ISO 37500

Guidance on outsourcing

First edition
2014-11-01

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Executive summary

- Outsourcing is a business model which has been adopted across all industry sectors around the globe.

- Outsourcing enables an organization to achieve business objectives, add value, tap into a resource base and/or mitigate risk.

- The application of this guidance provides all the parties involved in outsourcing with the assurance that business objectives can be achieved through utilization of common governance and processes throughout the outsourcing lifecycle.

- This outsourcing guidance can help organizations to identify the business case for outsourcing, select the most appropriate partner, transition to the new operating model and make sure that value is delivered through effective governance from the relationship.

- An outsourcing arrangement that meets business goals and requirements throughout the outsourcing lifecycle can ensure effectiveness and efficiency for the organization.

- The benefits of outsourcing can include managing costs, supporting business strategy, accessing capabilities not available in-house, transfer of risks, increasing development opportunities, obtaining flexibility and scalability.

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Foreword

ISO (the International Organization for Standardization) is a worldwide federation of national standards bodies (ISO member bodies). The work of preparing International Standards is normally carried out through ISO technical committees. Each member body interested in a subject for which a technical committee has been established has the right to be represented on that committee. International organizations, governmental and non-governmental, in liaison with ISO, also take part in the work. ISO collaborates closely with the International Electrotechnical Commission (IEC) on all matters of elec-trotechnical standardization.

The procedures used to develop this document and those intended for its further main-tenance 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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For an explanation on the meaning of ISO specific terms and expressions related to con-formity 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.

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.

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;
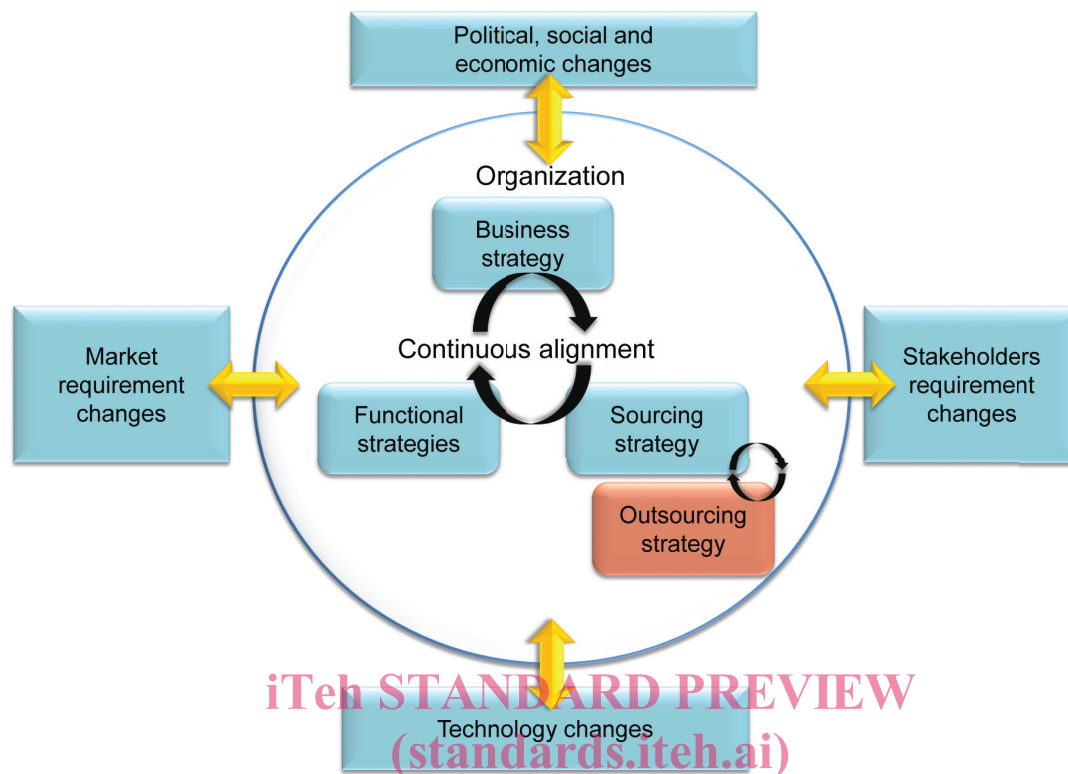
Figure 1 — Contextual model of outsourcing

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.