, logical relationship, and dependency and constraint are widely used interchangeably regardless of the diagramming method in use.

Price: The amount of money asked or given for a product or service (e.g. exchange value).

PRINCE2: The standard UK government method for project management.

Problem Management: Problem Management attempts to identify the underlying cause. Once the causes have been identified (known errors), a business decision is taken whether to make permanent improvements to the infrastructure to prevent new incidents.

Problem/Opportunity Analysis: Evaluation of problems and/or opportunities to determine the feasibility of developing a proposal or authorization for a project.

Problem: A question or situation proposed for solution. The result of not conforming to requirements or, in other words, a potential task resulting from the existence of defects. An unknown underlying cause of one or more incidents.

Process Control: The set of activities employed to detect and remove special causes of variation in order to maintain or restore stability of a process.

Process Enterprise: A process enterprise operates its business as a collection of end-to-end business processes where executive leadership, education, responsibilities, measurement, and reward systems are all oriented to this view of the business's operations. This process orientation is in direct contrast to the traditional hierarchical view of an organization.

Process Improvement: The set of activities employed to detect and remove common causes of variation in order to improve process capability. Process improvement leads to quality improvement.

Process Management: Management approach comprising quality management and process optimization.

Process: A process is also defined as the logical organization of people, materials, energy, equipment, systems, processes and procedures into work activities designed to produce a specified end result (work product). A process is continuous (e.g. processing a sales order).

Procurement Planning: Determining what to procure, when, how, how much and why.

Product Development Life Cycle: The phases of a product's life cycle from concept through maturity and decline. Specific phases or stages include: idea generation and concept development; market research and validation; regulatory check (where appropriate; competitive analysis; develop product concept and prototype; test market; develop product/service; commercialize and launch product and post-launch product support.

Product Management: The dedicated management of a specific product or service to increase its profit contribution from current and potential markets accountable for all phases of the product development life cycle (see product development life cycle)

Product Positioning: The relative positioning of the product in terms of its brand, functions, features, benefits and other criteria in comparison to competitor products.

Product Pricing: The price represents the cost of the product to the customer and revenues and profits to the supplier.

Production Environment: The hardware, software, communication links, and operating systems to be used when a system has been implemented, as determined during the Business Design Phase and established during the Implementation Phase.

Production Planning: The function of setting the overall level of manufacturing or construction output. Its prime purpose is to establish production rates that will achieve management's objective, while usually attempting to keep the production force relatively stable.

Production Support: The process of operating, maintaining, and enhancing a computer or manufacturing system.

Program Evaluation and Review Technique (PERT): An event-oriented network analysis technique used to estimate project duration when there is a high degree of uncertainty with the individual activity duration estimates. PERT applies the critical path method to a weighted average duration estimate. (Also given as Program Evaluation and Review Technique.)

Program Management Office (PMO): Focal point for helping program and project managers to develop and/ or administer the project management processes, tools and techniques. Can also be involved in project governance, reporting, training , project audits and related functions. May also be a Center of Excellence for project management competencies and skills.

Program Management: The management of a related series of projects (or one project) executed over a longer period of time, and which are designed to accomplish broad goals and objectives, to which the individual projects contribute.

Program Manager (PM): The individual who is assigned complete responsibility, authority, and control over all technical and administrative aspects of a program (project). The PM may delegate responsibilities to deputies who report to the PM.

Program: A group of inter-related projects managed in a coordinated way. Programs usually are larger, more complex, higher risk and higher value than projects.

Project Charter: A document authorized by senior management that provides the project manager with the scope, boundary and authority to apply organizational resources to project activities.

Project Communications Management: A subset of project management that includes the process required to ensure proper collection and dissemination of project status information. It consists of communications planning, information distribution, performance reporting, and administrative closure.

Project Cost Management: A subset of project management that includes the processes required to ensure that the project is completed within the approved budget. It consists of resource planning, cost estimating, cost budgeting, and cost control.

Project Human Resource Management: A subset of project management that includes the processes required to ensure that the various people related elements of the project are properly coordinated. It consists of project plan development, project plan execution, and overall change control.

Project Integration Management: A subset of project management that includes the processes required to ensure that the various elements of the project are properly coordinated. It consists of project plan development, project plan execution, and overall change control.

Project Life Cycle: A collection of generally sequential project phases whose name and number are determined by the control needs of the organization or organizations involved in the project (e.g. initiation, planning, executing and terminating).

Project Management (PM): The application of knowledge, skills, tools, and techniques to project activities in order to meet or exceed stakeholder needs and expectations from a project.

Project Management Body of Knowledge (PMBOK): An inclusive term that describes the sum of knowledge within the profession of project management. As with other professions such as law, medicine, and accounting, the body of knowledge rests with - the practitioners and academics that applies and advances It. The PMBOK includes proven, traditional practices, which are widely applied, as well as innovative and advanced ones, which have seen more limited use. Developed by PMI.

Project Management Professional (PMP): An individual certified as such by the Project Management Institute or a company.

Project Management Software: A class of computer applications specifically designed to aid with planning, controlling, reporting project costs, schedules and resources.

Project Management Team: The members of the project team who are directly involved in project management activities. On some smaller projects, the project management team may include virtually all of the project team members.

Project Manager (PM): The individual responsible for managing a project.

Project Network Diagram: Any schematic display of the logical relationships of project activities. Always drawn from left to right to reflect project chronology (however, not scaled to reflect elapsed time). Often incorrectly referred to as "PERT chart."

Project Phase: A collection of logically related project activities (tasks), usually culminating in the completion of a major deliverable.

Project Plan Development: Taking the results of other planning processes and putting them into a consistent, coherent document.

Project Plan Execution: Carrying out the project plan by performing the activities therein.

Project Plan: A formal, approved document used to guide both project execution and project control. The primary uses of the project plan are to document planning assumptions and decisions, to facilitate communication among stakeholders, and to document approved scope, cost, and schedule baselines. A project plan may be summary or detailed.

Project Planning: The development and maintenance of the project plan.

Project Procurement Management: A subset of project management that includes the processes required to acquire goods and services from outside the performing organization. It consists of procurement planning, solicitation planning, solicitation, end or selection, contract administration, and contract closeout.

Project Quality Management: A subset of project management that includes the processes required to ensure that the project would satisfy the need for which it was undertaken. It consists of quality planning, quality assurance, and quality control.

Project Risk Management: A subset of project management that includes the processes concerned with identifying, analyzing, and responding to project risk. It consists of risk identification, risk quantification, risk response development, risk response control, risk mitigation and contingency planning.

Project Schedule: The planned dates for performing activities and the planned dates for meeting milestones.

Project Scope Management: A subset of project management that includes the processes required to ensure that the project includes all of the work required, and only the work required, to complete the project successfully. It consists of initiation, scope planning, scope determination, scope verification, and scope change control.

Project Summary: A brief synopsis of the project that dearly states the project objectives, goals, constraints and deliverables

Project Team Members: The people who report either directly or indirectly to the project manager.

Project Time Management: A subset of project management that includes the processes required to ensure timely completion of the project It consists of activity definition, activity sequencing, activity duration estimating, schedule development, and schedule control.

Project: A onetime endeavor undertaken to create a unique product or service. All projects have a start and end date and attributes such as: time, costs, benefits, resources, quality, deliverables and customer satisfaction

Projected Organization: Any organizational structure in which the project manager has full authority to assign priorities and to direct the work of individuals assigned to the project.

Projected Staffing Plan: A plan that describes the types of resources needed, how much of each type are needed, and when they are needed. Should include dates, resources needed to be hired, and when.

Proposal Development: The process of choosing the best alternative to meet a customer's need and developing a written requirements and scope document.

Prototype: A simulated view of a proposed system using actual data together with text and illustrations or models screens.
PS: Planned Start Date
Q:
QA: Quality Assurance
QC: Quality Control
Quality Assurance (QA): (1) The process of evaluating overall project performance on a regular basis to provide confidence that the project will satisfy the relevant quality standards. (2) The organizational unit that is assigned responsibility for quality assurance.
Quality Control (QC): (1) The process of monitoring specific project results to determine if they comply with relevant quality standards and identifying ways to eliminate causes of unsatisfactory performance. (2) The organizational unit that is assigned responsibility for quality control.
Quality Planning: Identifying which quality standards are relevant to the project and determining how to satisfy them.
R:
RACI: Authority matrix that identifies specific roles of individuals such as R=Responsibility, A=Authority, C=Consult and I=Inform.
RAM: Responsibility Assignment Matrix. Identifies rules and responsibilities for initiatives or tasks.
Release Management: A release is a set configuration items (CIs) that are tested and introduced into the live environment together. The objective of Release Management is to ensure the successful rollout of releases, including integration, testing and storage. Release Management is closely related to Configuration Management and Change Management activities.
Release: A collection of new and/or changed CIs which are tested and introduced into a live environment together. Release Management is the process of controlling releases.
Remaining Duration (RDU): The time needed to complete an activity/task once it has started.
Request for Change (RFC): Form, or screen, used to record details of a request for a change to any CI within an infrastructure or to procedures and items associated with the infrastructure or a change in project scope for deliverables.
Request for Information (RFI): Description of the products and/or services that a potential customer wishes to learn about from the providers.
Request for Proposal (RFP): A document used to solicit proposals from prospective providers of products or services, which typically requests solutions, pricing, payment terms, warranties, pre and after sales support, implementation assistance, etc.
Request for Quotation (RFQ): Generally, this term is equivalent to request for pricing only to help filter out selected providers.
Request for Service (RFS): a collaborative and iterative process between the customer and provider to negotiate a sourcing deal based on a customer's high level requirement in a shorter time frame than more conventional methods such as the RFP.
Reserve: A provision in the project plan to mitigate cost and/or schedule risk. Often used with a modifier (e.g., management reserve, contingency reserve) to provide further detail on what types of risk are meant to be mitigated.
Resource Leveling: Any form of network analysis in which scheduling decisions (start and finish dates) are driven by resource management concerns (e.g., limited resource availability or difficult-to-manage changes in resource levels). The process of manipulating network data to create the resource plan which most effectively utilizes project resources subject to project constraints.

Resource Plan: A list of the resources and quantities that will be required over time to perform the project work.

Resource Planning: Determining what resources (people, equipment, materials, systems) are needed in what quantities to perform project activities.

Resource-Limited Schedule: A project schedule whose start and finish dates reflect expected resource availability. The final project schedule should always be resource limited.

Responsibility Assignment Matrix (RAM): A structure which relates the project organization structure to the work breakdown structure to help ensure that each element of the project's scope of work is assigned to a responsible individual.

Responsibility Center (RC): The number used for accumulating actual costs at the Control Account level.

Responsibility Chart: See responsibility assignment matrix.

Responsibility Matrix: See responsibility assignment matrix.

Responsibility: Originates when one accepts the assignment to perform assigned duties and activities, The acceptance creates a liability for which the assignee is held answerable for and to the assignor. It constitutes an obligation or accountability for performance.

Responsible Organization: A defined unit within a company structure which is assigned the responsibility for accomplishing specific tasks and to which one or more Control Accounts is assigned.

Retainage: A portion of a contract payment that is held until contract completion in order to ensure full performance of the contract terms.
Retained Organization: The client staff that is responsible for the sourcing engagement

Risk Analysis: The identification and assessment of the level (measure) of the risks calculated from the assessed values of assets and the assessed levels of threats to, and vulnerabilities of, those assets.

Risk Identification: Determining which risk events are likely to affect the project, business or IT.

Risk Management: The process of identifying, evaluating, quantifying, mitigating and tracking risk items.

Risk Quantification: Evaluating the probability of risk event occurrence and effect.

Risk reduction measure: Measures taken to reduce the likelihood or consequences of disruption occurring (as opposed to planning to recover after a disruption).

Risk Response Control: Responding to changes in risk over the course of the project.

Risk Response Development: Defining enhancement steps for opportunities and mitigation steps for threats.

Risk: A measure of the exposure to which an organization may be subjected. This is a combination of the likelihood of a business disruption occurring and the possible loss that may result from such business disruption.

Root Cause: Original reason for nonconformance within a process. When the root cause is removed or corrected, the nonconformance will be eliminated.

S:

Schedule Development: Analyzing activity/task sequences, activity durations, and resource requirements to create the project schedule.

Scheduling: The assignment of desired start and finish times to each activity/task in the project within the overall time cycle required for completion according to plan.

Scope Baseline: See baseline.

Scope Change Control: Controlling changes to the project scope.

Scope Change: Any change to the project scope. A scope change almost always requires an adjustment to the project cost or schedule.

Scope Definition: Decomposing the major deliverables into smaller, more manageable components to provide better control.
Scope of Services: The services provided under an outsourcing agreement.
Scope Planning: Developing a written scope statement that includes the project justification, the major deliverables, and the project objectives.
Scope Verification: Ensuring that all identified project deliverables have been completed satisfactorily.
Scope: The sum of the products and services to be provided as a project.
Security Management: The objective of Security Management is to protect the IT, organization and resources against unauthorized use or penetration.
Security: The protection of products, systems, facilities and people from accidental or malicious harm, access, use, modification, destruction, or disclosure. Security also pertains to personnel data, communications, and the physical protection of facilities, files, etc.
Service achievement: The actual service levels delivered by the IT organization to a customer within a defined life-span.
Service Improvement Program: A formal project undertaken within an organization to identify and introduce measurable improvements within a specified work area or work process.
Service Level Agreement (SLA): The service level agreement, or SLA, defines the intended or expected level of service. For example, how quickly a service will be performed, what availability, quality and cost targets will be met, what level of customer satisfaction will be achieved, etc.
Service Level Management: The process of defining, agreeing, documenting, measuring and managing the levels of customer IT service, that are required and cost justified.
Service Provider: A company that provides outsourcing services. Terms such as provider, provider, and partner are often used interchangeably each carrying a slightly different connotation intended by the user.
Service quality plan: The written plan and specification of internal targets designed to guarantee the agreed service levels.
Service Request: Every Incident not being a failure in the IT Infrastructure or operation.
Service: One or more IT systems which enable a business or IT process.
SF: Scheduled Finish Date or Start-to-Finish
Shared Services (Shared Services Centers): Shared services are common activities that are used by more than one division or unit within the company. When these services are combined into a central operation they are often referred to as shared services centers.
Significant Variance: The differences between planned and actual cost and/or schedule performance which require further review, analysis or action by the CAM and are addressed in the monthly VAR. Appropriate thresholds are established as to the magnitude of variances which will be considered "significant"/
SMART: An acronym that helps to remember that plans should be Specific, Measurable, Achievable, Relevant and Timely.
Software Library: A controlled collection of SCIs designated to keep those with like status and type together and distinctly segregated, to aid in development, operation and maintenance.
Solicitation: Obtaining quotations, bids, offers, or proposals as appropriate. Solicitation Planning Documenting product requirements and identifying potential sources.
Sourcing: Sourcing is generally the broadest term used in the field. It reflects the simple but essential point that everything the organization does has to be 'sourced' in some way – internally, externally, or a mix of the two.
SOW: Statement of Work

Specification: A document containing a detailed description or enumeration of particulars. Formal description of a work product and the intended manner of providing it.

Staff Acquisition: Getting the human resources needed assigned to and working on the project.

Stakeholder: Individuals and organizations that are involved in or may be affected by project activities.

Standard cost: A pre-determined calculation of how much costs should be under specified working conditions. Its main purposes are to provide bases for control through variance accounting, for the valuation of work in progress and for fixing selling prices.

Standard costing: A technique which uses standards for costs and revenues for the purposes of control through variance analysis.

Start Date: A point in time associated with an activities start, usually qualified by one of the following actual, planned, estimated, scheduled, early, late, target, baseline, or current.

Statement of Work (SOW): A narrative description of products or services to be supplied under contract.

Status Date: The calendar date, which separates actual (historical) data from, forecasted data.

Status: The condition or progress of the project at a specified point in time.

Strategic Planning: The process of developing an organization's mission, vision, objectives, goals, strategies, and long range initiatives.

Strawman: A preliminary concept or plan that is presented to a group as a basis for discussion. The work "strawman" is used to emphasize that the plan can be "kicked around" without fear of damage to its authors; that is, the individuals who present the strawman should do so fully expecting, and welcoming, additions, deletions, and/or changes to the strawman.

Subcontract: A subcontract is a procurement from another corporate plant or from a non-corporate subcontractor requiring a Statement of Work, specifications, and design and/or manufacturing engineering effort on the part of the supplier as opposed to the procurement of "off-the-shelf" items or items made to a drawing/specification/formula not requiring design/manufacturing engineering by the supplier.

Summary Level: Any level of the WBS higher than the bottom level. So named because each WBS level can be summarized into the next higher level.

Supply Chain: The interlinked chain of contractors and subcontractors that provide components, subcomponents, and services that become part of the company's deliverable to its customers. Typically used to refer to the chain of suppliers in a manufacturing company's operation, but is also used more generally in regard to any product or service.

System: An integrated composite that consists of one or more of the processes, hardware, software, network, facilities and people, that provides a capability to satisfy a stated need or objective.

Systems Development Life Cycle: The use of any of several structured methodologies to plan, design, procure, test and implement a system (e.g. Waterfall (Sequential), Spiral (Iterative), Hybrid, etc.)

T:

Tactical Planning: Planning concerned with the effective deployment of an organization's resources in order to accomplish the objectives laid out in the strategic business plan. The planning horizon is typically shorter than a strategic plan.

Task: See activity.

Team Development: Developing individual and group skills to enhance project performance.

Team Members: See project-team members.

Template: A standardized document, developed to address redundant requirements. The document is developed once, saved in a library or repository, and used repeatedly within the system.

Third-Party Supplier: An enterprise or group, external to the Customer's enterprise, which provides services and/or products to that Customer's enterprise.

Threshold: See Variance Threshold.
Total Contract Baseline: The negotiated contract cost.
Total Cost Of Ownership: Calculated including depreciation, maintenance, staff costs, facilities, and planned renewal.
Total Float (TF): See float.
Total Quality Management (TOM): A common approach to implementing a quality improvement program within an organization.
TQM: Total Quality Management **Transition:** The migration from the current operating state to a new sourcing provider or providers
Tree Diagram: A graphical representation of an outline or WBS structure which shows work elements as boxes and subsequent levels of detail broken down in levels of boxes below it. An element or task can roll up into only one higher level box.
TS: Target Start Date
U:
UB: Undistributed Baseline
Unit Cost: Total costs for one unit of production (i.e., one part, one end item, etc.)
Update: To revise project activity data to reflect the most current information on the project.
V:
Value Proposition: What value is the organization looking to gain from a system, product or outsourcing arrangement.
VAR: Variance Analysis Report
Variance Analysis Report (VAR): A report from Control Accounts or summary WBS levels that exceed the variance thresholds. The report/notice is completed by the responsible individual who must 1) explain the cause of the problem, 2) determine the impact on the immediate task and on the total program or project, and 3) describe any corrective actions to be taken.
Variance: The difference by which cost and schedule vary from plan. Negative variances are unfavorable indicators (i.e. behind schedule or over cost) while positive variances are favorable indicators (i.e. ahead of schedule or under cost). See also specific items such as Cost Variance, Schedule Variance, etc.
Vendor: A supplier of products and/or services.
Version Identifier: A version number; version date; or version date and time stamp.
Version: An identified instance of a Configuration Item within a product breakdown structure or configuration structure for the purpose of tracking and auditing change history. Also used for software Configuration Items to define a specific identification released in development for drafting, review or modification, test or production.
Vulnerability: A weakness of the system and its assets, which could be exploited by threats.
W:
Waterfall SDLC: Refers to a systems/software life cycle methodology that has frequent validations by the customer and other project constituencies as the system is built to ensure frequent corrections or adjustments to the scope, requirements and in-process system development efforts. See also Spiral SDLC.
WBS Dictionary: The Dictionary will describe the technical and cost content of every WBS element or task. It will describe what the element is and efforts associated with the WBS element (such as design, development, and manufacturing). For the WBS elements specified elsewhere for cost reporting, The WBS Dictionary definitions will also include the exact narrative of the directly associated work statement paragraphs, or a reference to The SOW paragraph or other document describing the work.
WBS: Work Breakdown Structure

Work Breakdown Structure (WBS): A deliverable-oriented grouping of project elements or tasks which organizes and defines the total scope of the project. Each descending level represents an increasingly detailed definition of a project component. Project components may be products, services processes or functions. Decomposes complex programs or projects into assignable work packages
Wind Down Costs: Costs related to decoupling of an existing sourcing relationship.

Work Day: A unit expressing duration. Only those days when work is performed are counted. Holidays, weekends, and vacation days may or may not count.

Work Item: See activity or task.

Work: Any and all obligations, duties, responsibilities, labor, materials, equipment, temporary facilities and incidentals, and the furnishing thereof necessary to complete the contract deliverable which are assigned to, or undertaken by the contractor, pursuant to the contract documents. Also, the entire completed contract deliverable or the various separately identifiable parts thereof required to be furnished under the contract documents. Work is the result of performing services, furnishing labor, and furnishing and incorporating materials and equipment into the contract deliverable, all as required by the contract documents.

Workaround: A response to a negative risk event. Distinguished from contingency plan in that a workaround is not planned in advance of the occurrence of the risk event. Method of avoiding an incident or problem.

Work-around: Method of avoiding an Incident or Problem, either by a temporary fix or by a technique that means the Customer is not reliant on a particular aspect of the service that is known to have a problem.

Work-in-Progress (WIP): Product in various stages of completion throughout the factory, including raw material that has been released for initial processing and completely processes material awaiting final inspection and acceptance as finished product or shipment of a customer. Many accounting systems also include semi-finished stock and components in this category.

Workloads: The resources required to deliver a project or service deliverable and can be segmented by skills, functions and experience levels.

WP: Work Package

Appendix A - The 2009 Global Outsourcing 100

RANK	COMPANY (LEADERS)	KEY STRENGTH
1	Accenture	Management Capabilities
2	IBM	Demonstrated Competencies
3	Sodexo	Customer References
4	Tata Consultancy Services	Customer References
5	Wipro Technologies	Demonstrated Competencies
6	Convergys	Customer References
7	ISS	Balanced Performance
8	CB Richard Ellis	Customer References
9	Infosys Technologies	Management Capabilities
10	Capgemini	Customer References
11	Genpact	Customer References
12	Colliers International	Customer References
13	CSC	Customer References
14	NCR	Balanced Performance
15	Jones Lang LaSalle	Management Capabilities
16	CGI Group	Balanced Performance
17	Sitel	Size & Growth
18	Unisys	Customer References
19	EDS, an HP Company	Balanced Performance
20	HCL Technologies	Management Capabilities
21	ADP	Management Capabilities
22	Ceridian	Management Capabilities
23	Intelenet Global Services	Balanced Performance
24	Williams Lea	Demonstrated Competencies
25	ACS	Balanced Performance
26	Aegis	Customer References
27	ARAMARK	Management Capabilities
28	CPM Braxis	Balanced Performance

RANK	COMPANY (LEADERS)	KEY STRENGTH
29	Inspur	Customer References
30	Tech Mahindra	Customer References
31	Hewitt Associates	Management Capabilities
32	Lionbridge	Management Capabilities
33	NIIT Technologies	Balanced Performance
34	Softtek	Balanced Performance
35	Diebold	Balanced Performance
36	Firstsource Solutions	Customer References
37	EMCOR Group	Balanced Performance
38	L&T Infotech	Demonstrated Competencies
39	TeleTech Holdings	Demonstrated Competencies
40	Amdocs	Demonstrated Competencies
41	SPi	Balanced Performance
42	Mastek	Management Capabilities
43	Concentrix	Customer References
44	Johnson Controls	Balanced Performance
45	MindTree	Management Capabilities
46	Océ Business Services	Demonstrated Competencies
47	Patni Computer Systems	Balanced Performance
48	NCO Group	Demonstrated Competencies
49	EXL Service	Demonstrated Competencies
50	Neusoft	Balanced Performance
51	EPAM Systems	Balanced Performance
52	Newmark Knight Frank	Balanced Performance
53	Syntel	Demonstrated Competencies
54	VanceInfo	Customer References
55	HOV Services	Customer References
56	Hexaware Technologies	Customer References
57	Headstrong	Balanced Performance
58	Donlen	Management Capabilities
59	iGATE	Demonstrated Competencies
60	CPA Global	Balanced Performance
61	ChinaSoft International	Size & Growth
62	Grubb & Ellis	Balanced Performance
63	WNS Global Services	Balanced Performance
64	NCS	Management Capabilities
65	Luxoft	Management Capabilities

RANK	COMPANY (LEADERS)	KEY STRENGTH
66	TIVIT	Size & Growth
67	AppLabs	Demonstrated Competencies
68	Sutherland Global Services	Demonstrated Competencies
69	Pitney Bowes	Management Capabilities
70	Outsource Partners International	Customer References
71	SEI	Management Capabilities
72	Cushman & Wakefield	Management Capabilities
73	Aditya Birla Minacs	Size & Growth
74	hiSoft Technology International	Customer References
75	Quatrro BPO Solutions	Demonstrated Competencies
RANK	COMPANY (RISING STARS)	KEY STRENGTH
76	Synygy	Demonstrated Competencies
77	China Data Group	Size & Growth
78	Grupo ASSA	Customer References
79	Xceed	Demonstrated Competencies
80	Emerio	Customer References
81	ePerformax Contact Centers	Customer References
82	Beyondsoft (Beijing)	Balanced Performance
83	InterGlobe Technologies	Demonstrated Competencies
84	Nair & Co.	Balanced Performance
85	Bleum	Size & Growth
86	Ci&T	Management Capabilities
87	Auriga	Customer References
88	M&Y Data Solutions	Customer References
89	SaM Solutions	Balanced Performance
90	Knoah Solutions	Management Capabilities
91	Microland	Balanced Performance
92	Grupo Prominente	Balanced Performance
93	DataArt	Balanced Performance
94	Reksoft	Demonstrated Competencies
95	The Symbio Group	Balanced Performance
96	Corbus	Management Capabilities
97	MERA Networks	Demonstrated Competencies
98	Itransition	Balanced Performance
99	CIeNET International	Balanced Performance
100	Mindcrest	Size & Growth

Appendix B - 2009 Global Services 100 Companies, Global Services Media

http://www.globalservicesmedia.com/Content/general200801223624.asp

Company	CEO	URL
24/7 Customer	P. V. Kannan	www.247customer.com
Achievo	Robert P. Lee	www.achievo.com
Affiliated Computer Services (ACS)	Lynn Blodgett	www.acs-inc.com
Aditya Birla Minacs Worldwide	Deepak J. Patel	www.minacs.adityabirla.com
AppLabs	Makarand Teje	www.applabs.com
Aricent	Sudip Nandy	www.aricent.com
Beyondsoft Group	Ben Wang	www.beyondsoft.com
Birlasoft	J. Ramachandran	www.birlasoft.com
BlueAlly	Vijay Tanamala	www.blueally.com
Cambridge Solutions	Christopher Sinclair	www.cambridgeworldwide.com
Capgemini	Paul Hermelin	www.capgemini.com
CGI Group	Michael E. Roach	www.cgi.com
Collabera	Hiten Patel	www.collabera.com
Computer Sciences Corporation (CSC)	Michael W. Laphen	www.csc.com
Convergys	David F. Dougherty	www.convergys.com
Corbus	Rajesh K. Soin	www.corbus.com
Cybage Software	Arun Nathani	www.cybage.com
e4e	Somshankar Das	www.e4e.com
EA Consulting	Chin King Wong	www.ea-inc.com
EPAM Systems	Arkadiy Dobkin	www.epam.com
ePerformax Contact Centers & BPO	Teresa Hartsaw	www.eperformax.com
Etech	Matt Rocco	www.etechinc.com
eTelecare Global Solutions	John Harris	www.etelecare.com
Exigen Services	Alec Miloslavsky	www.exigenservices.com
Exl Service	Rohit Kapoor	www.exlservice.com
Firstsource	Ananda Mukerji	www.firstsource.com
Genpact	Pramod Bhasin	www.genpact.com
Globerian	Naveen Trehan	www.globerian.com
GlobalLogic	Peter Harrison	www.globallogic.com
Grupo ASSA	Roberto Wagmaister	www.grupoassa.com
HCL Technologies	Vineet Nayar	www.hcltech.com

Company	CEO	URL
Headstrong	Arjun Malhotra	www.headstrong.com
HeroITES	David Turner	www.heroites.com
Hexaware Technologies	P. Chandrasekar	www.hexaware.com
Hildebrando	Diego Zavala	www.hildebrando.com
hiSoft Technology International	Loh Tiakkoon	www.hisoft.com
HOV Services	Suresh Yannamani	www.hovservices.com
HTC Global Services	Madhava Reddy	www.htcinc.com
Hinduja TMT Global Solutions	Partha De Sarkar	www.htmtglobal.com
IBA Group	Sergei Levteev	www.iba-it-group.com
ICT Group	John J. Brennan	www.ictgroup.com
iGATE	Phaneesh Murthy	www.igate.com
Indecomm Global Services	Naresh Ponnapa	www.indecommglobal.com
Infogain	Kapil Nanda	www.infogain.com
Infosys Technologies	S. Gopalakrishnan	www.infosys.com
Innodata Isogen	Jack S. Abuhoff	www.innodata-isogen.com
Insigma Technology	Shi Lie	www.insigma.com.cn
Intelenet Global Services	Susir Kumar	www.intelenetglobal.com
InterGlobe Technologies	Vipul Doshi	www.igt.in
Intetics	Boris Kontsevoi	www.intetics.com
ITC Infotech India	Sanjiv Puri	www.itcinfotech.com
Itransition Group	Sergey Gvardeitsev	www.itransition.com
Kompakar	Dr. Ir. Ahmad Fikri Hussein	www.kompakar.com
KPIT Cummins Infosystems	Kishor Patil	www.kpitcummins.com
Larsen & Toubro Infotech	Sudip Banerjee	www.lntinfotech.com
Lionbridge Technologies	Rory Cowan	www.lionbridge.com
Luxoft	Dmitry Loschinin	www.luxoft.com
Mascon Global	Sandy Chandra	www.mgl.com
Mastek	Sudhakar Ram	www.mastek.com
Mera Networks	Dmitry Ponomarev	www.meranetworks.com
Microland	Pradeep Kar	www.microland.com
Mindteck	Pankaj Agarwal	www.mindteck.com
MindTree Consulting	Ashok Soota	www.mindtree.com
MphasiS	Jeya Kumar	www.MphasiS.com
NCO Group	Michael Barrist	www.ncogroup.com
Neilsoft	Ketan Bakshi	www.neilsoft.com
Neoris	Claudio Muruzbal	www.neoris.com
Ness Technologies	Sachi Gerlitz	www.ness.com

Company	CEO	URL
Neusoft	Dr. Jiren Liu	www.neusoft.com
NIIT Technologies	Arvind Thakur	www.niit-tech.com
Ocwen Financial	William C. Erbey	www.ocwen.com
Outsource Partners International (OPI)	Clarence T. Schmitz	www.opiglobal.com
Patni Computer Systems	Narendra K. Patni	www.patni.com
Polaris Software Lab	Arun Jain	www.polaris.co.in
Politec Global IT Services	Helio Oliveira	www.politec.com
QuEST	Ajit A. Prabhu	www.quest-global.com
Quintec Soluciones	Cristbal Vergara	www.quintec.cl
RCG Information Technology	Robert Simplot	www.rcgit.com
Reksoft	Alexander Egorov	www.reksoft.com
SafeSoft International	Brian You	www.safesoftinc.com
Scicom	Leo Ariyanayakam	www.scicom-intl.com
Sitel	David Garner	www.sitel.com
SONDA	Ral Vjar Olea	www.sonda.com
SPi Technologies	Peter Maquera	www.spi-bpo.com
Stream Global Services	R. Scott Murray	www.stream.com
Sutherland Global Services	Dilip R. Vellodi	www.suth.com
Symphony BPO Solutions	Jack Cantillon	www.symphony.com.my
Symphony Services	Gordon Brooks	www.symphonysv.com
Synapsis	Leonardo Covalschi	www.synapsis-it.com
Syntel	Bharat Desai	www.syntelinc.com
Tata Consultancy Services (TCS)	S. Ramadorai	www.tcs.com
Teledirect	Laurent Junique	www.teledirect.com.sg
TELUS International	Jeffrey Puritt	www.TELUSInternational.com
Unisys	J. Edward Coleman	www.unisys.com
UST Global	Sajan Pillai	www.ust-global.com
VanceInfo Technologies	Chris Chen	www.vanceinfo.com
vCustomer	Sanjay Kumar	www.vcustomer.com
Virtusa	Kris Canekeratne	www.virtusa.com
Wipro Technologies	Suresh Vaswani and Girish Paranjpe	www.wipro.com
WNS Global Services	Neeraj Bhargava	www.wns.com

Appendix C - Key strategic, value, delivery and execution questions for outsourcing

Strategic questions:
- Are we doing the right thing? Is the sourcing strategy:
- in line with our business vision and strategy?
- consistent with our business principles, plan and direction?
- contributing to our strategic objectives and sustainable competitive differentiation?
- How likely will sourcing initiatives meet or exceed their objectives and performance targets?
- What are our risks and vulnerabilities? Financial, Operational, Security, Privacy, Intellectual Property, Other?
- Are there adequate provisions in place for disaster prevention, recovery and contingencies?
- Can we legally outsource this service?
- What regulatory compliance requirements apply to the outsourcing work and subsequently to the provider?
- Is there an active market for this sourcing opportunity or can it be created as a revenue source for the company alone or through a joint venture?
- What level of management should be involved in approving the sourcing strategy and deals (decision rights) and providing outsourcing oversight? Board? Executive Management? Operational Management? Project Management? Combination? Other?
- What and how can outsourcing add more strategic value (e.g. revenue growth; cost reduction/ containment/ avoidance; reduce speed to market; business process transformation; etc.?
- How should sourcing results be measured? What key performance measures should be used that are meaningful to the business? Function? Department? Process?
- What sourcing organization, resources, skills, competencies and certifications should be required? What budget?
- What governance, controls and consistent process should be institutionalized for effective sourcing?
- Does the company know its real motives for outsourcing?
- Has the company determined the most appropriate transition strategy for outsourcing of its business? (e.g. core versus non core; radical versus incremental transition, etc.)?
- How should the sourcing function be organized? Centralized? Decentralized? Distributed? Federated? Hybrid?
- Has the company appointed an experienced and qualified team to undertake outsourcing, including (where appropriate) functional head, executive sponsor, auditor, accountant, lawyer, project manager and procurement?
- Is this a capability that drives customer preference for our product or service?
- Can the objectives of this service be clearly articulated and defined?
- Are the potential sourcing functions or processes strategic or tactical, long or short term and/ or core to our competitive advantage?
- Are there known vendors for this service? Do they have the capability, capacity and scale to provide this service?
- If we started from scratch today, would the business build the capability internally?
- Is the business so good at the activity that others would hire it to do it for them as a revenue generating opportunity?

Value questions:
- Are we getting the benefits?
- a clear and shared understanding and commitment to achieve the expected benefits
- clear accountability for achieving the benefits which should be linked to MBO's and incentive compensation schemes of the responsible constituents
- an effective benefits realization process and sign-off within the company
- Does the company have a clear current "as is" profile of all affected assets, people and processes, licenses, costs, equipment, facilities and related items potentially affected by outsourcing?
- How can we ensure cost saving while protecting quality?
- How can we effectively work with outsourcing providers? What industry frameworks, standards and models should we use?
- Should we hire a consultant to assist in developing, review and/or validate our sourcing strategy and approach?
- What mandatory (minimum) and discretionary measurements and dashboards will be most effective?
- Do we have in-house expertise to provide this service? Is it sufficient?
- Is this process or operation scalable? Can it be leveraged with more volume, more customers, etc?
- Is it labor intensive? Capital intensive?
- Is the cost of the operation competitive with what could be obtained in the market?
- Is this a process that your company wants to invest in?
- Can the results be easily and objectively measured?
- If the objectives are not achieved, will this have a negative impact on the firm?
- Would de-skilling (loss of in-house expertise) have a negative impact?

Delivery and execution questions:
- Are we deploying well and effectively?
- scalable, disciplined and consistent management, governance and delivery processes capabilities and attitudes
- appropriate and sufficient resources available with the right competencies, capabilities and attitudes at the right time
- Does this service need to be provided on a continual basis?
- Would loss of data or content of this service hurt the firm?
- Is quality-of-service delivery a concern?
- Would current vendor contract performance be negatively impacted if a new vendor is hired?
- Would the impact of the vendor going out of business be significant?
- Are their known vendors for this service?
- Are the vendors known to have the capability and capacity to provide the service?
- Is the vendor certified vis-à-vis an industry standard (e.g. ISO, CMMI, ITsqc, etc.)?
- Does the vendor have local and international presence and capability?
- Has the firm had previous experience with the vendor?
- Does the vendor have a superior reputation for delivering high quality services at a reasonable cost?

- What governance, escalation and metrics will be needed to manage the provider?
- Will the vendor comply with the firms governance requirements?
- What processes (e.g. transition management, project management, quality management, performance management, etc.) are being used by the vendor? Are they acceptable?
- What is the "optimum" relationship management model to be established between the company and the service provider?

Appendix D - University of Alberta Outsourcing Policy

UNIVERSITY OF ALBERTA

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Students & Teaching | Research | Human Resources | Finance | Operations | External Relations

Approval Date: April 1, 2003	**Published Procedures of This Policy**

Go to:	[Overview]	[Purpose]	[POLICY]	[DEFINITIONS]	[RELATED LINKS]

This document is the parent policy for any associated procedures or appendices. Questions regarding this policy should be addressed to the Office of Administrative Responsibility.

Outsourcing Policy

Office of Accountability:	Vice-President (Finance and Administration)
Office of Administrative Responsibility:	Resource Planning
Approver:	Executive Planning Committee (EPC)

Overview

Purpose
This Policy ensures that the development and implementation of any proposal to outsource operating units or functions currently performed by University staff is carried out in a rigorous, transparent, consultative manner that ensures the University's best interests are served.

POLICY
Compliance with University policy extends to all members of the University community. [Pop]

1. In the service of its mission and goals, the University of Alberta continuously explores and, where appropriate, implements organizational changes that improve efficiency and effectiveness. The University will consider outsourcing of operating units or functions currently performed by University staff where such outsourcing could improve efficiency and effectiveness and allow the University to dedicate itself to its core mission of teaching, research, community service and the administrative support of that mission.
2. The University will approach outsourcing with care and due diligence. Proposals to outsource will include a rigorous cost benefit analysis that takes into account both economic factors and potential impacts on affected staff and constituencies. The University will approve proposals to outsource only where the proposal is supported by a clear and achievable business case.
3. A decision to outsource has implications for the entire University community, including relations with the staff associations and external constituencies. For this reason, final decisions relating to outsourcing will be made by the Executive Planning Committee (EPC).

4. When considering a proposal for outsourcing EPC will ensure that:
    a. Effective, appropriate consultation occurs with affected constituencies and in particular with the staff associations whose members may be affected.
    b. Serious consideration is given to alternatives to outsourcing, including those put forward by staff associations and other affected constituencies.
    c. Full consideration is given to opportunities for alternative employment of affected staff.
    d. Proposals are developed and implemented in accordance with all Board of Governors and General Faculties Council Policies and applicable collective agreements.
    e. Complete information on the business case for outsourcing, including detail of the advantages and disadvantages of all options considered, is provided to staff associations and other affected constituencies.
    f. Any consideration to outsource is supported by a clear and rigorous business case from which a **business plan** can be developed that details all aspects of implementation which is reflected through a request for proposals process that the business case is achievable.
    g. A rigorous evaluation process is implemented to determine the success of the outsourcing should the proposal be approved.
5. This Policy applies to any consideration to outsource operating units or functions currently performed by University of Alberta staff on an ongoing basis. It does not apply to the use of contracts for service that may be entered into from time to time to supplement or support continuing University activities.

DEFINITIONS
Any definitions listed in the following table apply to this document only with no implied or intended institution-wide use. [▲Top]

Constituencies	Anyone within the University community who could be directly affected by the decision.
Business Case	A business case is an objective analytical assessment of how to best address a defined business opportunity or problem. The analysis includes an assessment of business impacts, risks, and costs/benefits of various viable alternatives. In the context of a decision being made based on a business case, this objective analysis would provide the justification of the particular decision.
Business Plan	A business plan is a detailed plan reflecting the implementation of a chosen business case alternative that ensures conformity with the requirements of relevant collective agreements and University policies. The Business Plan will include, but is not limited to, the following elements: – full details of the business case for outsourcing, – a draft request for proposals (RFP), – a plan for addressing potential human resource impacts, and – a plan for evaluating the effectiveness of the outsourcing should it be approved.

RELATED LINKS
Should a link fail, please contact uappol@ualberta.ca. [▲Top]

PUBLISHED PROCEDURES OF THIS POLICY
• Outsourcing Procedure

Appendix E - Business Case Analysis for Sourcing: Telecommunication Company – IT Infrastructure

Contents
- **Project Background**
  - Drivers
  - Goals
  - Objectives
  - Sourcing Scenarios
- **Summary, Conclusions and Recommendation**
- **Business Case Analysis**
  - Sourcing Scenarios Summary – Vendor A and B (multi year contracts)
  - Assumptions
  - Internal Baseline Cost
  - Vendors – Preliminary Cost Comparison
  - Sensitivity Analysis
  - Vendors Service Level Improvements
  - Exist Strategy – Considerations
- **Critical Success Factors**

Project background
- **Drivers:**
  - Infrastructure needs expansion and significant capital outlay is required to create capacity but also to improve quality and performance levels consistent with best practices
- **Goal:**
  - Evaluate outsourcing of the Infrastructure and Operations to address capacity issues, avoid significant capital outlay, improve quality and performance levels and achieve significant cost savings (>15% to 20%)
- **Objectives:**
  - Achieve cost savings around operations
  - Reduce operational risk through improved operations
  - Transform environment to best-in class processes & technologies
  - Achieve service level performance that exceeds stakeholder commitments over time
  - Gain agility to rapidly adjust to changes in business demand
  - Gain access to skills, best practices and advanced technologies with no significant capital outlay

- **Sourcing Scenarios:**

S C O P E	♦ midrange servers ♦ Desktop and Network Shared Printer Support ♦ Internal Help Desk ♦ Network Managed Services (Voice & Data) ♦ Disaster Planning and Recovery ♦ Enterprise Storage ♦ Data center Operations ♦ **Application Software is NOT in scope**

  – Services:
- Managed Services including Assets
- Managed Services Only (Assets Out)
  – Term:
- 5-7 year contracts evaluated

APPROACH

2. Oral Presentations

3. Initial Scoring

4. Scope Due Diligence

5. Revised Bids

6. Final Scoring

7. Technical Due Diligence

8. Best and Final Offer

9. Dual MSA, SOW Negotiations

Selection
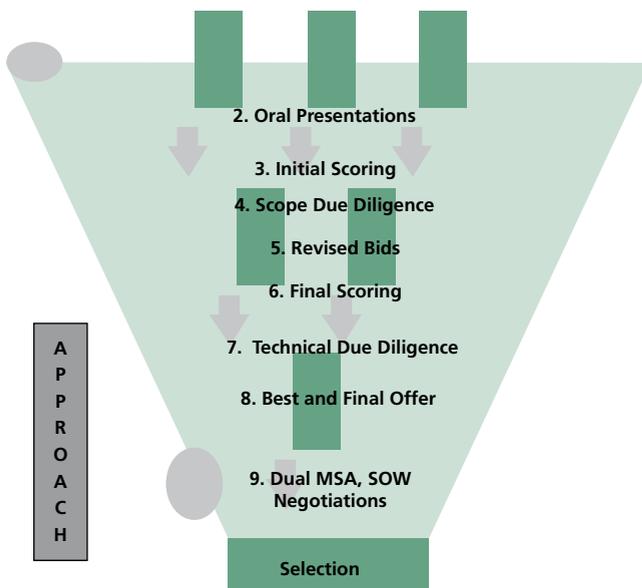
Summary, approach and recommendations
Summary:
- Multiple vendors responded to the RFP issued. They are Tier-1 IT Outsourcing Service Providers capable of providing Infrastructure services to the Company. Company has obtained proposals with Best and Final Offer (BaFO) from two vendors
- Company is considering a multi-year contract that would include assets. This option gives the Company optimal cost savings, while continuing to leverage the investment company has made in its facilities

Conclusion:
- A strong business case exists (15%+ savings) coupled with additional service improvement benefits
- All service providers satisfactorily met the evaluation criteria
- By outsourcing, the Company would gain access to:

- Improved service levels over time
- Best in class technologies and process disciplines without significant capital layout

Recommendation:
- Proceed to contract with management

Vendor A and Vendor B sourcing scenarios – summary

RFP Option 1	Managed Services Only 5 Year Contract		Managed Services Only 7 Year Contract	
	A	**B**	**A**	**B**
Internal Baseline	**$M**		**$M**	
Service Provider Fees + Retained Costs + Transition & Other One-Time Charges	$M to $M	$M to $M	$M to $M	$M to $M
Savings	**No Business Case**	**1% to 10%**	**No Business Case**	**11% to 16%**
RFP Option 2	Managed Services + Assets in 5 Year Contract		Managed Services + Assers in 7 Year Contract	
	A	**B**	**A**	**B**
Internal Baseline	**$M**		**$M**	
Service Provider Fees	$M	$M	$M	$M
Company Retained Cost	$M	$M	$M	$M
Transition Costs & Other One-Time Charges	$M	$M	$M	$M
Savings	**$M** X%	**$M** Y%	**$M** X%	**$M** Y%
Service Provider Fees	$M	$M	$M	$M
Option to Re-badge Employees	**Additional Cost of $M**	**Additional Cost of $M**	**Additional Cost of $M**	**Additional Cost of $M**
Option to Transform & Optimize Existing Environment	Additional Net Savings of $M	Additional Net Savings of $M	Additional Net Savings of $M	Additional Net Savings of $M

Business case – assumptions
Baseline Model Assumptions:
- Baseline costs from Approved Budget
- Historical Cost Growth Ranged from 4% to 7%, baseline model assumes a conservative 5% growth
- Expense and Capital for in-scope departments were added in order to determine total cost of ownership (TCO) for ITS Infrastructure
- The baseline costs and assumptions have been validated by finance
- Sensitivity Analysis performed on key assumptions to determine business case impact
- The Baseline Model takes a total cost of ownership approach based on budgeted and forecasted cash flows
- The Budget includes $M of cash outflows, composed of the following inputs:
  - **Operating Expenses**

- $M in operating expenses
- Operating expense includes FTE (Fulltime Equipment) expenses, HW/SW maintenance costs, facilities costs & overhead costs
- Facilities costs for both people and data center are included
- Additional overhead from HR, Procurement and Finance is included in the operating expenses
  - **Capital Expenditures**
- $M in budgeted infrastructure capital expenditures
- $M in Non-IT capital expenses
- The business case is the delta between the baseline costs and the vendor bids
- Pricing templates were normalized to ensure an apples-to-apples comparison between the vendor bids and internal costs
- Retained and incremental costs were captured for both vendors
- Future benefits from vendor bids were discounted to obtain an NPV (Net Present Value) of savings

Other Assumptions
A discount rate of X% was used for the present value calculation

Company internal baseline cost
A seven year NPV calculation suggests over $ in total cost of ownership for the Company Infrastructure

Internal Baseline For in-Scope Service

CASH FLOW FROM OPERATIONS

Total Cash Flow From Operations

CASH FLOW FROM	NPV	200	201	201	201	201	201	201
Capital Transactions	$	$	$	$	$	$	$	$
Budgeted Capital Expenditures	$	$	$	$	$	$	$	$
Other Budgeted CapEx – Outside ITS Budget	$	$	$	$	$	$	$	$
PC O/S & PC refresh (not budgeted)	$	$	$	$	$	$	$	$
Data Center Expansion/Build-out (not budgeted)	$	$	$	$	$	$	$	$
Land Acquisition Cost	$	$	$	$	$	$	$	$
Total Capital Expenditures	$	$	$	$	$	$	$	$
Total Tax savings	$	$	$	$	$	$	$	$
Togal Cash Flow from Investments	$	$	$	$	$	$	$	$
Total Operating & Capital Cash Flow	$	$	$	$	$	$	$	$

Service provider B - preliminary costs

Service Provider Proposal Summary	NPV	Initial Period	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Internal Baseline	$	$	$	$	$	$	$	$	$
– Retained Costs	$	$	$	$	$	$	$	$	$
– One-Time Costs	$	$	$	$	$	$	$	$	$

– Service Provider Fees	$	$	$	$	$	$	$	$	$
– Service Provider Transition Costs	$	$	$	$	$	$	$	$	$
– Sales Tax	$	$	$	$	$	$	$	$	$
Total Savings	$	$	$	$	$	$	$	$	$

Sensitivity analysis

A sensitivity analysis determines the ***impact on projected savings*** if the final agreed upon contract price varies from the current proposed pricing

Sensitivity Analysis of Service Provider A Proposed Savings Over 7			
Variance in Bid (%)			
–10.0%	–5.0%	0.0%	5.0%
$M	$M	$M	$M
27%	24%	22%	19%
Sensitivity Analysis of Serice Provider B Proposed Savings Over 7			
Variance in Bid (%)			
–10.0%	–5.0%	0.0%	5.0%
$M	$M	$M	$M
27%	24%	22%	19%

Service Level Improvements – Vendor B

- **Vendor B is extending the following service level improvement guarantees:**
  - **General commitment for eligible SLAs:**
    - Up to 10% of delta improvement Y-to-Y
    - Delta is the difference of 100% (or perfection) less the current SLA
  - **Specific SLAs:**
    - Help Desk Average Speed to Answer:
    - X secs to Y secs over the initial 5 years of the contract
    - X% of delta improvement Y-to-Y (or X% over 5 years)
    - Help Desk First Call Resolution:
    - X% to Y% over the initial 5 years of the contract
    - X% of delta improvement Y-to-Y (X% over 5 years)
    - End User Self-Service:
    - X% to Y% over the initial 5 years of the contract
    - X% of delta improvement Y-to-Y (X% over the 5 year term)
    - Separation-of-Duties:
    - Remove "super user" access to production systems so that all changes are done subject to change management process which reduces unplanned outages and improves security and integrity of corporate applications and data
    - Asset Management:
    - Implementation of automated scans will result in improved accuracy of asset information and improved financial and compliance data

Exit strategy - high level cost estimate considerations

- **At the conclusion of the 7 year agreement, Company will have four options:**
  - Renew contract with existing service provider
  - Transfer services to a different service provider
  - Transfer services back in-house
  - Adopt a hybrid approach (in-house + outsourced)
- **The estimated range of transition costs after expiration of the initial contract term is contingent on a number of factors:**
  - The ultimate financial structure payment Company adopts with the selected service provider (i.e. whether we proceed with an operating/capital lease or paid-up capital expenditure approach)
  - Whether Company in-sources or changes service providers at exit
  - Company data center strategy at the time of exit (build vs. lease vs. new service provider)

1.	Data Center	
a.	$	multi year lease for space
b	$	costs to build data centres
c	$	assume that new service provider will embed data centre costs into service fee
2.	**Transition Costs**	
a.	$	Costs charge by new service provider, including
b	$	Costs incurred by Rogers to in-source, including 2-month equipment redundancy for migration to new data center
3.	**Current Service Provider Transition Out Assistance Costs**	
a.	$	Costs negotiated in MSA that current service provider would charge to transition away (tape backups, time and material)
b.	$	high estimate
4.	**Equipment Buy-Out Costs**	
a.	$	Costs to buy-out equipment if fees are in form of operating lease
c.	$	Costs to buy-out equipment are $0, if we structure deal as capital lease or capital expenditure structure
Total Costs		
Minimum Costs = $ (1c + 2a + 3a + 4c) - assumes that we migrate company owned equipment to another vendor		
Maximum Costs = $ (1b + 2b + 3b + 4a) - assumes that we buy-out and in-source equipment to a new company owned data centre.		

Appendix F - Request for Proposal Table of Contents

(Illustrative Example)

Appendix G - Sourcing Continuity Plan and Checklist Outline

Appendix H - Master Service Agreement Outline, Term Sheet Outline and Term Sheet Agreement Example

Master Service Agreement (MSA) Outline

1) General and Administrative Provisions – usually the first section of the MSA includes the following areas to be agreed upon by the parties to the global sourcing engagement:
   a. Purpose of Agreement
   b. Definitions - words and phrases that should be defined to avoid any misunderstanding among the parties. Typical words and phrases are:
   - Affiliate
   - Customer Commit Date
   - Customer Order
   - Customer Premises
   - Excused Outage
   - Facilities
   - Gateway
   - Service/Product
   - Service Commitment Date
   - Service Levels
   - Service Schedule
   - Service Term
2) Term of Agreement - this is an overview of the effective date and duration of the agreement, covers issues associated with default by any parties, and a process for initiating termination.
3) Amendments and Modifications – process and rules for creating changes.
4) Assignment, Delegation and Subcontracting - stipulations related to rights of assignment or resale of the agreement itself.
5) Third Party Beneficiaries – reiterates the parties that are subject to the agreement and states that there are no third-party beneficiaries.
6) Enforceability – usually explains that if any single provision is unenforceable this does not affect the remaining provisions. May also reference applicable venue for laws.
7) Notices -usually specifies that notices will be written.
8) Relevant Documents – references any documents that are part of the agreement ranging from guidelines to tariffs and fees.
9) Waivers
10) Events of Default and Remedies for Default – this section lists the conditions under which the provider would be considered in default, for example, violation of licenses or regulations, non-compliance with the agreement, or bankruptcy. It includes specific remedies for being in default.
11) Limitation of Liability- this covers the general provisions related to damages, personal injury and death, warranties, and any third party claims on any party to the agreement.
12) Indemnification – this is related to claims of a third party against any party to this agreement.

13) Force Majeure - a legal term covering events that are beyond the reasonable control of any parties and frees both parties from liability or obligation such as an "Act of God," (e.g. flooding, earthquake, volcanic eruption),

14) Security and Data Protection – covers general terms that are usually specified elsewhere.

15) Billing and Payment - this section contains information about the standard schedule of payments , approval of charges, taxes and applicable fees, billing dispute resolution and a description of charges associated with termination.

16) Communication Process and Liabilities – covers physical and digital communication.

17) Audits – identifies the right of each party to audit books and procedures of the other.

18) Dispute Resolution and Jurisdictional Information – defines a common dispute resolution practice.

19) Nondisclosure/Confidentiality - defines the type of information that is protected, including protection of trademarks, logos, etc.

10) Representations and Warranties – section that states that each party is truthfully representing who they are and will abide by the agreement.

11) Service Levels - this is a high level description of how the service levels will be used in the agreement indicating the reporting procedures for service delivery, interruption, and application of service level credits. Often, it will also define how the service level is calculated or constructed.

12) Signatures

Term Sheet: a term sheet is a document outlining the terms and conditions of a business agreement, It is similar to a Letter of Intent (and sometimes called this) and is a non-binding document and usually in bulleted list form.

Term Sheet Outline
1. What is being bought – service(s), product(s), software, etc? Includes a clarification of what is NOT being bought.
2. Project Management
3. Pricing
4. Terms – payment in cash, financing
5. Payment provisions – how and when
6. Due Diligence process
7. Who will draw up the definitive agreements
8. Duration of agreement (e.g. start and end dates)
9. Identifies who is authorized to approve and commit an organization

Term Sheet Agreement example
The following is an example of a term sheet in the form of a Letter of Intent
Technology Development Letter of Intent (LOI)[49] (Non-binding Portions Subject to Final Contract) Term Sheet (Agreement) Example

---

49   http://www.ustyleit.com/LOI.htm

This LOI is executed as of the date of the last signature attached hereto (EFFECTIVE DATE), sets forth the mutual intent and limited agreement of Company X Inc. (COMPANY X) and ABC Corp. (ABC). COMPANY X and ABC may be referred to in this LOI as the "Party" or "Parties."

Whereas, ABC and COMPANY X finalize this LOI to enable the Parties to negotiate the execution of a Final Contract to co-develop and jointly manufacture widgets (TECHNOLOGY) for deployment into US markets.

This LOI sets forth two sections. Section I is a non-binding portion of this LOI that itemizes the general understanding and /or intentions of the Parties with respect to subsequent negotiation. The Parties hereby agree to negotiate in good faith, in accordance with the content of Section I, in an attempt to obtain a Final Contract substantially in accordance with this LOI. Section II contains itemized terms and conditions that the Parties agree to be bound by from the EFFECTIVE DATE of this LOI. In addition, both Parties agree that the Final Contract, if such is finally executed by the Parties, shall also set forth terms and conditions substantially similar to that provided in Section II herein.

Section I

This Section I is not intended to be legally binding on either Party, nor does it represent a complete summary of the contractual, material, or commercial aims of the Parties. The contents of this Section I are subject to legal and other professional advice of each Party, approval by each Party's appropriate management and/or Board, and the execution of the subsequent Final Contract.

The following points have been discussed by the parties and are to be used as a basis for negotiation of the Final Contract:

1.0   Project Management
    1.1 ABC and COMPANY X shall each provide a project manager for the duration of the development of the TECHNOLOGY.
    1.2 ABC and COMPANY X shall jointly agree on TECHNOLOGY project requirements, project plans, project schedules and acceptance criteria for the TECHNOLOGY.

2.0   Project Finance
    2.1 ABC shall agree to support TECHNOLOGY development by an NRE (Non-resident external payment in local currency -e.g. rupees) payment not to exceed $10M, and COMPANY X shall agree to reasonable royalties, not to exceed 2% of the average sales price of the software, for each unit of ABC software sold by COMPANY X to a non-ABC party for use with TECHNOLOGY. Each party intends to cover their own travel, lodging, and like expenses during development.

Appendix I - Resources Guide

This appendix is a compendium of information about resources available in the global sourcing marketplace. It is organized into five categories:
- Advisory/Consultants
- Associations/Organizations
  - General and topical
  - By country (including some trade organizations)
- Conferences which occur on a regular basis
- Websites and Electronic Publications
- Additional Related Standards, Guidelines and/or Frameworks to Augment Sourcing References

This compilation is a view of a snapshot in time and is inherently a moving target as companies, organizations and websites come and go. In addition, there may be some that have been left off lists inadvertently. However, having a source of such information, even if it is partial, can be useful.

The following people contributed to the building of this list and we are grateful for their help: Michael Corbett, IAOP; Antonio Crespo, Quint Wellington Redwood; Philip Hadcroft; Monty P. Hamilton, Rural Sourcing; Nandita Harendra, ValueNotes; Laurie A. Henneborn, Accenture; Joe Hogan, Alsbridge ; Arno IJmker, Qint Wellington Redwood; Nasser Jamalkhan, Open Source Development, Ltd.; Arun Jethmalani, Value Notes; Thomas Mead, FirstSource; Chris McLaren, Capgemini; Tony McCrory, Clevercoms; Pradeep Mukherji, Avasant; Kevin Parikh, Avasant; Glenn G. Penaranda, Philippine Trade and Investment Center; Joe Sifferman, Pepsico.

Advisory/consultants

Organization	Web Address
Accenture	http://www.accenture.com/
Alston and Bird	http://www.alston.com
Alsbridge	http://www.als bridge.com/ and http://www.outsourcingleadership.com/
AMR Research	http://www.amrresearch.com/
Archstone Consuting	http://www.archstoneconsulting.com/
Avasant	http://www.avasant.com/
Bierce and Kenerson	http://www.biercekenerson.com/
Blue Highways	http://bluehighways.wordpress.com/about/
Capgemini	http://www.us.capgemini.com/
Deloitte Consulting	http://www.deloitte.com
EquaTerra	http://www.equaterra.com/fw/main/home-6.html
Everest	http://www.everestgrp.com/
E&Y Consulting	http://www/ey.com

Organization	Web Address
EMC Consulting	http//emc.com
First Source	http://www.firstsource.com/
Forrester Resesarch	http://www.forrester.com
Gartner	http://www.gartner.com/technology/home.jsp
Hackett Group	http://www.thehackettgroup.com/
Horses for Sources	http://www.horsesforsources.com/
IDC	http://www.idc.com
IBM Consulting	http://www.IBM.com
ITSqc	http://www.its qc.org/ (Spin off from Carnegie Mellon research ITSqc)
KPMG	http://www.kpmg.com
NEO Advisory	http://www.neo advisory.com/home.php (formerly neoIT)
Offshoring Management	http://www.offshoringmanagement.com
Open Source Development Ltd.	http://www.opensd.co.uk/
Quint Wellington Redwood	http://www.quintgroup.us/Home/1482/
SharedXpertise	http://www.sharedxpertise.com/
Sourcing Board	http://www.sourcingboard.com/
SPG Media Group	http://www.spgmedia.com/
TPI, Inc.	http://www.tpi.net/
Transition Partners	http://www.tpco.us/index.shtml
Vales Consulting Group	http://www.linkedin.com/companies/vales-consulting-group-llc
ValueNotes	http://www.sourcingnotes.com/

Associations/organizations – general and topical

Organization	Web Address
Global Sourcing Council	http://www.gscouncil.org
Human Resources Outsourcing Association,	http://www.hroassociation.org/
IAOP, International Association of Outsourcing Professionals	http://www.outsourcingprofessional.org/default.asp
International Institute for Outsourcing Management, IIOM,	http://int-iom.org/default.aspx
Shared Services and Business Process Outsourcing SBPOA, (Blue Highways)	http://bluehighways.wordpress.com/2007/04/25/sbpoa-the-shared-services-and-business-process-outsourcing-association/
Shared Services and Outsourcing Network SSON	http://www.ssonetwork.com/
Shared Services Benchmarking Association	http://ssbenchmarking.org/
Sourcing Interest Group	http://www.sourcinginterest.org
WITSA, World Information Technology and Services Alliance, Contains lists of information technology associations by country	http://www.wit sa.org/resources/#4 and http://www.witsa.org/v2/

Associations/organizations - by country (some are trade organizations)

Country	Organization	Web Address
Australia	Australia Information Industry Association	http://www.aiia.com.au/
Brazil	BRASSCOM	http://www.brasscom.org.br/
Canada	ITAC, Information Technology Association of Canada	http://www.itac.ca/
	CATA, Canadian Advanced Technology Alliance	http://www.cata.ca/
	Ontario Ministry of Economic Development and Trade	http://www.ontariocanada.com/ontcan/1medt/en/home_en.jsp
China	CISA	http://www.cisanet.org.tw/english
EMEA	(Europe, Middle East, Africa)	
Africa	African Outsourcing Association	http://www.linkedin.com/groups?home=&gid=2388180
	Kenya BPO Society	http://www.kenyabposociety.or.ke/
	Business Process Enabling South Africa	http://www.bpesa.org.za/
	Uganda ICT Outsourcing Services Association	www.uictosa.co.ug
	Ethiopian ICT Development Agency	http://www.eictda.gov.et/
	Telecommunications & Outsourcing Association Mauritius	http://www.otam.mu
	Information Technology Industry Development Agency Egypt	http://www.itida.gov.eg/En/Pages/home.aspx
	Nigerian Export Promotion Council	http://www.nepc.gov.ng/
Bulgaria	BASSCOM	http://www.basscom.org/
Europe	European Outsourcing Association • National Outsourcing Association, http://www.noa .co.uk/ • EOA France, http://www.eoafrance.com/ • EOA Belgium, http://www.eoa -belgium.be/ • EOA Germany, http://www.e-o a.net/deutsch/index.html • The Netherlands, http://www.pla tformoutsourcing.nl • EOA Spain, http://en.wordpress.com/tag/eoa-spain/	http://www.e-oa.net/
Hungary	Hungarian Outsourcing Association	http://www.hoa.hu/index.html
Ireland	Irish Software Association	http://www.software.ie/Sectors/ISA/webisa.nsf/wHome
Portugal	Portugal Outsourcing Associaçao	http://www.portugaloutsourcing.pt/
UK	National Outsourcing Association (NOA)	http://www.noa.co.uk/
India	NASSCOM	http://www.nasscom.in/
Japan	Japan Science and Technology Association	http://www.jst.go.jp/EN/index.html
Malaysia	Outsourcing Malaysia	http://www.outsourcingmalaysia.org.my/

Country	Organization	Web Address
Mexico	CANIETI	http://canieti.org/index.asp?_option_id=908&_option_parent_id=0&_option_level=0&_top=908,
	MexicoIT	http://www.mexico-it.net/
Philippines	ASOCIO Asian-Oceanian Computing Industry Association	http://www.asocio.org
	Business Processing Association of the Philippines (BPA/P)	http://www.bpap.org.ph
	Contact Center Association of the Philippines, Inc. (CCAP)	http://www.ccap.ph
	Game Developers Association of the Philippines, Inc. (GDAP)	http://www.gdap.org.ph
	Medical Transcription Industry Association of the Philippines (MTIAPI)	http://www.mtiapi.com
	Philippine Trade and Investment Center (Many locations worldwide)	http://www.dti.gov.ph/splash.html
Russia	Outsourcing Russia, RUSSOFT	http://www.outsourcing-russia.com/
Sri Lanka	SLASSCOM	http://www.slasscom.lk/
United States	ITAA	http://www.itaa.org/

Conferences – regularly occurring

Conference	Web Address
Annual Arab Outsourcing Conference and Expo	http://www.arab-outsourcing.com/
Conference Board Strategic Outsourcing Conference	http://www.conference-board.org/
e-Service Global Sourcing Conference and Exhibition, Pasay City, The Philippines	http://preview.tinyurl.com/yh5znm7
Evanta	http://www.evanta.com
IDC	http://www.idc.com
Gartner Outsourcing and IT Services Summit	http://www.gartner.com/it/page.jsp?id=754124
Global Clinical Outsourcing Forum focused on trends in the pharmaceutical industry	http://www.globalclinicaloutsourcing.com/Event.aspx?id=250928
Global Sourcing Forum + Expo	http://www.outsource-world.com/
Global Sourcing Summit Sourcing Interests Group	http://www.sourcinginterests.org/i4a/pages/index.cfm?pageid=1
International Outsourcing Forum	http://www.tioforum.com/
IQPC	http://www.iqpc.com
NASSCOM BPO Strategy Summit	http://www.nasscom.in/nasscom/templates/flagshipEvents.aspx?id=56156
Outsourcing World Summit Many IAOP regional summits	http://www.outsourcingprofessional.org/default.asp
Rural Sourcing	http://www.ruralsourcing.com/

Conference	Web Address
SIG Global Summit	http://www.sourcinginterest.org
Smart Sourcing Conference Center for Global Sourcing	http://www.outsourceglobal.org/
World BPO Forum	http://worldbpoforum.com

Websites/electronic publications

(Some of these sites are associated with advisory firms as noted. Descriptions are quoted from each website.)

BPO Voice, http://www.bpovoice.com/page/about-us

"BPOVoice.Com is an ever-growing network of BPO professionals. Its focus is to endow its members with the news and up-to-date information from around the globe with its internal research as well as through knowledge of experts. This makes the resource more robust and gives a third dimension to conventional views on outsourcing business."

FAO Today, http://www.faotoday.com/, finance and accounting outsourcing (SharedXpertise)

"To provide senior executives with unparalleled learning, meeting, and networking experiences on corporate responsibility, human resources and financial management."

Finance Director Europe, http://www.the-financedirector.com/

"Finance professionals from around the world use the website to keep abreast of the latest developments and use our resources to make informed decisions."

Global Services, http://www.globalservicesmedia.com/

"Global Services Media (www.globalservicesmedia.com) is a media platform for the global outsourcing industry.

Global Services Media connects buyers and service providers in the global IT services and BPO industry. Its portfolio of media options includes online website, events, newsletters, microsites, online directory (OsourceBook) and custom solutions.

Established in Feb. '06, Global Services is published by CyberMedia (India) Limited, Asia's largest specialty media and media services company. CyberMedia is engaged in publishing (with 16 publications dedicated to myriad tech areas, such as infotech, telecom, consumer electronics, and biotech), market research, content outsourcing, gaming and media education."

Horses for Sources, http://www.horsesforsources.com/2010/03/2795.html

"Launched in 2007, the Horses for Sources blog has more than 80,000 regular visitors across the global outsourcing industry, and is widely recognized as the leading destination for collective insight, research and open debate of industry issues and developments. Our LinkedIn community is thriving with 9,000 industry professionals sharing views and information daily."

HRO Today, http://www.hrotoday.com/, human resources outsourcing (Shared Xpertise)

"To provide senior executives with unparalleled learning, meeting, and networking experiences on corporate responsibility, human resources and financial management."

IPA World, http://www.ipaworld.com/ (Oxford Intelligence)
"IPA World delivers economic development, trade and investment promotion professionals with personalized information resources and business intelligence. It provides news, leads and investor profiles on companies making Foreign Direct Investment moves, in addition to key content on the latest reports, competitor data, events and jobs in and around FDI. IPA World is the daily information resource for executives involved in attracting foreign investment and promoting local companies abroad. "

Outsourcing Alert: http://www.outsourcing-alert.com

Outsourcing Center, http://www.outsourcing-center.com/ (Everest)
"…is the world's most prominent internet portal for authoritative information on outsourcing. The Center's mission is to build the industry by helping people understand how to create value through outsourcing. "

Outsourcing Institute, http://outsourcinginstitute.com
"Gateway to the outsourcing marketplace"

Outsourcing-Law, http://www.outsourcing-law.com/
"This Site provides a resource for information on legal and regulatory issues in outsourcing law on governance, risk management and compliance."

Outsourcing Leadership, http://www.outsourcingleadership.com/ (Alsbridge)
"…is the unbiased source for information on outsourcing, benchmarking, and shared service."

Sourcing Focus, http://www.sourcingfocus.com/
"…aims to be the first resource that all outsourcing professionals turn to when considering their outsourcing arrangements. The dialogue that this site will create between end users and suppliers will make an invaluable contribution to the outsourcing industry."

Sourcing Magazine, http://www.sourcingmag.com/
"Practical advise for IT and business process outsourcing"

US CHINA Business Solutions, http://www.uschinabiz.com/
US China Business Solutions is focused on connecting businesses in the US and China and provides a full range of services for American and Chinese businesses looking for new opportunities - or new approaches to existing opportunities - in each other's country.

Additional related standards, guidelines and/or frameworks to augment sourcing references

In addition to all of the sites, events, conferences, etc. that focus on sourcing and outsourcing, there are sites that highlight areas that are necessary to make sourcing successful, including such areas as: project management, manufacturing and other quality management, IT service management, security, etc. The following is a list of these related sites (quoted paragraphs taken from each website).

American Purchasing Society, http://www.american-purchasing.com/
"The American Purchasing Society is a professional association of buyers and purchasing managers and was the first organization to establish certification for buyers and purchasing professionals.
Join thousands of buyers, purchasing management, and other purchasing professionals who are members.
Join those who have improved their careers by earning the American Purchasing Society's purchasing certification recognition. Become a Certified Purchasing Professional (CPP), a Certified Professional Purchasing Manager (CPPM), and/or a Certified Professional Purchasing Consultant (CPPC) today. Click on our certification links to find out more!"

Information Technology Infrastructure Library, ITIL, http://www.itil-officialsite.com/home/home.asp
"IT Service Management (ITSM) derives enormous benefits from a best practice approach. Because ITSM is driven both by technology and the huge range of organisational environments in which it operates, it is in a state of constant evolution. Best practice, based on expert advice and input from ITIL users is both current and practical, combining the latest thinking with sound, common sense guidance.
ITIL has recently undergone a major and important refresh project. It is supported by a comprehensive qualifications scheme, accredited training organisations, and implementation and assessment tools."

Institute for Supply Management, ISM, and CPSM (Certified Professional in Supply Management), http://www.ism.ws/
"Founded in 1915, the Institute for Supply Management™ (ISM) is the largest supply management association in the world as well as one of the most respected. ISM's mission is to lead the supply management profession through its standards of excellence, research, promotional activities, and education. ISM's membership base includes more than 40,000 supply management professionals with a network of domestic and international affiliated associations. ISM is a not-for-profit association that provides opportunities for the promotion of the profession and the expansion of professional skills and knowledge."

International Association of Outsourcing Professionals, IAOP, and COP: Certified Outsourcing Professional, http://www.outsourcingprofessional.org/
"The Certified Outsourcing Professional (COP) designation distinguishes individuals as leaders in the field of outsourcing. It powerfully demonstrates that they possess the experience and knowledge required to design, implement, and manage outsourcing initiatives that have a high probability of achieving an organization's intended outcomes.

This professional designation, which focuses on the management process of outsourcing itself, is equally valuable to individuals working as customers, providers, or advisors. It promotes an environment where all of the parties to an outsourcing business relationship have a common and shared professional knowledge, approach and commitment to mutual success."

International Organization for Standardization, ISO, http://www.iso.org/iso/iso_catalogue.htm
"ISO has developed over 18 000 International Standards on a variety of subjects and some

1100 new ISO standards are published every year. The full range of technical fields can be seen from the listing International Standards. Users can browse that listing to find bibliographic information on each standard and, in many cases, a brief abstract. The online ISO Standards listing integrates both the ISO Catalogue of published standards and the ISO Technical programme of standards under development."

ISACA, and COBIT (Control Objectives for Information and related Technology), http://www.isaca.org/template.cfm?section=Overview_and_History

"Since its inception, ISACA has become a pace-setting global organization for information governance, control, security and audit professionals. Its IS auditing and IS control standards are followed by practitioners worldwide. Its research pinpoints professional issues challenging its constituents. Its Certified Information Systems Auditor (CISA) certification is recognized globally and has been earned by more than 70,000 professionals since inception. The Certified Information Security Manager (CISM) certification uniquely targets the information security management audience and has been earned by more than 12,500 professionals. The Certified in the Governance of Enterprise IT (CGEIT) designation promotes the advancement of professionals who wish to be recognized for their IT governance-related experience and knowledge and has been earned by more than 4,000 professionals. The new Certified in Risk and Information Systems Control (CRISC) designation is for IT professionals who identify and manage risks through the development, implementation and maintenance of information systems controls. ISACA publishes a leading technical journal in the information control field, the ISACA Journal. It hosts a series of international conferences focusing on both technical and managerial topics pertinent to the IS assurance, control, security and IT governance professions. Together, ISACA and its affiliated IT Governance Institute lead the information technology control community and serve its practitioners by providing the elements needed by IT professionals in an ever-changing worldwide environment."

ITSqc, and eSCM, http://www.itsqc.org/

"ITSqc, LLC, the spin-off from Carnegie Mellon University created to promote best practice models for the global IT-enabled services industry, was founded to extend the impact of the eSourcing Capability Models (eSCM-SP for service providers and eSCM-CL for client organizations). The eSourcing Capability Models were originally developed at Carnegie Mellon University with participation from leading provider, client, and advisory organizations. ITSqc, LLC, provides support for these Models, by training professionals about the Models, the eSCM-based methods for determining organizational capabilities, and related professional education programs. ITSqc, LLC, is working with strategic partners and Authorized Organizations to support global adoption of the eSourcing Capability Models."

Office of Government Commerce, OGC, http://www.ogc.gov.uk/

"The Office of Government Commerce (OGC) is an independent office of HM Treasury, established to help the UK Government deliver best value from its spending. The OGC works with central Government departments and other public sector organisations to ensure the achievement of six key goals: Delivery of value for money from third party spend; Delivery of projects to time, quality and cost, realising benefits; Getting the best from the Government's £30bn estate; Improving the sustainability of the Government estate and operations, including reducing carbon emissions by 12.5% by 2010-11, through stronger performance

management and guidance; Helping achieve delivery of further Government policy goals, including innovation, equality, and support for small and medium enterprises (SMEs); And driving forward the improvement of central Government capability in procurement, project and programme management, and estates management through the development of people skills, processes and tools."

Prince2, http://www.prince2.com/
"PRINCE2 is a process-based approach for project management, providing an easily tailored and scalable project management methodology for the management of all types of projects. The method is the de-facto standard for project management in the UK and is practiced worldwide."

Project Management Institute, PMI, http://www.pmi.org/Pages/default.aspx
"Making project management indispensible for business results"

Senior Professional in Supply Management Program, SPSM Cerification,
http://www.nextlevelpurchasing.com/
"Earning your SPSM® Certification is the action to take if you want to bring the most modern purchasing practices into your organization and achieve your career potential. From reverse auctions and eProcurement to strategic sourcing to improving supplier performance and more, you will learn exactly how to deliver results for your employer. "

Six Sigma, http://www.sixsigmaonline.org/index.html
"Six Sigma has both management components and technical components. Using this dual approach allows for everyone to have a role in making the Six Sigma plan a success.
The management side focuses on using the management system to line up the right projects and match them with the right individuals. Management also focuses on getting the right goals and process metrics to insure that projects are successfully completed and that these gains can be sustained over time.
The technical side focuses on enhancing process performance using process data, statistical thinking, and methods. This focused process improvement methodology has five key stages: Define, Measure, Analyze, Improve and Control."