Outsourcing Professional Body of Knowledge

OPBOK Version 10

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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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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.

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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.

The first version of the OPBOK was created in 2005 for IAOP members, and the previous Version 9.0 was the first published edition. This current edition is the OPBOK Version 10.0 reflecting the most current industry standards.

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. Authors reviewed various contributions to IAOP's Knowledge Center (including Summit presentations) and have included material that was submitted.

We want to acknowledge the leadership of Jag Dalal, COP Chief Advisor, Thought Leadership of IAOP, and the corporate and professional members who contributed in updating this material with their vast experience and knowledge.

Finally, 2007 marked the year when the COP Master Class went global. Since then it has been delivered hundreds of times around the world and the material provided here has been used as the basis for their teaching. This allows the material to take on a "practical" perspective through the class room discussion.

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

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(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 Version 10

The following table highlights the major revision sections. In addition to these changes, minor edits were applied to the COP Master Class slides and the OPBOK to make them more consistent in terminology etc. Also, each section has embedded revised standards (as per previously published Version Rev. 9.01). Some of the changes were made to take advantage of a better presentation template (which gave more space for material)

Templates have been reviewed and revised. New templates have also been added for the new sections

Module	OPBOK	COP Master Class Slides
1	1. Additional definitions for various forms of outsourcing 2. More detailed discussion on alternatives to outsourcing (global business services, shared services) 3. More detailed discussion on offshoring	1. Improved graphics 2. Alternatives to outsourcing 3. More discussion on selecting offshoring concept and destination 4. Other forms of outsourcing defined
2	More detailed discussion on sourcing options	1. Improved graphic for the outsourcing process 2. More details on sourcing options and models used by a company
3	1. More discussion on change management	1. Minor edits and improved graphics 2. Change management divided between this module and module 9 -transition
4	Minor changes and edits	Minor changes, edits and improved graphics
5	1. Detailed discussion on exiting (normal or termination) an agreement and options available 2. More details on CSF and KPI	1. Discussion on end of term handling (process and cost) 2. Improved graphics
6	1. Discussion on selecting offshore providers 2. A more detailed discussion on various geographies around the world (more than just India/China)	1. Revised update on various geographies 2. Included industry and IAOP data on outsourcing
7	1. Longer discussion on ABC	1. Significantly improved graphics for cost comparison 2. More detail on ABC
8	1. Contractual terms for "end of term" section 2. More on negotiations 3. Applicable regulations moved to new Appendix I	1. More about end of term section 2. More on negotiations
9	1. More details on change management 2. Detail on transition upon exit	1. Some of previous module 3 change management moved here 2. More on transition upon exit
10	1. More on value leakage due to bad governance 2. Multi-sourcing management and roles of PMO	1. Significant changes to slides to make sure that there is little overlap with Governance workshop 2. More on multi-sourcing management as well as PMO roles 3. More on exit and renewal strategy and implementation approaches

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Module	OPBOK	COP Master Class Slides
Appendix A	All definition edited and new ones added	
B	Changes to templates and 2 additional templates to reflect new items in OPBOK	
C	Reviewed	
D	Reviewed	
E	Reviewed	
F	Reviewed	
G	Updated to reflect methodology and provide direction where to find the latest list	
H	New Appendix – Governance article to supplement governance material (it is also used in the Governance workshop)	
I	New Appendix - Lists applicable regulations affecting outsourcing (as currently defined)	
J and K	New Appendices - Mapping of IAOP Standards and eSCM standards (SP and CL)	

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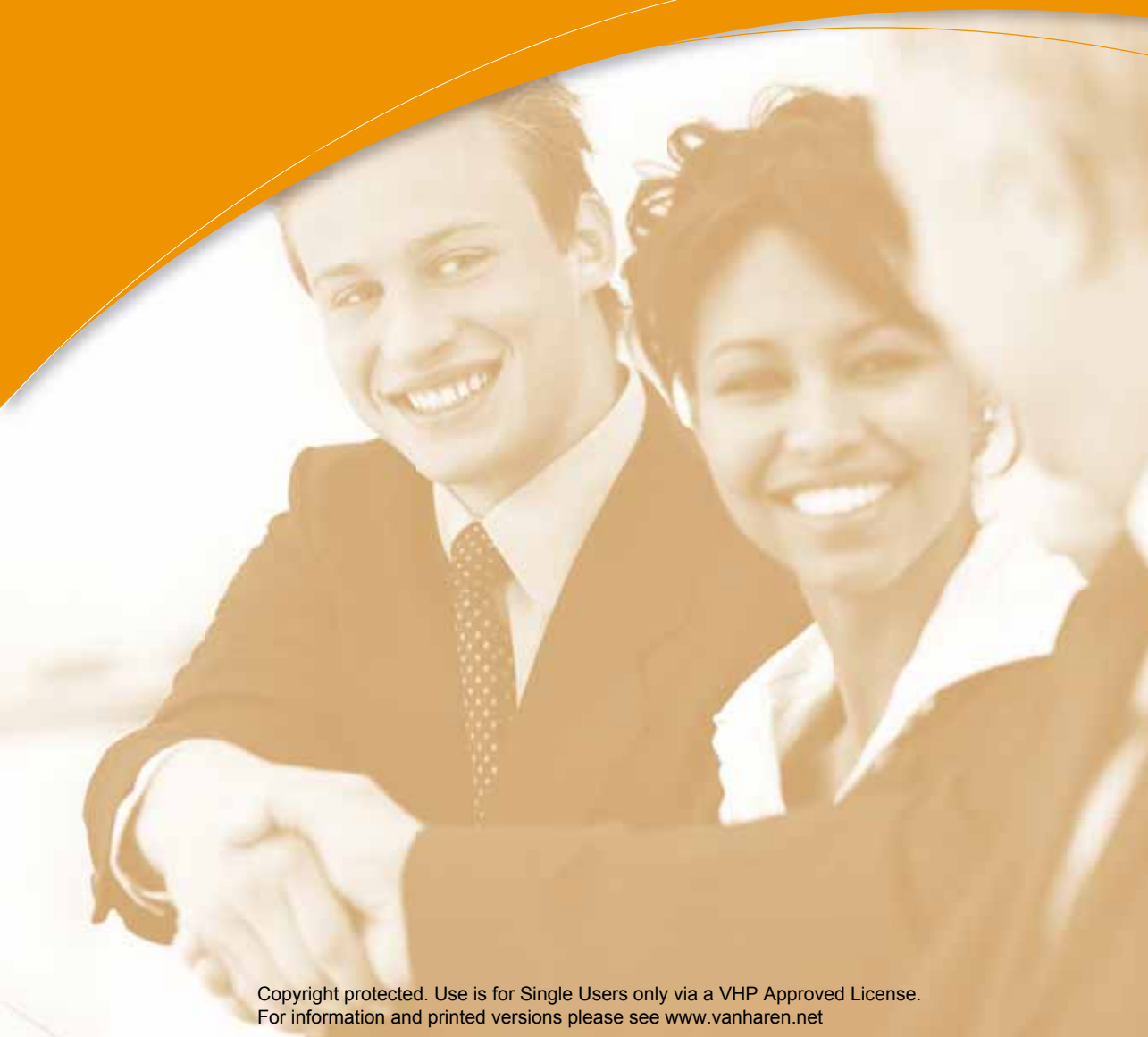
1 Defining and communicating outsourcing as a management practice



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Although outsourcing has been a common business practice for only the past two decades, its use has changed how businesses look at managing their functions. It is a new management practice and a profession and has created an economic market estimated at $3 Trillion globally. It provides employment to over 14 million people worldwide and has transformed some of the nations' economies. Yet, as a profession it is still in a growing stage and management practices are still being defined and deployed.

1.1 Standards

1.0	Defining and Communicating Outsourcing as a Management Practice
1.1	Ability to define outsourcing in terms that are easily understood by individuals at all levels of the organization and by outside stakeholders, including shareholders and the public at-large. This includes:
1.1.1	Identifying business models and change agendas that will end up driving a decision for a change in the business model (e.g., focusing resources on specific functions)
1.1.2	A working definition of outsourcing that is consistent with generally accepted concepts and meanings as commonly used by professionals within the field
1.1.3	Establishing definitions of common outsourcing terms such as BPO, ITO, Rural, Offshore, Near Shore, 1st generation, 2nd generation, 3rd generation deals (transactional, transitional and transformational) and provide differentiation between outsourcing, offshoring, shared services, and out-tasking via private services, XaaS, and Cloud Computing
1.1.4	A framework for comparing and contrasting outsourcing vs. other forms of sourcing outside business relationships, such as, suppliers, contractors, temporary, staff augmentation, strategic alliances, and joint ventures. Characteristics to be considered include: costs, benefits, risks, and advantages
1.1.5	Identifying and understanding 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 in the Outsourcing Professional Body of Knowledge (OPBOK)
1.2	Ability to identify market potential, and availability of services including utilizing market knowledge:
1.2.1	Identify market size and economic impact of outsourcing on business
1.2.2	Ability to identify viability and applicability of alternatives solutions such as those listed in 1.13
1.3	Ability to define the business drivers, timeframes, and commonly anticipated benefits of outsourcing in terms that are easily understood at all levels of the organization and by outside stakeholders, including the public at-large. This includes:
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, and mission criticality
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, and speed to market
1.3.4	Timeframes for realizing these benefits based on market conditions and the organization's business plans and capabilities

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1.4	**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):**
1.4.1	Clearly identify similarities and differences between shared services, outsourcing and hybrid (between shared and outsourced) services, and a Build Operate Transfer model
1.4.2	Provide management guidance on the benefits / shortcomings and risks of outsourcing and/or shared services
1.5	**Ability to identify the common challenges that impede organizational success with outsourcing, including:**
1.5.1	Setting realistic expectations; choosing the opportunities for outsourcing; choosing the most qualified providers; crafting a balanced relationship; properly managing outsourcing's organizational impacts; managing the ongoing relationship - including disengagement
1.5.2	Identifying internal barriers to outsourcing: 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	Identifying behavioral and organizational issues that may occur during the transition to an outsourced operation. Identify risks in transferring employees as well as the impact on retained employees
1.5.4	Identifying regulatory restrictions on outsourcing
1.6	**Understand the unique challenges and opportunities associated with the strategic sourcing of business processes including innovation, multi-generation deals, technology changes, mobile and virtual workforce, data mining, retained organization development, and governance**
1.7	**Ability to define the role that a professional of the Certified Outsourcing Professional Family plays in achieving intended organizational outcomes through outsourcing. This includes:**
1.7.1	Strategic, management and/or outsourcing topical and Subject Matter Expert skills
1.7.2	Ability to interpret and apply The Code of Ethics and Business Practices for Outsourcing Professionals (Appendix E)
1.7.3	Ability to benefit from and contribute to the industry-wide body of knowledge through participation in the work of applicable professional associations
1.8	**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:**
1.8.1	Providing an organizational process map and developing a custom model for a specific organization with process and activity interdependences
1.8.2	Mapping an organization's value-chain and support services
1.8.3	Classifying current and emerging forms of outsourcing, including activity, functional, process levels as well as bundled services
1.8.4	Comparing and contrasting the measurable benefits that organizations are realizing through each form of outsourcing within each structural area of the business
1.9	**Ability to understand and create a framework for strategic sourcing outside an organization's home country and relevant considerations:**
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.)

Table 1.1: Standards for defining and communicating outsourcing

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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' 'outsourcing.'

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.
Outsourcing refers to engaging a provider to be fully responsible for the effort and be compensated for it on the basis of results.

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.

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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.

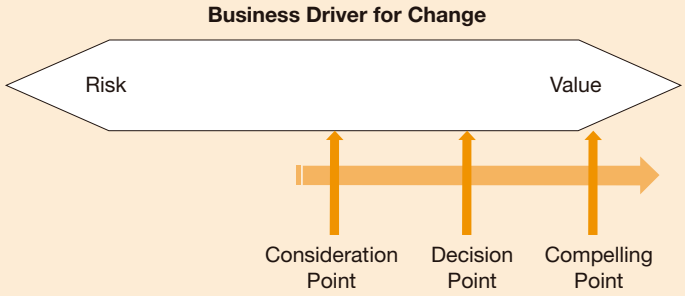

Figure 1.1: Maximize Value while Managing Risk

Another way to look at the outsourcing is to recognize that businesses are seeking to maximize value while managing the risks in achieving. This continuum (shown in the figure 1.1) indicates that value and risk are a part of continuum. When a business sees that it achieves greater value than risk, it will have reached a consideration point where outsourcing will be a solution. At the extreme end of this continuum, value is so far greater than risk that A business would view this as a "compelling point" for outsourcing. Many of the "commodity" types of processes have reached this stage where value far exceeds risk, due to the experience, environment and expertise of the provider.

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This leads to a more practical working definition for outsourcing: "When a business believes that managing a function in-house is 'riskier' than asking someone to run it for you (who is experienced in that field), the business will consider outsourcing". This definition also helps to explain why some providers experience resistance when proposing an outsourcing solution.

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 B).

Term	Definition / Explanation
BPO	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. 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.
ITO	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
Forms of outsourcing	Businesses outsource for different business reasons. These terms are applied in a 'shorthand' to explain the principal reason behind outsourcing: Tactical outsourcing is when a business outsources to achieve a single objective (generally cost savings) and the transaction stands on its own merit. Transitional outsourcing 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. Transformational outsourcing 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.
Offshore / Offshoring	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. Although the term Offshoring implies crossing the ocean, it simply means providing services from a country other than where the services are performed presently.
Nearshore	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
Outtasking	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.

Table 1.2: Definitions of outsourcing

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