

THE SOURCING

**DECISION
TREE**

**ABOUT
SOURCING**

MATRIX

TO ASSESS
SOURCING
OPTIONS

COMMONLY
USED ARE



SOURCING
MATRIXES

Sourcing matrixes

“Classical” models

OUTSOURCING DECISION MATRIX

Performance relative to market	strong	outsource for scale advantage and Increased focus on differentiators	keep in-house
	weak	outsource for scale and capabilities	form more exclusive alliance to obtain capabilities
		commodity	differentiator
		Importance as a differentiator	

Source: IAOP OPBOK 2010

OUTSOURCING DECISION MATRIX

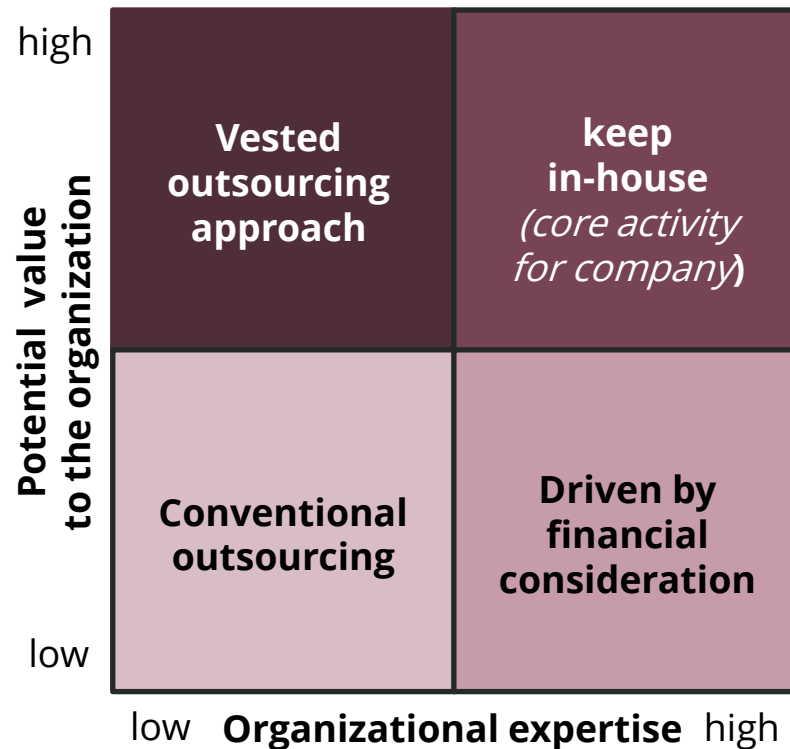
Loss in capabilities, relationships or infrastructure is business critical	YES	Outsource but manage very carefully (keep mngt Capability In tact)	keep in-house
	NO	outsource	Outsource carefully (keep strategic options open)
		Loss in capabilities, relationships or infrastructures is irrecoverable	
		NO	YES

Source: Vivek Sood 2014

Sourcing matrixes

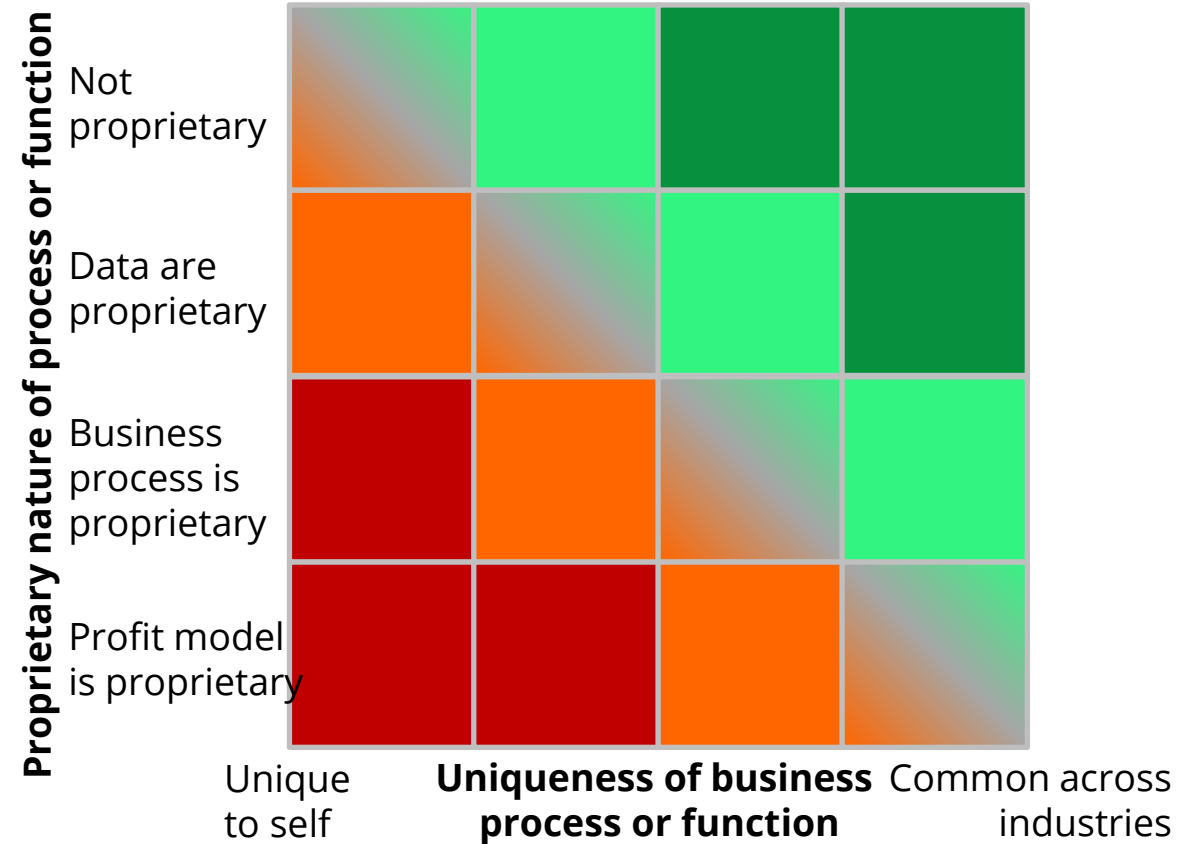
"Classical" models

OUTSOURCING DECISION MATRIX



Source: Visatek & Ledyard, 2010

OUTSOURCING DECISION MATRIX



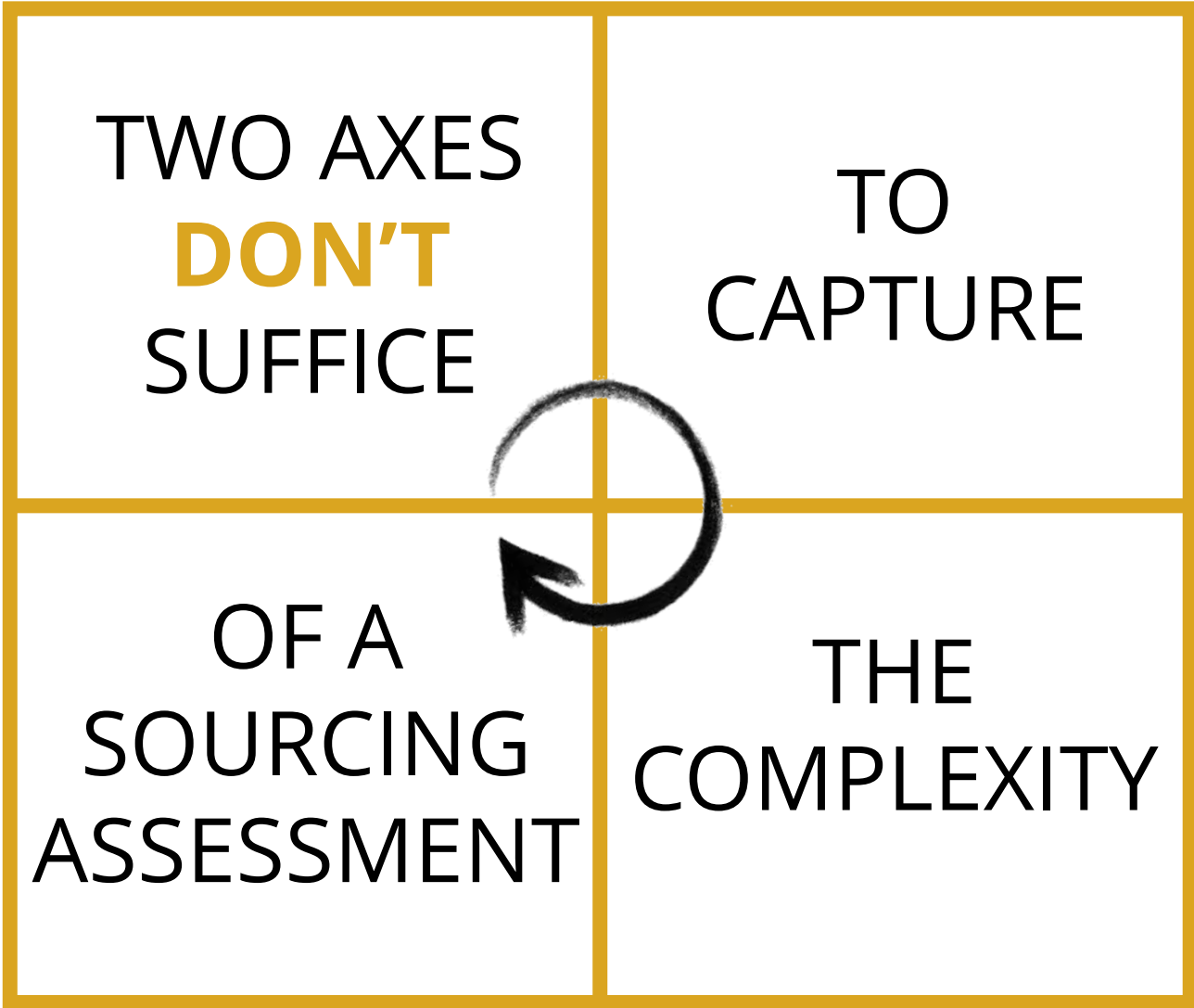
Source: Gottfredson, et al, Harvard Business Review, 2015

But

**SOURCING IS
MULTI
DIMENSIONAL**



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**TWO
AXES**

**INSTEAD OF
COMBINING
MULTIPLE
MATRIXES**





A
DECISION
TREE

is more
effective

Sourcing assessment

Sourcing decision tree explanation 1 of 4

ORIGIN

In 1996 Willcocks, Fitzgerald and Feeny published an article in the magazine “Investing in Information Systems: Evaluation and Management” called:

“Sourcing decisions: developing an IT outsourcing strategy”.

The content of this article was popularized by Guy Fitzgerald in the sense that he drafted a decision tree condensing and summarizing the essence of their research.

DECISION TREE

The decision tree is first and foremost meant as a tool to quickly (but rudimentary) assess whether a single candidate object for sourcing is at all suitable for outsourcing.

- Rudimentary, because the tree focusses on what Willcocks et al. see as the most influential factors to a sourcing decision.
Notwithstanding other factors playing a role.
- Single, because the tree is used in relationship to one single object. E.g. application management, data centre, etc.

The tree asks five questions to be answered by ‘yes’ and ‘no’ leading to the advice to in- or outsource.

Sourcing assessment

Sourcing decision tree explanation 1 of 4

Question 1: IS IT STRATEGIC?

When the object of interest is considered “strategic”, as in vital for the company (its existence, its capacity to execute / deliver), the decision tree ends right there with the advice to keep the object in-house.

What is vital can be assessed along the lines of:

Supply risk and ***financial impact***.

The matrixes presented earlier help to assess whether an object is or is not strategic.

When something is vital / important to you don't outsource it, you do it yourself!

Question 2: DOES IT MAKE A DIFFERENCE?

When the object of interest is considered ‘a differentiator’, in other words it is something giving the company:
A competitive edge
An advantage over competitors
Something unique
Then the tree signals that the object of interest should not be outsourced.



NEVER OUTSOURCE A PROBLEM

"Often, the quickest way to get a big problem is to outsource a small one."

Bob Carlson
former group head of IT and telecommunications at HSBC

Maybe you have heard of the motto

***“NEVER OUTSOURCE
A PROBLEM”***

The next three questions address whether the object of interest is considered “a problem” and therefore can or should not be outsourced.

Sourcing assessment

Sourcing decision tree explanation 1 of 4

Question 3: IS IT STABLE?

Stability refers to aspects like, does the service / products runs smoothly. In other words:

- Is it **reliable** or are there a lot of incidents & problems;
- Is it **available** conformant to specs.;
- Is it **resilient**, in other words does a problem/incident cause major disruption or is the service / product up and running in no time.

The more stable the object of interest and/or its environment the more this contributes to the likelihood of the object being suitable for outsourcing.

Question 4: IS IT MATURE?

Indicators of maturity are:

Releases being on a level not lacking to far behind the latest version;

Patches, updates, notes being implemented within a few months after becoming available;

The pursuit of standardization: e.g. not multiple operating systems of multiple vendors and multiple version (Linux, Unix, Microsoft or SharePoint 2007, 2010 and 2013). The pursuit of rationalisation: tying to control complexity by keeping the number of instruments supporting a business process as minimal as possible.

The more mature the object....the more suitable for outsourcing.

Sourcing assessment

Sourcing decision tree explanation 1 of 4

Question5: IS IT HIGHLY INTEGRATED?

Integrated refers to the extent to which the object of interest is entangled with its environment. Indicators of high integrations are:

- The ***number of interfaces*** from and to the object (the more interfaces the more integrated);
- The ***number of parties*** (client, suppliers, subcontractors, etc.) involved in delivering, running and/or maintaining the object.

The less integrated the object of interest is the more this contributes to the likelihood of the object being suitable for

WHAT IF THE OUTCOME IS UNSATISFACTORY?

The tree guides the user to an outcome. Either insource or outsource. But what if the outcome, e.g. insource, is not to the liking of the client who want to outsource?

In line with the motto of “never outsource a problem” one needs to ***fix the problem(s)***. Most likely by executing one or more projects to:

- Make an instable situation into a stable situation by improving reliability, availability and/or resilience;
- Transform an immature setup into a mature one, by standardizing and rationalizing;
- Turn a highly integrated environment into one with reduced interfaces and parties.

Images courtesy of:

Title slide

~ *Lone tree by Andi Campbell-Jones*

Rubix cube slide

~ *Day eight Rubix cube by Erwin Co*

Split slide 1 & 2

~ *Microsoft office online image gallery*

Never outsource a problem slide

~ *Stock image from: imgkid.com*

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