

Creating a Selection Framework to Align Sourcing Options with Business Goals – Part I

By: Ian S. Hayes, Clarity Consulting, Inc.

Sourcing options are expanding, but is IT selecting ones that promote business goals?

- As sourcing proliferates, IT managers are increasingly judged by their ability to broker and managing sourcing arrangements rather than by their technical prowess.
- To optimize sourcing efforts, gain economies of scale and achieve higher levels of sourcing maturity, IT organizations need a proactive strategy for selecting among options.
- Establishing a framework for choosing sourcing alternatives, one that reflects corporate objectives, gives IT organizations a way of ensuring that their choices are aligned with the rest of the business.

With a plethora of sourcing options, from buying or renting software, to outsourcing services and business processes, IT has enormous flexibility in addressing functional or technical needs. But this flexibility also increases the complexity and risks of the selection process. IT's ability to make optimal choices, closely aligned with business objectives, assumes critical importance.

In the past, IT organizations picked an option based upon its ability to meet the specific needs of the project at hand. In today's diverse, multi-sourced, multi-vendor, multi-project environment, this approach is seriously flawed. It optimizes decisions on the micro rather than the macro level, failing to take advantage of synergies across projects. It assumes that the people involved in choosing an option are well-versed in all aspects of the decision, from business strategy to option features, while few people possess that degree of knowledge. It gives decision makers leeway to promote their own interests over those of the company, leading to conflicts of interest. It ignores the potential benefits of aggregating sourcing decisions, failing to capitalize on economies of scale. It hampers IT organizations in identifying and replicating best practices, leaving them with immature sourcing capabilities.

Instead of making ad hoc or individualized sourcing decisions, IT needs a framework for effectively selecting sourcing options based upon their alignment with business objectives. Part I of this article discusses the preparatory steps needed to create such a framework. Part II examines the creation and application of the framework.

Preparatory Steps to Create a Sourcing Selection Framework

To choose the best sourcing option in a given situation, an IT organization needs some background information. It must be up-to-date with corporate strategies and objectives to ensure that its decisions will foster those goals. It must be aware of and work within any

constraints that will limit its ability to pursue certain sourcing options. And, it must be familiar with the universe of potential options among which it can choose if it is to make the best possible matches.

- **Corporate objectives.** Every project or sourcing candidate has specific needs or objectives that must be met. As important as these needs are, they are surpassed by the needs of the company. Corporate objectives are the yardstick by which all decisions within the company are measured. If a sourcing decision does not advance those objectives, then it is ineffective, even if it succeeds according to its own terms. Achieving consensus on objectives is a challenge, and objectives may change over time, but common ones include improving productivity and efficiency, becoming more competitive, lowering operating costs, hastening time-to-market, improving quality or growing business while keeping costs constant.
- **Constraints.** The factors that inhibit sourcing or restrict or preclude certain options are known as constraints. Every company has its own set of constraints, and it is important to deal with them upfront rather than doom sourcing decisions to fail. Culture, organizational structures, personnel policies, politics, regulatory or legal issues and risk tolerance are constraints that will affect the scope and types of sourcing decisions. Many seemingly insurmountable constraints, if within a company's control, can be overcome with time, allowing more work to become eligible for sourcing, increasing the pool of options, and broadening the benefits. Other constraints are a permanent part of the sourcing landscape, and companies will either have to live with them (in the case of laws or regulations) or find workarounds.
- **Sourcing options.** There is no shortage of sourcing options among which to choose. The challenge is to create a short list of the most viable candidates. An IT organization must have a good grasp on *what* it plans to source (services, functionality, processes, etc.) and *who* can help (ISVs versus service providers; offshore/nearshore/onsite resources; internal staff, etc.) and the relative strengths and weaknesses of each option. The list of sourcing options will be further analyzed and vetted when the selection framework is applied to a given candidate.

With this information in hand, an IT organization is poised to create its delivery selection framework and develop the screen that will help it match each sourcing candidate to the optimal delivery option, a subject discussed in Part II of this SmartTip.

Action Items

- Prepare for creating a sourcing selection framework by gathering background information.
- First, identify current, overall business objectives and goals.
- Second, consider any internal or external constraints that might inhibit sourcing or restrict the choice of options.
- Third, assemble a list of potential sourcing options and/or partners.

About Clarity Consulting, Inc.

Clarity Consulting, Inc. is a management consulting firm specializing in Information Technology strategies and emerging trends in areas such as outsourcing, process redesign, efficiency enhancement, productivity and service level metrics, service offering development, and IT product and service positioning..

For more information about our services and products, please visit our website www.clarity-consulting.com or call us at 1-978-927-0313.