

# Outsourcing Professional Body of Knowledge



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## Colophon

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## Copyright and use statement

The *Outsourcing Professional Body of Knowledge (OPBOK)* describes the generally accepted set of knowledge and practices applicable to the successful design, implementation, and management of outsourcing contracts. It provides:

- a framework for understanding what outsourcing is and how it fits within contemporary business operations
- the knowledge and practice areas generally accepted as critical to outsourcing success
- a glossary of terms commonly used within the field.

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The International Association of Outsourcing Professionals (IAOP) is a global membership-based organization shaping the future of outsourcing as a management practice, as a profession, and as an industry. Its members are line and staff, executives and managers, with the vision and expertise it takes to design, implement, and manage tomorrow's global corporate ecosystem.

This new breed of outsourcing professional enhances the success of the companies they work with and advances their own careers by taking advantage of a wide array of association services including knowledge transfer, networking, research, training, and certification.

## Preface and purpose of this guide

The Outsourcing Professional Body of Knowledge (OPBOK) represents a cohesive and comprehensive outline of the commonly accepted practices and skills required to ensure outsourcing success.

This guide does not attempt to capture the entire breadth of knowledge – which exists only within the field’s practitioners and evolves constantly – but to present a guide to the most common and generally accepted principles and practices within an organizational framework that facilitates its sharing and learning.

On the latter purpose, this guide is the foundation for the International Association of Outsourcing Professionals’ (IAOP) professional certification, the *Certified Outsourcing Professional*® (COP).

## Contributors

A major revision of the Outsourcing Professional Standards (OPS) and Outsourcing Professional Body of Knowledge (OPBOK) cannot be accomplished without the contributions of the field’s practitioners – the outsourcing professionals. In 2008 and 2009 there were more than 100 pieces of material contributed to Firmbuilder.com® and considered during the preparation of this revision. Many of IAOP’s Corporate Members demonstrated their commitment to the profession by providing material and case studies. We want to acknowledge these professionals for sharing their experiences and ideas.

We also want to acknowledge the Outsourcing Standards Board for its leadership on the Outsourcing Professional Standards (OPS) that form the base for OPBOK.

Finally, 2007 marked the year when the COP Master Class went global. Since then it has been delivered many dozens of times all around the world. We want to acknowledge the faculties of these classes, who provided feedback from their teaching.

### **Encouragement:**

A professional organization such as IAOP will grow and prosper when the professionals, such as you, contribute to the knowledge and experience database. IAOP’s Knowledge Center (Firmbuilder.com®) is a fountain of this knowledge and we depend on it to improve and enhance this OPBOK. We encourage you to provide articles and presentations for inclusion and expand our collective knowledge.

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## What has changed in Rev. 9

The following table highlights the major revision sections. In addition to these changes, minor edits were applied to slides and OPBOK to make them more consistent in terminology etc. Also, each section has embedded revised standards (as per previously published Rev. 9.01).

Templates have been reviewed and revised. New templates have also been added for the new sections identified below (e.g. knowledge management)

Module	OPBOK	Master Class Slides
1	<ol style="list-style-type: none"> <li>Additional definitions for offshore outsourcing (near shore)</li> <li>Emerging trends in outsourcing</li> </ol>	<ol style="list-style-type: none"> <li>Slightly changed the order. CEO speech is before discussion</li> <li>Provided new definitions – including an “alternate” definition for outsourcing (covering risk)</li> <li>Inserted G100 profile for diversity of processes</li> </ol>
2	Additional feasibility assessment section added to cover legal and labor issues	Minor edits
3	<ol style="list-style-type: none"> <li>Significantly enhanced section on change management and associated communication</li> <li>New template added for change management assessment</li> <li>Moved communication plan material from other modules to be consistent with standards and MC slides</li> </ol>	<ol style="list-style-type: none"> <li>Added new section change management and enhanced one slide previously there</li> <li>Moved communication plan and action to this section from later modules (consistent with the standards)</li> <li>Added slide on legal impact on decision making</li> </ol>
4	Moved communication plan to module 3	Moved communication plan from this module to Module 3
5	<ol style="list-style-type: none"> <li>Added clarity on where baseline is not defined</li> <li>Added section on appropriately selecting the process and use of documents</li> </ol>	<ol style="list-style-type: none"> <li>Added further clarity on use of RFI/RFP/RFQ</li> </ol>
6	<ol style="list-style-type: none"> <li>Addition and clarification of due diligence framework</li> <li>A more detailed discussion on various geographies around the world (more than just India/China)</li> </ol>	<ol style="list-style-type: none"> <li>Added due diligence framework</li> <li>Added G100 information on global locations of providers</li> <li>Added new slides discussing India, China and Eastern Europe in more depth (we can encourage other locales to create a slide for their location, if desired e.g. Malaysia)</li> <li>Added a slide from Duke on offshore destination</li> </ol>
7	<ol style="list-style-type: none"> <li>Further discussion on evaluating value proposition – including definition using Value Health Check Survey categories</li> <li>Further discussion on provider’s pricing methodology</li> <li>Discussion on volume based pricing methodology (ARC, RRC)</li> </ol>	<ol style="list-style-type: none"> <li>More clarity on evaluating value proposition</li> <li>Included classification of value from Value Health Check Survey</li> <li>Further discussion on how provider creates pricing</li> <li>Clarified two slides (previously, they were incomplete)</li> </ol>
8	<ol style="list-style-type: none"> <li>Contract renegotiation section added</li> </ol>	<ol style="list-style-type: none"> <li>Added a number of slides from Kirkland &amp; Ellis class presentation</li> <li>Clarity in the renegotiation and termination slides</li> </ol>
9	<ol style="list-style-type: none"> <li>Employee transition section expanded</li> <li>Knowledge management added</li> </ol>	<ol style="list-style-type: none"> <li>Additional slides in the employee transition</li> <li>New material for Knowledge Management</li> </ol>

<b>Module</b>	<b>OPBOK</b>	<b>Master Class Slides</b>
10	<ol style="list-style-type: none"> <li>1. Knowledge management as part of governance added</li> <li>2. Exiting – transitioning to a third party</li> <li>3. Introduction to Value Health Check Survey</li> </ol>	<ol style="list-style-type: none"> <li>1. Value Health Check Survey slides added</li> <li>2. Regional addenda slides added</li> </ol>
Appendix A	<ol style="list-style-type: none"> <li>1. Some definitions edited.</li> <li>2. New definitions added</li> </ol>	
B	See Table below for changes	
C	Reviewed	
D	Reviewed	
E	Reviewed	
F	Reviewed	
G	Updated to 2009	
H	New Appendix – Governance article to supplement governance material (it is also used in the Governance workshop)	

Original	New	Template - Revised Version	Disposition
1.1	1.1	Defining Outsourcing	No Change
1.2	Deleted	Examples of Current Business Relationships	Deleted
1.3	1.2	External Business Drivers	Edited
1.4	1.3	Internal Business Drivers	Edited
1.5	1.4	Organizational Evaluation Factors (Shared Services and Outsourcing)	Edited
1.6	1.5	Anticipated Outsourcing Benefits	Edited
1.7	1.6	Gauging Organizational Outsourcing Maturity	No Change
1.8	1.7	Common Business Process Framework	No Change
1.9	1.8	Outsourcing and Offshoring Considerations	Edited
1.10	1.90	Outsourcing Professional Roles	Edited
1.11	1.1	Ethics and Business Practice Assessment	No Change
2.1	2.1	Outsourcing End-to-End Process	No Change
2.2	2.2	The Outsourcing Business Plan	No Change
2.1	2.3	Organization Capability Assessment	No Change
3.1	3.1	Integrating Outsourcing into Business Strategy Top-Down Strategic Planning	No Change
3.2	3.2	Integrating Outsourcing into Business Strategy Bottom-Up Strategic Planning	Edited
3.3	3.3	Outsourcing Decision Matrix	Edited
4.2	3.4	Stakeholder Analysis	Edited
4.3	3.5	Stakeholder Communication Plan (Change to Strategy)	Edited
4.4	3.6	Communication Plan Framework	No Change
3.4	3.7	Outsourcing Risk Assessment and Analysis	Edited
3.5	3.8	Offshore Outsourcing: Country Specific Risk Assessment	No Change
3.6	3.9	Impact of Business Regulations and Statutes	Edited
3.7	3.10	Scoping an Outsourcing Opportunity	Edited
3.8	3.11	Prioritizing Outsourcing Opportunities	No Change
9.5	3.12	Public Affairs Risk Analysis	Edited
4.1	4.1	Creating and Leading Outsourcing Teams	No Change
5.1	5.1	Checklist for Objectives and Boundary Conditions	Edited
5.2	5.2	Checklist for Developing Outsourcing Requirements	Edited
5.3	5.3	Critical Success Factors (CSFs) and Key Performance Indicators (KPIs) for Outsourcing	Edited
5.4	5.4	RFP (Request for Proposal) Document Development	No Change
5.5	5.5	Collaborative Business Case Development	No Change
6.1	6.1	Identifying Potential Outsourcing Service Providers	No Change



<b>Original</b>	<b>New</b>	<b>Template - Revised Version</b>	<b>Disposition</b>
6.2	6.2	Evaluating Potential Outsourcing Service Providers	No Change
6.3	6.3	Scoring and Selecting Outsourcing Service Providers	Edited
7.1	7.1	Cost Elements for Creating Baseline Costs	No Change
7.2	7.2	Financial Analysis of an Outsourcing Decision	No Change
7.3	7.3	Selecting the Optimum Pricing Model	Edited
new	7.4	Value Proposition	New
8.1	8.1	Outsourcing Contract Structure	Edited
8.2	8.2	Common Outsourcing Contract Terms	No Change
8.3	8.3	Description of Interests for Outsourcing Contract Negotiations	Edited
8.4	8.4	Negotiation Checklist	No Change
9.1	9.1	Outsourcing Transition Plan	Edited
9.2	9.2	Human Resources Planning	No Change
new	9.3	Knowledge Management Readiness Assessment	New
new	9.4	Knowledge Management Strategies	New
10.1	10.1	Outsourcing Governance Plan	No Change
10.2	10.2	Project Management Office (PMO)	Edited
10.3	10.3	Assessing Results versus Expectations - Critical Success Factors (CSFs) and Key Performance Indicators (KPIs) for Outsourcing	Edited
10.4	10.4	Financial Review of an Outsourcing Decision	No Change
10.5	10.5	Outsourcing Governance Assessing Current Providers	No Change
10.6	10.6	Outsourcing Process Maturity	No Change





# 1

## Defining and communicating outsourcing as a management practice



## 1.1. Standards

### 1.0 Defining and Communicating Outsourcing as a Management Practice

<b>1.1</b>	<b>Ability to define outsourcing in terms easily understood by individuals at all levels of the organization and by outside stakeholders, including shareholders and the public at large. This includes:</b>
1.1.1	Identify business models and change agenda that will end up driving a decision for a change in the business model (e.g. focusing on core functions)
1.1.2	A working definition of outsourcing that is consistent with generally accepted concepts as commonly used by professionals within the field
1.1.3	Establish definition of common outsourcing terms such as BPO, ITO, forms of outsourcing (transactional, transitional and transformational) and provide differentiation between outsourcing and offshoring, out-tasking
1.1.4	A framework for comparing and contrasting outsourcing and other forms of outside business relationships, such as suppliers, contractors, temporary and supplemental staffing, strategic alliances, and joint ventures. Characteristics to be considered include: costs, benefits, risks, advantages, etc.
1.1.5	Identify and understand various recent developments that may/will impact outsourcing and define terms such as Cloud Computing, Bundled Sourcing, Rural Sourcing, Consortium Sourcing
1.1.6	Define and understand the concepts of "outsourcing portfolio management" and its impact on sourcing strategies
1.1.7	A working knowledge of all commonly used professional terms as defined, for example, in the Outsourcing Professional Body of Knowledge (OPBOK).
<b>1.2</b>	<b>Ability to identify market potential, availability of services and service providers and case studies for various outsourcing opportunities, including: benchmarking, utilizing market knowledge in helping to define outsourcing strategy and direction for the organization</b>
1.2.1	Identify market size and economic impact of outsourcing on business
1.2.2	Ability to identify viability of offshore destinations and specifically to be able to discuss strengths and weaknesses of leading offshore destinations
<b>1.3</b>	<b>Ability to define the business drivers, timeframes, and commonly anticipated benefits of outsourcing in terms easily understood at all levels of the organization and by outside stakeholders, including the public at large. This includes:</b>
1.3.1	External business drivers, such as, competition, globalization, technology, regulation and deregulation, economic, political and others.
1.3.2	Internal business drivers such as process improvement, competition for resources, competition for capital, core versus non-core considerations, mission criticality, etc.
1.3.3	Common benefits, including: cost savings (direct, indirect, cost avoidance), improved focus, more variable cost structure, access to skills not available to the organization internally, reduced capital requirements, improved management focus, innovation, speed to market, etc.
1.3.4	Timeframes for realizing these benefits based on market conditions and the organization's business plans and capabilities.
<b>1.4</b>	<b>Ability to identify and develop organizational solutions to address the business drivers and provide clear differentiation between outsourcing and creating an inter/intra organizational solution (such as shared services)</b>
1.4.1	Clearly identify similarities and differences between shared services and outsourcing
1.4.2	Provide management guidance on the benefits / shortcomings of outsourcing and/or inter-intra organizational solution
<b>1.5</b>	<b>Ability to identify the common challenges that impede organizational success with outsourcing, including:</b>
1.5.1	Setting realistic expectations; choosing the opportunities for outsourcing with the highest probability of delivering the intended results; choosing the most qualified providers; crafting a balanced relationship that offers sustainable benefit to customer and provider alike; properly managing outsourcing's organizational impacts; managing the ongoing relationship, including its disengagement.

1.5.2	Identifying internal barriers to outsourcing such as fear of loss of control; activities and processes being seen as too critical to be outsourced; perceived loss of flexibility; negative customer, employee, community reactions, dependence on vendor due to loss of skilled resources
1.5.3	Identify behavioral and organizational issues that may occur during the transition to an outsourced operation, including those that can result from the transfer of existing employees into the service provider(s) organization(s) and its impact on the retained employee base.
1.5.4	Identify regulatory restrictions on outsourcing – including offshoring
<b>1.6</b>	<b>Ability to define the role that a Certified Outsourcing Professional® plays in achieving intended organizational outcomes through outsourcing. This includes:</b>
1.6.1	Strategic roles, such as input into corporate strategic planning and the formulation of outsourcing policy and strategies
1.6.2	Management roles, such as team management, leadership, and managing outsourcing suppliers (selection through governance)
1.6.3	Topic expert roles, such as financial and process analysis, contracting, pricing, and negotiating.
1.6.4	Ability to interpret and apply The Code of Ethics and Business Practices for Outsourcing Professionals (Appendix E)
1.6.5	Ability to benefit from and contribute to the industry-wide body of knowledge through participation in the work of applicable professional associations.
<b>1.7</b>	<b>Ability to map the structure and operational components of an organization to a common business process framework using a standard model such as that defined in the Outsourcing Professional Body of Knowledge (OPBOK), including:</b>
1.7.1	Providing an organizational process map model and developing a custom model for a specific organization
1.7.2	Mapping at the activity, function, and business process levels and identifying dependencies
1.7.3	Mapping of an organization's value-chain and its support services
1.7.4	Developing and applying a framework for comparing and contrasting the use of outsourcing across functions and companies, including:
1.7.4.1	Classifying current and emerging forms of outsourcing, including departmental-level outsourcing, functional process outsourcing, business process outsourcing, knowledge process outsourcing, etc.
1.7.4.2	Comparing and contrasting the measurable benefits organizations are realizing through each form of outsourcing within each structural area of the business.
<b>1.8</b>	<b>Ability to understand and create a framework for offshoring and differentiate between offshoring and offshore outsourcing including relevant dependencies created</b>
<b>1.9</b>	<b>Ability to establish a framework and criteria for selection of offshore destination and appropriateness for an organization, including:</b>
1.9.1	Offshore destination selection criteria and application
1.9.2	Appropriateness of location for various forms of offshoring (BPO, ITO, LPO, KPO, etc)
1.9.3	Models for offshoring (captive centers, build-operate-transfer, full-time, part-time, home-based, etc.)
<b>1.10</b>	<b>Ability to define the unique considerations associated with offshoring, near-shoring (including rural-sourcing), etc., including:</b>
1.10.1	The strategic and operational benefits offered by various offshore locations
1.10.2	Financial, regulatory, political, cultural risks, etc.
1.10.2.1	The risks of operating in an alien political and legal environment
1.10.2.2	The effect of cultural, work-practice, time zone differences
1.10.2.3	The impact of tax (for example, VAT), currency, and regulatory compliance differences

Table 1.1: Standards for defining and communicating outsourcing

## 1.2. What is Outsourcing?

Outsourcing is a long-term, results-oriented business relationship with a specialized services provider. The services contracted for (including manufacturing services) may encompass a single activity, a set of activities, or an entire end-to-end business process. In most cases, and especially for larger organizations, what's being outsourced was previously performed by the customer organization for itself and is being transferred to the provider. In other cases, however, these may be activities the customer organization never performed for itself.

The use of the term, 'long-term' does not necessarily imply a contract of a fixed length. Although many outsourcing contracts are 5, 10, or even 15 years in duration, others can be cancelled on 30-days notice. What long-term means is that it is the customer's intention to essentially 'divest' itself of the capacity to perform the work itself, choosing instead (some might say choosing *strategically*) to acquire the services in the future from the marketplace of available providers.

The term 'results-oriented' carries specific meaning, as well. It suggests that the service provider is assuming responsibility for the people, processes, and technologies employed along with responsibility for ensuring that those resources deliver the results for which the customer has contracted. Responsibility for the results, not just for the resources, is what differentiates outsourcing from more narrow and more traditional supplier, supplemental staffing, and task-level contracting.

### 1.2.1 Continuum of Business Relationships

Outsourcing occupies a unique position along the continuum of outside relationships common to the operations of most businesses. These relationships range from the traditional procurement of specific resources to highly collaborative relationships, such as strategic alliances and joint ventures.

The axes of this continuum can be best thought of as 'ownership' and 'risk.'

**Ownership** refers to the level of ownership of the people, processes, and technologies used to do the work that is assumed by the service provider.

**Risk** refers to level of risk assumed by the provider for achieving the customer's intended outcomes – conformance to requirements, operational outcomes, or business outcomes.

At the low end of the continuum are traditional supplier relationships. A traditional supplier only can assume the risks associated with ensuring that what the company supplies conforms to the agreed-to requirements. It cannot assume any risk associated with whether the customer achieves its operational outcomes through their use, let alone its sought after business outcomes, since it has not assumed responsibility for the people, processes, *and* technologies employed.

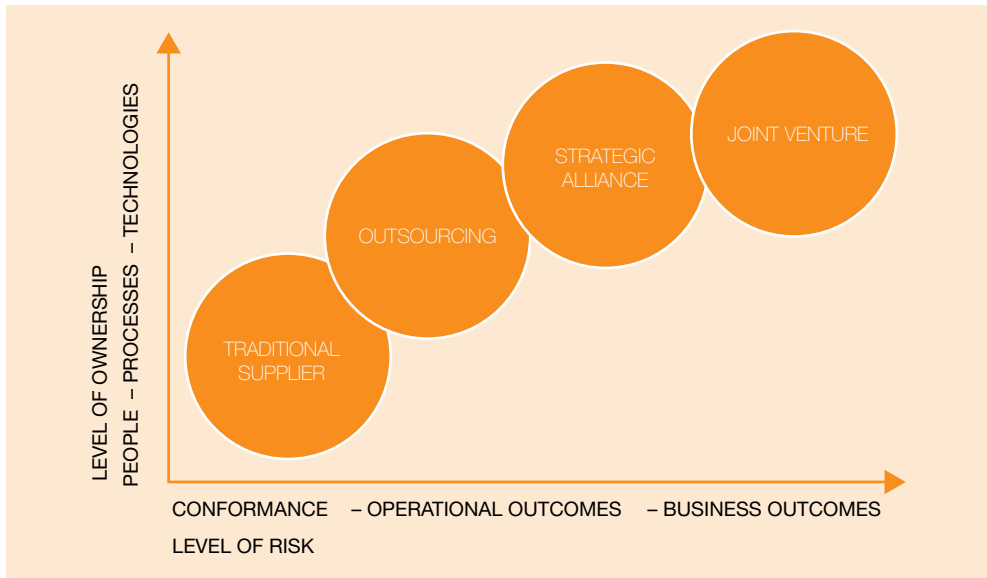


Figure 1.1: Continuum of Business Relationships

Outsourcing exists further along this continuum where the provider owns most, if not all, of the people, processes, and technologies needed to deliver the results the customer seeks. The provider now also assumes more of the risk associated with meeting the operational outcomes – service levels, throughputs, quality measures, and the like. Further along the continuum, the organizations take on shared investments and shared risks through a strategic alliances or joint ventures.

Most outsourcing relationships sit in the middle of this continuum. The provider owns most of the people, processes, and technologies needed to do the work and takes on many of the risks associated with achieving the customer’s operational outcomes. In other cases, however, the business relationship may, at its core, be an outsourcing relationship – that is a long-term contract for services – but have elements that reflect aspects of relationships on either side of the continuum.

Where a particular relationship should exist on this continuum depends on various factors including long term and short term expected benefits. For certain offshore related outsourcing activities there may be additional factors such as product and brand positioning in the marketplace, economic and political advantages/disadvantages from the relationship.

### 1.2.2 Definitions

Although different marketing terms have been used to describe outsourcing and forms of outsourcing; there are certain industry commonly used terms (also see the appendix).



Term	Definition / Explanation
BPO	<p>Business Process Outsourcing (BPO) puts together two powerful business tools - business process management and outsourcing. Business process management uses technology to break down barriers between traditional functional silos, such as those found in finance, order processing, and call centers. Outsourcing uses skills and resources of specialized outside service providers to perform many of these critical, yet non-core activities. BPO means examining the processes that make up the business and its functional units, and then working with specialized service providers to both reengineer and outsource them at the same time.</p> <p>Recently, the term Knowledge Process Outsourcing (KPO) is becoming prevalent to describe BPO services where there is a greater content of utilizing deeper level knowledge (domain, topic, data mining) as a part of the process.</p>
ITO	<p>Information Technology Outsourcing – when a company outsources its technology management and processing functions to a service provider. This includes managing data center activities, networks as well as business applications management. Many times, business applications management is further divided into applications development or applications maintenance and enhancement. APO, at times refers to Applications Process Outsourcing</p>
Forms of outsourcing	<p>Businesses outsource for different business reasons. These terms are applied in a 'shorthand' to explain the principal reason behind outsourcing:</p> <p><b>Tactical outsourcing</b> is when a business outsources to achieve a single objective (generally cost savings) and the transaction stands on its own merit.</p> <p><b>Transitional outsourcing</b> is when a business outsources in order to migrate from the current business process environment to a new one and expects the outsourcer to support the existing business process until it is no longer required. This is often used in the Information Technology area when replacing an existing application environment with a new one.</p> <p><b>Transformational outsourcing</b> is to take advantage of innovation and new business models. Transformational outsourcing is approached as a way to fundamentally reposition the organization in its markets. The term Business Transformational Outsourcing is also used to combine this idea with that of Business Process Outsourcing.</p>
Offshore / Offshoring	<p>Performing or sourcing any part of an organization's activities at or from a location outside the company's home country. Companies create captive centers offshore, where the employees work for them, or outsource offshore, where the employees work for the outsourcing provider.</p> <p>Although the term Offshoring implies crossing the ocean, it simply means providing services from a country other than where the services are performed presently.</p>
Nearshore	<p>When the sourcing destination is chosen based on proximity to the country where the work is performed, it is referred to as Nearshore. For example, outsourcing work to Canada or Costa Rica from US or Ireland from England. The major benefits of choosing a Nearshore destination are to limit time zone difference and leverage potential closer cultural and economic relationships</p>
Outtasking	<p>Occasionally, the term outtasking is applied in the context of manufacturing process when a business engages a third party manufacturer to perform a manufacturing task (such as anodizing a formed part). Outtasking implies that the business is responsible for the entire process except for a task which is done by a third party provider.</p>

Table 1.2 Definitions of outsourcing

### 1.3. Why Organizations Outsource

Outsourcing professionals work in a world that can best be described as hyper-competitive. Globalization is inextricably linking the world's major economies. Today's standard of excellence is not just best-in-class; it's best-in-world. In this global economy every company must compete against customer choices coming from everywhere and anywhere. Barriers to the marketplace are dropping quickly, with new competitors just a mouse-click away from any customer.

### 1.3.1 Core Competencies

It is against this backdrop of hyper-competition and increasing pressure for performance that the classical view of organizations as vertically-integrated and self-sufficient has changed. It's an approach that dates back to the industrial revolution that may be no longer possible, practical, or even desirable today. The accelerating pace of change dramatically compresses investment cycles, making the competitive advantage from an organization's internal investments last for shorter and shorter periods of time. At the same time, all the operational activities across an organization are becoming increasingly specialized and knowledge-driven. Rapid advancement in every field makes it a practical impossibility for any organization to develop and sustain best-in-world expertise in every facet of its operation.

As a result, organizations are moving away – even being forced away – from this classical structure. Increasingly organizations are finding that the better approach is to focus their internal resources on the activities that provide them a unique competitive advantage, their *core competencies*, while engaging the external market of service providers through *outsourcing* for more and more of their critical, yet non-core activities

Outsourcing, then, is nothing more and nothing less than a management tool. It is used to move an organization away from the traditional vertically integrated, self-sufficient structure; one that is increasingly ineffective in today's hyper-competitive, performance-driven environment. Through outsourcing, the organization moves toward a business structure where it's able to make more focused investments in the areas that provide its unique competitive advantage. Along the way, the organization creates interdependent relationships with specialized service providers for many of its critical activities that must be performed extremely well, but where the organization gains little competitive advantage by doing the work itself. Along the way, outsourcing creates new business opportunities for companies to become providers of outsourcing services and for advisory firms to work with both parties in the design, execution, and management of these business relationships.

### 1.3.2 Outsourcing's Drivers

Outsourcing decisions are driven by a combination of three sets of drivers – external drivers, internal drivers, and the availability of sourcing alternatives.

Generally, speaking external drivers that increase outsourcing are: shortening product or service lifecycles, and changes in the external business environment that impact the customers and their expectations, competitors (who, where, etc.), macro- and industry-level financials, technology, government actions (such as regulation, deregulation, and laws), and mergers, acquisitions, divestitures and other structural changes in the industry.

Common internal drivers and historical norms that lead organizations towards, or away, from greater levels of outsourcing can include: historical sourcing decisions (the more organizations

currently outsource the greater they tend to in the future); organization-level characteristics, such as, industry, size, rate of growth; the use of benchmarking, reengineering and other improvement programs; the decision-making structure of the organization (centralized, decentralized); how visible a particular function is; the desire for management control; and employee practices that may restrict or encourage change.

Finally, of course, sourcing decisions can only be made when there are, indeed, outside options to be considered, that can demonstrate the ability to deliver high-quality, low-cost solutions.

### 1.3.3 Selecting outsourcing as a business model

Once the business has decided to focus on their core functions and explore the alternatives for outsourcing, a model is developed where the drivers (and hence benefits from outsourcing) are balanced against the risks associated with it (specific risks associated with the outsourcing and how to avoid/mitigate them are discussed in a later module). Businesses tend to balance the risks and rewards and when a point is reached where the balance shifts towards outsourcing, a decision is made to consider outsourcing. In fact, one can argue that *a business would consider outsourcing when it believes that performing a function in-house contains greater risks than having a service provider do it*. This may be used as an “alternative” definition for outsourcing.

### 1.3.4 Outsourcing's Benefits

The basic reason cited for outsourcing is most often to reduce costs. However the organization chooses to spend those savings, whether they are passed along to its customers, reinvested into other areas of its operations, or returned to its owners and shareholders, the need for every organization to continually drive down its costs is constant. About 50 percent of executives state that reducing costs is the top reason for outsourcing. In most cases, the cost savings are in the 10 to 20 percent range, but can be much higher depending on how large the gap is between the company's current cost of operations and the money it will be paying the outside provider.

Although cost savings is an important reason for outsourcing, it is actually only the primary reason for about half of the outsourcing projects companies undertake. This means that the top reason for outsourcing for the other half of the projects is, in fact, something other than cost savings.

The second most frequently cited reason for outsourcing is the ability to focus more company resources – its people, its physical and intellectual resources, and its capital – on the core parts of operations – the activities that provide its unique competitive advantage; thereby improving the company's ability to leverage its most valuable capabilities.

The third most frequently cited reason is to achieve a more variable cost structure. Through outsourcing, instead of having relatively fixed investments in its internal operations, the company

shifts to a more on-demand business model. This reduces the effective cost of operations by enabling the company to adjust expenses in response to changes in the marketplace.

Access to skills not available to the organization internally is the next most frequently cited value from outsourcing. After all, few organizations, regardless of their size, can hire all of the talent they need. Because service providers are more specialized and are serving many customers, they have a much deeper talent pool upon which to draw. Measurable improvements in quality can result as well. Areas of the business that do not produce unique competitive advantage are often the last to be funded and invested in, making continuous improvements in quality difficult to achieve.

Another tangible benefit of outsourcing is that not only is the need for new capital significantly reduced – since the provider often brings in the needed resources – but current assets may be sold to the provider, freeing capital dollars already invested. This cash can then be reinvested in other parts of the business or used to improve the company's overall balance sheet and reduce its future cost of capital.

Most recently, companies have begun to find that bringing in outside specialists spurs much needed innovation in their operations. Some have equated outsourcing to having a dedicated R&D department; as the provider innovates new solutions they can be immediately put into practice in the company's own operations. As James Brian Quinn has put it, "No one company acting alone can out-innovate all its competitors, potential competitors, suppliers, and external knowledge sources."

A final, and often-overlooked benefit, is the ability through outsourcing to free an executive's time to focus outwardly on strategy and customers as opposed to inwardly on current operational issues. For many executives, dealing with the day-to-day details of operational activities robs them of time that would be better spent on customers, shareholders, investors, and suppliers.

As business understands the drivers and embarks on the strategy to consider outsourcing, it embarks on collecting the relevant information to help them validate their assumptions about outsourcing market in general. The sources of information for data collection include:

- Industry organization such as IAOP (through its website and Outsourcing World Summit)
- Industry reference organizations such as Gartner, Forrester Research who publish industry and market information
- Industry publications and reference books (see the end of the module for references)
- Engaging advisors who can bring industry knowledge and experience
- Industry trade groups where other businesses in the same/similar industries have had experience in outsourcing

The objectives for such a study include:

- Understanding market potential for the service. This helps identify whether the particular service is in its infancy or is reaching a mature stage. This is important to understand the risk profile associated with the particular process outsourcing
- Establish the trends in the marketplace associated with the particular process outsourcing. This will determine whether there are potential changes in the marketplace that may affect the efficacy of outsourcing decision.
- Learn from previous experiences the potential as well as pitfalls associated with the process outsourcing
- Create a preliminary list of service providers who later on may be contacted for further information

Once the preliminary study is completed, the organization can review its business drivers and priorities and look at the market data to understand alternatives and case histories to frame a more detailed outsourcing strategy.

For service providers, understanding market requirements and potential is important in identifying business opportunities and tailoring their solutions to the demands.

## 1.4. Outsourcing versus Shared Services

Shared services are common activities that are used by more than one division or unit within the company. When these services are combined into a central operation they are often referred to as shared services centers.

In order to address the business drivers, businesses consider creating a shared services center to consolidate common processes from different business units. Some consider this to be an alternative to outsourcing those processes. Figure 1.2 shows how the two forms of organizational structure are both similar and different in their concepts. In both forms, a service center is established that provides services to the business units under a services agreement. It is the ownership of the center that is different between a corporate shared services center and a service provider's processing center under an outsourced agreement. Since the shared services center is a part of the same company, there are inherent limitations on how far it can create synergy, different management environments and productivity levels. Typically, it would be difficult to create a market-focused organization within a corporation, which would be the case when it is managed by a service provider. Investments, employee issues, and infrastructure constraints all become hurdles faced by shared services centers pushing the envelope for higher performance.

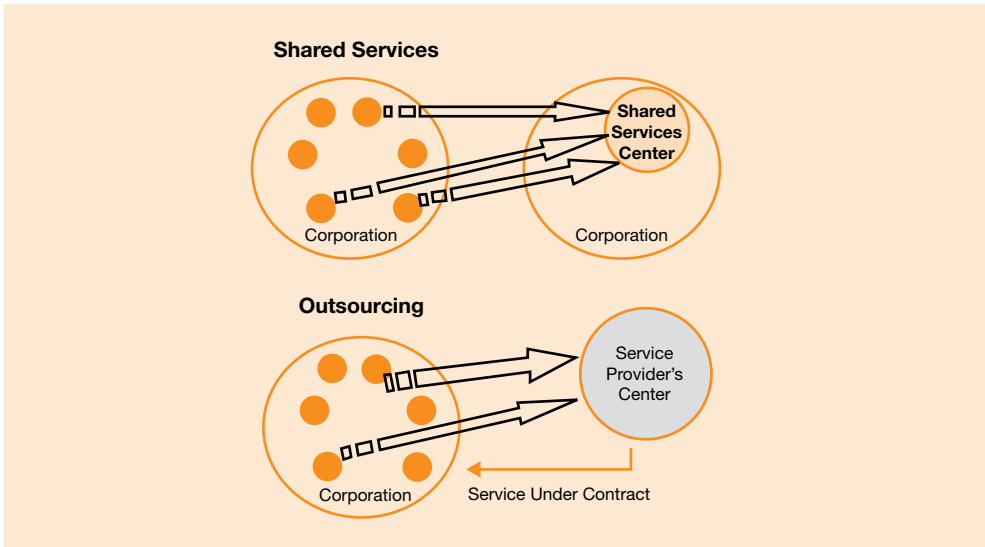


Figure 1.2: Outsourcing versus Shared Services

The following table shows some of the common benefits and shortcomings of both forms of organizational structure:

	Benefits / Advantages to Business	Shortcomings / Barriers
Shared Services	<ul style="list-style-type: none"> <li>■ Can be implemented with lower disruption to organization and processing</li> <li>■ Savings accrue directly to business (without paying profit to a provider)</li> <li>■ Familiarity with processes and organization</li> <li>■ Retention of skills and knowledge within corporation</li> <li>■ Reversing the decision is easier</li> <li>■ Easier to manage sharp changes in volume</li> </ul>	<ul style="list-style-type: none"> <li>■ Organizational resistance becomes harder to overcome</li> <li>■ Greater chances of retaining historical divisions and function separation and not take a "Greenfield" approach</li> <li>■ Corporate infrastructure restraints remain the same (e.g. compensation scheme, systems environment)</li> <li>■ Little built-in incentive to continue to improve operation and productivity</li> <li>■ Continuance of the same management team prevents "new" ideas and market perspectives</li> </ul>
Outsourcing	<ul style="list-style-type: none"> <li>■ Avoids management focus on non-core activity</li> <li>■ Eliminates need for capital and other investments</li> <li>■ Creates a higher potential for greater productivity in the process</li> <li>■ Becomes a more responsive organization due to the nature of "market facing" organization culture</li> <li>■ Creates ability to share volume and best practices with other businesses managed by the same provider</li> </ul>	<ul style="list-style-type: none"> <li>■ Creates an organizational disruption that needs to be managed effectively through change management</li> <li>■ Potential loss of skills and knowledge to outside; making it difficult to reverse the decision</li> <li>■ Requires greater energy in establishing the agreement and providing on going governance</li> <li>■ Selection of the service provider and transition of work becomes critical and poses greater danger of disruption</li> <li>■ Need to deal with "societal" impact of the decision (within and outside company)</li> </ul>

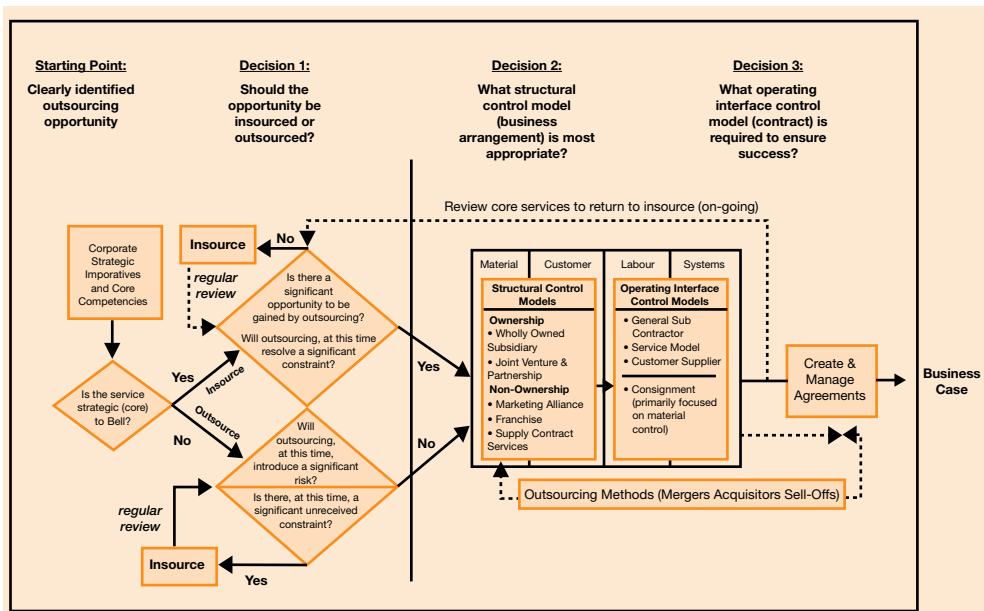
Table 1.3: Benefits and shortcomings of shared services and outsourcing

The following factors are generally considered when deciding between creating a shared services center or outsourcing the functions:

- Organizational maturity to create a shared services center and deal with the change management and political/functional boundary issues
- Availability of investment in creating a center and then applying it to improve the performance of the center
- Commitment of multi-year capital and expense investment while the center is brought to a level where savings can be accrued
- Availability of the subject matter expertise in the process as well as a systems platform for creating a productive operational environment
- Availability and adequacy of staff for the center in the chosen location
- Willingness to organize staffing around volume changes and provide the HR infrastructure to deal with multi-types of employees (contractors, employees)

### 1.5. Creating an overall business model

As an organization looks at various alternatives for business strategy and outsourcing, it is important to create a business specific model that encapsulates the full range of concepts and options, as Figure 1.3 shows.



Source: Jean-Francois Poisson, Former General Manager, Contracts, Bell Canada

Figure 1.3: Decision model

### 1.5.1 What organizations outsource

Outsourcing began decades ago in the manufacturing parts of businesses and has gradually spread across the entire operations of most companies in developed countries all around the world.

### 1.5.2 Mapping activities

Figures 1.3 and 1.4 show a high-level mapping of the activities present in most organizations. In both cases, a common set of support activities (corporate services, information, communication, and document management, and financial management, etc.) surrounds a value chain for the development, delivery, and support of the products and services the organization delivers.

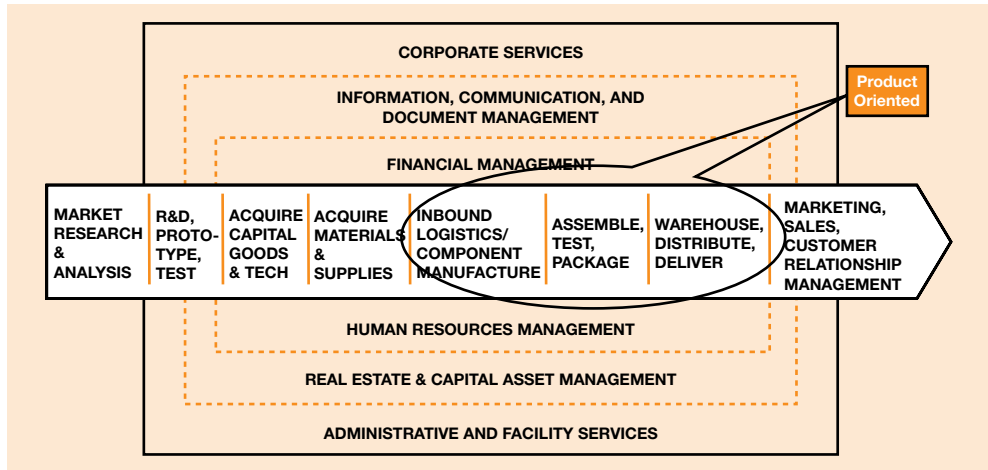


Figure 1.4: Mapping activities: product company

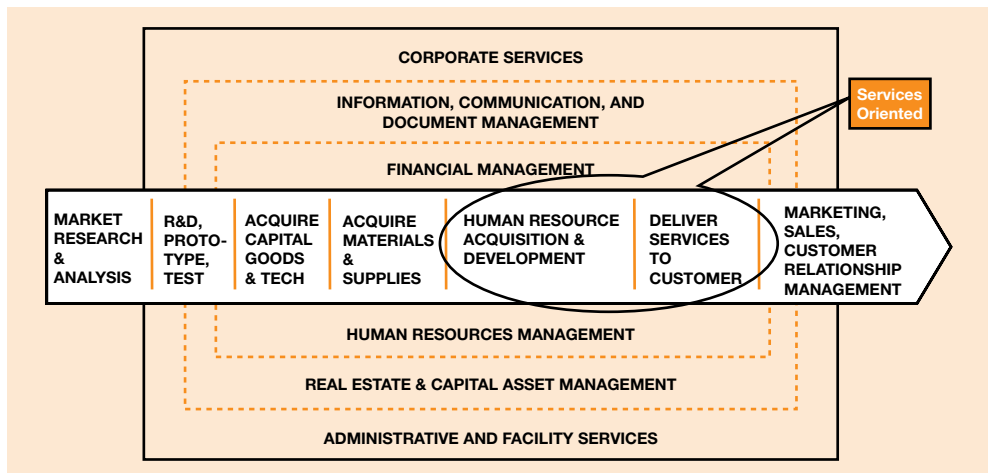


Figure 1.5: Mapping activities: services company



A more detailed listing of each activity is presented in the Appendix.

Outsourcing takes place across all of these areas of the business, based upon a careful strategic and tactical evaluation of the risks and rewards.

### **1.5.3 Selecting activities**

Experience has shown that many of the best candidate areas for outsourcing are likely to be those where there is a robust marketplace of providers, and solid proof points of success from the experiences of other organizations. While these more mature segments of the market offer proven results, emerging areas offering opportunities for organizations to gain an early and unique advantage should be considered, as well.

In either case, one of the first steps in evaluating any outsourcing opportunity is to first match that opportunity with what other organizations are already doing and then against the maturity of the marketplace of service providers. Mapping and scoring the opportunities an organization is considering, in terms of where the marketplace is in its maturity curve, can be a very effective first step in the process of selecting the best candidates.

Generally, the most mature outsourcing markets – those in which the largest percentage of organizations outsource and where the marketplace of providers is the most robust – are in the physical parts of a business's operations. Activities such as facility services and maintenance, cafeterias and mailrooms, manufacturing, warehousing, shipping, and information technology (IT) infrastructure are all examples of this.

Next comes what might be called specialist areas of the business. There are highly specialized professionals from across a wide range of disciplines – from advertising to travel to information technology – who work within the typical company. These individuals and their departments often have a greater affinity to their specialty than to the particular company they work for. Highly sophisticated service providers exist across all of these specialized areas.

The next most common area for outsourcing is in the transactional parts of the business – activities such as telemarketing, customer order processing and inquiries, employee benefits administration, receivables and payables. These all represent repeatable, process and technology-centric activities. Outsourcing in these areas often provides the added opportunity to simultaneously reengineer the business process, implement new technologies, and streamline the supply chains that support them.

The final areas that organizations typically look at are the high-touch, high-sensitivity areas of the business – activities that play a more direct role in the organization's relationship with its customers and that are more central to the planning and development of future products and

services. Service delivery, field sales, and research and development are all examples of high-touch, high-sensitivity areas.

#### 1.5.4 Portfolio management approach for outsourcing

As businesses decide their strategies for outsourcing, there will be a need to establish a management process where the processes are grouped and analyzed as a portfolio. This enables the management to make a decision on the entire portfolio or a partial portfolio and also determine the priority of outsourcing implementation, based on portfolio characteristics and benefits.

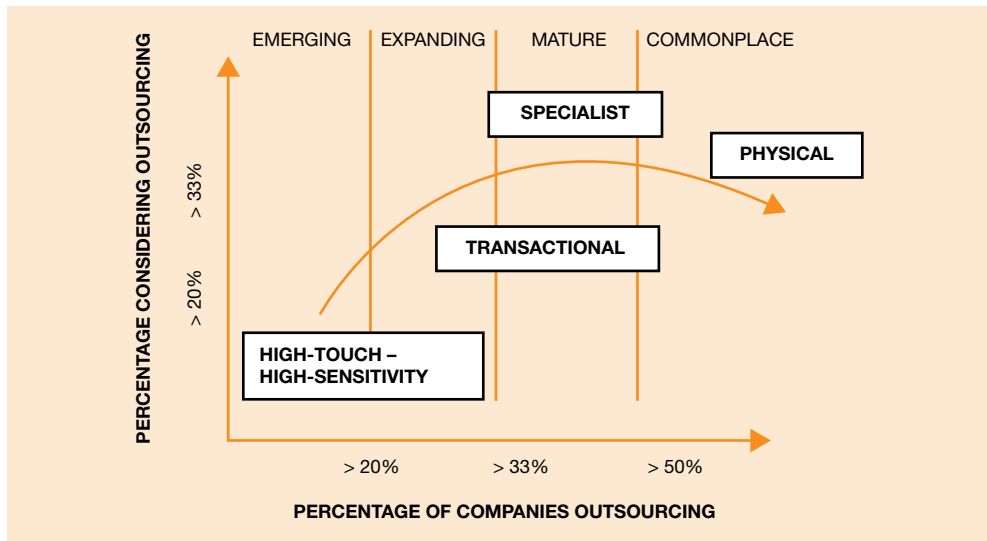


Figure 1.6: Gauging outsourcing market maturity

#### 1.5.5 Business process outsourcing

In many cases, the scope of an activity under consideration for outsourcing exists entirely within the boundaries of an individual department or function. Increasingly, however, organizations are looking at their operations as end-to-end business processes. This leads to looking at activities under consideration for outsourcing in the same way.

The benefits of this business process approach to outsourcing can be significant. The organization gains a clearer understanding of how the various pieces of its operation connect to, reinforce, or take away from its ability to deliver value to the customer. The key performance indicators for the work can be defined in terms that are meaningful from a customer perspective, not simply from the perspective of an internally focused performance standard. Finally, all of the underlying

technologies and supply chains are clearly identified and can be evaluated for inclusion in the scope of services to be outsourced.

A business process approach to outsourcing begins with the development of a process diagram – a tool that is well documented in the many texts on business process analysis and reengineering. It is often an iterative process typically beginning with a “white board” exercise that captures the activities that make up the process and their relationships. From that, a common set of diagrams, using a consistent symbolic language as well as supporting textual descriptions, is created. These textual descriptions follow a consistent template that describes the purpose, triggers, timings, durations, and resource requirements for each process, sub-process, activity, and task. All required resources are identified, including skills, technology infrastructure and applications, and the physical environment. Data flows are captured in the same template-driven manner, including the sources, destinations, characteristics, and inputs and outputs for each activity. Key performance indicators are documented as well. These establish the base for determining how well the process is operating overall in relationship to the customer value it is intended to create.

This process analysis and mapping forms the basis for all subsequent planning and decision making, including defining the scope of the work to be outsourced, determining current costs and performance, quantifying the measures of success and specifying how it is managed.

## 1.6. Outsourcing versus offshoring

Taking parts of a company’s operation offshore, or offshoring as it is commonly called, is certainly not a new idea. The label MADE IN CHINA has appeared on products for decades. As Western companies took their process expertise overseas, and as the global transportation infrastructure developed to make shipping of raw materials, sub-assemblies, and finished products practical and cost effective, offshore manufacturing became commonplace.

What is new is that the global digital infrastructure built in the 1990s is now making it just as possible to perform information-based activities anywhere in the world and to instantaneously deliver the results anywhere else in the world. This development has essentially made much more of the work of the modern organization “placeless.” Designs can be drawn, programs written, bills generated, and customer calls answered just as easily halfway around the world as they can be across the street. The resulting offshoring of knowledge-based work is quickly becoming just as cost-effective and commonplace as it has proven to be for manufacturing in the past.

Cost savings are clearly the most compelling driver for offshoring at this moment. The largest portion of these cost savings typically come from the wage differential between employees in highly developed Western countries and those in the emerging economies, such as Africa, Asia, Eastern Europe, and Latin America.

Another important benefit to off-shoring is the creation of an operating structure that can “follow the sun.” Global companies are operating somewhere in the world every hour of the day. Customer calls need to be made and received. Invoices need to be generated and payments processed. Software problems need to be worked on in real-time, regardless of the time zone of the user who first encountered it. Restructuring the business’s operation into a global web helps do this.

Another benefit can be quality. Highly educated and motivated employees can perform tasks that would simply be unjustifiably expensive at Western wage rates.

Competition is another important way that offshoring leads to lower costs and better service. When locations around the world are included in the mix, each with its own unique advantage, the bar is raised even higher for everyone, and improvements through competition flourish around the globe. Offshoring can also create a presence and knowledge in the region that yields other very important advantages – advantages that accrue back to the company’s home country, customers, employees, and investors alike.

A summary of the terms used to describe various geographic-based forms of outsourcing is provided below.

**Onshore:** Home country outsourcing – obtaining services from an external source in the home country.

**Near-Shore Outsourcing:** Refers to contracting a company in a nearby country, often one that shares a border (but not always). Canada and Mexico, for example, are near-shore countries for United States-based organizations.

**Offshore Outsourcing:** Refers to contracting with a company that is geographically distant, like India, Ireland, China, Philippines, Israel and Rumania from the United States or your home country.

**Best-Shore Outsourcing:** A recently coined term that describes which “shore” will offer better communications, lower costs, higher productivity and the most value, considering the risks versus the benefits.

### 1.6.1 The offshoring decision

Just as outsourcing is not appropriate for everyone for all processes, offshoring is not equally appropriate either. There are critical business factors that must be considered before deciding to offshore work. These factors include:

- Maturity of the business to manage a remote location (regardless of distance)
- Maturity of the business to manage a location in a different country/culture
- Stability of the process, including documentation, performance measures and reporting requirements
- Ability to provide knowledge transfer to processing people remotely
- Regulatory and legal constraints surrounding the process (such as certification requirements)
- Dependence and availability of technology infrastructure
- Market availability of skills – at offshore locations
- Management views and concerns with the societal impact of offshoring (including dealing with communication with stakeholders)

Many of these factors require an outsourcing professional to review the process details and market availability of providers first, according to other sections in this OPBOK.

### 1.6.2 Examples of offshoring

Offshoring began initially with lower end activity processing, such as airline tickets, keypunching, transcription services, data entry and programming conversion tasks (especially during Y2K programming changes). Since then, offshoring has matured and now there are many examples of higher level processes being managed offshore. The following are just some of the examples.

#### ITO

- Applications development and enhancement
- Monitoring data networks
- Data center operations management

#### BPO

- Claims processing
- Check image processing
- Procurement processing (requisition to checks)
- HR-benefit administration
- Legal – litigation support
- Data mining

#### KPO

- Capital market analysis
- Legal – copyright management
- Vendor analysis
- Medical payment assessment

### 1.6.5 Key differences between onshore and offshore outsourcing

The following are some of the key differences between onshore and offshore outsourcing to keep in mind:

- Provider cost/pricing structure
- Tax implications
- Regulatory implications
- Political concerns
- Data protection and security
- The sourcing process itself
- Management and governance process is more complex and time consuming
- Legal and arbitration adjudication
- Intellectual property protection

### 1.6.6 Models of offshoring

Although offshoring models do not differ significantly from onshore models of outsourcing, there are a couple of significant variations that should be noted and understood.

Since there is a significant impact of the governance requirements on offshoring, some businesses have taken a stand that they will only establish a captive operation offshore. However, some of them have felt that they do not possess the requisite knowledge and/or local experience to be able to establish the captive operation on their own. As a result, a new form of outsourcing model has emerged in recent times. This model is that of build-operate-transfer (BOT). In this model, the business outsources the task of establishing a center to a local company – from building the infrastructure to initial staffing and operating the center for a finite period – and then takes over responsibility of the center from the outsourcer. Other variations have emerged. There are some significant benefits with this model:

- Depending on a local provider to bring their expertise in setting up operation and thereby lowering the risk of start-up issues
- Reduction in the time it takes to set up the center
- Lower balance sheet impact of initial capital cost, since the start up capital cost can be amortized differently and then applying it during the purchase of an operational center.
- Gaining knowledge and experience by observing the initial operational period and learning the local requirements.
- Creating local market awareness through an established name and thereby reducing staffing challenges and then transferring the “goodwill” of an operational center through an established name.

## 1.7. Overcoming outsourcing's challenges

Any change as significant as outsourcing has risk. Not all organizations execute outsourcing well. Not all providers deliver well for every customer. Even when both companies execute well, other internal and external factors can keep the relationship from delivering its intended benefits. As a result, various surveys regularly report a surprisingly high rate of outsourcing failures.

Outsourcing is hard work, and the role of outsourcing professionals is to use their acquired skill and knowledge to help direct the organization's efforts in ways that produce better, more consistent results. Particular areas of focus are: setting realistic expectations; choosing the right opportunities for outsourcing; choosing the right providers; crafting a balanced relationship that offers sustainable benefit to customer and provider, alike; properly managing outsourcing's organizational impacts; and managing the ongoing relationship.

Another barrier generally expressed by businesses is a fear that they will lose the knowledge and skills once the process (or technology) is outsourced. This is true if there are not appropriate governance processes put in place to document and retain the skills and knowledge through the life of the agreement. A good contract will also ensure that the service provider is responsible for significantly lessening the buyer's dependence on that knowledge or skill.

### 1.7.1 Barriers to outsourcing

There are also a number of barriers inside the organization that must be addressed for outsourcing to be successful. Managers fear a loss of control. They often believe that although an activity may not be core, it may still be too critical to be outsourced. They are concerned about losing flexibility by getting locked into a long-term contract with a service provider. They are concerned about how their customers may react. They are concerned about employee, and especially union, reactions. They are concerned, particularly when it comes to offshore outsourcing, about community and political backlash over lost jobs.

Although each of these concerns is based on often strongly held opinions, more often than not they reflect more a fear of the unknown than an objective assessment of the facts.

#### *Loss of control*

It can be argued just as effectively that, if done well, organizations do not lose but gain control through outsourcing. A contractual relationship with a top service provider tied to measurable outcomes often gives executives greater control than they had over their previous typically less formal and less well-defined internal management system.

### *Too critical to be outsourced*

Can organizations outsource critical activities and still be successful? They can and do every day. The GM executive who outsourced payroll, for example, would go out of his way to make sure that other executives understood that the outsourcing decision was not made because payroll was not critical. “If we don’t make payroll, the union walks. If the union walks, we don’t make cars. If we don’t make cars, we don’t make money,” he would say. GM outsourced payroll precisely because it concluded it was too critical not to outsource it to a specialist who could do it better and more efficiently.

### *Loss of flexibility*

Instead of reducing flexibility, outsourcing can actually increase it. Through outsourcing, the company gains access to the provider’s larger resource pool. Those resources can now be tapped by the customer “on demand.”

### *Negative customer reaction*

Although outsourcing may be a sensitive issue for some customers, improved service quickly puts many of these concerns to rest. The fact that a third party is involved does not need to be visible at all, if the company chooses. In other cases, the provider’s brand may actually enhance their customer’s.

### *Employee resistance*

Barriers also exist because of concerns over outsourcing’s impact on employees and even its impact on the status and power of the middle- and upper-level managers who have direct authority over the function. This issue is particularly sensitive when the outsourcing involves off-shoring. Even there, as we shall see later, organizations have tremendous latitude in preparing and assisting their people and managers through these changes.

### *Poor or lack of effective outsourcing process, performance metrics and project management*

In a recent market survey on outsourcing by Forrester Research, above 50 percent of the respondents reported additional outsourcing challenges due to: (1) poor project management skills; (2) lack of an effective outsourcing process; and (3) inadequate or poor metrics and communications vehicles for measuring and monitoring performance. Poorly designed and implemented communication plans during the outsourcing process can also act as a barrier to completing the agreement.



All of these challenges can be overcome by establishing a comprehensive outsourcing governance policy, process and controls, adequate training and certification for project management and meaningful management re-enforcement.

### 1.7.2 Balancing customer and provider views, needs, wants and concerns

As part of the outsourcing decision considerations, customers want and/or need to have a number of factors satisfied:

- quality equal to or better than the current service
- reduced costs and reduced capital expenditures
- availability, reliability, dependability, credibility, bench strength, financial accountability and service
- redundancy, contingency and disaster recovery (no single point of failure)
- wants measurable results with realistic and enforceable metrics
- wants governance and escalation with single (limited) point of provider contact (to build relationships and resolve issues quickly)
- dependability, credibility and certification (ISO 9000, SEI's CMMI, PMP, others, etc.)
- global contract for volume discounts (think global, act local)
- pay as you grow
- easier transition from old to new technology
- disengagement options

Customers have also raised a number of issues and concerns:

- security and privacy of data
- business continuity assurance
- provider maturity and stability
- quality and timeliness of work, including service levels
- presence (representation) in home country
- communications and culture – distance, time difference,
- management time to coordinate, language, etc.
- protection from and avoidance of high tech 'scams' (e.g. Citibank call center – India)
- loss of control
- compromise of intellectual property potential
- high provider employee turnover rates (as in India)
- providers

Outsourcing providers have specific needs, wants and concerns:

- substantial revenue stream potential
- growing global market
- long-term customer relationship
- competitive environment
- bid process expensive
- technical complexity
- pricing sensitivity – making provisions for change
- cost estimating difficulty (over multi-year contracts)
- increased pressure to be certified (e.g. ISO 9000, SEI's CMMI, PMI's PMP, ITIL, other)
- account control for cross-selling and up-selling
- attracting and retaining skilled employees
- understanding the expectations of the customer
- customer industry, application, function and/or process knowledge
- economies of scale

## 1.8. The outsourcing professional

Outsourcing professionals now exist in organizations around the world and, most importantly, are increasingly taking the lead on topics like outsourcing process design, project team management, strategy and policy setting, outsourcing implementation, and governance. At the same time, these outsourcing professionals are seeking to pool their efforts through development of a common robust outsourcing body of knowledge, networking and learning from each other, and through the establishment of professional skills, standards, and certification.

Outsourcing is here to stay. It is inextricably linked to the globalization of business. As this globalization continues to connect the world's economies, few if any companies will be able to meet the challenges they will face by relying solely on their own internal resources. As a result, companies will increasingly turn to partners, often through outsourcing, to help them better leverage what they are best at, gain greater flexibility and reach, and drive down their overall business costs and risks.

But this increased reliance on outsourcing brings with it its own challenges. Many studies point to less than desirable and certainly less than consistent outsourcing results. The reason is that in today's world, companies need more than simple cost savings and contractually-based service levels from outsourcing. What they need is a way to build a dynamic network of global partners able to adapt to and even anticipate ever-changing business realities.

As the use of outsourcing goes up, companies also need to lower the total cost of outsourcing. Customers and providers alike are beginning to struggle with the burden of managing increasingly complex outsourcing relationships across multiple organizations with multifaceted interfaces. Most importantly, for outsourcing to continue to grow, the success rate has to go up even faster than the growth rate. If it does not, then the sheer weight of the number of ‘failed’ contracts may ultimately make outsourcing seem too expensive, at any price.

It is against this backdrop that companies are increasingly turning to outsourcing professionals to take charge of their emerging global corporate ecosystems. Outsourcing professionals are fast becoming the experts with the strategic vision it takes to determine the right sourcing approach and the execution skills it takes to put the right relationships in place and make them work. They are developing a unique combination of skills: the best of traditional general management along with the knowledge and experience to design, build, and operate highly complex, cross-organizational, cross-border, and cross-cultural business systems.

Today’s outsourcing professional requires that he/she possesses capabilities and skills that are different from what they are generally trained for or accustomed to before outsourcing. These are:

- **Skills** – as the Certified Outsourcing Professional (COP) program demonstrates, there are critical skills required of outsourcing professionals. In many cases, the outsourcing professional must be able to change from being a ‘doer’ to being a ‘relationship manager.’ This requires more of a holistic view of the business while at the same time maintaining alignment with third parties.
- **Methodologies and tools** – successful outsourcing management requires a process orientation and hence the emphasis on methodologies and tools – including templates.
- **Management systems** – measurements and process orientation form the basis of a strong outsourcing relationship, one that is based on facts. These systems are linked to the methodologies and tools.

### 1.8.1 Who is an outsourcing professional?

Outsourcing professionals are now operating across the business and at many levels. IAOP’s global survey of customer-side outsourcing professionals found that 44 percent work within functional areas like IT, real estate, shared services operations, and manufacturing, while 31 percent work in corporate-wide groups such as strategic planning, procurement, and sourcing, and 25 percent work as line executives with direct operational responsibility for significantly outsourced operations.

Titles vary dramatically, as shown in Figure 1.7. Within functional areas like IT, these outsourcing professionals carry titles such as global IT outsourcing coordinator; director, IT synergies; and

vice president, technology vendor management. Those with company-wide responsibilities have titles such as director, outsourcing center of competency; director of strategic sourcing; global head of outsourcing management; general manager, outsourcing; and strategic relations manager.

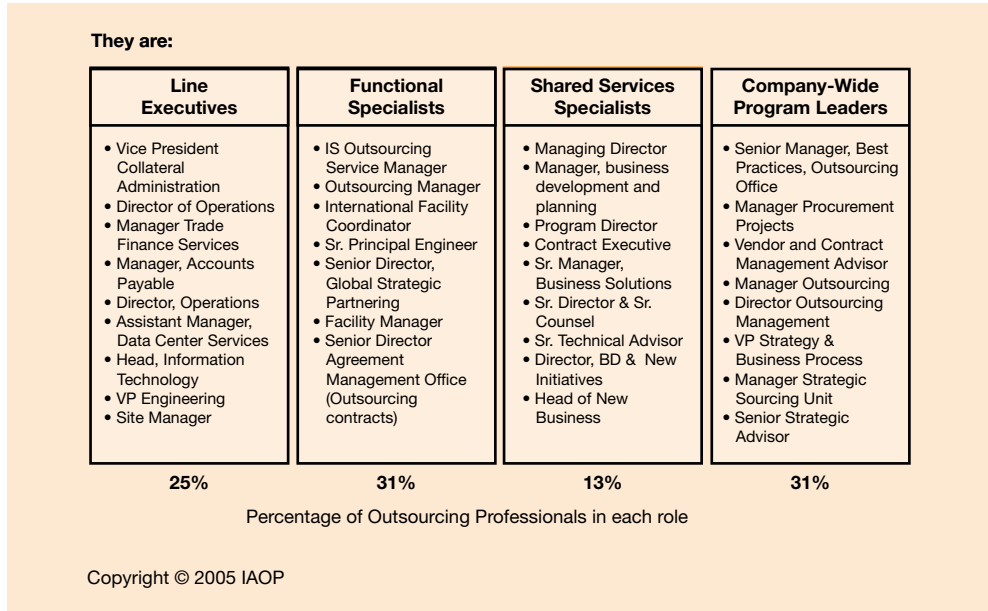


Figure 1.7: Outsourcing Professional Job Titles

In turn, these outsourcing professionals are creating another layer of outsourcing professionals below them. They are building their own support teams with, on average, four people reporting to them with titles such as project manager, outsourcing consultant, and alliance management specialist.

The survey also found that their expertise is increasingly in outsourcing itself, not necessarily in a particular operational area. In fact, almost 80 percent of outsourcing professionals surveyed are involved in the outsourcing of more than one activity.

Finally, the impact of these outsourcing professionals on the business is significant. The average outsourcing professional is now involved in just over \$60 million per year of outsourcing spending, with some leading programs of hundreds of millions and even billions of dollars of annual spending.

**1.8.2 Outsourcing professionals: roles and responsibilities**

The best way to characterize the role being taken by outsourcing professionals within their companies is as designer, facilitator and implementer.

Almost 60 percent of outsourcing professionals have the lead role when it comes to designing and managing their organization's end-to-end outsourcing process. Their focus here is on establishing the steps the organization goes through in its efforts to identify and evaluate opportunities and then to move the best of those opportunities through that process effectively. Outsourcing professionals also play an active role in setting their organization's overall outsourcing strategy and policy.

But, outsourcing professionals are both designers and implementers. Many, more than 40 percent, also lead the implementation effort, manage and help set up the project teams, perform preliminary assessments of opportunities, and work on the governance of the ultimate outsourcing relationship. They also play active roles in the request for proposal process and provider selection. Even when it comes to the actual 'go, no-go' decision, which is more typically in the hands of senior management and the line executives, outsourcing professionals are heavily involved.

### **1.8.3 Outsourcing professionals: top challenges**

Governance is the top challenge facing outsourcing professionals. And, governance is not a single issue; it encompasses a wide range of topics including performance management, change and risk management, development of the requisite management skills, quality assurance, and providing effective incentives for providers to better align the interests of all parties.

The second biggest challenge, which is closely related to the first, is properly selecting and qualifying providers to begin with. How do you choose? With an ever growing number of providers, constantly changing mixes of capabilities and services, and new insights gained regularly in terms of what does and does not work, selecting the right provider to assure the desired results is not easy.

Another area that is high on the list of challenges for outsourcing professionals is gaining internal executive buy-in. Although the overall case for outsourcing may be compelling, getting all of the affected executives on board on a specific initiative, particularly given the organizational politics that come into play, is never easy. This leads naturally to the fourth most frequently mentioned challenge – value assessment. Booking cost savings is one thing, but getting a true definition of value, value for money and return on investment that encompasses all of the expected impacts of an outsourcing decision still eludes many.

### **1.8.4 Outsourcing professionals defining the future of business**

Just as other areas of business have matured to become recognized professions with a well understood role in contributing to organizational success enabled by the skills and professionalism of its practitioners, the same is now happening with outsourcing.

Outsourcing professionals are emerging across the business, operating within specific functions and in company-wide capacities. They are increasingly helping to shape the organization's policies and practices, but they are also helping to lead the effort to make outsourcing work. They are increasing the recognized, go-to resource for ensuring better outcomes. At the same time, outsourcing professionals face many challenges themselves and the effort to develop and codify the field's body of knowledge is really just underway.

Key to ensuring high-quality outsourcing outcomes is constantly improving the capabilities of the business and project leaders responsible for defining, implementing, and managing these highly complex multi-company relationships.

The purpose of the International Association of Outsourcing Professionals' (IAOP) *Certified Outsourcing Professional (COP) Program* is to support this goal by:

- establishing a common, globally-recognized set of standards for the experience and knowledge outsourcing professionals should possess
- providing a defined process by which outsourcing professionals can demonstrate that they possess these requisite capabilities
- creating a highly-coveted professional designation that distinguishes the outsourcing professionals who obtain it as the leading practitioners in their field

The primary certification covers the non-domain specific experience and knowledge common to outsourcing as a management practice irrespective of the individual's role as a customer, provider, or advisor. Following introduction of the primary certification, programs specific to domains, such as information technology, finance and accounting, manufacturing, logistics, etc., and to specific roles as customer, provider, and advisor will be explored. Levels of certification, such as those of interest to individuals seeking a fundamental, advanced, and master certification will be explored as well.

The *Certified Outsourcing Professional (COP) Program* is made up of the following elements.

#### *The Outsourcing Professional Body of Knowledge (OPBOK)*

The *Outsourcing Professional Body of Knowledge (OPBOK)* describes the generally accepted set of knowledge and practices applicable to the successful design, implementation, and management of outsourcing contracts. It provides:

- a framework for understanding what outsourcing is and how it fits within contemporary business operations

- the knowledge and practice areas generally accepted as critical to outsourcing success
- a glossary of terms commonly used within the field.

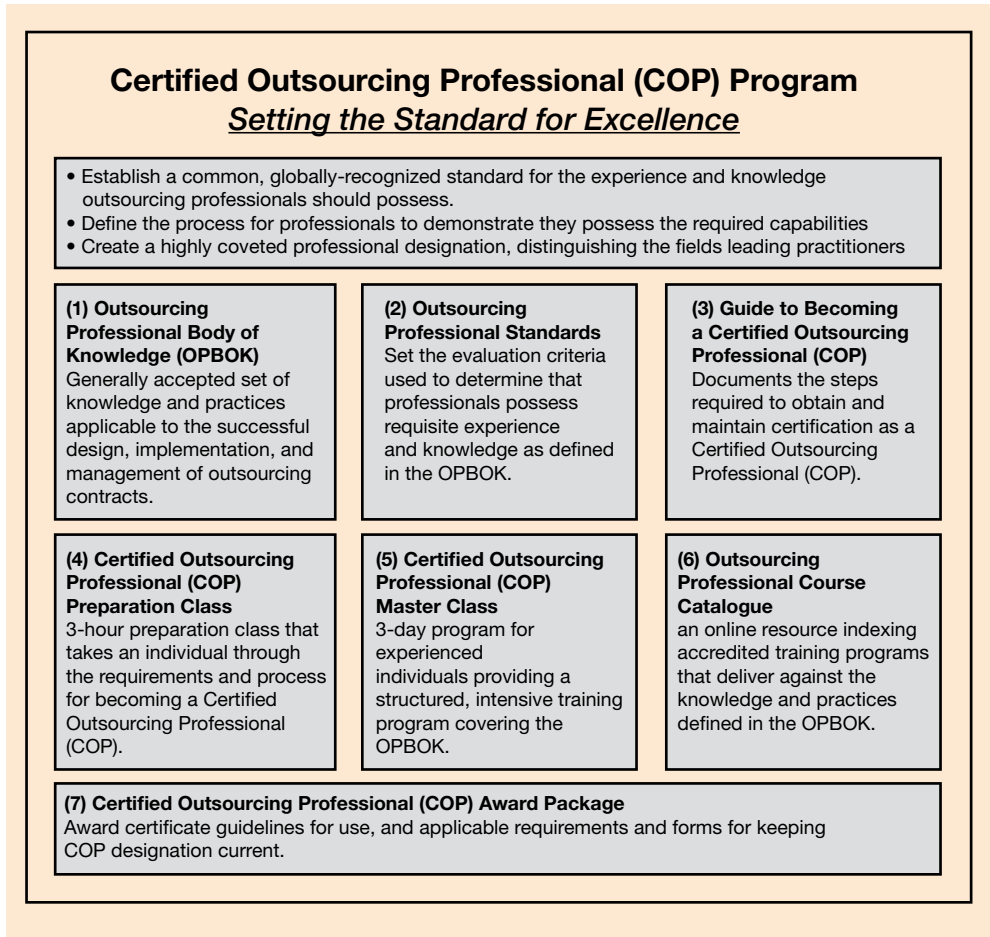


Figure 1.8: Certified Outsourcing Professional (COP)

### *Outsourcing Professional Standards*

*Outsourcing Professional Standards* define the level of experience and knowledge outsourcing professionals need to possess to ensure consistent, high-quality results for the organizations that rely upon them to design, implement, and manage their outsourcing contracts. The *Outsourcing Professional Standards* essentially set the evaluation criteria used to determine

whether or not an outsourcing professional has sufficient experience with and understanding of the *Outsourcing Professional Body of Knowledge (OPBOK)* to generally ensure high quality outsourcing outcomes.

#### *Guide to Becoming a Certified Outsourcing Professional (COP)*

The *Guide to Becoming a Certified Outsourcing Professional (COP)* documents the steps that an individual needs to take to become and maintain certification as a *Certified Outsourcing Professional (COP)*. It provides recommendations on the experiences and training needed to meet the certification requirements, all applicable forms, steps to follow, typical timelines, and requirements for meeting annual re-certification requirements. It should be noted that the certification process requires that the professional can demonstrate and validate through a reference their direct experience in meeting requirements. Although shared services and captive offshore center topics are included in this OPBOK and the Master Class for discussion, any experience involving them does not count towards the points necessary to get the certification.

#### *Certified Outsourcing Professional (COP) Preparation Class*

The *Certified Outsourcing Professional (COP) Preparation Class* is a 3-hour program that introduces the structure and content of the *Outsourcing Professional Body of Knowledge (OPBOK)*, provides an in-depth review of the *Outsourcing Professional Standards*, and takes the participant through the steps required to obtain and maintain *Certified Outsourcing Professional (COP)* certification based on the *Guide to Becoming a Certified Outsourcing Professional (COP)*.

#### *Certified Outsourcing Professional (COP) Master Class*

The *Certified Outsourcing Professional (COP) Master Class* is a 3-day program that provides individuals already experienced and working in the field of outsourcing with a structured, intensive training program based upon the *Outsourcing Professional Body of Knowledge (OPBOK)*. Individuals with solid general management skills, practical, in-the-field, outsourcing experience, and who successfully complete this program are generally fully prepared to meet the *Certified Outsourcing Professional (COP)* requirements.

#### *Advanced Certified Outsourcing Professional Classes*

From time to time, IAOP will offer 2-4 hour long classes (or webinars) that may be taken by certified professionals and thus meet the requirements for continuing education. Each of these classes have certain pre-defined points assigned and must be taken in full to receive the credits.



### *Outsourcing Professional Course Catalogue*

The *Outsourcing Professional Course Catalogue* is an online and print resource available to IAOP members. It indexes accredited training programs, whether available from IAOP or other sources, that deliver against the knowledge and practices defined in the *Outsourcing Professionals Body of Knowledge (OPBOK)*. The catalogue also includes IAOP's *Accreditation Application* used to requesting review and inclusion of non-IAOP training programs in this catalogue.

### *Certified Outsourcing Professional (COP) Award Package*

The *Certified Outsourcing Professional (COP) Award Package* is presented to individuals upon meeting all of the requirements for certification. It includes an award certificate, guidelines on use of the certification designation, and applicable requirements and forms for keeping the certification current and in force.

A closely related component to the *Certified Outsourcing Professional (COP) Program* is the *Code of Ethics and Business Practice Standards for Outsourcing Professionals*. By adopting and adhering to these standards, Certified Outsourcing Professionals differentiate themselves as preferred customers, providers, and advisors with whom to work. For reference the current copy of these standards are included in the Appendix.

#### **1.8.5 Outsourcing and social responsibility**

Today, Corporate Social Responsibility (CSR) is a priority item on the agenda of every business organization. At the same time, global outsourcing continues to grow unabated, and – not surprisingly – research shows leading providers have embraced CSR. Buyers and providers both expect short term and strategic value through CSR, especially in global outsourcing. In addition to customer requirements, outsourcers are reacting to societal needs, government regulations and employee expectations. They also see the opportunity to reduce energy costs while creating a smaller carbon footprint. In many cases global IT outsourcers are finding that CSR related services provide a new source of revenue. CSR has become an unavoidable issue in global outsourcing.

One of the ways IAOP advocates the management practice of outsourcing is to show how companies and professionals can embrace it in a socially responsible way, creating a positive outcome for all involved. To identify and promote discussion of socially responsible policies and practices among our IAOP membership, a Corporate Social Responsibility Sub-Committee has been created. Led by IAOP Chairman Michael F. Corbett, the Corporate Social Responsibility (CSR) sub-committee of the Advocacy & Outreach committee is chartered with identifying and promoting discussion among IAOP members on how outsourcing can be used as a powerful tool for advancing critical social, economic, and environmental issues on a global basis.

Additionally, it examines corporate socially responsible policies and practices for outsourcing, including identifying and showcasing policies that our membership have adopted, creating a framework for companies to model new CSR policies, and developing a network of resources for members.

IAOP has been interested in the topic of social responsibility as it pertains to outsourcing, and last year we identified CSR as one of the major trends to expect in 2010 and beyond. IAOP is addressing each of these areas through training programs and standards development such as:

- The Certified Outsourcing Professional® (COP) program
- IAOP chapter informational meetings and seminars
- The annual Outsourcing World Summit® – Enhancing outsourcing’s image by prioritizing CSR as a main track for The 2010 Outsourcing World Summit®
- Outsourcing Hall of Fame induction for industry leaders who contribute to business and society
- The Code of Ethics and Business Practices Standards for outsourcing professionals

Examples of CSR practices embraced by our members and the outsourcing community in general are:

- expanding career opportunities and training for employees
- increasing investments in new technologies and in new ways of working
- promoting ethical standards in various facets of business operations
- supporting social and economic improvements at the community level
- improving labor and workforce practices
- addressing environmental, green, and sustainability issues

The *Survey of Corporate Social Responsibility in Outsourcing* is an initiative of the committee with findings presented at The 2010 Outsourcing World Summit. Visit the committee web page at <http://www.iaop.org/content/23/126/1698/> for more information about this and other initiatives of the CSR sub-committee.

### 1.8.6 Some recent trends in sourcing

There are some recent trends in sourcing that are related to outsourcing and in some cases are variant models to traditional outsourcing. These developments are being followed by IAOP and outsourcing professionals need to understand them and apply them where appropriate.

**Rural sourcing:** this is a term created to designate rural locations where an outsourcing center is established to take advantage of lower cost of living and potential access to an underused labor pool. As the global economy continues to be difficult, there are certain rural locations that

have become quite competitive and can even provide a sound alternative to offshoring from the economic point of view.

**Consortium sourcing:** this is a trend where multiple companies come together to form a consortium to create enough volume to attract larger, more qualified outsourcing service providers. This is a trend that is more appropriate for mid-tier and smaller companies. Although this is a new term, consortium buying has been around for many decades. As we begin to see technological innovation such as “cloud computing” “web-based process and technology tools”, consortium sourcing will become more appropriate and popular.

**Bundled sourcing:** when a business decides to bundle multiple processes and activities and outsources to a single provider, it is identified as “bundled outsourcing”. The biggest benefit to the business comes from giving service providers greater flexibility to alter the end-to-end processes, apply process efficiency and introduce appropriate technology. Procurement to Payment (Req to Check) is an example of such bundled outsourcing.

**Crowd sourcing:** although this has the term “sourcing”, it is not yet clear as to how to categorize it as an outsourcing model. In its current form, it looks like a “web-enabled” one-on-one sourcing. As professionals, we will need to observe it and see if it ends up leading to a model where a combination of crowd sourcing and consortium service provision emanates as a model of delivery.

## 1.9. List of key terms

Offshoring (Near-Shoring, Rural-Shoring, etc.)  
Outsourcing  
Outsourcing Framework (Common Business Process Framework)  
Risks in Outsourcing  
Rural Sourcing  
Service Provider  
Shared Services Center  
Sourcing  
Strategic Outsourcing  
Tactical Outsourcing  
Transitional Outsourcing  
Transformational Outsourcing

## 1.10. List of templates

- 1.1 Defining Outsourcing
- 1.2 External Business Drivers
- 1.3 Internal Business Drivers
- 1.4 Organizational Evaluation Factors (Shared Services and Outsourcing)
- 1.5 Anticipated Outsourcing Benefits
- 1.6 Gauging Organizational Outsourcing Maturity
- 1.7 Common Business Process Framework
- 1.8 Outsourcing and Offshoring Considerations

## 1.11. Additional references

Although each of the modules provides some significant references, the Knowledge Center (Firmbuilder.com®) on the IAOP website is the comprehensive source of material for all aspects of outsourcing. The articles (papers, presentations, research reports, news items) are fully categorized so as to facilitate easy research and navigation. The categorization includes:

- Standard and sub-standard as applicable
- Industry segment (e.g. financial – banking, government, retail services)
- Process specialization segment (e.g. HR, IT, real estate)
- Geography – if pertinent (e.g. US, China, South America)
- Focus of interest – customers, providers or advisors
- Type – framework, tools/templates, metrics/results, research or experiences (lessons learned),
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