

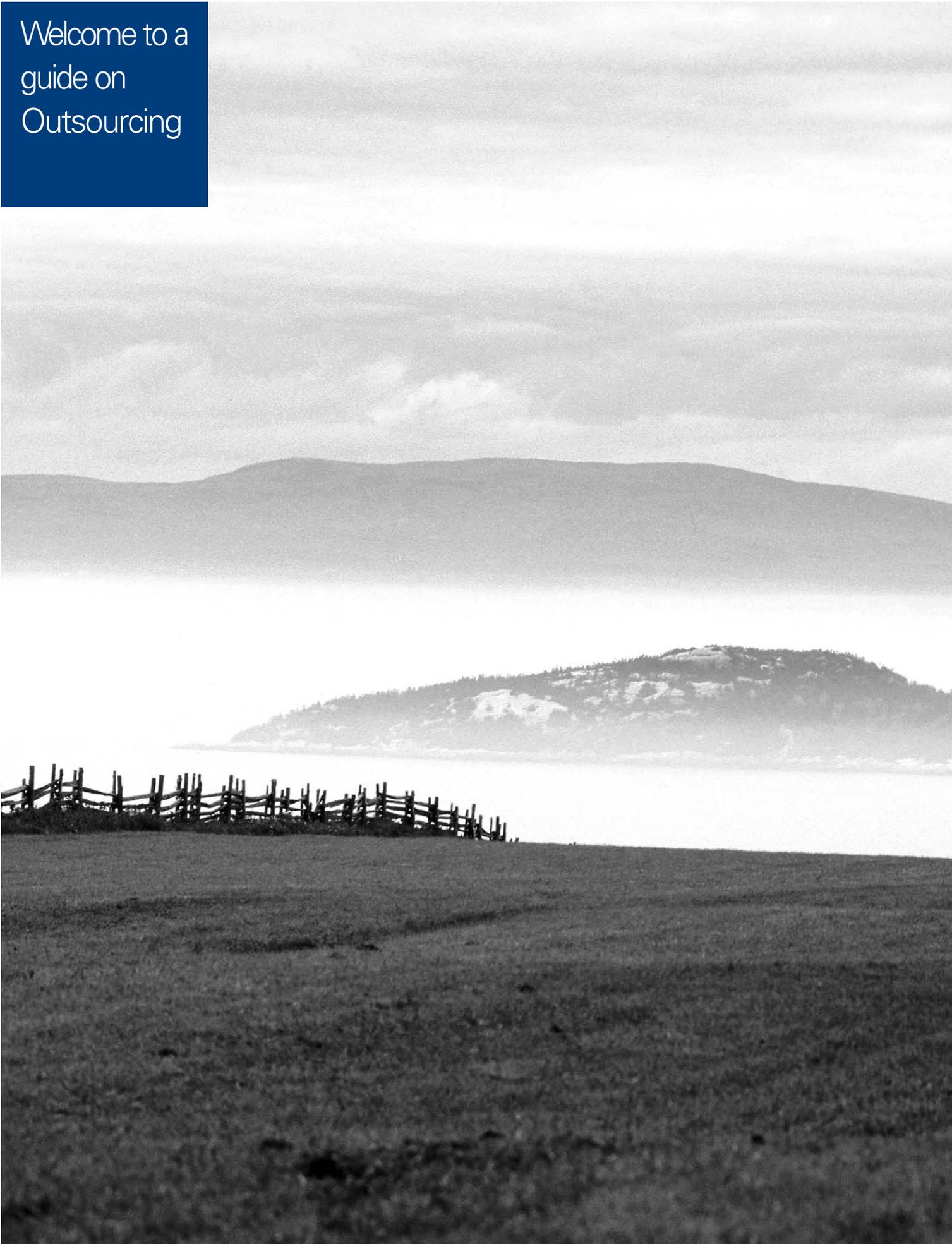


Outsourcing

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Welcome to a
guide on
Outsourcing



Global initiatives take many forms, however, where the sharing of information has been concerned. Many governments have chosen to use legislation to extend the right of access to information.



1. INTRODUCTION

Outsourcing is an increasingly common activity and one in which P & SM professionals should lead in their organisations. CIPS believes that P & SM professionals should be encouraged to suggest outsourcing activity by identifying those services or make or buy decisions for which they have an understanding of the costs involved which could be considered for outsourcing. Outsourcing services to organisations which are specialists in the provision of the service in question can lead to many benefits, including lower overall costs and access to better technology. The need for organisations to seek lower cost alternatives to their supply chain is leading to an increase in offshoring, which is just another outsourcing process.

This CIPS paper aims to provide an awareness and level of understanding to the reader on the subject of outsourcing and offshoring. In line with other CIPS Practice Guides, they are written for use by those with an interest in business issues in general, and P & SM in particular. This will include full and part time P & SM professionals as well as individuals interacting with P & SM activities.

The CIPS paper will also include information on the contextual backgrounds to the issues, and will give a balanced opinion on issues the reader may wish to consider. There will also be references to other sources of information. Most CIPS Papers will contain CIPS position statements, that is, CIPS' view(s) on the Paper's subject matter. Further information is available from the CIPS website and the Professional Practice Team at CIPS.





2. DEFINITIONS AND EXPLANATIONS

CIPS defines outsourcing as “the process of contracting with the most suitable expert third party service provider”.

It can take a multiplicity of forms including designing, constructing, managing, financing (PPP (Public Private Partnerships) being one example), administering and providing the service in question. It can also involve the transfer of assets (including human resources). Outsourcing also involves ensuring that all linkages to internal operational departments and customers are seamlessly implemented.

There are of course other definitions, for example:

“The provision over the longer term of non-core business processes by an external provider of such processes to an organisation which heeds them but does not wish to do them any longer itself”

“The placing of contracts with third party service providers to deliver essential support services to an organisation which is normally dependent on such services to be able to achieve its own core business objectives. The aim of outsourcing is to ensure that expert service providers are used to optimise the cost-effective delivery of those services. Outsourcing should always be approached with a view to improving value for money rather than simply to save money without regard to the effectiveness and quality of service”

In contrast offshoring can be defined as “a relocation of business processes (including production/manufacturing) to a lower cost location, usually overseas”.

The term ‘offshoring’ is frequently used incorrectly to describe what should be called offshore outsourcing which implies that a third party service provider takes over the business process and runs it based on service level agreements from a lower cost location.

3. CIPS POLICY POSITION

This Practice Guide addresses the process of outsourcing, which should only begin once the strategic sourcing process has been completed. Reference should be made to the CIPS Position on Practice on strategic sourcing.

Although, this Practice Guide does not concentrate on ‘insourcing’, P & SM professionals should be aware that the process of bringing the service back in-house after a suitable period of outsourcing can often be a sensible strategic option.

CIPS views, opinions and beliefs are stated throughout the document; however the broad practice statements, which underpin the text, are as follows:

- CIPS believes that P & SM professionals should be driving the outsourcing activity by suggesting those services that could be considered for outsourcing; they should then lead the process

- CIPS believes that outsourcing to specialist providers can result in better value for money
- CIPS believes that in general it is not good practice to outsource core services (core activities are those that lie at the heart of the business or organisation) but where a decision is made to outsource such services, care must be taken to ensure that the buying organisation does not become isolated from the provision of these core services
- CIPS takes the view that P & SM professionals have a responsibility for ensuring clarity of purpose throughout the outsourcing process
- CIPS firmly believes that all outsourcing arrangements should be supported by an expertly drafted contract
- CIPS considers that, in general, outsourced service contracts should have a longer rather than shorter duration; this enables both the buying organisation and the service provider to obtain an appropriate return on their investment
- CIPS emphasises the need to give serious attention to the relevant staff issues including human resource management as well as legal considerations (TUPE for instance)
- CIPS considers that encouraging and promoting innovation is one of the key aspects of outsourcing
- CIPS emphasises the need for care in the allocation of risks associated with the service being outsourced
- CIPS believes that, in appropriate circumstances, some aspects of the P & SM function can be suitable candidates for outsourcing

4. WHAT IS THE ARGUMENT FOR OUTSOURCING?

The report ‘Best Practice Guidelines for Outsourcing’ contains a detailed list of the arguments in favour of the outsourcing approach. They include:

- Enhanced budgetary control
- More accurate cost forecasting
- The organisation is able to operate with a smaller workforce
- Management is able to communicate more effectively on the important strategic issues
- A greater awareness of, and focus on, customer needs
- Reduced need for investment in material assets and labour
- Places responsibility for a difficult/problem departments outside the organisation

Other benefits can be gained by outsourcing services to organisations which are specialists in the provision of the service in question including:

- More efficient and expert service leading to closer compliance with industry standards
- Improved resources (professionally trained staff)
- Lower overall costs

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- Buying organisation better able to concentrate on core activity
- Access to better technology
- Access to specialist knowledge and staff
- Access to lower cost of capital
- Access to improved purchasing power

However, full realisation of these benefits is dependent on a number of key variables, as follows:

- The degree of efficiency in the in-house service
- An understanding of the true objectives
- The elimination of complexity and 'messy' operations before outsourcing
- The extent to which customers' needs were already being met
- The process used to determine the service provider and the outsourced requirement specification
- Understand the real benefits the outsourced vendor will bring to the table
- A well written and properly managed contract, eg with a service specification which includes service descriptions and levels
- The service level agreements reflecting the objectives of the outsourcing
- Both the criteria for the outsourcing and performance against the service level agreements being regularly reviewed throughout the contract duration, not least at the beginning
- Actively manage the ongoing relationship

D J Pearson, in his publication 'Outsourcing with Effective Contracts' is of the opinion that the most important benefits are as follows:

Expertise

Careful contractor selection is a key requirement and, if that is achieved, the standard of service might well be higher than that previously provided by the outsourcing organisation. For example, the contractor providing catering facilities might have access to a broader range of food or be able to offer better menus than the in-house catering staff, who are catering for a smaller number within one organisation only.

Resources

The contractor is likely to have been providing the service over a substantial period of time to a range of outsourcing organisations and to have obtained levels of expertise and experience beyond the compass of the in-house provider. The contractor might invest more in training and development than an in-house provider is likely to do.

Compliance with Standards

It may well be easier to ensure compliance by an external contractor with standards or contractual

conditions than it can be when controlling employees. Employees, although obliged to follow the reasonable orders of their employer, are not likely to be subject to the same incentives as a contractor to perform to standards, meet targets, earn bonuses and win further work in future.

Devolution of Responsibility

Responsibility for work progress and quality can largely be handed over to the contractor, giving the outsourcing organisation greater freedom to concentrate on its core business without having specialist managers distracted by involvement in other activities.

Cost Savings

A specialist contractor should be able more readily to 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 concerned.

Fewer Staff Problems

Many troublesome HR issues such as absenteeism can be transferred from the outsourcing organisation to the contractor.

5. WHAT ARE THE PROBLEMS WITH OUTSOURCING?

Time and Effort Choosing and Managing

Management time will need to be allocated both to choosing the contractor and in ensuring that the obligations entered into both by the contractor and by the outsourcing organisation are met. This may take up a significant amount of management time if it is to be truly effective.

Losing Key Skills

When a service is outsourced for the first time, the provisions of TUPE will apply. TUPE is the Transfer of Undertakings (Protection of Employment) Regulations 1981, which implemented in English Law the requirements of the EU Acquired Rights Directive. Under TUPE the employees providing the service in-house might have the right to transfer with their work to the new employer (the contractor). The outsourcing organisation might therefore lose the skills which it has built up over the years in managing that area of its non-core business internally and as a result become too dependent on the contractor.

Loss of Control

The outsourcing organisation will not have such close control over those aspects of its business, which it has contracted out. This might not matter if the contractor





does a good job, but it could mean that no-one within the organisation knows the market rates for the services and posts involved and an excessive level of reliance might therefore be placed on the contractor. Furthermore, the contractor might enter into transactions or do things in the name of the outsourcing organisation of which it would not approve and which might damage its reputation. This can be overcome by careful attention to the terms and conditions of contract.

Problems when Replacing Contractors

Difficulties can arise when the contractor is replaced. Although the contract between the parties can to some extent cover a hand-over period where a new contractor is found, termination and its management gives the company many more difficulties than if it had not outsourced in the first place.

Overlooking Policy Issues

If the non-core business area outsourced is handed over to the contractor to manage, the outsourcing organisation might lose sight of and not consider policy issues relevant to that area of business, simply because it is no longer directly managing that area. Thus, the broader picture of how that non-core business is operated might never be considered again after contracting out. The outsourcing organisation must make the necessary effort to put in place 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 organisation being held liable in law for the actions of the contractor when they are done in the organisation's name. For example, the contractor might enter into other contract arrangements either as an agent of the outsourcing organisation, or in such a manner as will expose it to claims under the Contract (Rights of Third Parties) Act 1999.

6. OFFSHORE SUCCESS

According to the Forrester report 'Two-speed Europe: Why 1 Million Jobs will move Offshore' - Europe will lose a cumulative 1.2 million jobs to offshore locations by 2015, with most impact falling in the UK. Computing and clerical staff will suffer most.

The main incentives and benefits encouraging the trend to offshore and outsource services and production are as follows:

1. A strong emerging skills base in low-cost countries. Production offshoring is currently taking off in China for consumer goods, whilst India, with its large pool of English speaking and technically

qualified manpower, has emerged as a dominant player in the services offshoring domain.

2. Low-cost global communications and computing infrastructure. The increasing sophistication of voice and data communication combine to make remote delivery of IT and business services more practical and economically viable. Internet access also has a global spread.
3. Overpricing of scarce skills. European IT and services professionals command substantially higher salary premiums compared with similarly qualified people working in other disciplines. Salaries for qualified IT people in India are currently approximately 70% less than in the UK.
4. Global cost competition. Global competition has accelerated over the past 10 years pushing down costs in sectors such as financial services, high tech, and auto manufacturing.

Organisations looking to move towards the offshoring model need to make sure they don't compromise the quality of the product or customer service they provide for the sake of lower costs.

When looking at offshore options it is not only important to consider the financial bottom line but also the socially-responsible bottom line issues - look to make the sourcing process translucent. If offshoring the production of goods, purchasers can work with independent monitoring groups from the country of origin. Local monitoring groups can act as a support tool to help P & SM manage their international suppliers. With local groups the purchasing organisation can lean on the local monitoring group to work closely with offshore contractors.

It is also important for P & SM to understand the legal agreements and issues involved with offshoring.

Finally the additional costs that offshoring can add should not be ignored. For example when considering production offshoring transportation, higher inventory levels, longer leadtime, less flexibility (especially for quick design changes), custom duties, brokerage fees, management concerns, and other issues need to be considered.

7. OUTSOURCING STRATEGY

The fundamentals of good procurement practice apply equally to outsourcing, one example being adherence to the CIPS Personal Ethical Code and, in the public sector, the need for purchasers to comply with the EC Procurement rules.

The outsourcing strategy must be underpinned by professionally-executed change management principles. This is particularly important in respect of those staff providing the existing in-house service.

When selecting those services for outsourcing, the P & SM professional with the cross-functional team needs



to identify those services that are core to the organisation.

Outsourcing is usually applied to those services that support the organisation in the delivery of its core business. Having determined which services are non-core, the outsourcing team should then identify which of these non-core services are operational (cleaning, security, catering, etc) and those which are strategic (human resource management or IT for example (see section 11 for the principles and practice of IT outsourcing). Clearly, strategic services require a greater concentration of effort with a proactive, clear and robust strategy for each service being considered for outsourcing.

Brief mention may also be made of “insourcing” - P & SM professionals should be aware that the process of bringing the service back in-house after a suitable period of outsourcing can often be a sensible strategic option.

Many organisations have not realised the potential from outsourcing and the typical reasons given are:

- Poor requirement specification
- Inadequate support from the Board (or its equivalent)
- Inappropriate department(s) given responsibility for the project
- Inadequate management of change mechanism
- Absence of Key Performance Indicators
- Failure to attract innovation
- Outsourcing a poorly performing area without first attempting to improve it in-house
- Weak and badly written contracts
- Poorly handled workforce issues
- Conflict of interest between colleagues
- High bidding costs
- Inappropriate allocation of risk and reward

The “Make or Buy” decision

It is important to avoid confusion between ‘outsourcing’ and ‘make or buy’ which may be defined as an analysis done to determine whether a good or service should be produced or undertaken by in-house personnel, or by another company.

Lysons and Gillingham point out in their book (Purchasing and Supply Chain Management, p346) that such decisions are usually made on the basis of calculations provided by the Accounts department; purchasing staff should understand the principles involved, not least the need to apply marginal costing and break-even analysis.

Should the buying organisation decide to take the “Make or Buy” decision at the end of a tendering process, having included an in-house bid, care must be taken in evaluating the in-house bid. It can be very difficult to determine the true cost of an in-house service and whoever is responsible for evaluating it will

need to have information on, for example:

- Human resources and payroll
- Facilities management
- Telecoms
- The cost of overheads
- The cost of bought-in materials

This will involve identifying the current costs and continuing allocation of costs. If the in-house service can be improved, perhaps by advice from external consultants or ideas from a benchmarking exercise, coupled with increased training and targets for greater efficiency, the in-house option may remain attractive. However, if the decision is made in principle to outsource, it may well turn out that there are no suitable external service providers and the in-house service is the best option after all.

The benefits of determining the “make or buy” decision at the outset include the following:

- It gives staff a clearer picture of what is likely to happen and time to prepare
- It allows purchasers to get the best from the procurement route that they have chosen
- It offers suppliers confidence that the competition is being conducted in good faith
- It avoids conflict of interest in the buying organisation; for instance, loyalty to existing colleagues may be an issue
- It enables the in-house team to concentrate on delivering the service rather than preparing a bid
- It avoids the danger of producing a biased specification of requirements
- It avoids the need to provide finance, or other forms of assistance, eg marketing and presentational skills, to the in-house team to enable them to compete effectively

Staffing issues

When undertaking outsourcing it is important to professionally manage the staff issues. For example, those currently providing the service in-house will naturally feel vulnerable and this can affect morale and staff motivation. Some staff may even feel inclined to look for alternative employment which may result in a loss of key skills.

For this reason, the P & SM professional must develop a staff communications plan with the head of the organisation’s human resources, to fit within the outsourcing strategy. This should aim to ensure that the service is not affected during the transitional period. The timescales involved in outsourcing can often be quite long and so staff must be kept informed, reassured and have the opportunity to air their concerns.



Purchasing and supply management professionals should endeavour to encourage innovation from the service providers in the contracting process, starting with the employment of an output or outcome-based specification.



TUPE REGULATIONS

This is one of the key issues to be addressed when considering outsourcing.

TUPE is important in terms of handling of workforce issues. The underlying principle of TUPE is to ensure that existing staff, currently providing the service in-house, will be transferred to the new service provider under the same terms and conditions of employment. It should then become the service provider's responsibility to manage, train and support those staff to enable them to deliver the new service. However, some service providers have been known to wait only for the minimum period in law to expire before they begin reorganising staff, which leads to changes in terms and conditions.

They should stipulate that staff should transfer and that at the end of the contract period, TUPE will apply again. Potential service providers require accurate and timely information about the workforce that will be transferring such as certainty about terms and conditions of staff. Without such information, bidders will have to build into their bids potential redundancy costs which will inevitably have a negative impact on value for money.

8. THE TENDERING PROCESS

The outsourcing of services can be undertaken by means of a competitive tendering process (reference should be made to the CIPS guides on negotiation, tendering, and post-tender negotiation).

There are also cases where relationships develop in such a way that the tender process is not appropriate. In some instances, the tender process may even cause deterioration in the relationship with the most likely contender. It should be a responsibility of the P & SM professional to determine whether or not a tendering process is appropriate for each outsourcing procurement activity.

For some services, it may be necessary to create markets as, for example, local authorities are doing under the Best Value legislation. This might involve developing suppliers to deliver a new service for instance (reference should be made to the CIPS guide on Best Value).

If the P & SM professional determines that tendering is the most appropriate route to an outsourced service then, as with any complex procurement, the entire process must be carefully thought through, with time-scales identified.

One issue to be considered is the number of service providers invited to tender as they incur high costs in tendering which are, ultimately, passed on to the customer. Clearly, however, the P & SM professional needs to ensure that there is sufficient competition and that those invited to tender have a realistic chance of winning the business.

An effective way of ensuring competition is to have

a pre-qualified list of service providers. The service providers on the list should satisfy the first level of the selection criteria, eg with respect to their financial standing, track record, capacity to deliver etc.

A further issue to consider is subsequent generation competitions (that is where a service has been outsourced and the contract is due to expire). P & SM professionals need to be proactive in managing these situations and ensuring an appropriate procurement process is embarked upon, even if the outcome is insourcing.

Outcome/output based specification

One of the key issues in outsourcing is generating innovation (reference should be made to the CIPS guide on innovation).

P & SM professionals should endeavour to encourage innovation from the service providers in the contracting process, starting with the employment of an output or outcome-based specification. This should be comprehensive and cover everything that is required; however it should not stipulate how this should be achieved. The P & SM professional, working with the cross-functional team, should diagnose the strengths and weaknesses of the service currently being provided and work with customers to ascertain their needs and aspirations in respect of the service.

The findings from this diagnosis will form the core of the outcomes expected but it should be the responsibility of the service providers to submit, in their tender, their own individual solution (or a range of solutions) to the service as appropriate.

Whatever method is employed to develop an innovative value-for-money solution this must be transformed into the specification of requirement or the service description before the contract is awarded. This is necessary so that both parties have a documented, clear and thorough understanding of what is expected to be delivered, from both parties. This of course can be subject to improvement during the contract period as deemed appropriate.

One method of generating an innovative solution is to issue the outcome-based specification at the pre-qualification stage and have suppliers submit ideas in response to that, which can then be used to develop the specification further. However, the P & SM professional should ensure that service providers are aware of the purpose of doing this and that this information will be shared within the marketplace. If, however, suppliers provide information and ideas in confidence, this must not be shared with any other party.

The outsourced service contract should facilitate innovation throughout the life of the contract (ie not just at the implementation and early phases of the contract period).



Transfer of risks, responsibilities and benefits

Outsourcing can involve the transfer, as appropriate, of those risks associated with the contract, as well as the responsibilities. As part of the initial diagnosis of the current situation, the P & SM professional with the cross-functional team, should endeavour to identify all risks and responsibilities associated with the service.

Risks and responsibilities can be illustrated by means of a table; it is good practice to have the bidders stipulate in their tenders which risks they would be willing to take responsibility for, should they be awarded the contract. Service providers should be asked to suggest contingencies to mitigate or to remove risks. These can then be negotiated during the process of bid clarification. However, risks have a high cost associated with them and as price and risk are interdependent, ultimately the buying organisation will pay for passing any risks on to the service provider.

Equally, benefits expected to arise from the contract should be ascertained as far as possible prior to inviting tenders. The tenderers should be requested to stipulate those benefits that they would be willing to share and to identify any others which may arise from the contract. Benefits, like risks, should be measurable and quantifiable and once the contract is in place, should be monitored and managed accordingly. These benefits can act as incentives to the service provider and ensure that the buying organisation is perceived by the supplier as a key client.

References

Before deciding on the successful service provider, indeed as part of the procurement process, it is important that the preferred bidder's, or even the short-listed service providers', references are contacted and, where appropriate, visited. Reference sites are an effective way of ascertaining whether the service provider can in fact deliver the solution required.

Interpersonal issues

"Beauty Parades" are an essential part of the outsourcing process and as such P & SM professionals must ensure that the people who will be managing the service are present, if not actually presenting, in order that they can meet them.

Equally, when discussions or negotiations are taking place, the key staff expected to manage the contract must be present along with user representation. It is important that the buying organisation is comfortable with the people with whom they will be working. Further, the P & SM professional should ensure that there is provision for the buying organisation to have a role in the selection of new staff to manage the contract.

9. RETAINING IN-HOUSE KNOWLEDGE AND EXPERTISE

Particularly when outsourcing strategic services, care must be taken to ensure that the knowledge and competencies required to deliver the service, currently present within the organisation, are not lost during the contract period. The buying organisation must not become dependent on the service provider, as the Board (or its equivalent) must retain the control and responsibility for the outsourced service.

For this reason, appropriate exit and return (ie the ability to bring the service back in-house (insourcing)) strategies are built into the contract; these might state the requirement for skills and knowledge transfers, so as to prevent the buying organisation becoming dependent on the contracted service provider.

Buying organisations should try to retain the intelligent client capability, ie appoint an internal expert to manage the contract so that they retain and develop the knowledge in question.

This person can also provide a valuable contribution to contract variations and amendments by presenting an informed internal view. Equally, it is important to ensure that operational managers and users of the outsourced service have an active interface with the service provider not just through the client manager.

The buying organisation needs to be in a position, at the end of the contract period, to tender competitively again. This may include inviting the current service provider to bid. In some cases, it may make commercial sense to simply re-negotiate with the existing contractor, especially if market testing has demonstrated that the service provider has continued to deliver value for money.

10. THE CONTRACT

Documentation

An outsourced arrangement must be supported by an expertly written contract.

A draft set of terms and conditions should be included in the invitation to tender and the tenderers invited to submit any special clauses they deem appropriate which can be subjected to bid clarification at a later stage.

Both parties should aim to continually improve both the service, the contracted relationship and the supporting processes.

The service should develop, and in many cases change, during the contract period; therefore it is important to include change management clauses in the contract. These might define a protocol for change to ensure that any such change is discussed by both parties and approved in writing before being implemented. The changes might also have implications in respect of incentives, benefits and risk, and so the contract documentation may need to be varied to





accommodate change as it arises.

The contract should be sufficiently flexible to take account of future changes and developments including mergers, takeovers etc.

The contract period

When outsourcing, the length of the contract needs to be determined at the outset.

The length of the contract should be an integral part of the business case for outsourcing in the first place. The contract should provide for exit strategies including appropriately drafted termination clauses if, for example, the service provider repeatedly fails to deliver the required level of service. It is not unusual to have contracts of seven or ten years duration and in some industries, eg construction, 15 or 25 years is not unusual. The important issue is that the contract provides for exit and return strategies and that the relationship is properly managed.

Managing the contract

Notwithstanding the benefit of an appropriately written contract, with a “service specification” that includes, for instance, service levels, service descriptions, agreed incentives, benefits and risks, it is imperative that the contract is properly managed. Regular contract management reviews are essential to ensure that both parties are meeting their respective obligations and that the service is being continually improved. These reviews are particularly important in long and complex contracts. Contract management reviews might involve regular scheduled meetings with the service provider to monitor performance, to develop the service and to measure the extent to which the benefits are being delivered.

They can also include subjects such as administration, the technical relationship, as well as contractual matters. In a partnering style relationship, problems can be addressed and resolved quickly especially if a rapport has built up between key personnel from both parties. It is essential that the buying organisation’s contract manager is commercially astute in order to prevent the service provider from seeking opportunities to maximise profit by reducing the quality of service or by seeking opportunities to increase charges.

P & SM professionals have a role to play in risk management and should consider the risks to the organisation when putting together the business case for outsourcing.

In order to limit difficulties of an adversarial nature, a partnering style relationship is entered into between the buying organisation and the service provider especially when the service in question is strategic to the buying organisation. (Reference should be made to

the CIPS guides in this series on partnering and supplier development). Nevertheless, if conflict does arise, conflict resolution mechanisms should be employed; ideally these should have been put in place at the time the contract was negotiated and signed.

11. WHAT SHOULD BE OUTSOURCED?

This question is difficult to answer. As already discussed, so many factors need to be taken into account when deciding what and when to outsource. This paper will briefly consider two key functions within the organisation. Firstly, information technology as a supporting function and an area where external expertise is usually greater than internal and also more interestingly, P & SM.

Purchasing and Supply Management

Although CIPS believes that P & SM is a strategic service providing an important window on the world for senior managers and therefore it is questionable whether it should be outsourced, some organisations have taken the decision to outsource their P & SM function.

As with any other strategic service, P & SM must continually improve and be properly managed with objectives and targets that are both quantifiable and measurable. It is often the role of the Internal Audit department to determine whether or not the P & SM function, often within the context of limited resources, is delivering the best procurement service possible. Where the service is not the best, as with any other service, the service should be evaluated and the expected or required level of service ascertained. The resources required to meet these expectations should be identified along with any skill gaps within the P & SM team.

CIPS believes that it is the responsibility of P & SM professionals to deliver year-on-year continuous improvement and to ensure that their own knowledge, skills and competencies are continually developed.

P & SM professionals should test their own stakeholders and customers and ensure that the level of service required is being delivered. Further, they should market their successes by means of an annual report and presentations to senior management and customers.

CIPS suggests that professional services such as P & SM lend themselves to “selective” outsourcing through, for example:

- the increased use of consortia contracts for commodity items
- use of third party expertise for one-off irregular procurements
- use of bought-in expertise for specialist markets such as energy



Most organisations will benefit from retaining control of their P & SM function, especially the procurement of core goods and services.

However, this does not necessarily mean that all P & SM functions should necessarily be undertaken in-house.

Information Technology

IT is a favourite candidate for outsourcing, although different writers have varying opinions as to what the key attractions of outsourcing the IT functions are. However, most reviews of the benefits of outsourcing include the following:

- It enables a company to focus on its core competences

It is generally accepted that a business should concentrate on its core function, as this is what it does best. Other activities such as IT, whilst vital to the day-to-day operation and long-term development of the organisation, are peripheral to the central core and as such, it is argued, most efficiently operated by external experts in the field.

- It provides access to new technology

Developments in IT occur at a faster pace and on a broader scale than in most other areas of technology. Outsourcing IT to a specialist in the field means that a company is kept abreast of these developments, something that it might not have the time or resources to do if the IT operation were retained in house.

- It helps to overcome skills shortages

Skills in the IT field are becoming increasingly specialised, and to keep up-to-date with the changing requirements could well present the human resources department with a difficult problem. It therefore makes good sense to employ an external organisation, which may be presumed to know what skills are in demand at that particular time and, just as important, what the going rate is.

- It will improve the image of the IT function

In many organisations the IT department has suffered an image problem with many MDs complaining that the IT department with its esoteric jargon and techno-speak causes serious problems of communication. Outsourcing represents a convenient and cost-effective way of talking the issue. In many cases it is found that the members of the erstwhile IT department are thereby freed to perform higher-value activities within the organisation.

- Outsourcing IT means that the fixed costs can become variable. Under a typical outsourcing agreement, a company will sell its computer assets to the outsourcing company. The company then

pays for IT services on a demand-led basis. This enables the IT budget to be reduced, thereby freeing up financial resources for other uses.

- Greater flexibility – no longer constrained by a fixed IT infrastructure, the company is able to respond more immediately to changes in the market place, whether they be positive or negative. If changes in IT requirements then follow, the IT service provider should have the resources and capability to respond accordingly.

Although, outsourcing IT may appear an attractive option in many situations, it also has its downside. The principal limitations include:

- The use of inexperienced staff by the service provider – particularly difficult to spot since the IT specialist companies are not going to advertise such deficiencies, if indeed they are even aware of them in the first place.
- Outdated technology skills on the part of the IT specialist.
- Inflexibility on the part of the supplier – in the IT industry in particular, organisations need to be able to react to and take advantage of new developments as and when they come about.
- Hidden costs – there have been numerous instances of companies being faced with the unexpected costs, not least the considerable management time, associated with setting up and running an outsourced IT operation.
- Weak management – poor management in the IT Department can often be the real, if hidden reason for MDs or CEOs to outsource the IT function. However this is rarely an effective solution, since the inadequate managers will hardly be any better at managing an external provider.
- Poor innovative capability – using a supplier with this deficiency can easily cause an organisation to lose both credibility and market share.

Clearly by no means all outsourcing situations will have all or indeed any of these deficiencies. However, it is important for executives considering outsourcing to be aware of their existence and, if necessary, undertake a cost/benefit analysis to establish whether or not the level or risk or expenditure is acceptable or indeed whether or not it makes better sense to retain the IT function in-house.

12. CALL CENTRES

Should an organisation consider outsourcing this function to countries such as India or most recently, South Africa. The arguments for and against have been well summarised in a short article which appeared in Supply Management for 4 March, 2004, pp 24-25.





One of the authors of the joint paper, Alex Blues, of Orbys Consulting, has written as follows:

'The outsourcing of call centres can save the day for companies that are under pressure to cut costs while rising to the challenges of global business and shareholder expectations. Services companies are being asked to reduce internal overheads and the support function at the same time as improving customer communications, business processes and standardisation, coping with mergers and acquisitions, and implementing new services such as ecommerce.'

And:

'Offshore outsourcing offers cost benefits to UK and European organisations such as easier access to the latest skills at a reasonable cost, and time zone advantages which it would be folly to ignore.'

The counter-argument, by Ray Searles of ADR International, goes like this:

'Outsourcing a call centre is frequently inappropriate, and procurement professionals have a duty to their business to show why. The drive behind the outsourcing of call centres is the substantial (real or perceived) price and cost benefits. But effective purchasing leaders should balance this against the risks that are often ignored in the drive for quick savings. ...studies undertaken on behalf of the DTI have shown that UK call centres are up to 25% more efficient, mainly because customers can explain themselves quicker. With Indian centres, people have to call back more which damages the brand.'

13. HINTS AND TIPS

Outsourcing

- P & SM professionals should be encouraged to suggest outsourcing activity by suggesting those services, or make or buy decisions, for which they have an understanding of the costs involved which could therefore be considered for outsourcing.
- Outsourcing services to organisations which are specialists in the provision of the service in question can lead to many benefits, including lower overall costs and access to better technology
- P & SM professionals should work cross-functionally with colleagues in, for example, finance and human resource management, in order to determine the outsourcing strategy and the rationale behind it and how best to manage the process and the deliverables.
- When contemplating outsourcing, it is imperative that the P & SM obtains visible commitment to the outsourcing strategy from senior management and, where appropriate, the Board of Directors or its equivalent. The outsourcing strategy must also be supported at all management levels within the organisation.
- From the outset the P & SM should ensure clarity on the rationale for outsourcing, that until such clarity is achieved, the P & SM should advocate caution when embarking on the outsourcing process.
- Generally speaking, it is not good practice to outsource core services, but where a decision is made to outsource such services, care must be taken to ensure that the buying organisation does not become isolated from the provision of these core services.
- Ideally, the first stage in any outsourcing strategy should be to determine whether the service in question should continue to be run in-house or whether it has the potential for being outsourced to an external service provider.
- P & SM professionals should keep the process of outsourcing as short as possible, whilst still doing a thorough job, in order to minimise human resource problems.
- P & SM should employ a legal adviser in respect of TUPE as the law is subject to change and may be difficult to interpret correctly. There is a need for giving serious attention to the relevant staff issues including human resource management as well as legal considerations.
- P & SM working with the cross-functional team should set down the ground rules in this respect for outsourcing services and for running subsequent generation competitions
- Appropriate exit and return (ie the ability to bring the service back in-house (insourcing)) strategies should be built into the contract; these might state the requirement for skills and knowledge transfers, so as to prevent the buying organisation becoming dependent on the contracted service provider.
- Internal customers of the service should be thoroughly involved throughout the procurement process in order that they feel they have been properly represented and have ownership of the solution.
- Buying organisations should try to retain the intelligent client capability, ie appoint an internal expert to manage the contract, so that they retain and develop the knowledge in question.
- The aim should be to optimise risk allocation and to ensure that the party which is allocated a particular risk should have the freedom to manage it.
- Potential service providers should be invited to present their solution to the buying organisation as part of the procurement process.
- The outsource contract should comprise of an effective set of terms and conditions, covering issues such as conflict resolution, as well as special clauses to cover the specific service in question.
- P & SM should include mechanisms in the contract to review processes and working practices in the



light of experience.

- An outsourced service contract should be longer rather than shorter in order to enable the service provider to obtain a return on their investment and for the buying organisation to justify the resources allocated to the outsourcing process.

Offshore Outsourcing

- Make sure the staff are adequately trained on an ongoing basis.
- If the offshore outsourced company are dealing directly with customers make sure the language skills are adequate.
- Look at using different skills in different regions.
- If it is vital for customer services to have a strong knowledge of local geography, ie, vehicle breakdown, then it may not be appropriate to outsource it to an offshore location.
- 'near shoring', using more local resources, has been used successfully by many organisations to gain some labour cost advantages and is something to consider.
- Offshore services may be less appropriate for new or developing businesses - it is something to consider when there is maturity of the brand and the service you provided.
- Technology can now offer flexibility, simpler networking and the ability to manage multiple physical locations as if they were one operation. (List compiled from 'From offshoring to 'best-shoring' and 'The Secrets of Offshore Success'; Cable and Wireless case studies)

14. SUMMARY

Outsourcing should deliver improvements in value for money as long as the contracting process is undertaken professionally.

P & SM professionals should take a proactive role in respect of outsourcing in their organisations by identifying those services which should be subjected to the above processes and outcomes. Outsourcing is another method by which the P & SM professional can raise the profile of the profession within their own organisation and in the business environment at large.

Competence in outsourcing and its associated activities is fundamental for P & SM and, as such, they should ensure that these skills are continually developed and refreshed through appropriate and relevant training programmes.

Offshoring takes the outsourcing concept to the next level, covering greater chunks of core operations. It can be explored independently or as part of a wider outsourcing agenda. Offshoring will without a doubt gain momentum over the coming years offering real value yet to be tapped. In future it is increasingly likely that most Business Process Outsourcing discussions will

include offshoring as an option.

One thing is for sure, the fundamental value proposition of outsourcing and offshoring is solid and only getting better as technology improves and experience grows.





15. FURTHER READING AND REFERENCES

a) Books and Articles

The IT Outsourcing Guide
R Aalders
CIPS 2001

How to Outsource with Effective Contracts (a publication in the CIPS 'How To' series)
D J Pearson
CIPS 2003

The Truth about Outsourcing
B Rothery and I Robertson
Gower 1995

Outsourcing: Gaining Competitive Advantage
Andersen Consulting
Proceedings of the SMI Outsourcing for Utilities Conference, London 1997

Strategic Outsourcing Methodologies in UK Companies
A Cox and C Lonsdale
University of Birmingham Working Paper 1997

The Maturing of Outsourcing
KPMG
London 1997

Locked into Supplier Dominance - On the Dangers of Asset Specificity for the Outsourcing Decision
Journal of Supply Chain Management Vol 37 No 2, Spring 2001 pp 22-27

Outsourcing - A Business Guide to Risk Management Tools and Techniques
C Lonsdale and A Cox
Earlsgate Press 1998

Global IT Outsourcing: in search of Business Advantage
M Lacity and P Willcocks
CIPS 2000

Inside Outsourcing: An Insider's Guide to Managing Strategic Sourcing
C Gay and J Essinger
CIPS 2000

Additionally, most Purchasing textbooks contain a chapter or sections devoted to Outsourcing

b) Websites

The following may be found useful:

www.forrester.com/outsourcing
www.businesslink.gov.uk
www.outsourlink.com
<http://www.supplymanagement.com/archive/results.asp>
onlinebusinessdirectory.org
www.searchsaint.co.uk/outsourcing
<http://www.ovitztaylorlorgates.com>
<http://www.outsourcing.com>

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