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National foreword

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A list of organizations represented on this committee can be obtained on request to its secretary.

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ISO 37500

First edition
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Guidance on outsourcing

Lignes directrices relatives à l'externalisation

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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 electrotechnical standardization.

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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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*.

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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.

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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

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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.

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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.

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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.

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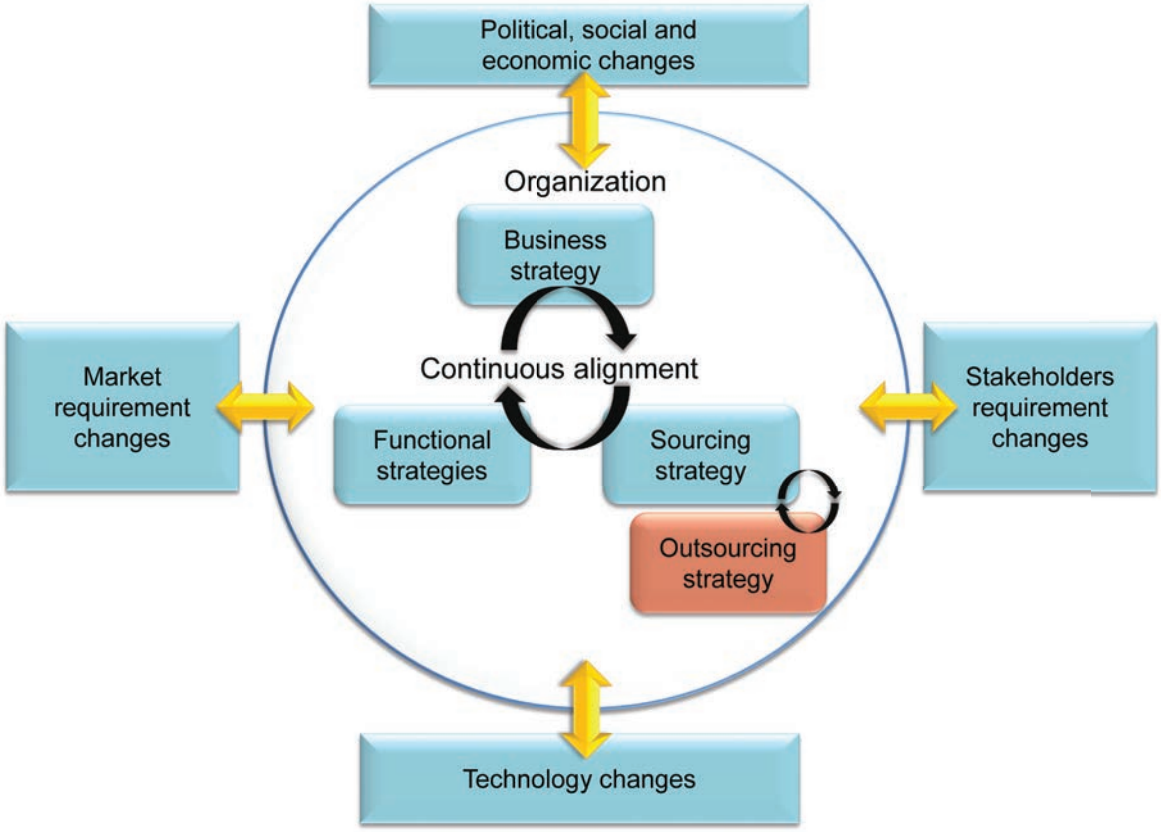

Figure 1 — Contextual model of outsourcing

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

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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.

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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.

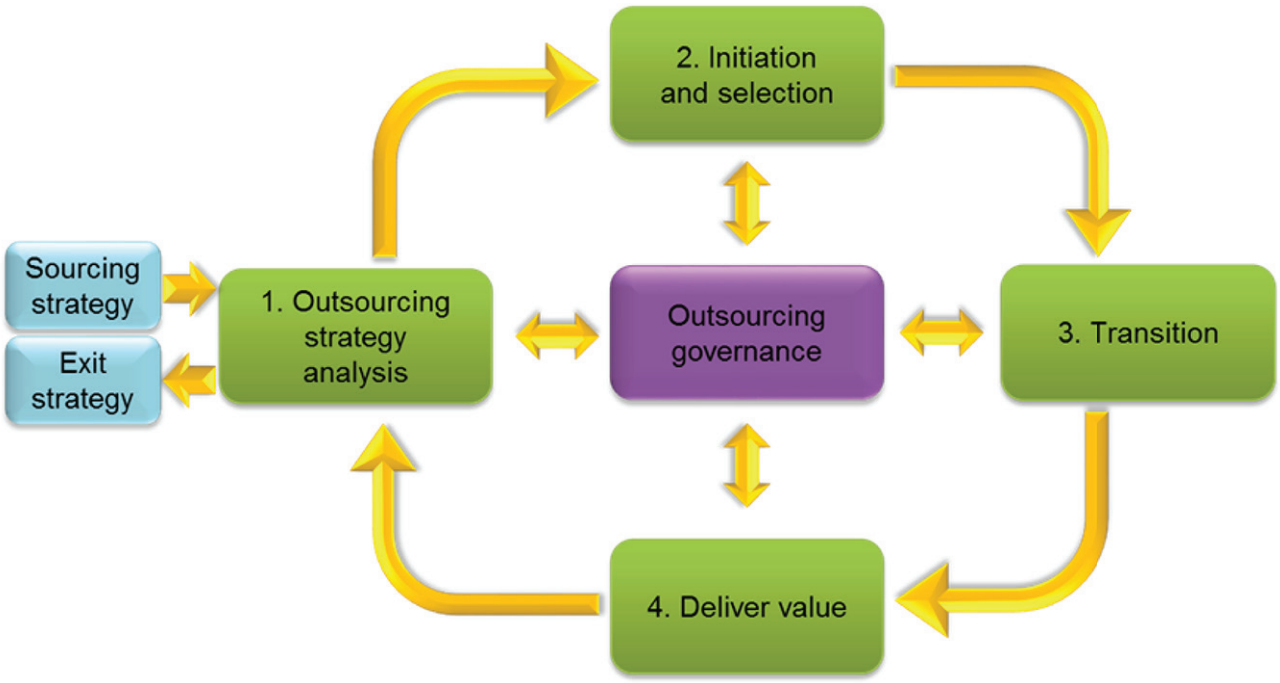

Figure 2 — Outsourcing life cycle model

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

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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

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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.

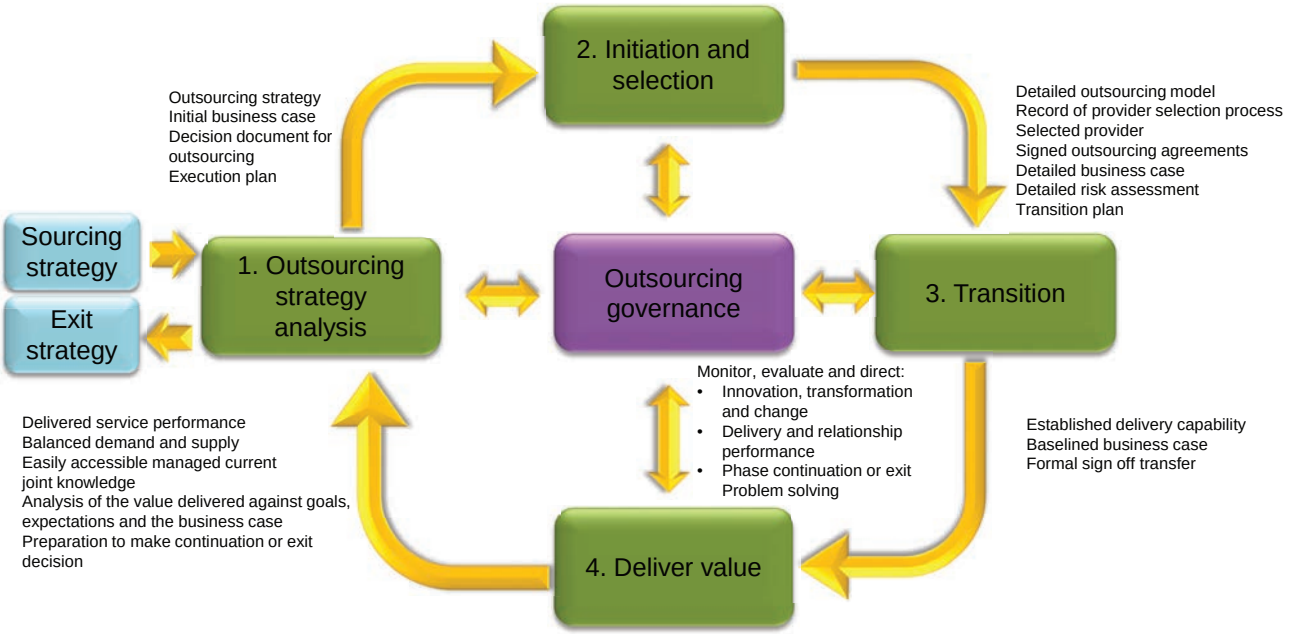

Figure 3 — Main outputs of the outsourcing life cycle output model

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

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from phase 4 to phase 1. The repeat of the outsourcing life cycle often occurs with the same client-provider outsourcing relationship.

Repetition of the outsourcing life cycle will be influenced by many complex factors. Identifying these factors, and interpretation of their impact, should occur during phase 4 and at the start of phase 1 (see 6.2). This is the role of the governance framework (see 5.5.4.2 and 5.5.4.5) relying on information from the "continuation or end of agreement preparation" (see 9.12).

If the outsourcing life cycle continues in a second or further repetition, many of the activities in phases 1, 2, 3 are shortened compared to the first iteration, because most of the pre-requisite activities have been completed. Phase 1, 2, 3 deliverables should be revisited and revised, but this can occur more rapidly than the first time. As organizations develop maturity in their outsourcing experience they should become efficient in managing and executing the outsourcing life cycle model.

5 Outsourcing governance framework

5.1 General

The purpose of the "outsourcing governance framework" section is to set out the client–provider interaction processes, customs, policies and joint management committees which facilitate the outsourcing life cycle and relationships. Governance enables the joint leadership to make effective decisions, in order to create the desired value and facilitate changing business requirements for the client and provider involved.

Through the joint management and delivery teams outsourcing governance monitors relationships among many stakeholders. The purpose of outsourcing governance is to efficiently and effectively monitor, evaluate and direct the outsourcing life cycle in a holistic manner in order to ensure the creation of the desired strategic outcomes and mitigate risk.

Outsourcing governance is necessary from the start to the finish of an outsourcing arrangement and should integrate the client and provider's organizations as much as is required. Governance in the outsourcing context should be considered as a subset of the joint corporate management functions aiming to deliver innovation and value, and mitigating risk to the client and provider's businesses. It should provide continuity to the client and provider's leadership throughout the outsourcing life cycle to ensure a consistent and appropriate focus on strategic outcomes and delivered value.

Good governance is critical to the success of any outsourcing arrangement and can be described as an appropriate formal decision-making framework to ensure alignment of the services provided into the business, technical and sourcing strategies of the client. Depending on a number of factors, outsourcing governance should be tailored to accommodate the business needs of client and provider. The following factors should be considered:

a) complexity of the services contracted;

b) business impact of the services contracted, e.g. strategic versus commodity;

c) geographical coverage;

d) corporate management structure of client and provider's organizations, e.g. divisions, business units, regions;

e) business relationship between client and provider;

f) commitment to collaborative working;

g) management culture and behaviours.

Governance will also mature over time to reflect developing mutual levels of trust and confidence. It will also be impacted by the changing business needs of the stakeholders and the nature of the relationship as it develops.

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A collaborative business relationship between client and provider is also important and should be considered as a key enabler of good governance. Outsourcing agreements will rightly focus on precise solution definition and scope, term, performance metrics, commercial models and contractual terms and conditions but should also clearly articulate the relationship intent and mutual expectations between client and provider. These very real and often personal interests and expectations will have been formed during the "initiation and selection" phase and will influence perceptions of success, irrespective of actual delivery performance. It is crucial from the outset for the client and provider to establish and clearly communicate jointly agreed expectations and goals which can be described within a business relationship strategy. Such a strategy provides the business context for driving appropriate behaviours and attitudes, and should influence the governance orientation i.e. the manner in which governance is conducted.

The scope of governance within this outsourcing life cycle is to focus on the critical decisions to achieve the value in fulfilling the aspirations of the outsourcing relationship based on the following principles:

— provide effective leadership that ensures the focus on the business strategy and imperatives;

— provide supervision and stewardship;

— enable effective communication;

— establish ownership and control;

— foster the creation of value and enable innovative practices to flourish;

— enable the delivery of quality services to meet business needs,

— satisfy the expectations of the stakeholders;

— nurture and enhance the business relationship between client and provider;

— drive appropriate behaviours and attitudes;

— enable effective decision making and mitigate risk;

— oversight on compliance;

— build trust and confidence between client and provider.

5.2 Management structure and functions

Each organization involved in the outsourcing arrangement will have its own management structure and delivery teams, focused on providing the contracted service(s) based on jointly agreed roles and responsibilities. However, it is essential that the organizations involve both client and provider, and appoint empowered manager(s) who can provide appropriate leadership, and who are responsible and accountable for the development and implementation of the business relationship. The term "appropriate leadership" is used for the empowered managers because outsourcing governance may take many types and forms, for instance, major outsourcing arrangements require top management representatives.

The appropriate leadership should ensure that there is mutual agreement to support the joint programme, together with a clear definition of management systems, authorities, performance expectations and the creation of an appropriate operating environment to develop and maintain the ethos of collaboration through defined behavioural principles.

5.3 Joint governance committees

Each outsourcing arrangement should have one or more governance committees to provide the necessary supervision and direction to ensure the right value is delivered to meet the stated expectations. The number of joint management governance committees and the meetings frequencies, attendees and tasks should depend on the scope, size and complexity of the outsourcing arrangement. Each governance

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committee should have a clearly articulated charter, including scope, types of decision and reporting lines established.

NOTE Examples of typical governance committees and meetings structure are shown in Annex A.

Good governance requires the right people in position to come together at the right time to fulfil their obligations to each other. As a minimum, outsourcing governance should include formal and scheduled decision-making to enable effective management supervision, decision-making and intervention where required.

The membership of the governance committees should be at the appropriate level with the right delegated powers. For client and provider to work effectively, individual relationships between both should be structured to ensure level setting of authority and empowerment. Success will come from people being confident in their position, capable of making commitments to each other and above all being clear on their respective obligations.

A mapping of key roles of the relevant division or section of the organization engaged with the outsourced business within both client and provider organizations should be developed to ensure each one-to-one relationship is described in terms of authority mandates, responsibilities and accountability. Understanding these individual relationships and their roles within each organization will also help in developing the client's retained organization for the outsourced services. A retained organization consists of roles that manage the outsourcing arrangement and provide information about the client's needs. Having the appropriate retained organization is critical and will include (re)training the client staff to effectively manage the outsourcing arrangement.

5.4 Appreciation of cultural differences

Rarely do two organizations have identical cultures and mind-sets, as these are shaped by the geographies, the markets in which they operate, the company's size and past experiences. It is important for client and provider to appreciate and respect differences that are likely to exist between client and provider throughout the life cycle.

Developing strong relationships requires investment and effort in understanding and appreciating the differences that could exist. This could include the following:

a) understanding and appreciating the cultural context of both client and provider;

b) being aware of national cultures that influence organizational cultures;

c) considering organizational cultural elements, such as:

   1) preferred decision styles;

   2) corporate values;

   3) communication preferences;

   4) organisational practices;

   5) socialization;

   6) formal/informal;

   7) individualistic/collective decision making;

   8) ethical standards;

   9) attitude towards risk taking.

Many outsourcing benefits such as continual improvement and innovation could be nurtured if an environment of empowerment exists.

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In addition, different units in different regions within organizations could exhibit variations on the different cultural elements that are shaped by the national cultures.

5.5 Processes of outsourcing governance

5.5.1 General

Governance is first established in the "outsourcing strategy analysis" phase, refined and set in motion in phase 2, "initiation and selection", and permeates phases 3 and 4, "transition" and "deliver value". Depending on the importance of the provider to the client's core value chain processes, the client may involve the provider in the "outsourcing strategy analysis" phase itself, especially if the provider is a key provider and is privy to trade secrets and procedures. Table 1 sets out how governance processes connect with the outsourcing life cycle phases.

Table 1 — Summary outsourcing governance practices

Governance practices	Outsourcing strategy analysis (5.5.4.2)	Initiation and selection (5.5.4.3)	Transition (5.5.4.4)	Deliver value (5.5.4.5)
1. Develop and maintain joint objectives (5.5.2)	Identified from business objectives in preparation	Proposed and agreed	Established	Alignment of joint objectives
2. Establish governance committee (5.5.3)	Identified from business and/or good industry practice in preparation	Proposed and agreed	Transition committee is performing	Governance committees start performing
3. Monitor, evaluate and direct the outsourcing life cycle (5.5.4)	Identified from business and/or good industry practice in preparation	Proposed and agreed	Set up	Executing and review

5.5.2 Develop and maintain joint objectives

The purpose of the "develop and maintain joint objectives" practice is to establish a joint mission statement, an outsourcing roadmap with key milestones and success criteria, along with social and relationship events. In addition to focusing on performance scorecards, metrics, etc., the client and provider should also focus on softer elements, relationship building, partner assimilation and dialogue. A strong relationship is crucial to creating successful outsourcing arrangements (BS 11000-1:2010, 7.2.2, provides further information).

The main activities are:

a) discover mutual interests;

b) develop joint objectives;

c) define required behaviours to achieve joint objectives;

d) direct the innovation and change/service mix portfolios.

Key success factors are:

— leaders with positive collaborative behaviours will encourage relationship building;

— openness and transparency about the interests of each client and provider;

— realism that client and provider invest resources to facilitate the required outcomes,

— win-win mindset and a longer term view.

The process uses and creates the inputs and outputs shown in Table 2.

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Table 2 — Develop and maintain joint objectives

Main input	Main outputs
Business and functional strategies of client and provider to realign to joint objectives and interests	Joint ambitions and outcomes Directives on innovation, transformation and change

5.5.3 Establish governance committee

The purpose of the "establish governance committee" process is to build the key practices that the governance committees would use in managing the outsourcing arrangement.

The main activities are:

a) identify governance committees;

b) set up the meeting structure and schedule;

c) define charters for the governance committees;

d) staffing governance committees timely and appropriately;

e) identify information reporting requirements.

Key success factors are:

— having staff with appropriate level of authority and mandate;

— establishing clear accountability for conducting the governance committee meetings and assign ownership of scope, follow through and closure of actions.

The process uses and creates the inputs and outputs shown in Table 3.

Table 3 — Establish governance committee

Main inputs	Main outputs
Agreements	Meeting schedules and governance charter
Outsourcing governance framework	Relationship matrix
Staffing of governance committee	Responsibility matrix

5.5.4 Monitor, evaluate and direct the outsourcing life cycle

5.5.4.1 General

The purpose of the "monitor, evaluate and direct the outsourcing life cycle" practice is to monitor, evaluate and direct the outsourcing life cycle phases by making well-informed decisions.

The main activities are:

a) manage business case and risk;

b) assess and seek to foster relationships;

c) evaluate and manage changes, renewal or terminate agreements;

d) manage disputes and escalations;

e) manage the change portfolio and/or service mix;

f) manage the innovation and transformation portfolio if applicable;

g) manage deliver value reporting.

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All of the above activities should be assigned to the appropriate governance committee.

Key success factors are:

— decisions allocated appropriately to the specified governance committees;

— timeliness and accuracy of information provided to the governance committees;

— satisfactory resolution of disputes;

— mutual value creation;

— demonstration of a win-win environment.

The process uses and creates the inputs and outputs shown in Table 4.

Table 4 — Monitor, evaluate and direct the outsourcing life cycle

Main inputs	Main outputs
All governance decision information	Decisions
Performance reports	Investment decisions
Business case	Resolved disputes
Risk, compliance, assessment reports	Changed, renewed or terminated agreements
Relationship assessment reports	
Issue reports	
Change portfolio reports	
Transformation initiative proposal	

The outputs and critical decision points from each outsourcing life cycle phase feed into the appropriate governance committees to enable them to monitor their status, evaluate how well they are delivering against the aspirations and provide the necessary (re)direction in order to ensure they are achieving the desired value. Further information on the decision points for each phase of the life cycle is provided below.

5.5.4.2 Governance for phase 1 – Outsourcing strategy analysis

Governance for this phase is in most cases client-only and represents a subset of the client's corporate governance function. In some cases, providers can also participate as a consultant during this phase. The outsourcing strategy should address the opportunities for increasing derived value from investments in outsourcing models, aligned with business strategy and corporate goals, whilst mitigating risk on behalf of investors.

A governing committee should be established to oversee the entire "outsourcing strategy analysis" phase to ensure that all processes are conducted in a thorough and diligent manner and that each process is compliant with agreed terms of reference. For instance a strategy outsourcing committee, reporting to the leadership, could be established to oversee all strategic sourcing processes and to ensure that all potential sourcing options have been pursued rigorously. Meeting regularly within an agreed project timetable the strategic outsourcing committee will ensure thorough consultation with stakeholders, integrity of the business case for sourcing and mechanisms for protecting investments made in sourcing options.

From the "deliver value" process a contract evaluation document is provided. (See also 9.12) The strategic leadership committee should evaluate the updated business case and the continuation criteria. The continuation criteria should be based on the business case results, satisfaction levels and the outsourcing strategy. If the criteria are met, then renewal of the contract may commence immediately through phase 2 ("initiation and selection"). In other cases an advice is given whether or not to:

— renegotiate or redirect the current contract;

— set out for a new provider;

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— abandon outsourcing and reinstate in-house processes.

5.5.4.3 Governance for phase 2 – Initiation and selection

There are two aspects to governance for this phase. Firstly there is the governance of the phase itself.

a) Client internal: A governing committee should be established to oversee the entire "initiation and selection" phase end-to-end to ensure appropriate consultation, process integrity, diligence and efficacy in all decision-making processes. The governing committee will establish control mechanisms for each process to ensure all requirements, evaluation, selection and negotiation processes directly support business goals and meet the business expectations of the client and provider.

b) Provider internal: The provider should establish a formal governance committee of senior representatives to provide strategy and direction to their solutions, commercial and risk teams, ensuring that their value proposition is clear, concise and relevant to the client business case. This governance committee will also ensure compliance with client selection processes and seek to offer opportunities for additional client value.

c) Joint: The degree to which governance can be jointly implemented largely depends on the commercial stance of the client and the role of advisors during the phase, but there are significant benefits to be gained from direct collaborative working with down-selected providers i.e. the final two or three selected potential providers. Consider the advantages of allowing closer working arrangements during the final selection process to:

   — ensure alignment of ambitions and interests;

   — ensure alignment of proposed solutions with requirements;

   — run joint workshops to reach agreement on specific points of interest;

   — identify opportunities for additional value;

   — establish clarity of roles and responsibilities;

   — identify third parties and stakeholders affected;

   — manage deliverables against agreed timelines and milestones;

   — address potentially costly misinterpretation and cultural mismatch;

   — facilitate recommendations to be made cooperatively;

   — mitigate against risk during contractual negotiation;

   — relieve as much negative sentiment on change as possible.

The second aspect of governance during this phase is the jointly agreed definition of the outsourcing governance during "transition" and "deliver value". This may be described by the client in their requirements definition process and/or reviewed during the evaluation/selection process but it is crucial that post contract governance is thought through carefully by both client and provider, and defined clearly within the agreement (see Annex F).

5.5.4.4 Governance for phase 3 – Transition

Governance during this phase provides the robust management of all projects and programmes related to the successful transition of services from the client or current provider to the current or next provider. This critical phase should be subject to close supervision and scrutiny to ensure:

— mitigation against possible business disruption during service;

— continuing development of a positive relationship between all stakeholders - testing of commitments to the relationship success;

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— all transition programmes and project activities are resourced appropriately and on time;

— services are transferred on time and to budget;

— the viability, quality and integrity of services transferred into the "deliver value" phase;

— that ongoing governance is implemented and proven;

— that key resources from client and provider are maintained during phase 2, 3 and well into phase 4.

This phase should be governed by a formal transition management committee or equivalent, jointly staffed by client and provider. The individual roles and mandate of the transition management committee should be defined within the "initiation and selection" phase. Early in the "transition" phase, the governance committees are established and management staff is allocated. It is crucial that changes in key resources are kept to a minimum at least across phases 3 and 4, "transition" and "deliver value", to ensure that the necessary knowledge and experience on management level is continuously available throughout the outsourcing life cycle.

NOTE This International Standard is intended as guidance. For SMEs several roles could be carried out by one person. Therefore, tailoring this International Standard to suit an organization's needs is always required, as stated in the Introduction.

5.5.4.5 Governance for phase 4 – Deliver value

This phase ensures that both client and provider realize the expected benefits. Governance committees should be jointly staffed and have a key role to play in providing supervision and control for outsourced services and obtaining the joint objectives. The goal of governance here is to provide formal and regular management mechanisms for reviewing performance, resolving issues, making effective service related decisions based on current and relevant information, and actively leading the development of a positive relationship based on trust.

The outputs from the "deliver value" processes should be inputted to a number of outsourcing governance committees addressing specific aspects of service delivery. Such committees will vary in size, scope and the industry legislative or regulatory requirements and may include:

— strategy and relationship review committee;

— service review committee;

— commercial review committee;

— financial review committee;

— security and compliance review committee;

— quality and risk review committee;

— change control committee.

The strategic and relationship review committee will consistently monitor and review the outcomes and derived value of outsourcing to ensure that the client's business case is being continuously achieved (see 9.3 and 9.11).

By definition, outsourcing arrangements do not last forever. An exit of an outsourcing arrangement may be triggered by several events. Four situations are explained in Annex I to provide guidance on how to use the outsourcing life cycle.

a) The outsourcing agreement has reached its expiration date and the delivery strategy of the provider dictates that services are to be stopped. The client is forced to change to another provider or to create delivery capacity again within their own facility.

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b) The outsourcing agreement has reached its expiration date and the sourcing strategy of the client dictates that delivery should occur in house again or with another provider.

c) A fundamental dispute during the "deliver value" phase. Such a dispute may arise from several sources be it financial, commercial or performance related. In all dispute cases the fundamental quality of the relationship between organizations is being tested.

d) A premature no-go decision being made during the outsourcing life cycle.

6 Phase 1: Outsourcing strategy analysis

6.1 General

The purpose of the "outsourcing strategy analysis" phase is to evaluate and initiate outsourcing opportunities and also establish and maintain an outsourcing strategy that meets business goals and requirements. By doing so, only then will the organization be able to:

a) fully assess the value that outsourcing might bring to the organization;

b) fully assess the feasibility of the outsourcing options available to the organization;

c) safeguard the success of the process to achieve its potential value;

d) minimize negative consequences;

e) learn from experience.

The outsourcing process typically starts when the leadership observe an outsourcing opportunity, such as the following:

— it is clear that current in-house services are too expensive, underperforming, below benchmark levels or provide insufficient opportunities for scalability;

— an organization is developing a new service with unique specifications and the organization does not have the internal competencies, time, budget or desire to do so: as a consequence, the organization intends to outsource development and delivery to an external provider;

— if the current provider is delivering services but not meeting agreement terms;

— current delivery is not or no longer in line with the organization's strategy and goals;

— if the outsourcing contract is approaching its expiration date.

At any stage of the life cycle, the outsourcing strategy could also be reconsidered if there is any change in the organization's sourcing strategy or if the (expected) value is not achievable.

Before deciding to outsource, it is important that the implications are fully understood. To do so, a funnel approach can be used (see Figure 4). The funnel approach will help identify, validate and only execute outsourcing opportunities that will positively sustain business and sourcing strategy. Figure 4 also shows two arrows from the "deliver value" phase. These are drawn to indicate that a termination or exit needs to be processed for alignment to the sourcing strategy and to evaluate the current outsourcing arrangement, benefits and satisfaction, before making a renewal decision within governance.

First check whether the necessary pre-work has been carried out (see 6.2). Furthermore, it is paramount that the organization should get a good understanding of the services eligible for outsourcing (see 6.3) and assess the organizational impact of outsourcing (see 6.4). When a detailed understanding has been created, the organization can properly define the outsourcing strategy (see 6.5) and formulate a corresponding business case describing the value that the outsourcing strategy will potentially deliver (see 6.6). The leadership is then engaged to evaluate the strategy and the business case and decide on the course of actions to be taken (see 6.7). When agreed to proceed, an outsourcing project should be set-up to execute the outsourcing strategy (see 6.8) to create a new, renew or exit a current outsourcing arrangement.

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