



STANDARD

Procurement professionals should take the lead in outsourcing activities by identifying services that could best be fulfilled through the outsourcing process.¹ During the decision making stage, it is the responsibility of the procurement team to ensure that the process is competitive, fair, transparent, and capable of delivering the best value for the public.

Definition

Outsourcing: An informed decision by an organization to contract outside of the organization for a product, service or business process that had previously been provided internally (in-house).²

Element 1.1: Considerations in Outsourcing

The following should be considered when outsourcing:³

- Determine which activities can and should be outsourced⁴
- Select the right vendor
- Write an appropriate contract for the particular outsourcing arrangement
- Examine internal personnel issues⁵
- Appropriate controls over the outsourcing activity
- Examine potential hidden costs of outsourcing (e.g. transportation costs, security of supply, and maintenance of the new contract)
- Plan an exit strategy (i.e. vendor switch or reintegration of an outsourced activity)

Element 1.2: Factors Affecting the Success of Outsourcing

There are many factors affecting the potential success or failure of outsourcing such as:⁶

- The degree of efficiency in the in-house service
- An understanding of the true objectives (e.g. needs of the end user, customer satisfaction, cost-savings, and efficiency and effectiveness of the process/ operations)
- The extent to which customers' needs are already being met
- Overarching legislative provisions and regulations which may affect outsourcing⁷
- The process used to determine the service provider or vendor, and the outsourced requirement specification
- Understanding the real benefits the outsourced vendor will bring to the table
- A well written and properly managed contract, (e.g. a service specification which includes service descriptions and levels)
- The service level agreements reflecting the objectives of the outsourcing
- Regular review of performance against both the service level agreements and/or performance indicators throughout the duration of the contract
- Actively managing the ongoing relationship



Element 1.3: Benefits of Outsourcing

Some benefits of outsourcing may include:⁸

- **Expertise** – The level of service may be substantially better than that previously provided if the right contractor is selected for the outsourcing.
- **Resources** – The contractor has probably been providing the service over a period of time, and to a range of organizations, which means they are likely to have expertise and experience beyond that of an in-house provider. Furthermore, the contractor may be able to invest more in training and development than is possible in-house.
- **Compliance with Standards** – Compliance to and knowledge of industry standards may be improved when outsourcing.
- **Transference of Responsibility** – Responsibility for work progress and quality, with proper controls, can be handed over to the contractor, thereby giving the organization greater freedom to concentrate on core internal processes.⁹
- **Cost Savings** - A specialist contractor should be able to more readily provide the benefits of economies of scale, bulk buying and the lessons learned through experience of how to produce more cost-effective performance of the work.

Element 1.4 Challenges of Outsourcing

Challenges associated with outsourcing may include:

- **Time and Effort** – The time required to choose a contractor and ensure that the obligations entered into both by the contractor and the organization will be significant. In order to be truly effective, time will have to be allocated accordingly.
- **Losing Key Skills or Equipment** – The outsourcing organization may lose the skills of internal experts and/or equipment that was established over the years and, as a result, the organization may become too dependent on the contractor.
- **Overlooking Policy Issues and Unintended Consequences** – If the outsourced, non-core business area is handed over to the contractor to manage the organization may lose sight of policy issues and/ or unintended consequences that are relevant to that area of business.¹⁰ The outsourcing organization must make the necessary effort to establish procedures for regular meetings and reviews with the contractor to ensure the satisfactory progress for both parties of the outsourcing exercise.
- **Legal Liabilities** – There is a risk of the outsourcing organization being held liable in law for the actions of the contractor when they are done in the organization's name.



Element 1.5: Essential Features of a Public Outsourcing Process

The outsourcing process must be competitive, fair, transparent, and capable of delivering the best value for the public. When a potential outsourcing opportunity is identified, the outsourcing process should embrace the following work flow:

- **Comprehensive Change Management Principles** – The outsourcing strategy must be underpinned by sound change management principles. This is particularly important in respect to those staff providing the in-house service.¹¹
- **Comprehensive Risk Assessment** – This assessment should include public interest, safety, health and security.
- **Requirements Determination** – An evaluation and statement of what is needed, when it is needed and how much is needed. This may include historical usage, future need, program objectives, trends, demand analysis, market analysis, the use of software or other forecasting tools, with the objective of satisfying the need.
- **Sourcing** – A fair and transparent process leading to the selection of a supplier/contractor whose costs, qualities, technologies, timeliness, dependability and service best meet the established requirements.¹²
- **Vendor Performance and Accountability** – Specific, measurable performance criteria including service level agreements, performance indicators, and reporting requirements that are included in the contract. Customer satisfaction surveys that are distributed and reviewed on a regular basis can provide valuable insight of the vendor's performance and accountability.
- **Post-award Contract Administration** – Management actions taken to assure full compliance by the supplier/contractor with the contract terms and conditions including price, vendor performance and accountability criteria. Contract administration includes payment, monitoring of progress and performance, inspection and acceptance, quality assurance, modifications, negotiations, contract closeout and other activities.
- **Communication** – A continuous flow of information throughout the outsourcing process from the public entity to employees, the public and potential contractors, before and after contract award (See Practice: Transparency in Public Procurement).

Background

In the public sector, outsourcing is the “contracting out” of functions that historically have been provided by public employees. The belief that there are functions which are best performed by the private sector is not new. Often, non-core functions (e.g. janitorial operations) may be considered for outsourcing. However, at times it may become necessary to outsource core functions (e.g. information technology). Moving these functions from the public to the private sector requires a fair and open process in the public's best interest.¹³

1 CIPS. (n.d.). Outsourcing. Retrieved from www.cips.org

2 NIGP. (2012). Outsourcing. In NIGP Dictionary online. <http://www.nigp.org/eweb/docs/education/OnlineDict/Dict0.htm>

3 Adapted from Barthelemy, J. (2003). The seven deadly sins of outsourcing. *Academy of Management Executive*, 17(2), 88-99.

4 The easiest and most suitable activities to outsource are: resource-intensive and relatively discrete processes that require specialist competencies; activities characterized by fluctuating work patterns, quickly changing markets, and rapidly changing technology; activities that require expensive investment (Lysons and Farrington, 2006).

5 This may include the examination of internal capability and capacity to end user expectations, and/ or the ability to manage the contract when the decision to outsource is made. In Europe and the UK this also includes consideration of TUPE regulations as it relates to personnel who are affected by the outsourcing process. For more information on TUPE please visit <http://www.acas.org.uk/index.aspx?articleid=1655>

6 Op. cit. CIPS. (n.d.)

7 e.g. OMB Circular A-76 (United States); TUPE Regulations (United Kingdom).

8 Op. cit.. CIPS. (n.d.)

9 Both the responsibilities and liabilities for the vendor and the organization should be defined and expressly written in the contract.

10 Unintended consequences may include social or economic impacts, decline in quality of service, etc.

11 Op. cit. CIPS. (n.d.)

12 Note: local laws may allow for the in-house workforce to be included in the competitive process (bid against the private sector).

13 NIGP. (2012). position paper on outsourcing in the public sector. Herndon, VA: NIGP.