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Guidance on outsourcing

Lignes directrices relatives à l'externalisation

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Foreword

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The procedures used to develop this document and those intended for its further maintenance are described in the ISO/IEC Directives, Part 1. In particular the different approval criteria needed for the different types of ISO documents should be noted. This document was drafted in accordance with the editorial rules of the ISO/IEC Directives, Part 2 (see www.iso.org/directives).

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Any trade name used in this document is information given for the convenience of users and does not constitute an endorsement.

For an explanation on the meaning of ISO specific terms and expressions related to conformity assessment, as well as information about ISO's adherence to the WTO principles in the Technical Barriers to Trade (TBT) see the following URL: Foreword - Supplementary information

The committee responsible for this document is Project Committee ISO/PC 259, *Outsourcing*.

Introduction

Around the globe, outsourcing is increasingly an opportunity to add value, tap into a resource base and/or mitigate risk. This International Standard aims to provide general guidance for outsourcing for any organization in any sector. It provides a vocabulary for outsourcing practitioners across all industry sectors. It includes typical outsourcing concepts to improve the understanding of all stakeholders, by providing a set of practices that can be used to manage the outsourcing life cycle.

Outsourcing is a business model for the delivery of a product or service to a client by a provider, as an alternative to the provision of those products or services within the client organization, where:

— the outsourcing process is based on a sourcing decision (make or buy);

— resources can be transferred to the provider;

— the provider is responsible for delivering outsourced services for an agreed period of time;

— the services can be transferred from an existing provider to another;

— the client is accountable for the outsourced services and the provider is responsible for performing them.

This International Standard starts with the precondition that an organization has already established a sourcing strategy and concluded that outsourcing might be a beneficial approach.

Continuation or termination of an outsourcing arrangement forms an integral part of the outsourcing life cycle. Continuation commences as long as the outsourcing business case is valid and the outsourcing option is feasible within the sourcing portfolio. The decision to continue or terminate outsourcing as a sourcing strategy option is an outcome from the sourcing process of the client and is outside the scope of this International Standard.

This International Standard:

a) covers the entire outsourcing life cycle in four phases, as depicted in Figure 2, and provides definitions for the terms, concepts, and processes that are considered good practice;

b) provides detailed guidance on the outsourcing life cycle, processes and their outputs;

c) provides a generic and industry independent foundation, which can be supplemented and tailored to suit industry-specific requirements;

d) can be used before, during and after the decision is made to outsource;

e) aims to enable mutually beneficial collaborative relationships.

The description of each outsourcing phase provides information for the client side as well as the provider side.

Guidance on outsourcing

1 Scope

This International Standard covers the main phases, processes and governance aspects of outsourcing, independent of size and sectors of industry and commerce. It is intended to provide a good foundation to enable organizations to enter into, and continue to sustain, successful outsourcing arrangements throughout the contractual period.

This International Standard gives guidance on:

— good outsourcing governance for the mutual benefit of client and provider;

— flexibility of outsourcing arrangements, accommodating changing business requirements;

— identifying risks involved with outsourcing;

— enabling mutually beneficial collaborative relationships.

This International Standard can be tailored and extended to industry-specific needs to accommodate international, national and local laws and regulations (including those related to the environment, labour, health and safety), the size of the outsourcing arrangement and the type of industry sector.

This International Standard recognizes that the various stakeholders act separately in some phases of the outsourcing life cycle and together in others. It is not possible to exclusively allocate processes within the outsourcing life cycle to either client or provider. For each outsourcing arrangement, process responsibility is intended to be interpreted accordingly and tailored by the user.

This International Standard is intended to relate to any outsourcing relationship, whether outsourcing for the first time or not, using a single-provider or multi-provider model, or draft agreements based on services or outcomes. Processes mentioned in this International Standard are intended to be tailored to fit the outsourcing strategy and maturity of the client and provider organizations.

This International Standard is intended to be used by outsourcing clients, providers and practitioners, such as:

— decision makers and their empowered representatives;

— all stakeholders engaged in facilitating the creation and/or management of outsourcing arrangements;

— staff at all levels of experience in outsourcing.

2 Normative references

There are no normative references.

3 Terms and definitions

For the purposes of this document, the following terms and definitions apply.

3.1
baseline
agreed reference value or set of values which can be derived from past experience, often used for comparing with ongoing performance data, values and/or outcomes

3.2
business case
structured proposal for business improvement that functions as a decision package for decision-makers

Note 1 to entry: The business case should explain why outsourcing is required for the business and what the product or service is going to be. It should include an outline of the return on investment (ROI), or a cost/benefit analysis, the performance characteristics, major project risks and the opportunities. The business case addresses, at a high level, the business needs that the outsourcing project seeks to meet. It includes the reasons for outsourcing, the expected business benefits, the options considered with reasons for rejecting or carrying forward each option, the expected costs of the outsourcing project, a gap analysis and the expected risks.

[SOURCE: ISO/TR 25104:2008, 3.3, modified]

3.3
client
individual or group of organizations entering into an agreement with a provider for products and services for their own use

[SOURCE: ISO 24803:2007, 3.2, modified]

3.4
due diligence
detailed assessment of one or more business processes or production lines, culture, assets, liabilities, intellectual property, judicial and financial situation in order to make the outsourcing decisions

3.5
framework
documented set of guidelines to create a common understanding of the ways of working

3.6
innovation
implementation of a new or significantly improved product (good or service), or process, new marketing method, or new organizational method in business practices, workplace organization or external relations

[SOURCE: CEN/TS 16555-1:2013, 3.1]

3.7
innovation and transformation committee
joint management team that governs the process of managing innovation and transformation in the outsourced processes in order to enhance delivered value

Note 1 to entry: The committee follows a mutually accepted procedure of evaluating the potential value impact, assessing effort, risk, time to market and sharing of costs and rewards.

Note 2 to entry: The committee usually has representatives from the client and the provider.

3.8
knowledge acquisition
process of locating, collecting, and refining knowledge and converting it into a form that can be further processed by a knowledge-based system

[SOURCE: ISO/IEC 2382-31:1997, 31.01.04]

3.9
knowledge transfer
structured process of imparting pre-existing or acquired information to a team or a person, to help them attain a required level of proficiency in skill

Note 1 to entry: Knowledge transfer is not a synonym for training.

3.10
outsourcing
business model for the delivery of a product or services to a client by a provider

3.11
outsourcing arrangement
contractual arrangement between two or more organizations for the provision of specific services for a fixed period of time, where one organization is the client for those services and the other organization is the provider

3.12
outsourcing governance
joint set of structures and processes that are implemented to ensure effective leadership and management, which enables an outsourcing arrangement to achieve its joint objectives within the framework of agreed values

3.13
outsourcing governance framework
outline of guidelines and processes that enables continual monitoring and management of outsourcing arrangements to sustain value delivery between client and provider

Note 1 to entry: In order to keep it relevant in a changing environment, the governing committee of the two organizations may modify the governance framework occasionally.

3.14
outsourcing model
formalized concept of the scope of an outsourcing arrangement and how it is structured and carried out

3.15
provider
organization that offers a product or service to a client

Note 1 to entry: The term "provider" within this International Standard is used in a generic, singular fashion. In practice, however, outsourcing arrangements may consist of many stakeholders or sub-contractors involved in one outsourcing arrangement. Often they are supplemented by advisors and consultants facilitating the outsourcing process.

3.16
responsibility matrix
chart that describes the participation by various roles in completing tasks or deliverables for an outsourcing arrangement

3.17
retained organization
organizational units and/or employee roles, retained within the client organization, providing the client interface for the provider

3.18
service
product
result of activities performed by the provider according to the agreed scope, service levels and client demands

Note 1 to entry: Depending on the industry sector, it may be appropriate to use the term "product" rather than "service". Each industry uses specific terminology. This is also true for the distinction of delivering a product or a service. Theoretically, any product or service is in fact a hybrid of both worlds. In the interests of readability, only the term "service" is used throughout this International Standard.

3.19
service catalogue
list of services that an organization provides to its clients or employees

Note 1 to entry: Each service within the catalogue typically includes a description of the service, timeframes or service level agreements for fulfilling the service, who is entitled to request/view the service, costs (if any), and how to fulfil the service.

3.20
service level agreement
SLA
documented agreement between the client and provider that identifies services and service targets, including prerequisites for service levels and measures for performance

3.21
sourcing strategy
organization's action plan to obtain products and services that are essential to run its business in the most effective and efficient manner

3.22
standard operating procedure
SOP
authorized, documented procedure or set of procedures, work instructions and test instructions for production and control

[SOURCE: ISO 15378:2011, 3.58]

3.23
transformation
process of profound and radical change that orients an organization in a new direction and takes it to an entirely different level of effectiveness

Note 1 to entry: Unlike incremental change or continual improvement, transformation implies little or no resemblance with the past configuration or structure.

3.24
transition
activities for migrating agreed upon knowledge, assets, liabilities, systems, processes and people from the client to the provider in order to create desired delivery capability

3.25
value
quantifiable financial or non-financial gain

4 Outsourcing introduction and model

4.1 Contextual model of outsourcing

Organizations are complex systems, continually adapting to changes in their environment (see Figure 1). They face many forms of pressure including those from ever-changing markets, political, social, economic and technological factors. In order to survive, organizations need to constantly update their strategy and realign to meet the demands from these complex challenges. They are in a state of constant flux, adapting to the external changes and requirements. This may involve outsourcing arrangements. This International Standard reflects the need to stay continuously aligned with the business and sourcing strategy, building in the capability for change from the start of the outsourcing life cycle. This is done not only by providing guidance in innovation, transformation and change, but also by providing a joint outsourcing governance framework.

Figure 1 — Contextual model of outsourcing

It is common for organizations to have a business strategy and several functional strategies in order to fulfil the overarching goals of the organization. By adding sourcing strategy in this process, the organization is able to make a strategic choice on whether or not to have particular business functions provided in-house or by an external organization.

4.2 Reasons for outsourcing

Outsourcing gives organizations several business opportunities. A client's decision to outsource is typically not driven by a single reason. The following list gives the main reasons why organizations outsource:

a) to manage costs;

b) strategy changes: sometimes an organization redefines its business on what to create internally and what may be provided externally: processes formerly executed internally become eligible for outsourcing;

c) access capabilities that are not available in-house;

d) transfer risks: especially in volatile markets clients may transfer risks by increasing the share of variable cost, e.g. by transferring assets and/or staff benefitting from flexibility and scalability on the provider side.

4.3 Risks of outsourcing

Outsourcing has advantages but also carries a number of risks. The key risks vary from sector to sector. Some of the risks may be present, but the impact of the risk differs for each service that is eligible for outsourcing. Management should assess the presumed organizational value and risks before reaching an informed outsourcing decision. The following key risks need to be considered within the outsourcing life cycle in order to improve the chance of success.

a) Absence of a strategy: Outsourcing contributes a risk to the overall effectiveness of the organization if no formal strategy and vision is set by the leadership of the client. Outsourcing should be a carefully chosen strategy based on sound business decisions.

b) Poor understanding of environment dynamics: As explained in 4.1, an organization constantly struggles to create equilibrium with its surroundings. In many cases this may affect the outsourcing arrangement, forcing changes to be able to deliver value. Adaptability becomes more important when dealing with outsourcing core processes, for example by adding innovation or change services to the outsourcing agreements. Outsourcing governance, therefore, should be more important to facilitate collaborative business relationships.

c) Blind focus on cost reduction: Although outsourcing can lead to substantial cost reduction, an organization should pay attention to the overall impact and risks of outsourcing. By doing this organizations can factor in issues that could occur, particularly those who are relatively inexperienced in outsourcing and who often tend to focus too much on cost reduction. Organizations tend to underestimate the set of outsourcing governance processes and the staff required to manage the demand and integration as well as monitoring and steering of the provider. This often results in an overly optimistic or unrealistic business case.

d) Underestimated business impact: outsourcing: Especially when it concerns core business processes, can have a profound and unexpected effect on a client's culture, work morale and business relationships. Therefore, clear visible strategic leadership is required to guide the organizational change.

e) Poor cultural compatibility: An outsourcing arrangement generally covers a certain period. During this period, client and provider should collaborate on different levels. If the organizational and management culture differ significantly, conflicts and disputes are often managed in an ineffective manner. A client should understand the work dynamics in order to be able to search for a suitable provider.

f) Poor understanding of the process: Transferring responsibility and control are key elements of outsourcing. During an outsourcing arrangement, the client's understanding of the process may fade. People may change jobs and the provider may make changes to the process. Clear understanding of the processes from start to finish is important for a successful start and the inevitable exit. Hence, it is important to understand the arrangements around knowledge management and intellectual property.

g) Poor relationship management: Outsourcing is by definition a relationship between stakeholders and the success of the relationship is the most fundamental factor in the success of the arrangement for both stakeholders. A successful relationship should often ensure that problems, which will inevitably arise in every arrangement, are able to be effectively addressed. A poor relationship may, at worst, even result in the termination of what is a potentially successful collaboration.

4.4 Outsourcing life cycle model

In order to obtain the desired value and mitigate risks associated with outsourcing, this International Standard provides a high-level, relatively easy-to-comprehend outsourcing model which aims to support stakeholders to understand:

— the outsourcing life cycle and outsourcing governance;

— the joint processes (demand and supply) that the client and provider should establish, managing the outsourcing arrangement;

— how they can ensure flexibility to changing business requirements;

— how they can ensure the delivery of desired value;

— how they can ensure collaborative business relationships.

4.4.1 Overview of the outsourcing life cycle model

4.4.1.1 General

Outsourcing governance is at the heart of the outsourcing life cycle model. Figure 2 highlights its function in continuously monitoring, evaluating and directing all phases of the outsourcing life cycle. Good governance practices are at the core of the outsourcing life cycle model.

Each of the four phases contains a set of processes which address:

a) its purpose;

b) main activities to be performed;

c) key success factors;

d) main inputs and outputs.

This set of processes can be tailored to meet the requirements of any outsourcing arrangement.

Each process within a phase is written in a similar fashion addressing the purpose of the process and the main activities to be performed, the key success factors and the main inputs and outputs.

This subclause identifies, apart from several outsourcing governance practices, additional items that contribute to good governance.

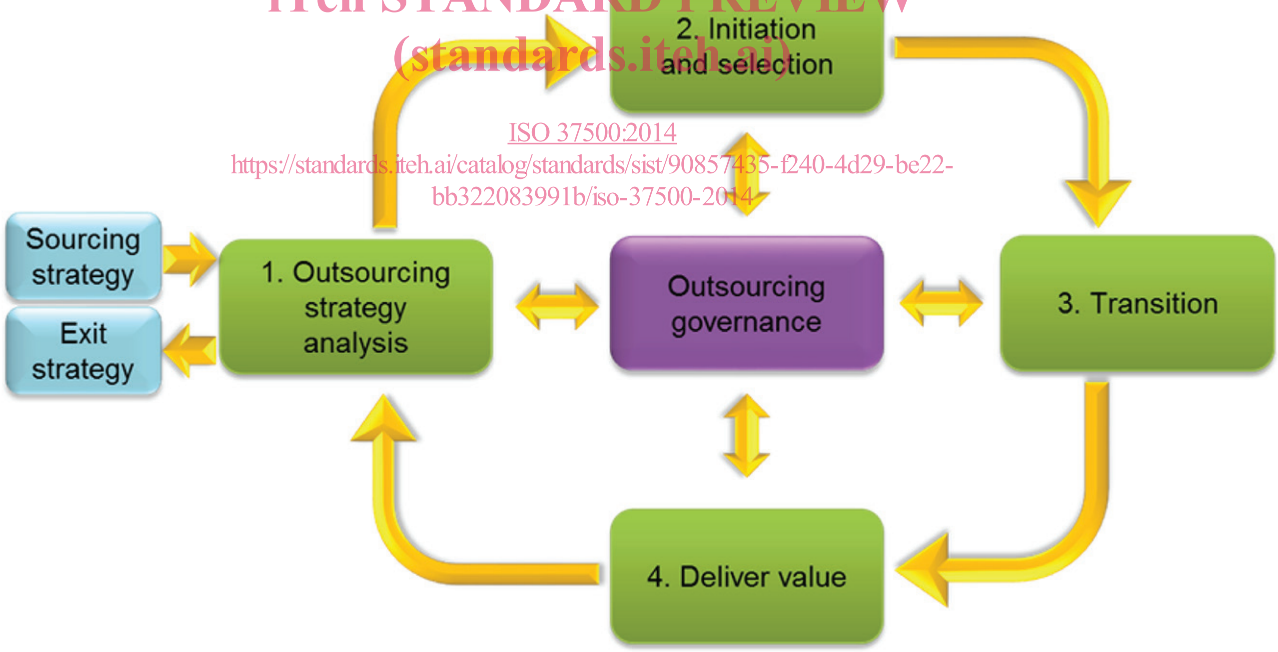

Figure 2 — Outsourcing life cycle model

4.4.1.2 Outsourcing governance

Outsourcing governance is at the heart of the outsourcing model. The outsourcing governance practices are an enabler for effective strategic leadership of the outsourcing arrangement and the realization of its desired value.

Within the outsourcing life cycle, governance involves the development of processes which bring together the appropriate level of management from both the client and the provider(s) to work side by side on an ongoing basis in order to maintain an optimal alignment of ambition and interest of all stakeholders involved in the outsourcing relationship throughout the outsourcing life cycle.

4.4.1.3 Phase 1: Outsourcing strategy analysis

The first phase is “outsourcing strategy analysis”. The purpose of this phase is to initiate and evaluate outsourcing opportunities and establish and maintain an outsourcing strategy that meets business goals and requirements. Only then will the client be able to fully assess the value that outsourcing might bring to their organization and the feasibility of the outsourcing options available. The nature of this phase is predominantly client-based.

4.4.1.4 Phase 2: Initiation and selection

The second phase is “initiation and selection”. The purpose of this phase is to specify the requirements for proposed services to outsource, to select adequate providers, and to successfully establish the outsourcing agreements. It should be fully aligned with 4.4.1.3 with the governance practices being the link between the processes and this being led and driven by senior management. In this phase the provider proposes an outsourcing solution based on client requirements. Within this phase several frameworks are to be identified and subsequently created in order to be able to deliver the services and manage the outsourcing arrangement. The developed business case will be changed according to the experience during transfer. If the business case imposes too much risk or uncertainty, the outsourcing process could be stopped and information fed back to phase 1 for analysis of all outsourcing opportunities. If risks are acceptable agreements should be signed, moving to the next phase. All decision documents are submitted to the outsourcing governance processes for approval by senior management.

4.4.1.5 Phase 3: Transition

The third phase is “transition”. The purpose of this phase is to enable the provider to establish delivery capabilities in their environment. These are used in phase 4 (“deliver value”). The transition may include transfer of staff, assets and related change management procedures. The client and provider work intensively together during the “pilot and handover” process. Thereby the provider is able to fulfil their service delivery responsibility agreed with the client. After establishing the delivery and outsourcing governance processes, these are tested in order to ensure that the processes are delivering the required quality and performance. These tests should also demonstrate that the outsourcing governance committees are provided with the adequate information. Governance committee members should be trained and be formally committed to their roles and responsibilities.

By formal sign-off, the responsibility is transferred to the provider and residual risks are assessed and accepted. The developed business case should be changed according to the experience during transfer. A new business case baseline is set after incorporating all experience during transition. During the “transition” phase it might become clear that outsourcing is more expensive and a viable business case is not being achieved. Although difficult, abandonment of the outsourcing process should be considered. This means that phase 1 is to be triggered, reassessing the outsourcing strategy benefits and creating a decision document for the leadership.

4.4.1.6 Phase 4: Deliver value

The fourth phase is “deliver value”. The purpose of this phase is to ensure that both the client and provider realize and sustain the value of the outsourcing arrangement according to the defined business case and ambitions. In this phase the focus is predominantly on the provider and service provision is monitored by the client. The name of this phase reflects the fact that value to the client or provider may change over time and is not expressed in an agreement alone. When an agreement is made for a longer period, alignment of ambitions and interest within outsourcing governance will trigger changes to be made in “deliver value”.

Therefore, a diverse set of processes should be run in order to achieve results, ensure consistent performance and improve where possible. In this phase some processes may not be required for all outsourcing arrangements. For example processes such as “deliver innovation” and “deliver transformation" may not be required in all cases. These processes are identified as complementary processes. Those services ensure the capability to create and implement radical changes to the service portfolio and meet changing client and market demands. This phase ends with preparation of the contract evaluation which will be used in governance to assess the results.

When conducting an exit from the current outsourcing arrangement, 5.5.4.5 and Annex I provide guidance on the different scenarios.

4.5 Summary of main outsourcing life cycle outputs

Each phase of the outsourcing life cycle provides for main outputs that are re-used in the next phase.

Apart from phase-specific outputs, the business case is one of the most important output documents that exists in each phase of the outsourcing life cycle. The business case starts at the first phase by creating the initial high-level business case. It includes both qualitative and quantitative aspects. In the second phase the business case is detailed. If the business case does not show the required benefits or indicates too much business risk, the outsourcing process should be re-evaluated or terminated. During transition, the business case touches reality and should be fine-tuned and baselined to reflect the possible value during the "deliver value" phase. During delivery, the business case should be updated periodically so it incorporates the latest transformations, changes and improvement results. The business case ultimately plays a vital role in evaluating the outsourcing arrangement and in making a decision whether or not to continue.

The agreement is another important output of the outsourcing life cycle which documents the tangible, rational elements of the arrangement. If conflict arises and escalates between client and provider, the agreement plays a vital role in managing liability and/or mediation. However, significant conflicts should be addressed through negotiation at the earliest possible stage. Therefore this International Standard stipulates the importance of business relationship processes within outsourcing governance to create a continuous alignment of ambitions and interests of all stakeholders, and to be resilient in resolving business case setbacks and disputes.

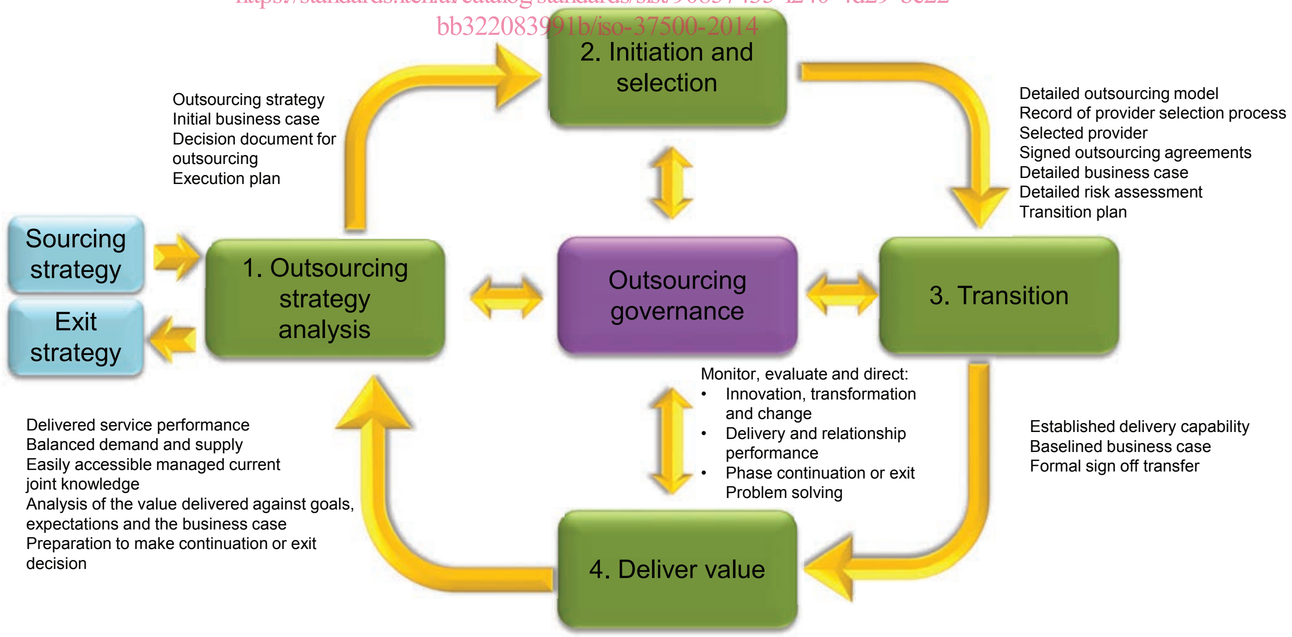

Figure 3 — Main outputs of the outsourcing life cycle output model

4.6 Repeating the outsourcing life cycle

The end of phase 4 in the outsourcing life cycle model is often the beginning of phase 1 as the outsourcing life cycle repeats. The next iteration of the outsourcing life cycle is depicted in Figure 2 by the arrow

